



# Leading & Global

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- (1) Standard & Poor's Address: 55 Water Street, New York, N.Y. 10041 U.S.A. Tel: 212-438-2000
- (2) Moody's Investors Service Address: 7 World Trade Center, 250 Greenwich Street, New York, N.Y. 10007 U.S.A.

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- (3) Taiwan Ratings Corporation
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## Notice to Readers

This English version of the annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting. If there is any discrepancy between the English version and Chinese version, the Chinese version shall prevail.



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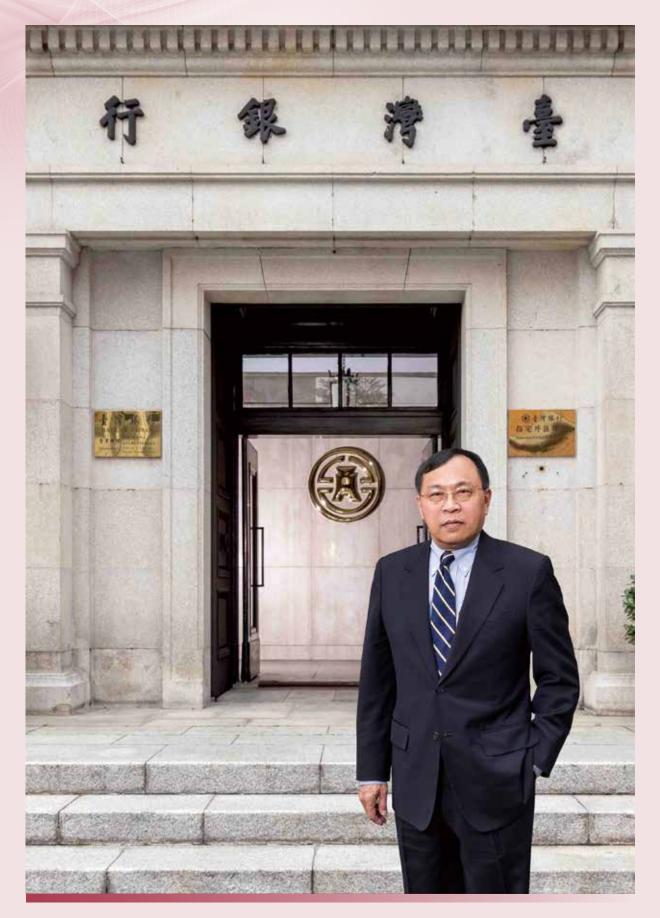
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Letter to Shareholders

**A Brief Introduction of the Bank** 



Chairman | Joseph Jye-Cherng Lyu

# Letter to Shareholders

The global economy continued to grow in 2018, but the pace of expansion varied from one country to the next depending on the impact of the US-China trade war. Economic performance in the United States was quite strong due to tax cuts and deregulation, which spurred increased consumption and corporate investments. In the Eurozone, economic growth slowed as investment confidence was affected by the trade war, Brexit, fiscal problems in Italy, and other such risks. In Japan, natural disasters and slumping export demand weakened economic growth momentum. In mainland China, downward pressure on the economy grew stronger due to the US-China trade war and moderation in domestic demand. Taiwan's economy grew at a stable 2.63% rate in 2018. In addition to steady expansion of the international economy, the adoption of emerging technologies supported Taiwan's export momentum, and domestic consumption and investment continued to grow.

Over the past year, thanks to the combined efforts of all employees, the Bank of Taiwan (BOT) continued to lead the domestic banking industry in terms of deposits and loans, the gold and trust businesses, total assets, and shareholders' equity. Pre-tax earnings for 2018 came to NT\$11.5 billion, an outstanding performance that far exceeded the annual target, and asset quality was excellent, with a record low non-performing loan ratio of 0.21% and a record high coverage ratio of 715.21%. As for business strategies, BOT intends to act in accordance with its "5P business operating policy" (People-centered, Portfolio-sound, Performance-driven, Prospection-oriented, and Principle-based) and its "5S corporate culture" (Simple organization, Simple goals, Simple decision making process, Simple strategy, and Simple intra-group relationship). Also, in order to enhance the independence of our compliance operations, and to improve information security, our legal affairs work, which had previously been handled by the Department of Compliance, was transferred in 2018 to the "Legal Affairs Center," which is under the Department of Planning. The BOT also established a "Department of Cyber Security" to handle information security matters. In addition, in order to keep close track of the latest Fintech trends, the BOT also set up an "InnoLab" and dispatched employees to visit the Israel Innovation Authority and an Israeli Cyber Innovation Arena (CyberSpark). These measures have been taken to help BOT employees learn about Fintech development models. Internally, we intend to integrate innovative forces currently scattered among the various units throughout the BOT organization. Externally, the BOT is working to introduce innovative technologies and engage in cooperation designed to further innovation.

In the area of human resource development, the Young Management Development Program (YMD Program), which the BOT has launched to cultivate a new generation of managerial personnel, completed its first round of training and internships on August 24, 2018, and a second round commenced on September 6. This undertaking will lay a sturdy foundation for the BOT's long-term development,



President | Chiou, Ye-Chin

and build a set of core competencies. In the areas of legal compliance and the combatting of money laundering and terrorist financing, the Asia/Pacific Group on Money Laundering (APG) conducted its third round of mutual evaluation in November 2018. The BOT completed inspection with flying colors, thanks to the hard work and diligent preparation of all our employees. In the area of digital financial services, the BOT continues to promote R&D work and innovation, and to build up a growing body of Fintech patents. At the same time, the Bank has also launched a smart fee payment machine and other high-quality digital innovative services to meet customer needs.

In addition to this outstanding performance, BOT also earned numerous accolades. The Bank was recognized by the Financial Supervisory Commission as a "Top Bank Provider of Property Trusts for Senior Citizens and Persons with Mental and Physical Disabilities"; was selected in the Reader's Digest Trusted Brands survey as the winner of the Gold Award in the Banking category; was the number one financial holding company or bank on 2018 Cheers magazine's list of the "Most Attractive Employer for Young Generation "; won the Joint Credit Information Center's "Golden Security Award" and "Golden Quality Award" for information security management and credit reporting; won the Joint Credit Information Center's "Special Contribution Award" for excellent contributions to the control of credit risks in the course of its maintenance of the data in the special account holding labor pension funds; and was named by the Ministry of Education as a Gold Winner at the "Sports Administration's Sports Activist Awards" ceremony, and was granted a "2018 Sports Enterprise Certification." For these honors, I want to express our deepest gratitude to all of our friends and customers.

While seeking business growth, BOT has adopted a wide range of measures to fulfill its corporate social responsibility. In addition to including the Equator Principles among the factors to be considered when evaluating loan interest rates, the Bank has established charitable trusts and retirement trusts and launched the Guide Dog Affinity Card and The Lord is My Shepherd Affinity Card to integrate corporate image and the essence of public service into its financial product marketing, and to take part in a substantive way in public service activities. Examples include: visits and donations to children in remote and isolated areas, children's homes, and nursing homes throughout Taiwan; holding of a fair to promote concern for the blind and greater appreciation for the value of guide dogs; and promotion of sports, including the hosting of baseball and basketball competitions. In addition, BOT held a series of events (including painting, photography, and music festivals) as part of the 2018 Bank of Taiwan Arts Festival, as well as the 2018 Bank of Taiwan Awards for Economic and Financial Research to solicit academic papers. These undertakings were designed to elevate our CSR activities to include the cultural realm. They elicited a very enthusiastic response.

Our operating results for 2018, business plans for 2019 and strategies for the Bank's future development are briefly described below.

# I. Operating Results for 2018

# 1. Organizational Change

- (1) July 23, 2018: Established a Legal Affairs Center under its Department of Planning to handle legal affairs. (To increase the independence of its legal compliance operations, the Bank has transferred its legal affairs work, which had previously been handled by the Department of Compliance, to the Legal Affairs Center.)
- (2) August 31, 2018: Established a new Department of Cyber Security at the head office.
- (3) April 2, 2019: Established the TY Inno Branch by moving the Taosing Branch and changing its name.
- (4) The Bank's wealth management service network currently comprises 144 wealth management branches (including 10 wealth management flagship branches). BOT has a total of nine wealth management team leaders and 229 financial advisors.
- (5) Overseas Expansion from 2018 to March 2019
  - A. January 11, 2018: The Bangkok Representative Office officially opened.
  - B. January 16, 2018: The Sydney Branch officially opened.
  - C. May 23, 2018: The Frankfurt Representative Office officially opened.
  - D. January 31, 2019: The Manila Representative Office officially opened.

## 2. Results of Implementation of Business Plan and Operating Strategy

(1) The BOT actively expanded and deepened its international business network at the same time that it incorporated the government's New Southbound Policy into its operations, accelerated the pace of efforts to develop Asian markets, and sought a balanced development of ties with Asia and the West. From 2018 to March 2019, BOT set up representative offices in Bangkok, Frankfurt, and Manila as well as a branch in Sydney. The Bank now has business locations in the five continents of Europe, North America, Asia, Australia, and Africa, and accelerated preparations to open representative offices in Vietnam, Indonesia, and Malaysia. Moreover, the Bank has adopted an "On the Shoulders of Giants" strategy, which entailed the signing of MOUs for business cooperation with Erste Group Bank AG in March 2019, thus enhancing a partnership with international top banks and its cross-boundary services. In addition, the BOT has collaborated with peers from Taiwan's banking industry to jointly arrange overseas syndicated loans. By acting as a sub arranger for such loans, the Bank has bolstered its position as a leader among Taiwanese banks.

Unit: NT\$ Billion; US\$ Billion (for Foreign Exchange); %

Year Major Operation Category	2018	2017	2018 Growth Rate
Deposits	4,012.7	3,900.9	2.86
Loans	2,386.0	2,322.6	2.73
Guarantees	85.9	79.9	7.46
Foreign Exchange	359.6	367.4	(2.13)
Procurement	62.4	31.0	101.65
Precious Metals	127.2	130.0	(2.16)
Government Employees Insurance	24.9	23.5	5.88
Agency (Insurance Brokerage)	49.4	52.0	(5.00)

## (2) Results of Implementation of Operating Strategy

## 3. Budget Implementation

The volume of deposits during the year was NT\$4.01 trillion, giving a target achievement rate of 113.57%. Loans amounted to NT\$2.39 trillion, for a target achievement rate of 103.33%. Foreign exchange operations undertaken in 2018 totaled US\$359.58 billion, amounting to 106.36% of the target figure, and income after tax reached NT\$10,368 million, achieving 147.61% of the target.

## 4. Revenues, Expenditures and Profits

- (1) Net interest income for 2018 amounted to NT\$25,625 million; non-interest income (net) totaled NT\$13,823 million; bad debt expenses and reserve for guarantees amounted to NT\$7,302 million; and operating expenses totaled NT\$20,670 million. Income before tax reached NT\$11,476 million; and income tax amounted to NT\$1,108 million, leaving a net income after tax of NT\$10,368 million. (Preferential-rate deposits for pensions and veteran benefits reduced earnings by NT\$7,925 million. When the impact of these preferential-rate deposits is factored out, income before tax comes to NT\$19,401 million.)
- (2) The year's NT\$10,368 million income after tax was NT\$3,344 million more than the budgeted income of NT\$7,024 million, an increase of 47.61%.
- (3) Pre-tax Return on Assets (ROA) for 2018: 0.23%

(When the impact of preferential-rate deposits for pensions and veteran benefits is factored out, pre-tax ROA comes to 0.40%.)

(4) Pre-tax Return on Equity (ROE) for 2018: 3.83%

(When the impact of preferential-rate deposits for pensions and veteran benefits is factored out, pre-tax ROE comes to 6.25%.)

#### 5. Research and Development

In order to improve the customer experience and provide better services, the BOT has sought in recent years to move forward with Fintech innovation. The Bank is working hard to file patent applications by tapping into the administrative resources and individual creativity within its various units. In response to changes in the financial environment and the needs of business development, the Bank continued collecting and analyzing information on domestic and overseas economic and financial conditions as well as the status of major domestic industries. In addition to the compilation of regular analytical reports related to economics, financial markets and major industries, special reports on important economic and financial issues related to overall banking operations were compiled on an unscheduled basis for use as reference in expanding the Bank's business.

#### **II. Business Plans for 2019**

#### 1. Business Strategy and Major Operating Policies

BOT continues acting in accordance with its 5P business operating policy as well as its 5S corporate culture to improve operating efficiency and elevate its corporate culture. Also, taking an "honest, pragmatic, and down to earth" attitude, BOT is working to be "A Leading Bank with Global



BOT celebrated the opening of its Frankfurt representative office on May 24, 2018. BOT Chairman Joseph Jye-Cherng Lyu (center) was shown here together with the Deputy Mayor of Frankfurt, Germany, Mr. Markus Frank (left) and ROC Representative to Germany Jhy-Wey Shieh (right).

Presence." Toward that end, it has planned and operated various lines of business, joined hands with the industrial community to create economic and social value for Taiwan, and adopted the following operating policies with an eye to achieving sustainable development and maintaining stable business operations:

- (1) Continue to expand credit business, enhance profitability, and increase home and business lending (especially small and medium businesses) in order to raise the average interest rate and the loans to deposits ratio.
- (2) Further expand the Bank's international presence by entering into cooperative tie-ups with international financial institutions and leading overseas banks to accelerate entry into offshore financial markets and provide comprehensive financial services with high quality and diversity.
- (3) Coordinate with the government's pension reform program by gradually reducing time deposits as a share of total deposits, thus cutting the cost of funds, as well as continue promoting the wealth management business in order to help improve deposit structure and increase fee income.
- (4) Plan for the adoption of intelligent customer service systems by using a 24-hour smart voice menu system to provide customers with a wide range of user-friendly, safe, and convenient digitized financial services that will increase customer stickiness.
- (5) Establish an organization-wide AML/CFT mechanism, and work actively to raise employee consciousness of the importance of knowing the law, respecting the law, and complying with the law in order to facilitate implementation of AML/CFT operations.
- (6) Establish a Department of Cyber Security, continue implementing the information security management system, improve cyber defense policies and measures, and enhance the soundness of cyber security incident prevention, detection, and response strategies.
- (7) Coordinate with business strategies by actively cultivating personnel with interdisciplinary expertise in such fields as business management, international finance, marketing planning, digital finance, information, credit, foreign exchange, trusts, wealth management, and risk management.
- (8) Continue to strengthen internal audits, internal controls, risk management, and legal compliance to better implement corporate governance in accordance with "BOT Corporate Governance Best-Practice Principles."

#### 2. Business Targets

The following BOT business targets for 2019 were formulated in accordance with the Business Plan approved by the Ministry of Finance, with consideration given to past performance as well as to future trends of development.

- (1) Deposits: NT\$3.51 trillion
- (2) Loans: NT\$2.32 trillion
- (3) Foreign Exchange: US\$329.3 billion
- (4) Income Before Tax: NT\$8.5 billion

## **III. Development Strategies**

- Improving employees' AML/CFT expertise and shaping a healthy AML/CFT culture by retaining each year an outside third-party entity to audit its risk controls in order to achieve compliance with AML/CFT requirements.
- Setting up the Bangkok and Frankfurt Representative Offices and the Sydney Branch in 2018 and the Manila Representative Office on Jan. 31, 2019, and opening up representative offices in Ho Chi Minh City, Jakarta, and Kuala Lumpur in the future.
- 3. Actively supporting the development of financial technologies and the submission of patent applications of the Bank, and establishing an InnoLab to integrate innovative forces currently scattered among various units throughout the BOT organization in order to promote innovation of new financial products and business models.
- 4. Launching integrated customer-side digital banking services by establishing an integrated online and mobile platform that will provide seamless online-to-offline (O2O) connectivity, so as to enable customers to apply online for a variety of different services, and to provide fast counter service.
- 5. Actively strengthening information security management, and actively carrying out Security Operation Center (SOC) system by expanding the scope of monitoring and control, carrying out real-time analysis and handling of internal and external security information, and improving the company's security monitoring operations and contingency response capability.
- 6. Complying with the BOT Corporate Governance Best-Practice Principles, improving the soundness of internal audits and the ethics oversight function, and strengthening management mechanisms, as well as fulfilling the Bank's corporate social responsibility by continuing to hold or sponsor public service activities, the Economic and Financial Forum, and the Bank of Taiwan Arts Festival.

# **IV. Credit Ratings**

Items		Assigne	d Rating	Outlook		
Rating Agency	Rating Date	Long-term	Short-term	Outlook		
Standard & Poor's	Oct. 2018	A+	A-1	Stable		
Moody's Investors Service	Nov. 2018	Aa3	P-1	Stable		
Taiwan Ratings Corp.	Oct. 2018	twAAA	twA-1+	Stable		

While facing rapid changes in the economic and financial environment over the past year, BOT has achieved outstanding business results with a new corporate culture defined by the Bank's "5P business operating policy" and its "5S corporate culture." Looking ahead to 2019, the global economic uncertainty continues to exist. Besides continuing to support the government's important economic development policies, the Bank will also work to build a more effective organization, cultivate personnel, and strengthen the management team. The idea is to make the BOT an industry leader across the gamut of its operations, so that a strong and resilient Bank of Taiwan can continue to play a leading role in our domestic banking industry.

Chairman

Joseph Lyce Yechin Chion

President



Front Row (left to right): Senior Executive Vice President | Huang, Jui-Mu · Senior Executive Vice President | Hsieh, Chuan-Chuan Chairman | Joseph Jye-Cherng Lyu · President | Chiou, Ye-Chin · Senior Executive Vice President | Lin, Chun-Liang

Back Row (left to right): Substitute Senior Executive Vice President & General Auditor | Lu, Chun-Chen · Senior Executive Vice President | Kang, Fan Senior Executive Vice President | Hsu, Chih-Wen · Senior Executive Vice President & Chief Compliance Officer | Lin, Su-Lan Senior Executive Vice President | Lin, Li-Ling

# A Brief Introduction of the Bank

### I. Date of Establishment: May 20, 1946

#### **II. Brief History**

The Bank of Taiwan (BOT) was established by the government soon after the rule over Taiwan was restored to the Republic of China. The Ministry of Finance, acting upon the instructions of the Executive Yuan, assumed the assets and business operations of the Japanese-era Bank of Taiwan Limited. The Ministry then arranged for the Taiwan Provincial Governor's Office to administer the Bank on its behalf. When that government was downsized on Dec. 21, 1998, however, the Bank was taken over by the Central Government and placed under the administration of the Ministry of Finance to be operated in accordance with the regulations governing government-owned financial institutions. On July 1, 2003 the Bank was registered as a corporation and reorganized into a company limited by shares in accordance with the provisions of the Company Act. On Sept. 16, 2004 the Bank received permission from the Financial Supervisory Commission to become a public company. The Bank completed merger with Central Trust of China on July 1, 2007. The Taiwan Financial Holding Co., Ltd. was established on Jan. 1, 2008. On Jan. 2, 2008, the Bank split its Department of Securities and Department of Life Insurance to organize the other two subsidiaries of Taiwan Financial Holdings, namely, BankTaiwan Securities Co., Ltd. and BankTaiwan Life Insurance Co., Ltd. The Bank further expanded its business scope on Feb. 6, 2013 by reinvesting in the establishment of a shareholding 100% subsidiary, the BankTaiwan Insurance Brokers Co., Ltd.

In every stage of Taiwan's economic development, the Bank of Taiwan has always firmly pursued the goals of stabilizing Taiwan's finance, assisting with economic construction, and developing industrial and commercial enterprises, devoting its full efforts in coordination with government policies in order to fulfill the mission entrusted to it by the government. In past years, the BOT served as agency for Central Bank of the Republic of China (Taiwan) in carrying out most of the Central Bank's business, including the issuance of the New Taiwan Dollar currency, implementation of monetary reform, and providing financial support for economic construction plans. Today, the BOT keeps handling businesses in line with government policy, including preferential-rate deposits, agency for the public treasury in adjusting fiscal receipts and expenditures, businesses associated with the issuance of New Taiwan Dollar currency, agency for procurement of government institutions, and the insurance for government employees and staffs in schools. The BOT's position throughout the progress of Taiwan's economic and financial development has been of primary importance.

At the end of 2018, the capital of the BOT was NT\$95 billion and its assets amounted to over NT\$5.0 trillion. Its deposits and loans accounted for 10.48% and 9.10%, respectively, of the domestic banks. According to The Banker magazine's Top 1000 World Banks 2018, as published in its July 2018 issue, the BOT ranked 127th in total assets and ranked 197th in terms of Tier 1 capital in the global banking industry.



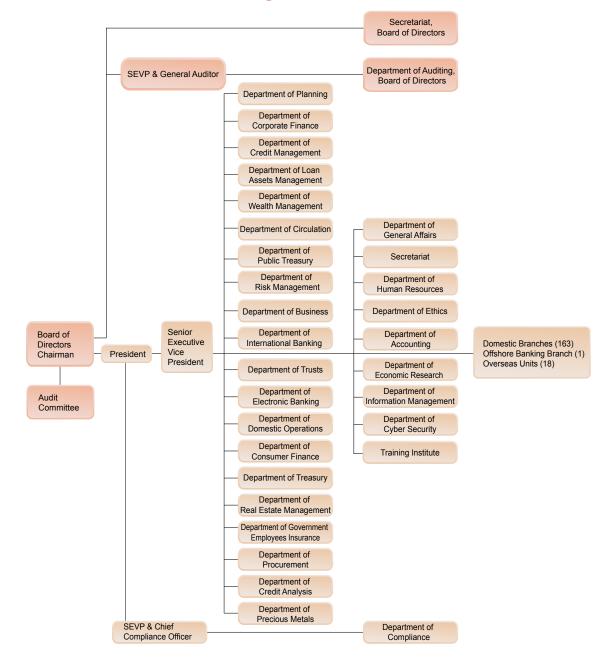
# **Corporate Governance Report**

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# Corporate Governance Report

# **I. Organization**

At the end of March 2019, the BOT's management organization consisted of Board of Directors, Audit Committee, Secretariat (Board of Directors), Department of Auditing (Board of Directors), 30 departments, 163 domestic branches, one Offshore Banking Branch, and 18 overseas units (including New York Branch, Los Angeles Branch, Hong Kong Branch, Tokyo Branch, Singapore Branch, South Africa Branch, London Branch, Shanghai Branch, Guangzhou Branch, Fuzhou Branch, Sydney Branch, Shanghai JiaDing Sub-Branch, Mumbai Representative Office, Yangon Representative Office, Silicon Valley Representative Office, Bangkok Representative Office, Frankfurt Representative Office and Manila Representative Office).



# **Organization Chart**

# Functions of Major Departments

Department	Functions
Secretariat, Board of Directors	Handles important matters and documentary affairs related to the Board of Directors.
Department of Auditing, Board of Directors	Takes care of planning, implementation, and examination of internal auditing matters, and participates in the formulation and revision of operating and management regulations.
Department of Planning	Responsible for articles of incorporation, organization regulations, annual operating plans, evaluation of departments, public relations, and legal affairs.
Department of Corporate Finance	Handles matters of designing new products, planning for and promoting corporate finance business, and the supply of consulting assistance services to operating branches.
Department of Credit Management	Handles planning, supervision, examining, consulting assistance services, and management for loan business.
Department of Loan Assets Management	Takes care of planning, examination, supervision, and management related to non-performing loans, loans for collection, and the clearing up of bad loans.
Department of Wealth Management	Handles planning, marketing, evaluation, administration and training of wealth management.
Department of Circulation	Handles the collection and payment, transport, adjustment of supply and demand, and the recovery of worn bills associated with the issuances of New Taiwan currency.
Department of Public Treasury	Handles agency operations for public treasuries at all levels, and direction and supervision of the business of branch treasuries.
Department of Risk Management	Responsible for the planning and revision of risk management, handles formulation and integration of risk management regulations.
Department of Business	Takes care of general deposit, loan, remittance, and agency businesses.
Department of International Banking	Takes care of foreign exchange operations, foreign banking and overseas branch businesses, correspondent banking relations, and operational planning and management for the foreign exchange business.
Department of Trusts	Controls trust businesses and auxiliary businesses.
Department of Electronic Banking	Responsible for planning, study, marketing, integration, supervision, management and examination of the electronic banking business.
Department of Consumer Finance	Takes care of planning, promotion, management, and consultation assistance services for the consumer finance, credit card, and bank card business.
Department of Treasury	Handles allocation, planning, and utilization of New Taiwan Dollar and foreign currency, and securities investment.
Department of Real Estate Management	Takes care of maintenance of buildings and general management of real estate.
Department of Procurement	Handles procurement matters under concentrated system for government institutions, public schools and public enterprises.
Department of Domestic Operations	Handles matters of deposit business, ATMs, planning and evaluation of domestic branches, and customer complaints.
Department of Government Employees Insurance	Handles under the Government's authorization, the general life insurance for civil servants and staffs in public or in private schools.
Department of Precious Metals	Handles the precious metals and customs quotas business.
Department of Credit Analysis	Responsible for the collection, surveying, and editing of data related to the credit investigation, as well as overseas credit investigation services.
Department of General Affairs	Handles general affairs, cashier affairs, and procurement of articles and appliances in office.
Secretariat	Takes care of important affairs, documentation, chop management, meetings, and editing.
Department of Human Resources	Carries out the planning, study, and implementation of personnel affairs.
Department of Ethics	Looks after the propagation of ethics laws and regulations, and the formulation and revision of ethics regulations.
Department of Accounting	Responsible for the planning and formulation of accounting systems, budgets, statistics, internal auditing, and inter-branch settlement.
Department of Economic Research	Carries out the analysis of domestic and overseas economic and financial, banking business research, and the compilation of economic publications.
Department of Information Management	In charge of research, analysis, planning and implementation of information operations.
Department of Compliance	Handles the planning, management, and execution of the regulatory compliance system, anti-money laundering, and countering terrorism.
Department of Cyber Security	Responsible for the formulation, planning and implementation of cyber security.
Training Institute	Responsible for the planning and implementation of personnel training and advanced training.

# II. Directors, Supervisors, Top Management, and Advisers

# 1. Directors and Supervisors

Information on Directors and Supervisors (1)

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						Mar. 29, 2019
Title	Name	Gender	Date Elected	Date First Elected	Education and Career	Positions Currently Held in the BOT and Other Companies
Chairman	JOSEPH JYE-CHERNG LYU	Male	Aug. 3, 2018	Aug. 31, 2016	Master of Management, Kellogg School, Northwestern University Bachelor of Money and Banking, National Chengchi University Minister without Portfolio, Executive Yuan Minister, Ministry of Finance Board Director, Central Bank of the Republic of China Chairman of the Board, Mega Financial Holdings & Mega International Commercial Bank Chairman of the Board, Bank of Taiwan President & CEO, Land Bank of Taiwan Vice Chairman, State-owned Enterprise Commission Vice President, Bank of New York, New York Headquarter Chairman of the Board, The Bankers Association of the Republic of China Chairman of the Board, The Bankers Association of the Republic of China Chairman of the Board, The Bankers Association of Taiwan Board Director, Taiwan Stock Exchange Corporation Board Director, Taiwan Futures Exchange Corporation Board Director, Joint Credit Information Center Board Director, China Steel Cooperation Distinguished Chair Professor, School of Management, National Sun Yat-Sen University Adjunct Professor, School of Technology Management, National Tsing Hua University	Chairman, Taiwan Financial Holding Co., Ltd. Chairman of the Board, The Bankers Association of the Republic of China Board Director, Taiwan Stock Exchange Corporation Board Director, Taiwan Futures Exchange Corporation Board Director, Taiwan External Trade Development Council Board Director, Joint Credit Information Center Board Director, Taiwan Academy of Banking and Finance Managing Director, The Bankers Association of Taipei Distinguished Chair Professor, School of Management, National Sun Yat-Sen University Adjunct Professor, School of Technology Management, National Tsing Hua University
Managing Director	CHIOU, YE-CHIN	Female	Aug. 20, 2018	Aug. 20, 2018	BA of Dept. of Economics, National Taiwan University Senior Executive Vice President, Bank of Taiwan Director, United Taiwan Bank SA Director, Hua Nan Financial Holdings Co., Ltd. Supervisor, Taiwan Power Company Director, Cathay United Bank EVP & General Manager, Dept. of Credit Management, Bank of Taiwan SVP & General Manager, Bank of Taiwan Hong Kong Branch	President, Bank of Taiwan Director, Mega Holdings Director, Taipei Forex Inc. Director, Taiwan Small & Medium Enterprise Counseling Foundation Adviser, The Bankers Association of the Republic of China Director, Taipei Interbank Money Center, The Bankers Association of the Republic of China Adviser, The Bankers Association of Taipei

# BANK ®F TAIWAN 2018 ANNUAL REPORT

Title	Name	Gender	Date Elected	Date First Elected	Education and Career	Positions Currently Held in the BOT and Other Companies
Independent Managing Director	TSAI, MING-FANG	Male	Aug. 3, 2018	Aug. 3, 2018	Ph.D. in Industrial Economics, National Central University Adjunct Professor, Dept. of International Business, Soochow University Adjunct Professor, Graduate Institute of Industrial Economics, National Central University Independent Director, BankTaiwan Securities Co., Ltd. Independent Director, First Life Insurance Co., Ltd.	Joint-appointment Professor, Dept. of Industrial Economics & Economics, Tamkang University Independent Director, Taiwan Financial Holding Co., Ltd. Director, Audit Committee, Bank of Taiwan Independent Director, United Renewable Energy Co., Ltd. Director, Eminent II Venture Capital Corporation Director, Taiwan Bio Venture Company Director, Grand Cathay Venture Capital Co., Ltd.
Managing Director	JUAN, CHING-HWA	Male	Aug. 3, 2018	Aug. 3, 2018	BA of Dept. of Law, National Taiwan University BA of Dept. of Business Management, National Chengchi University Director-General, National Treasury Administration, Ministry of Finance Director-General, National Taxation Bureau of the Central Area, Ministry of Finance Chief Secretary, Ministry of Finance	Administrative Deputy Minister, Ministry of Finance
Managing Director	CHANG, JUIN-JEN	Male	Aug. 3, 2018	Aug. 3, 2018	Ph.D. in Economics, National Chung-Hsing University Associate Research Fellow, Institute of Economics, Academia Sinica Assistant Research Fellow, Institute of Economics, Academia Sinica Joint-appointment Professor, National Sun Yat-sen University Joint-appointment Professor, Fu-Jen Catholic University Joint-appointment Professor, National Central University	Research Fellow and Deputy Director, Institute of Economics, Academia Sinica
Independent Director	CHEN, MING-CHIN	Male	Sep. 12, 2018	July 31, 2012 (July 31, 2012 -Aug. 2, 2018)	Ph.D. in Accounting, Arizona State University, U.S.A. Chairman, Dept. of Accounting, National Chengchi University International Exchange of Scholar, J. William Fulbright Foreign Scholarship Board, U.S.A. Commissioner, Administrative Appeals Commission, Taipei City Government	Member, Audit Committee, Bank of Taiwan Professor, Dept. of Accounting, National Chengchi University Independent Director, TaiMed Biologics Inc. Commissioner, Administrative Appeals Commission, Ministry of Finance Committee Member, The Taxpayer Rights Protection Advisory Committee, Ministry of Finance Independent Director, Ruentex Materials Co., Ltd. Board Director, Taiwan Stock Exchange Corporation (TWSE)
Independent Director	WANG, YANZHI	Male	Sep. 10, 2018	Sep. 10, 2018	Ph.D. in Finance, National Taiwan University Associate Professor, College of Management, National Taiwan University Associate Professor, College of Management, Yuan Ze University	Member, Audit Committee, Bank of Taiwan Professor, College of Management, National Taiwan University

Title	Name	Gender	Date Elected	Date First Elected	Education and Career	Positions Currently Held in the BOT and Other Companies
Director	CHEN, NAN-KUANG	Male	Aug. 3, 2018	Mar. 22, 2018	Ph.D. in Economics, University of Minnesota, U.S.A. Professor, Associate Professor, Assistant Professor, Dept. of Economics, National Taiwan University Instructor, Dept. of Economics, University of Minnesota, U.S.A.	Deputy Governor, Central Bank of the Republic of China (Taiwan) Alternate Governor for the ROC Central American Bank for Economic Integration Alternate Governor for the ROC Asian Development Bank
Director	LU, CHIOU-SHIANG	Female	Aug. 3, 2018	Aug. 31, 2017	M.A. in Political Science, National Taiwan University Chief Secretary, Directorate-General of Budget, Accounting and Statistics, Executive Yuan, R.O.C. Comptroller, Veterans Affairs Council, R.O.C.	Comptroller and Director, Department of Special Fund Budget, Directorate-General of Budget, Accounting and Statistics, Executive Yuan, R.O.C. Supervisor, Small and Medium Enterprise Credit Guarantee Fund of Taiwan
Director	CHEN, CHUAN-HSI	Male	Aug. 3, 2018	Aug. 25, 2016	Ph.D. in Information Management, National Chengchi University Director General of Information Management Department, Ministry of Justice Division Director of Financial Data Center, Ministry of Finance	Director-General, Fiscal Information Agency, Ministry of Finance
Director	HO, YI-CHENG	Female	Oct. 12, 2018	Oct. 12, 2018	Ph.D. in Economics, University of Houston, U.S.A. Associate Professor, Assistant Professor, Dept. of Public Finance, National Chengchi University	Professor & Chairperson, Dept. of Public Finance, National Chengchi University
Director	HSU, HUI-FENG	Male	Aug. 3, 2018	Aug. 3, 2018	J.S.D., Washington University in St. Louis U.S.A. Director, Dept. of Law, Chinese Culture University	Professor & Dean of College of Law and School of Continuing Education, Chinese Culture University Chief Senior Counselor/Taiwan Lawyer/Arbitrator, Washington Group & Associates
Director	WU, TE-JEN	Male	Aug. 3, 2018	Aug. 3, 2018	Master of Finance, Dayeh University Senior Banking Officer, Employee Benefits Committee, Bank of Taiwan Senior Banking Officer & Assistant General Manager, Department of Information Management, Bank of Taiwan	Assistant Vice President, Employee Benefits Committee, Bank of Taiwan
Director	LIN, CHENG-TAN	Male	Aug. 3, 2018	Aug. 3, 2018	Master of Finance, Dayeh University Banking Officer & Deputy Manager, Changhua Branch, Bank of Taiwan Banking Officer & Deputy Manager, Taichung Branch, Bank of Taiwan	Senior Banking Officer & Manager, Changhua Branch, Bank of Taiwan

Notes: 1. All directors are assigned by the Taiwan Financial Holding Co., Ltd.

2. Taiwan Financial Holding Co., Ltd. holds 100% of shares of the Bank of Taiwan (9.5 billion shares). The Ministry of Finance holds 100% of shares of the Taiwan Financial Holding Co., Ltd. (9.0 billion shares).

3. No director is the spouse of, or related within the second degree of kinship to, any head of department, director, or supervisor.

4. The terms of all directors will expire on August 2, 2021.

5. All directors are of R.O.C. nationality.

# Major Shareholders of the Institutional Shareholders

Mar. 29, 2019

Name of Institutional Shareholders	Major Shareholders of the Institutional Shareholders
Taiwan Financial Holding Co., Ltd.	Ministry of Finance

# BANK ®F TAIWAN 2018 ANNUAL REPORT

Professional Qualifications and Independence Analysis of Directors and Supervisors (2)

					_			_						Mar. 29, 2019
Criteria		ng Professional Qualification t Least Five Years Work Exp					Indep	bende	ence	Crite	ria (N	lotes		
Name	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Bank in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Bank	Have Work Experience in the Areas of Commerce, Law, Finance, Accounting, or Others Necessary for the Business of the Bank				4 5		6	7	8	9	10	Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
JOSEPH JYE- CHERNG LYU	v		V	v		v	v		v	v	v	v		0
CHIOU, YE-CHIN			V	v	v	v	v	v	v	v	v	v		0
TSAI, MING-FANG	v			v	v	v	v		v	v	v	v		2 (Taiwan Financial Holding Co., Ltd.& United Renewable Energy Co., Ltd.)
JUAN, CHING-HWA			V	v	v	v	v		v	v	v	۷	Taiwan	0
CHANG, JUIN-JEN	V			v	v	v	۷	v	v	v	v	V	Financial Holding Co.,	0
CHEN, MING-CHIN	v	v	v	v	v	v	v	v	v	v	v	v	Ltd. holds 100% of shares of the Bank and	2 (TaiMed Biologics Inc. & Ruentex Materials Co., Ltd.)
WANG, YANZHI	V			v	v	v	V	v	v	v	v	v	assigned all directors.	0
CHEN, NAN-KUANG	V			v	v	v	v	v	v	v	v	v		0
LU, CHIOU-SHIANG			V	v	v	v	v	v	v	v	V	v		0
CHEN, CHUAN-HSI			V	v	v	v	v	v	v	v	v	v		0
HO, YI-CHENG	V			v	v	v	v	v	v	v	v	v		0
HSU, HUI-FENG	V	V		v	v	v	v	v	v	v	v	v		0
WU, TE-JEN			V		v	v	v	v	v	v	v	v		0
LIN, CHENG-TAN			V		v	v	v	v	v	v	v	v		0

Notes: A tick in the corresponding boxes indicates that the director or supervisor meets the following qualifications during the two years prior to being elected or during the term of office. 1. Not an employee of the Bank or any of its affiliates.

2. Not a director or supervisor of the Bank's affiliates. The same does not apply, however, in cases where the person is an independent director of the Bank, its parent company, or any subsidiary, as appointed in accordance with the Securities and Exchange Act or with the laws of the country of the parent or subsidiary.

3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of issued shares of the Bank or ranking in the top 10 in holdings.

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

5. Not a director, supervisor, or employee of a bank shareholder that directly holds 5% or more of the total number of issued shares of the Bank or a corporate shareholder that ranks among the top five in shareholdings.

6. Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution that has a financial or business relationship with the Bank.

7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Bank or to any affiliate of the Bank, or a spouse thereof; however, members of the Remuneration Committee carrying out their duties in accordance with Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter are not limited by this restriction.

8. Not having a marital relationship, or a relative within the second degree of kinship, to any other director of the Bank.

9. Not a person of any condition defined in Article 30 of the Company Act.

10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Act.

# 2. Top Management

					Apr. 2, 2019
Title	Name	Gender	Date Effective	Education	Other Position
President	CHIOU, YE-CHIN	Female	Aug. 20, 2018	Dept. of Economics, National Taiwan University	Director, Mega Holdings Director, Taipei Forex Inc. Director, Taiwan Small & Medium Enterprise Counseling Foundation Adviser, The Bankers Association of the Republic of China Director, Taipei Interbank Money Center, The Bankers Association of the Republic of China Adviser, The Bankers Association of Taipei
Senior Executive Vice President	HSIEH, CHUAN- CHUAN	Female	Aug. 6, 2014	Master of Finance, National Taiwan University	Director, First Financial Holding Co., Ltd.
Senior Executive Vice President	HUANG, JUI-MU	Male	June 9, 2017	Dept. of Technology Mechanical Engineering, Ming Chi Institute of Technology	Director, Tea Industry Co., Ltd. joint venture in China
Senior Executive Vice President	LIN,CHUN-LIANG	Male	Nov.17, 2017	Dept. of Banking and Insurance, Tamkang College of Arts and Sciences	Director, Hua Nan Financial Holdings Co., Ltd. Director, Hua Nan Commercial Bank, Ltd. Supervisor, Taiwan Financial Asset Service Corporation
Senior Executive Vice President	HSU, CHIH-WEN	Male	Apr. 23, 2018	Dept. of Economics, Soochow University	Director, Hua Nan Financial Holdings Co., Ltd. Director, Hua Nan Commercial Bank, Ltd.
Senior Executive Vice President	KANG, FAN	Female	July 20, 2018	Master of Economics, Indiana State University	Director, First Financial Holding Co., Ltd. Director, Trust Association of R.O.C. Director, Administration and Training Committee, Trust Association of R.O.C. Member, Commission on Research and Development, Taipei Foreign Exchange Market Development Foundation
Senior Executive Vice President	LIN, LI-LING	Female	Nov. 30, 2018	Dept. of Banking, National Chengchi University	Director, Taiwan Business Bank
Senior Vice President, Department of Auditing, Board of Directors ( Substitute Senior Executive Vice President & General Auditor)	LU, CHUN-CHEN	Female	Jan. 16, 2019	Master of Eminent Public Administrators, National Chengchi University	
Senior Executive Vice President & Chief Compliance Officer	LIN, SU-LAN	Female	Apr. 29, 2015	Master of Laws, The University of New South Wales	Chief Compliance Officer of Taiwan Financial Holding Co., Ltd. Member of Financial Regulations and Disciplinary Committee, The Bankers Association of the Republic of China

Notes: 1. Taiwan Financial Holding Co., Ltd. holds 100% of shares of the Bank of Taiwan.

2. All the senior officials are of R.O.C. nationality.

3. Other than Huang Jui-Mu (who is SEVP and the spouse of Su Su-Chen, a VP & General Manager at the Nan HsinChuang Branch), no top management is the spouse of, or related within the second degree of kinship to, any head of department.

Apr. 2, 2019

# 3. Remuneration of Directors, Supervisors, President, and Senior Executive Vice Presidents for 2018

# (1) Remuneration of Directors

																			Unit: NT\$	1,000
				1	Remune	eration					of Total	Relev	Relevant Remuneration Received by Directors Who are Also Employees						of Total	
											neration					loyees		Compensation		
			ise		rance		us to		ances		C+D) to	Salary,		Severance		   Employ	ee Bonus	(A+B+C+D+E+F+G)		Re
			Compensation				ctors		D)		ome After			Pay			(G)	to Net Income After		sinve
		(/	4) I	(	B)	((	C)	(No	ote)	Tax (%)		Allowances (E)		(F)				Tax (%)		Reinvested
Title	Name	The Bank	Companies in the Consolidated Financial Statements	The Bank	Companies in the Consolidated Financial Statements	The Bank	Companies in the Consolidated Financial Statements	The Bank	Companies in the Consolidated Financial Statements	The Bank	Companies in the Consolidated Financial Statements	The Bank	Companies in the Consolidated Financial S	The Bank	Companies in the Consolidated Financial S	The Bank	Companies in the Consolidated Financial Statements	The Bank	Companies in the Consolidated Financial Statements	d Enterprises other than the Bank's Subsidiary
			Statements		Statements		Statements	Stock Cash	Stock Cash		Statements	ary								
Chairman	JOSEPH JYE-CHERNG LYU																			
Managing Director	WEI, JAN-LIN	-																		
Managing Director	CHIOU, YE-CHIN	-																		
Managing Director	SU, JAIN-RONG	-																		
Managing Director	YANG, CHENG-CHEN																			
Managing Director	JUAN, CHING-HWA																			
Managing Director	CHANG, JUIN-JEN																			
Independent Managing Director	HSU, YI-HSIUNG																			
Independent Managing Director	TSAI, MING-FANG	3,673	3,673	0	0	No	one	2,344	2,344	0.06%	0.06%	7,098	7,098	361	361	N	one	0.13%	0.13%	390
Independent Director	CHEN, MING-CHIN																			
Independent Director	PENG, PAI-HSIEN																			
Independent Director	WANG, YANZHI																			
Director	LU, CHIOU-SHIANG																			
Director	KUO, WEI-YU																			
Director	HSU, HUI-FENG	-																		
Director Director	YANG, CHIN-LONG HO, YI-CHENG																			
Director	CHEN, CHUAN-HSI	-																		
Director	CHEN, NAN-KUANG																			
Director	HSU, MA																			
Director	HU, CHIN-CHUAN																			
Director Director	CHEN, JUI-LIN LIN, CHENG-TAN																			
Director	WU, TE-JEN																			

Notes: 1. Chairman Joseph Jye-Cherng Lyu was not provided with an official residence; the monthly expense for the chauffeur was NT\$41,917.

2. In view of the fact that President Wei Jan-Lin was not provided with an official residence, a supplemental home rental stipend of NT\$38,065 was provided in 2018; the gasoline fee was NT\$27,900; and the president's sedan was purchased in November of 2011 at a cost of NT\$573,604, and the monthly expense for the chauffeur was NT\$41,917.

3. In view of the fact that President Chiou Ye-Chin was not provided with an official residence, a supplemental home rental stipend of NT\$21,935 was provided in 2018; the gasoline fee was NT\$23,187; and the president's sedan was purchased in November of 2011 at a cost of NT\$573,604, and the monthly expense for the chauffeur was NT\$41,917.

4. President Wei Jan-Lin stepped down from his position on 20 August 2018, and Chiou Ye-Chin (SEVP from 1 January to 19 August 2018) was promoted to replace him on that same day.

		Name of	Directors	
	Total of (A	\+B+C+D)	Total of (A+B+	+C+D+E+F+G)
Bracket	The Bank	Companies in the Consolidated Financial Statements	The Bank	The Bank and Reinvested Enterprises
Under NT\$2,000,000	WEI, JAN-LIN CHIOU, YE-CHIN SU, JAIN-RONG YANG, CHENG-CHEN JUAN, CHING-HWA CHANG, JUIN-JEN HSU, YI-HSIUNG TSAI, MING-FANG CHEN, MING-CHIN PENG, PAI-HSIEN WANG, YANZHI LU, CHIOU-SHIANG KUO, WEI-YU HSU, HUI-FENG YANG, CHIN-LONG HO, YI-CHENG CHEN, CHUAN-HSI CHEN, NAN-KUANG HSU, MA HU, CHIN-CHUAN CHEN, JUI-LIN LIN, CHENG-TAN WU, TE-JEN	WEI, JAN-LIN CHIOU, YE-CHIN SU, JAIN-RONG YANG, CHENG-CHEN JUAN, CHING-HWA CHANG, JUIN-JEN HSU, YI-HSIUNG TSAI, MING-FANG CHEN, MING-CHIN PENG, PAI-HSIEN WANG, YANZHI LU, CHIOU-SHIANG KUO, WEI-YU HSU, HUI-FENG YANG, CHIN-LONG HO, YI-CHENG CHEN, CHUAN-HSI CHEN, NAN-KUANG HSU, MA HU, CHIN-CHUAN CHEN, JUI-LIN LIN, CHENG-TAN WU, TE-JEN	CHIOU, YE-CHIN SU, JAIN-RONG YANG, CHENG-CHEN JUAN, CHING-HWA CHANG, JUIN-JEN HSU, YI-HSIUNG TSAI, MING-FANG CHEN, MING-CHIN PENG, PAI-HSIEN WANG, YANZHI LU, CHIOU-SHIANG KUO, WEI-YU HSU, HUI-FENG YANG, CHIN-LONG HO, YI-CHENG CHEN, CHUAN-HSI CHEN, NAN-KUANG HSU, MA HU, CHIN-CHUAN CHEN, JUI-LIN LIN, CHENG-TAN WU, TE-JEN	CHIOU, YE-CHIN SU, JAIN-RONG YANG, CHENG-CHEN JUAN, CHING-HWA CHANG, JUIN-JEN HSU, YI-HSIUNG TSAI, MING-FANG CHEN, MING-CHIN PENG, PAI-HSIEN WANG, YANZHI LU, CHIOU-SHIANG KUO, WEI-YU HSU, HUI-FENG YANG, CHIN-LONG HO, YI-CHENG CHEN, CHUAN-HSI CHEN, NAN-KUANG HSU, MA HU, CHIN-CHUAN CHEN, JUI-LIN LIN, CHENG-TAN WU, TE-JEN
NT\$2,000,000 ~ NT\$5,000,000	JOSEPH JYE- CHERNG LYU	JOSEPH JYE- CHERNG LYU	JOSEPH JYE- CHERNG LYU WEI, JAN-LIN	JOSEPH JYE- CHERNG LYU WEI, JAN-LIN
NT\$5,000,000 ~ NT\$10,000,000				
NT\$10,000,000 ~ NT\$15,000,000				
NT\$15,000,000 ~ NT\$30,000,000				
NT\$30,000,000 ~ NT\$50,000,000				
NT\$50,000,000 ~ NT\$100,000,000				
Over NT\$100,000,000				
Total (Unit: NT\$1,000)	6,017	6,017	13,476	13,866



# (2) Compensation of President and Senior Executive Vice Presidents

													Unit: N	191,000											
Salary (A)			ince Pay B)	Bonuses and Allowances (C)					Ratio Compe (A+B to Net After	Reinvested E															
Title	Name	The Bank	Companies in the Cons Financial Stateme	The Bank Companies in the Consolidated Financial Statements		The Bank Companies in the Consc Financial Statemen		The Bank	Companies in the Consoliu Financial Statements		The Bank	Statements	Companies in the	The Bank	Companies in the Consolic Financial Statements	Reinvested Enterprises other than the Bank's Subsidiary									
		nts		Companies in the Consolidated Financial Statements The Bank		Consolidated Itements	Cash	Stock	Cash	Stock		Consolidated Itements	ank's												
President	WEI, JAN-LIN																								
President	CHIOU, YE-CHIN																								
Senior Executive Vice President	CHANG, HONG-CHI																								
Senior Executive Vice President	HSIEH, CHUAN-CHUAN																								
Senior Executive Vice President	YEH, SHIOU-JSU																								
Senior Executive Vice President	HUANG, JUI-MU	-																							
Senior Executive Vice President	LIN, CHUN-LIANG	14,538	15,631	1,163	1,328	9,549	10,785		N	one		0.24%	0.27%	872											
Senior Executive Vice President	HSU, CHIH-WEN	-																							
Senior Executive Vice President	KANG, FAN																								
Senior Executive Vice President	LIN, LI-LING																								
SEVP & Chief Compliance Officer	LIN, SU-LAN																								
SEVP & General Auditor	CHEN, YING-KUEI																								

Notes: 1. President Wei Jan-Lin stepped down from his position on 20 August 2018, and Chiou Ye-Chin (SEVP from 1 January to 19 August 2018) was promoted to replace him on that same day.

2. In view of the fact that SEVP Kang Fan was not provided with an official residence during her tenure as President of BankTaiwan Insurance Brokers (1 January to 19 July 2018), a supplemental home rental stipend of NT\$35,000 was provided in 2018; the gasoline fee was NT\$24,566; and the president's sedan was purchased in December of 2014 at a cost of NT\$540,000, and the monthly expense for the contracted chauffeur was NT\$38,802.

	Name of President and Senior Executive Vice Presidents							
Bracket	The Bank	Companies in the Consolidated Financial Statements and Reinvested Enterprises other than the Bank's Subsidiary						
	CHANG, HONG-CHI	CHANG, HONG-CHI						
	YEH, SHIOU-JSU	YEH, SHIOU-JSU						
Under NT\$2,000,000	HSU, CHIH-WEN	HSU, CHIH-WEN						
	KANG, FAN	LIN, LI-LING						
	LIN, LI-LING							
	WEI, JAN-LIN	WEI, JAN-LIN						
	CHIOU, YE-CHIN	CHIOU, YE-CHIN						
	HSIEH, CHUAN-CHUAN	HSIEH, CHUAN-CHUAN						
	HUANG, JUI-MU	HUANG, JUI-MU						
NT\$2,000,000 ~ NT\$5,000,000	LIN, CHUN-LIANG	LIN, CHUN-LIANG						
	LIN, SU-LAN	KANG, FAN						
	CHEN, YING-KUEI	LIN, SU-LAN						
		CHEN, YING-KUEI						
NT\$5,000,000 ~ NT\$10,000,000								
NT\$10,000,000 ~ NT\$15,000,000								
NT\$15,000,000 ~ NT\$30,000,000								
NT\$30,000,000 ~ NT\$50,000,000								
NT\$50,000,000 ~ NT\$100,000,000								
Over NT\$100,000,000								
Total (Unit: NT\$1,000)	25,250	28,616						

Unit: NT\$1,000

# **III. Implementation of Corporate Governance**

#### 1. Board of Directors

A total of 13 meetings of the Board of Directors (A) were held in 2018. The attendance of the Directors was as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate(%) [ B/A ] (Note)	Remarks	
Chairman	JOSEPH JYE-CHERNG LYU	13	0	100		
Managing Director	CHIOU, YE-CHIN	4	0	100	Assumed on Aug. 20, 2018	
Independent Managing Director	TSAI, MING-FANG	5	0	100	Assumed on Aug. 3, 2018	
Managing Director	JUAN, CHING-HWA	5	0	100	Assumed on Aug. 3, 2018	
Managing Director	CHANG, JUIN-JEN	5	0	100	Assumed on Aug. 3, 2018	
Independent Director	CHEN, MING-CHIN	3	0	100	Assumed on Sep. 12, 2018	
Independent Director	WANG, YANZHI	3	0	100	Assumed on Sep. 10, 2018	
Director	CHEN, NAN-KUANG	9	0	100	Assumed on Mar. 22, 2018	
Director	LU, CHIOU-SHIANG	13	0	100		
Director	CHEN, CHUAN-HSI	10	3	77		
Director	HO, YI-CHENG	2	0	100	Assumed on Oct. 12, 2018	
Director	HSU, HUI-FENG	3	2	60	Assumed on Aug. 3, 2018	
Labor Director	WU, TE-JEN	5	0	100	Assumed on Aug. 3, 2018	
Labor Director	LIN, CHENG-TAN	5	0	100	Assumed on Aug. 3, 2018	
Managing Director	WEI, JAN-LIN	9	0	100	Relieved on Aug. 20, 2018	
Independent Managing Director	HSU, YI-HSIUNG	8	0	100	Relieved on Aug. 3, 2018	
Managing Director	SU, JAIN-RONG	7	0	100	Relieved on July 16, 2018	
Managing Director	YANG, CHENG-CHEN	8	0	100	Relieved on Aug. 3, 2018	
Independent Director	CHEN, MING-CHIN	6	2	75	Relieved on Aug. 3, 2018	
Independent Director	PENG, PAI-HSIEN	8	0	100	Relieved on Aug. 3, 2018	
Director	YANG, CHIN-LONG	1	2	33	Relieved on Feb. 26, 2018	
Director	KUO, WEI-YU	3	5	38	Relieved on Aug. 3, 2018	
Labor Director	HU, CHIN-CHUAN	8	0	100	Relieved on Aug. 3, 2018	
Labor Director	CHEN, JUI-LIN	7	0	100	Relieved on Aug. 3, 2018	
Labor Director	HSU, MA	1	0	100	Relieved on Jan. 16, 2018	

Other mentionable items:

 The dates of meetings, sessions, contents of motions, all independent directors' opinion and the Company's response to independent directors' opinion should be specified, if there are (1) circumstances referred to in Article 14-3 of Securities and Exchange Act or (2) resolutions of the directors' meetings objected to by independent directors or subject to qualified opinion and recorded or declared in writing:

(1) Not applicable as The Bank has established an audit committee.

(2) None

- 2. If there is directors' avoidance of motions in conflict of interest, the directors' names, contents of motions, causes for avoidance and voting should be specified:
  - (1) At the 16th meeting of the 6th Board of Managing Directors on Nov. 9, 2018, an approval of the loan to the National Stabilization Fund Management Committee: All directors in attendance agreed to pass the proposal except for Managing Director Juan Ching-Hwa, who exercised recusal because he held a position as the executive secretary of the Committee.
  - (2) At the 2nd interim meeting of the 6th Board of Managing Directors on Nov. 13, 2018, an approval of underwriting the syndicated loan to the National Stabilization Fund Management Committee: Approved. (Managing Director Juan Ching-Hwa exercised recusal because he held a position as the executive secretary of the Committee.)
  - (3) At the 2nd interim meeting of the 6th Board of Managing Directors on Nov. 13, 2018, a report of underwriting the syndicated loan to the National Stabilization Fund Management Committee: All directors in attendance agreed the report except for Managing Director Juan Ching-Hwa, who exercised recusal because he held a position as the executive secretary of the Committee.
  - (4) At the 17th meeting of the 6th Board of Managing Directors on Nov. 16, 2018, an approval of the loan to Taiwan Tobacco & Liquor Corporation: All directors in attendance agreed to pass the proposal except for Managing Director Juan Ching-Hwa, who exercised recusal because the Taiwan Tobacco & Liquor Corporation had been under his supervision when he served as Administrative Deputy Minister of Finance.
  - (5) At the 21st meeting of the 6th Board of Managing Directors on Dec. 14, 2018, an approval of the loan to National Treasury Administration, Ministry of Finance: All directors in attendance agreed to pass the proposal except for Managing Director Juan Ching-Hwa, who exercised recusal because the National Treasury Administration had been under his supervision when he served as Administrative Deputy Minister of Finance.
- Targets in the current year or the most recent year to upgrade the function of the Board of Directors (e.g. establishment of an audit committee; steps taken to increase information transparency; etc), and evaluation of targets achievement.
  - (1) To coordinate with legislative amendments issued by the competent authority, BOT has completed amendments to its Charter, its Organization Rules, and the Rules of Procedure for Board of Directors Meetings in order to strengthen the functions of the Board of Directors.
  - (2) The members of the Board of Directors, in addition to attending the required number of hours of professional development courses, have also taken measures to step up training on AML matters, corporate governance, internal audits, and internal controls in order to ensure effective oversight and administration by the Board.
- Note: The actual ratio of attendance (%) is calculated as the ratio (%) of the number of Board of Directors meetings attended to the total number held during the term in office.

#### 2. Audit Committee

A total of 8 Audit Committee meetings (A) were held in 2018. The attendance of the Independent Directors was as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) [ B/A ] (Note)	Remarks
Independent Managing Director	HSU, YI-HSIUNG	5	0	100	Relieved on Aug. 3, 2018
Independent Director	CHEN, MING-CHIN	5	0	100	Relieved on Aug. 3, 2018
Independent Director	PENG, PAI-HSIEN	5	0	100	Relieved on Aug. 3, 2018
Independent Managing Director	TSAI, MING-FANG	3	0	100	Assumed on Aug. 3, 2018
Independent Director	CHEN, MING-CHIN	3	0	100	Assumed on Sep. 12, 2018
Independent Director	WANG, YANZHI	3	0	100	Assumed on Sep. 10, 2018

Other mentionable items:

1. The dates of meetings, sessions, contents of motions, resolutions of Audit Committee and the Company's response to Audit Committee's opinion should be specified, if there are (1) circumstances referred to in Article 14-5 of Securities and Exchange Act or (2) resolutions which were not approved by the Audit Committee but were approved by two thirds or more of all Directors:

(1) BOT adopted an Audit Committee Charter in accordance with Article 28 of its Charter and Article 3 of Regulations Governing the Exercise of Powers by Audit Committees of Public Companies, and agenda items are set pursuant to the applicable rules. Please refer to the pages 38 to 41 of the Chinese annual report.

(2) At the 2nd meeting of the 6th Board of Directors on Aug. 20, 2018

a. Approved a report on BOT auditing work for the 1st half of 2018.

b. Approved a "Table of Statistics on Follow-up Reviews by the Department of Auditing of the Board of Directors on Examination/ Audit Findings Reported by Financial Examination Authorities, CPAs, and Internal Auditors, and in the Self-Audits of BOT Units" (current as of 30 June 2018).

c. Approved a special audit report on internal controls and enhanced measures adopted by the BOT regarding its stock investment operations in the 1st half of 2018.

- d. Approved the BOT semi-annual Legal Compliance Report for the 1st half of 2018.
- e. Approved the BOT semi-annual AML/CFT report for the 1st half of 2018.
- f. Approved a report entitled "End-June 2018 Long-term Equity Investments by BOT and Short-term Investments by the BOT Finance Department in Equities and Investment Fund Beneficial Interest Certificates, and a Comparison of Changes in Valuations and Gains/Losses."
- g. The BOT Q2 2018 risk monitoring report.
- h. Reported the write-offs of overdue credit card accounts.
- i. Reported the write-offs of non-performing and non-accrual loans.
- j. Reported the write-offs of non-performing and non-accrual student loans.
- k. Approved the consolidated and individual financial reports for the 1st half of 2018, audited by a CPA.
- I. Approved a proposal for amendments to Articles 6 and 8 of the "Bank of Taiwan Rules for Extension of Credit to or Other Transactions With Related Persons Defined in Financial Holding Company Act."
- m. Approved participation in a share subscription in which a related person was also planning to participate.

If there is Independent Directors' avoidance of motions in conflict of interest, the Independent Directors' names, contents of motions, causes for avoidance and voting should be specified: None.

- 3. Communication between the Independent Directors, internal auditing authorities and CPAs (including major items, mode and results of discussion about the Bank's finance and business)
  - (1) Communication with internal auditing authorities was carried out as follows to reinforce the Bank's internal auditing work: Meetings of the Audit Committee that were held during this fiscal year discussed (a) a report on auditing work for the second half of 2017; (b) Internal Control Statement in 2017; (c) a report on auditing work for the first half of 2018; and (d) auditing work plan for 2019.
  - (2) Communication with CPAs was carried out as follows to reinforce the content of the Bank's external auditing work: Meetings of the Audit Committee that were held during this fiscal year discussed (a) the internal control auditing report in 2017; (b) financial reports of 2017; (c) the financial report for the first quarter of 2018; (d) the financial report for the second quarter of 2018; and (e) the financial report for the third quarter of 2018.
  - (3) In order to reinforce corporate governance and business operations, seminars were held on an irregular basis to discuss the topics of anti-money laundering and countering terrorism financing, risk-based internal auditing, and risk management mechanism in conformity with international norms with business units.
  - (4) Relevant executives were invited to the Audit Committee's office on an irregular basis, and talks were held via telephone, to discuss important issues.
  - (5) A total of 8 Audit Committee meetings were called, 4 seminars, and one opinion-exchange were held during this year.
- Note: The actual ratio of attendance (%) is calculated as the ratio (%) of the number of Audit Committee meetings attended to the total number held during the term in office.

# 3. Corporate Governance Execution Status and Deviations from "Corporate Governance Best-Practice Principles for the Banking Industry"

Mattors Evaluated		Implementation Status					
Matters Evaluated	Y	N	Summary Description				
<ol> <li>Shareholding Structure &amp; Shareholders' Rights         <ol> <li>Has the Bank adopted internal procedures for the handling of shareholder suggestions, questions, disputes, and litigation? Does the Bank act in accordance with such procedures?</li> </ol> </li> </ol>	v		<ol> <li>The Bank currently has only one institutional shareholder: The Taiwan Financial Holding Co., Ltd. (which is 100% owned by the Ministry of Finance). All related matters are carried out in accordance with regulations, and channels of communication are clear.</li> </ol>				
(2) Does the Bank know the identities of the main controlling shareholders, and of the ultimate controlling shareholder?	V		(2) The Bank is a subsidiary of the state-owned Taiwan Financial Holding Co., Ltd. (whose sole owner is the Ministry of Finance).				
(3) Has the Bank established a risk management mechanism and "firewall" between the Bank and its affiliates? Is it implementing them?	V		(3) Business having to do with related enterprises is all carried out in accordance with the provisions of the Banking Act and the regulations of the competent authority as well as the Bank's own internal control charter.				
<ul> <li>2. Composition and Responsibilities of the Board of Directors <ul> <li>(1) In addition to the Remuneration Committee and the Audit Committee, is the Bank willing to establish other function-specific committees?</li> </ul> </li> <li>(2) Does the Bank carry out regular evaluations of CPA independence?</li> <li>3. Is the Bank a TWSE/TPEx listed company? If so, does the Bank set up a full- (or part-) time corporate governance unit or personnel to be in charge of corporate governance affairs and designate a senior</li> </ul>	v	v	<ol> <li>The Bank established an Audit Committee on July 31, 2009 and formulated an Audit Committee Charter. The Committee is made up of all the Bank's Independent Directors. The BOT is a 100% government-owned bank. As such, its employees' salary points are handled in accordance with regulations issued by the Ministry of Finance, and it does not have a Remuneration Committee.</li> <li>The Bank commissioned independent, reputable, and professional international certified public accountants of appropriate scale to carry out verification and certification of the Bank's accounts.</li> <li>The Bank is not a TWSE/TPEx listed company.</li> </ol>				
officer to be in charge of supervision? 4. Has the Bank established a communication channel with interested parties?	V		The Bank maintains a mailbox for complaints and suggestions on its website, as well as a customer service telephone hotline, providing materially interested persons with a diversity of communication channels. Its internal website also contains a Chairperson's Mailbox, President's Interchange, and employees' discussion area as channels for employee suggestions.				
<ul> <li>5. Information Disclosure</li> <li>(1) Has a corporate website been established to disclose information regarding the Bank's financial, business, and corporate governance status?</li> </ul>	v		(1) The Bank's website (https://www.bot.com.tw) regularly discloses information on finance, business, and corporate governance.				

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Mottors Fusilisted		Implementation Status					
Matters Evaluated	Y	N	Summary Description				
(2) Has the Bank established other information disclosure channels?	V		(2) The Bank's website has an English page that provides information on the Bank's finance, business, and corporate governance. To circulate publicly reports and announcements in accordance with the requirements of the competent authority, the units in charge of different areas of business carry out the collection and disclosure of relevant information. To strengthen liaison and communication with the news media, the Bank makes timely and accurate reports on its major policies, business measures, and services, establishes "Bank of Taiwan News Issuance and News Liaison Guidelines," and appoints spokespersons.				
6. Does the Bank have other important information that would contribute to a better understanding of the Bank's corporate governance operations (e.g., including but not limited to employee rights, employee wellness, investor relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, purchasing liability insurance for directors and supervisors, and donations to political parties, stakeholders, and charity organizations)?	V		<ol> <li>The BOT is a government-run financial institution. The interests of its employees are handled in accordance with the provisions of the "Labor Standards Act," other labor legislation, and regulations issued by the competent authorities.</li> <li>Advanced Education for Directors and Supervisors: The Bank provides Directors with information on advanced courses on law, finance, and accounting related to issues of corporate governance on an irregular basis, and arranges for them to attend courses in accordance with the regulations and their individual wishes.</li> <li>Attendance of Directors and Supervisors at Board of Directors Meetings: The Bank's Directors attend meetings of the Board of Directors (Board of Managing Directors) in accordance with the "BOT Articles of Incorporation," "BOT Board of Directors Organizational Charter," and "BOT Rules of Procedure for Board of Directors Meetings."</li> <li>The Bank adopted the "BOT Corporate Governance Best-Practice Principles" on Feb. 23, 2018. In addition, once each quarter the Bank filled out a form entitled "The BOT Corporate Governance Execution Status and Deviations from Corporate Governance Best-Practice Principles for the Banking Industry." added a designated section for stakeholders on the BOT website for public access.</li> <li>Implementation of Risk Management Policy and Risk Measurement Standards:</li> <li>The Bank has established a Risk Management Committee, mapped out risk strategies and considered risk monitoring. The Bank has also set up an independent dedicated risk control unit, carries out matters related to risk identification, assessment, monitoring, and management, and submits regular reports on the status of implementation to the Risk Management Committee.</li> <li>In compliance with FSC rules, the Bank has implemented Pillars 1, 2, and 3 of Basel Accord.</li> <li>The Bank has worked out a risk management policy, regulations for the establishment of a Risk Management Committee, internal criteria for capital</li></ol>				

Matters Evaluated		Implementation Status				
Matters Evaluated	Y	N	Summary Description			
6. Does the Bank have other important information that would contribute to a better understanding of the Bank's corporate governance operations (e.g., including but not limited to employee rights, employee wellness, investor relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, purchasing liability insurance for directors and supervisors, and donations to political parties, stakeholders, and charity organizations)?	V		<ul> <li>6. Consumer Protection:</li> <li>(1) To protect the interests of customers and assure observance of the competent authority's regulations, the Bank has established rules for the wealth management business including "Operating Regulations for the Sale of Financial Products," "Management Guidelines for Financial Product Salespersons," "Operating Instructions for a Full Understanding of Customers in the Sale of Financial Products," and "Manual of Customer Rights for the Sale of Financial Products."</li> </ul>			
			(2) To protect consumer interests, the contracts signed with customers for the extension of consumer loans are drawn up according to the "Items to Be Included and Not Included in Personal Auto and Home Loan Model Contracts" as formulated by the competent authority in accordance with the Consumer Protection Act and other relevant laws and regulations.			
			(3) The Bank has established "Standards for Exemption from Risk due to Loss or Theft of International Credit Cards" and "Regulations for Writing Off Losses due to Fraudulent Use of Credit Cards," so as to protect the users of credit cards.			
			(4) In response to the promulgation and implementation of the Financial Consumer Protection Act and its subsidiary Regulations Governing Financial Services Companies Engaged in Advertising for Business Solicitation or Business Marketing, the Bank has established its "Management Instructions for Engaging in Advertising for Business Solicitation and Business Marketing."			
			7. Abstention of Directors from Cases in Which They Have a Material Interest:			
			(1) Article 16 of Rules of Procedure for Board of Directors Meetings stipulates that Directors should, at the current Board of Directors meeting, explain the major content of their relationships of material interest and, in case of any concern that those relationships might do harm to the Company's benefit or if there is any relationship of material interest of its own, they may not participate in discussions or voting and should remove themselves during discussion and voting, nor may they act as proxy for other Directors in exercising their voting rights.			
			(2) Directors have to fill out the "Parties of Material Interest" Form as stipulated in Article 33-1 of the Banking Act, and the Form is managed by the Department of Credit Management.			
			8. Purchase of Liability Insurance for Directors and Supervisors: The Bank has not purchased liability insurance for its Directors. The Bank has set up an Audit Committee to take over the functions of the supervisors.			
			9. Donations to Political Parties, Stakeholders, and Charity Organizations:			
			The Bank provides charity donations in accordance with the "Rules for the Handling of Funding (Donations) from the Bank of Taiwan to Private Organizations."			

4. Information on Members of the Remuneration Committee, and Its Operation

The BOT has not established a Remuneration Committee.

# 5. Social Responsibility

Mottoro Evoluated		Implementation Status					
Matters Evaluated	Y	N	Summary Description				
<ol> <li>Implementation of Corporate Governance         <ol> <li>Has the Bank adopted a corporate social responsibility policy or system? Does the Bank review the effectiveness of its implementation thereof?</li> </ol> </li> </ol>	v		(1) Public-benefit donations are given to civic groups in accordance with the "Bank of Taiwan Rules for the Granting of Subsidies (Donations) to Private Groups."				
(2) Does the Bank periodically hold social responsibility education and training sessions?	v		(2) The Bank uses internal education and training programs as well as online learning websites to provide employees with online courses in corporate governance. Employees are required to attend a prescribed number of hours of such coursework.				
(3) Does the Bank have a unit (dedicated or otherwise) that is charged with responsibility for promoting corporate social responsibility? Does the Board of Directors specifically authorize senior management to handle corporate social responsibility matters, and does senior management report back to the Board of Directors on its handling of such matters?		V	(3) The BOT has not yet established a unit (dedicated or otherwise) to handle corporate social responsibility matters. However, the Bank's Directors all take part in corporate governance courses, and when there are government directives and other such matters, the Bank notifies each Director. The BOT has also included corporate governance personnel on headquarters staff, and is planning to establish a chief corporate governance officer in 2019.				
(4) Has the Bank adopted a policy on reasonable remuneration? Are corporate social responsibility matters factored into employee performance evaluations? Are there clear and effective rewards and sanctions?		V	(4) The BOT is a 100% government-owned bank. As such, its employees' salary points are handled in accordance with regulations issued by the Ministry of Finance. Corporate social responsibility policies are not currently factored into employee performance evaluations.				
<ul><li>2. Development of a Sustainable Environment</li><li>(1) Does the Bank make efforts to enhance the efficiency of resource utilization, and use recyclable materials with a low environmental burden?</li></ul>	v		(1) The Bank stepped up efforts to conduct green purchasing operations in order to implement the "Government Procurement Act" and the "Resource Recycling Act." Of all designated procurement items, 95.34% were obtained in line with green purchasing principles in 2018.				
(2) Has the Bank established an appropriate environmental management system that is suited to the characteristics of the banking industry?	V		<ul> <li>(2) The BOT has established an Environmental Management System for the environmental beautification and maintenance of cleanliness.</li> </ul>				
(3) Does the Bank pay attention to the impact of climate change on operating activities? Does it prepare greenhouse gas inventory reports? Has it adopted strategies for energy conservation and reduction of carbon and other greenhouse gases?	V		(3) The Bank continued implementing the government's policy of energy conservation and carbon reduction. The reductions during the year amounted to 4.13% for electricity and 0.51% for fuel consumption.				
<ul> <li>3. Community Service Work</li> <li>(1) Has the Bank adopted policies and procedures in accordance with applicable legislation and international human rights conventions?</li> </ul>	V		(1) In order to safeguard the rights and interests of both management and labor, the Bank has adopted work rules in compliance with the "Labor Standards Act" and other legislation governing civil servants.				
(2) Has the Bank established an employee complaint system, including a channel for lodging complaints? Is the system being properly implemented?	V		(2) Employees can lodge complaints in hardcopy form, via telephone or email, or via the Chairperson's Mailbox on the company intranet.				

Matters Evaluated			Implementation Status		
	Y	N	Summary Description		
(3) Does the Bank provide a safe and healthy working environment for its employees, and offer them regular safety and health education?	V		(3) The Bank intends to ensure a safe and healthy environment for employees. The Bank also offers employees regular safety and health education: Newly hired employees attend three hours of ordinary safety and health education and training; existing employees attend at least three hours of on-the-job safety and health education and training once every three years; first-aid personnel attend at least three hours of on-the-job safety and health education and training once every three years; occupational safety and health officers attend at least six hours of on-the-job safety and health education and training once every two years; and occupational safety and health administrators attend at least 12 hours of on-the-job safety and health education and training once every two years.		
(4) Has the Bank established a channel for periodic communication with employees? Does the Bank use reasonable methods to notify employees of operational changes with a potentially major impact upon them?	V		(4) The Bank issues official notices to inform employees of important operating policies related to employee's rights.		
(5) Has the Bank established a career skills development program for its employees?	V		(5) The Bank adopts an employee training program each year, which includes courses and lectures focusing on various professional and managerial topics. In addition, the Bank also dispatches employees to attend external professional trainings in TABF, TFF, III, SFI, and so on.		
(6) Has the Bank adopted consumer protection policies and complaint procedures for its R&D, purchasing, operational, and service processes?	V		<ul> <li>(6) a. In order to build a corporate culture that values customer safeguards, and to properly implement customer protections while building stronger customer trust in the Bank, the Bank has adopted a set of "Policies and Strategies Regarding the Principles for Fair Treatment of Consumers" in line with the Financial Supervisory Commission's "Principles for Fair Treatment of Consumers by Financial Services Enterprises." The Bank has also taken various measures to safeguard customer interests, including the following: "Strategy for Implementation of the Principles for Fair Treatment of Consumers in the Conduct of Bank Card Business"; "Strategy for Implementation of the Principles for Fair Treatment of Consumers in the Conduct of Bank Card Business"; "Strategy for Implementation of the Principles for Fair Treatment of Consumers in the Conduct of Credit Card Business"; "Customer Rights Statement for Use in the Sale of Financial Products"; "Customer Rights Statement for Use in the BOT provides customers with financial product transaction documents and on its website—the channels via which a customer may lodge a complaint in the event of a transaction dispute, the Bank has also adopted a set of "Rules Governing the Handling of Customer Criticisms and Complaints," which were drafted with reference to the Financial Consumer Protection Act and the various regulations governing handling by agencies under the Executive Yuan of petitions filed by members of the public. The Bank has</li> </ul>		

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Matters Evaluated		Implementation Status				
Matters Evaluated	Y	N	Summary Description			
(6) Has the Bank adopted consumer protection policies and complaint procedures for its R&D, purchasing, operational, and service processes?			also established a Customer Complaints Management System to maintain a comprehensive understanding of the handling of customer complaints and disputes, and to ensure that customer requests are properly met. For wealth management business, in addition to the abovementioned Rules, the Bank has also adopted the "Guidelines for the Handling of Wealth Management Customer Disputes" and "Guidelines for the Handling of Customer Disputes Related to the Sale of Financial Products."			
(7) In its marketing and labeling of products and services, does the Bank comply with applicable legislation and international standards?	V		(7) The Bank has adopted a set of "Management Instructions for Engaging in Advertising, Business Solicitation, and Sales Promotion Activities" to regulate its advertising, business solicitation, and sales promotion activities, and to safeguard the interests of financial consumers.			
(8) Before entering into a business relationship with a supplier, does the Bank first consider whether the supplier has previously harmed the environment or the interests of society?	V		(8) The Bank handles purchasing matters in compliance with the "Government Procurement Act", environmental protection and occupational safety & health legislation, and related legislation. Qualification requirements for suppliers and manufacturers, and the content of contracts, must all be set in accordance with the law.			
(9) Do the Bank's contracts with major suppliers include a provision that allows for the Bank to terminate or rescind at any time if the supplier violates its corporate social responsibility policy in such a manner as to harm the environment or the interests of society?	V		(9) The Bank's goods and services procurement contracts expressly provide that if a supplier violates environmental protection or occupational safety & health legislation with serious consequences, the Bank reserves the right to terminate or suspend the contract.			
4. Strengthening of Information Disclosure						
Does the Bank disclose relevant and reliable information regarding its corporate social responsibility on its own website and the Market Observation Post System (MOPS) website?	V		Related information is disclosed in the Corporate Social Responsibility Report area of the global information web page, in such areas as corporate governance, customer commitments, employee care, environmental protection, and social participation.			

5. If the Bank has compiled its own corporate social responsibility rules in accordance with the "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies," please explain their operation and their divergences:

The BOT is not a TWSE/GTSM listed company, and has not compiled its own corporate social responsibility rules.

- 6. Other important information that would aid in understanding the operation of corporate social responsibility:
  - (1) As a 100% government-owned bank, the Bank makes every effort to attain the budget targets set by the government, and coordinates with the government's major construction plans and participates actively in the financing of infrastructure projects as well as large private investment projects in order to promote overall national economic development.
  - (2) In order to give back to society and act upon the company's commitment to caring, the Bank continues to hold community service activities designed to benefit the underprivileged and enhance its image as an enterprise that cares about the public good. The Bank also supports government policy by providing student loans.
  - (3) The BOT carried out the following social benefit activities in 2018:
    - a. 1 March-30 April 2018: The Bank again organized the "Youth Painting Division of the 2018 Bank of Taiwan Arts Festival" to support young artists, encourage youth to develop their creative abilities, inject new energy into the literary and arts community, and create a society where truth, goodness, and beauty are palpably present. An awards ceremony was carried out on June 29.
    - b. 3 March 2018: BOT joined hands with the Taiwan Guide Dog Association once again to organize a fair to promote concern for the blind and call for greater appreciation of guide dogs. Charity sales at the fair totaled NT\$1,470,000, all of which was donated to the Taiwan Guide Dog Association.

Matters Evaluated		Implementation Status				
	Y	N	Summary Description			

- c. 10-11 April 2018: Out of concern for the quality of life of persons with physical or mental disabilities, the BOT invited employees from the New Taipei City Children Are Us Shelter Factory to watch movies.
- d. 12 and 29 April 2018: The Bank held a "BOT Spring Trip for Seniors With Dementia" and sponsored the 2018 spring trip organized by the Taipei Private St. Joseph Care Center for the Elderly With Dementia. BOT employees accompanied the seniors on these trips.
- e. 15 May 2018: The Bank carried out an awards ceremony for "2017 Bank of Taiwan Awards for Economic and Financial Research" and announced commencement of the solicitation of papers for the "2018 Bank of Taiwan Awards for Economic and Financial Research." The purpose of this Awards activity is to use high-quality research papers to demonstrate the tremendous pool of economic and financial expertise that exists in Taiwan, and to help cultivate an atmosphere conducive to economic and financial research.
- f. 26 May 2018: To support the public marketing of government policy achievements, the Bank took part in the Taiwan Financial Services Roundtable's 2018 community service festival in Keelung. There we promoted our gold business and highlighted the BOT's outstanding corporate image.
- g. 1 June 2018: The Bank joined with BankTaiwan Life Insurance and the New Taipei City Autism Association in holding a launch ceremony for the Association's first STARFFEE coffee truck. The BOT provided financial sponsorship to help the Association purchase the vehicle, a refrigerator, a toaster oven, and a gasoline power generator.
- h. 8 June 2018: Senior members of BOT management visited the Yu An Retarded Children's Home Miaoli R.O.C to check on the welfare of the children living there and hold a ceremony to mark a donation to help the Home replace old facilities and build a more comfortable environment for the children.
- i. 29 June-15 August 2018: The Bank once again organized the "Photography Division of the 2018 Bank of Taiwan Arts Festival," inviting photography enthusiasts to enter works focused on the main different styles of architectural beauty to be found throughout Taiwan. An awards ceremony was carried out on November 16.
- j. 29 June 2018: BOT employees travelled to the Roman Catholic Diocese of Chiayi's Anren Home for Children to show concern for the children there. The Bank provided financial support to help the Home replace bedding, tables, and chairs, thus improving living conditions.
- k. 7-8 July 2018: To support baseball, the national pastime of Taiwan, BOT again played a role in the Chinese Professional Baseball League all-star game by acting as a named sponsor of the Red Team. BOT top management and other employees attended the game to cheer for their favorite stars. As part of its work to support the development of little league baseball, the Bank invited the players from four school teams to attend the all-star game. Also, the Bank donated a total of 180 grams of passbook gold to the Premature Baby Foundation of Taiwan, and the Huizhong Medical Relief Foundation.
- I. 17 July 2018: To show concern for people with visual impairments and multiple visual impairments, BOT employees visited to the Taichung Private Hui-ming School for the Blind, where the Bank has provided financial support to help replace the school's first-aid kits and care beds, and to purchase new cabinets.
- m. 15 September 2018: The Bank took part in a charity concert held by the Taipei Kuanyin-Line Psychological and Social Service Association. The proceeds of the concert funded the Association's various community service activities, as well as its advertising and publicity campaigns.
- n. 21 September 2018: The Bank and BankTaiwan Securities realized the resource-sharing and the synergies of business integration in the financial holding group by co-sponsoring the charity performance by Shuiyuan Village Troupe, and invited unprivileged children and students of special education classes from four elementary schools to enjoy the drama.
- o. 29 September 2018: The Bank held a music concert at Chung Shing Hall in Taichung. BOT employees and family members from branches in the Taichung area attended the event, which featured performances by the Christian Mountain Children's Home Choir, the Ya Yun Women's Choir, and Hui-ming School for the Blind.
- p. September 2018: The Bank donated NT\$500,000 to assist victims of major flooding on August 23 in southern Taiwan.
- q. 7 December 2018: Current and retired BOT employees went to the New Taipei City Children Are Us Shelter Factory, where they worked alongside the children in assembling cookie boxes.
- r. 19 December 2018: BOT employees traveled to Xinfeng Elementary School in Nantou City, where they sat in on a special after-school class to help children from underprivileged families with their school work, and presented the students with boxes of writing implements, household items, sports items, and other Christmas gifts.

7. If the Bank's corporate social responsibility reports include passage of certification standards by relevant certification agencies, please explain:

The Bank has prepared Corporate Social Responsibility Reports for 2015, 2016 and 2017 which have not been certificated yet.



BOT held an awards ceremony for the Youth Painting Division of the 2018 Bank of Taiwan Arts Festival on June 29, 2018. Posing here for a photo with the award winners were BOT Chairman Joseph Jye-Cherng Lyu (7th from the left side of the back row), Deputy Minister of Culture Yang Tzu-Pao (6th from the left side of the back row), the juror Professor Liao Shiou-Ping (7th from the right side of the back row), President of Taiwan Financial Holdings Austin Chan (5th from the left side of the back row), the former BOT President Wei Jan-Lin (5th from the right side of the back row), and BOT SEVPs.

#### 6. Status of the Bank's Ethical Management, and Measures Adopted

Matters Evaluated		Implementation Status				
	Y	N	Summary Description			
<ol> <li>Establishment of Ethical Management Policies and Programs         <ol> <li>Is an ethical management policy clearly expressed in the Bank's charter and public documents? Are its Board of Directors and management committed to</li> </ol> </li> </ol>	v		(1) The BOT holds to an attitude of sincerity in guaranteeing the principle of putting customer rights first and providing professional services that meet the needs of its			
<ul> <li>vigorous implementation of that policy?</li> <li>(2) Has the Bank adopted programs for the prevention of unethical behavior? Does each of these programs expressly set out operating procedures and a code of conduct, provide for punishment of unethical behavior, and establish a system for lodging complaints? Are the programs being properly implemented?</li> </ul>	v		<ul> <li>customers, and puts "Integrity" at the head of the list of its operating principles.</li> <li>(2) The Bank conducts all matters in compliance with the "Civil Servant Service Act," abides by civil ethics rules, carries out all required registrations, and in order to prevent unethical conduct, the Bank has adopted a rule explicitly requiring that important financial transactions with interested parties must be reported to the Board of Directors for discussion and approval.</li> </ul>			
(3) Has the Bank adopted preventive measures to ensure that the unethical behaviors set out in Article 7, paragraph 2 of the "Ethical Corporate Management Best Practice Principles for TWSE/ GTSM Listed Companies" will not occur, and that the Bank will not engage in business activities that pose a relatively high risk of unethical conduct?	V		<ul> <li>(3) a.All purchasing transactions, donations, and sponsorships must be reported to the authorization level for review and approval, so compliance with applicable legislation and internal operating procedures is assured.</li> <li>b. The Bank has established the "Instructions for Professional Ethics and Behavior by Bank of Taiwan Investment Personnel," which clearly prohibits the Bank's investment personnel from recommending, giving, seeking, or accepting a bribe in any form. Also, the "Instructions for Prevention of Insider Trading and Conflicts of Interest in the Wealth Management Business of the Bank of Taiwan" explicitly prohibits wealth management personnel from accepting improper gifts or entertainment.</li> </ul>			

				Implementation Status
	Matters Evaluated		Summary Description	
(3)	Has the Bank adopted preventive measures to ensure that the unethical behaviors set out in Article 7, paragraph 2 of the "Ethical Corporate Management Best Practice Principles for TWSE/ GTSM Listed Companies" will not occur, and that the Bank will not engage in business activities that pose a relatively high risk of unethical conduct?			<ul> <li>c. BOT regularly dispatched circulars to all company divisions reminding them to implement the Civil Service Ethics Rules. The idea was to impress upon employees the need to abide by ethical principles when interacting with government agencies.</li> <li>d. When the competent authority disseminates guidance documents related to ethics and compliance concerns, BOT forwards these in a timely manner to its various divisions, and the Bank's ethics officers call regularly scheduled meeting between management and rank-and-file staff to discuss related matters, and to urge all employees to understand the boundaries of propriety and be sure to comply with laws and regulations.</li> </ul>
2. Im	plementation of Ethical Management			
	Does the Bank evaluate the ethics track record of parties with which it does business? Do the contracts that it enters into with such parties expressly set out provisions governing ethical conduct?	V		(1) Before carrying out a public procurement operation, the Bank always visits the website of the Ministry of Economic Affairs to check on the current status of the counterparty, or asks the counterparty to provide tax returns. In addition, purchasing contracts include penal provisions that require the supplier to provide compensation if it acts in breach of contract.
(2)	Does the Bank have a unit (dedicated or otherwise) that reports to the Board of Directors and is responsible for promoting ethical business practices? If so, does this unit report periodically to the Board of Directors on the status of its work?		V	(2) The Bank has not yet established a unit (dedicated or otherwise) that reports to the Board of Directors and is responsible for promoting ethical business practices. The BOT follows the operating principles of "Integrity, Care, Efficiency, and Prudence," and propagates an understanding of these core values to employees during regular and irregular meetings at the different units. The principles are also printed in publications to incorporate them into all operations and services.
(3)	Has the Bank adopted a conflict-of-interest policy, and provided an appropriate complaint channel? Is the policy being properly implemented?	V		(3) The BOT's Charter and Rules of Procedure for Board of Directors Meetings clearly stipulate rules for the recusal of Directors.
(4)	Has the Bank established effective accounting and internal control systems designed to achieve ethical management? Does its internal audit unit carry out periodic audits, or if not, does the Bank retain a certified public accountant to carry out audits?	V		(4) The Bank has established a rigorous accounting system and a dedicated accounting unit. All financial reports are audited by a certifying CPA to ensure the fairness of financial statements, and the Bank has established an internal audit system, a self-audit system, a chief compliance officer system, and a risk management system as required by the "Regulations Governing the Implementation of Internal Control and Audit Systems by Financial Holding Companies and Banking Enterprises."
(5)	Does the Bank periodically hold in-house or out-of- house education and training sessions that focus on business ethics?	v		(5) In 2018 the Bank held in-house training courses for Ethics Guidelines and discipline rules with a total of 720 trainees participating.
3. Wł	istleblower System			
	Has the Bank established a whistleblower system that provides for whistleblower incentives? Is there a convenient channel for whistleblowers to raise their concerns? Does the Bank assign appropriate personnel who are exclusively tasked with responsibility for interfacing with the persons against whom whistleblowers lodge complaints?	V		<ul> <li>(1) a. The Bank shows on its website how to lodge whistleblower complaints via telephone, fax, post box, and e-mail. A dedicated unit assigns personnel to process whistleblower complaints.</li> <li>b.In May 2018, The Bank adopted a set of "Implementation Rules of Whistleblower System." These Rules require that whistleblower tips be received and handled by the Department of Compliance.</li> </ul>

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		Implementation Status				
Matters Evaluated	Y	N	Summary Description			
(2) Has the Bank adopted a standard operating procedure and a confidentiality regime for investigations launched in response to whistleblower complaints?	V		<ul> <li>(2) a. The Bank's ethics unit processes whistleblower complaints in accordance with the "Procedures for Handling Whistleblower Complaints and Providing Whistleblower Incentives and Protections (Including Confidentiality)" issued by the Ministry of Justice.</li> <li>b.In June 2018, the Bank adopted a set of "Whistleblower System Standard Operating Procedures." These Procedures require both the investigation unit and persons called in for questioning to maintain the confidentiality of the investigation, and further require the BOT to keep secret the identity of whistleblowers.</li> </ul>			
(3) Has the Bank adopted measures to protect whistleblowers from retaliation?	V		<ul> <li>(3) a. The Bank is subject to the provisions of the "Labor Standards Act," Article 74 of which prohibits an employer from discharging, transferring, or taking any other unfavorable measure against a worker who files a complaint or reports to the authorities.</li> <li>b. Article 13 of the BOT "Implementation Rules of Whistleblower System" provides that the Bank shall not, on account of a whistleblower case, fire or demote a whistleblower, reduce his/her pay, harm the interests to which he/she is entitled by law, contract, or custom, or take any action that is otherwise prejudicial to the whistleblower.</li> </ul>			
4. Strengthening of Information Disclosure Does the Bank disclose the content of its ethical best practice standards, and the state of their implementation, on its website and the Market Observation Post System (MOPS) website?	v		The Bank discloses the state of its business ethics work on its website, the Market Observation Post System (MOPS) website, and its annual reports.			
5. Please describe any differences in operations and rules accordance with the "Ethical Corporate Management Bes The BOT is not a TWSE/GTSM listed company, so this ite	st Pr	acti				
<ol> <li>Other important information that would aid in understan review and revision of ethical management regulations):</li> </ol>	ding	g the	e Bank's ethical management operations (such as the Bank's			
The Bank's ethical management operations have met wit	h ap	pro	val through the following:			
(1) The winner of Gold Award in the Reader's Digest Trus						
Generation " in 2018.			ers magazine's list of the "Most Attractive Employer for Young			
			d," "Golden Quality Award," and "Special Contribution Award."			
(4) Recognized by the Financial Supervisory Commission Persons with Mental and Physical Disabilities."	on a	s a	"Top Bank Provider of Property Trusts for Senior Citizens and			

- (5) Named by the Ministry of Education as a Gold Winner of the "Sports Administration's Sports Activist Awards."
- (6) Granted a "2018 Sports Enterprise Certification" by the Ministry of Education.
- (7) The Bank's Jenai Branch took part in the 2nd Government Quality Awards program and won the excellence award in the Overall Service Quality category.

#### Corporate Governance Report



BOT held the 2018 Financial Forum on "Aligning With International Compliance Practices & Implementing Cross-boundary Anti-Money Laundering" on July 10, 2018. BOT Chairman Joseph Jye-Cherng Lyu (2nd from right), Administrative Deputy Minister of Finance Su Jain-Rong (3rd from right, current Minister of Finance), Deputy Minister of Justice Chen Ming-Tang (3rd from left), Executive secretary of the Anti-Money Laundering Office Yu Li-Cheng (2nd from left), President of Taiwan Financial Holdings Austin Chan (1st on right), and the former BOT President Wei Jan-Lin (1st on left) jointly presided over the opening ceremony.

#### 7. Corporate Governance Guidelines and Regulations

Please refer to the Bank's website at https://www.bot.com.tw, and click on "Corporate Governance."

#### 8. Internal Control System

(1) Internal Control Statement

Please refer to page 49 of the Chinese annual report.

(2) Independent Auditors' Report

Please refer to page 50 of the Chinese annual report.

#### 9. Major Resolutions of Board Meetings

- (1) Reported by the 15th meeting of the 5th Board of Directors on Jan. 5, 2018: "Bank of Taiwan Fintech Development Plan."
- (2) Passed by the 15th meeting of the 5th Board of Directors on on Jan. 5, 2018:
  - a. The Bank's 2019 Business Plan (including the subsidiary).
  - b. Feasibility Study for the Bank of Taiwan to Establish a Kuala Lumpur Representative Office in Malaysia.

- c. BOT took part in preparations for establishment in early 2018 of the Taiwan Financial Alliance Urban Renewal Services Co. (tentative name) in support of an important government policy initiative.
- d. "Report on the Bank's capital increase plan for 2019."
- e. In support of the National Development Council's Asia Silicon Valley Development Plan, BOT moved its Taohsing Branch to Taoyuan City's Qingpu area and renamed it the Asia Silicon Valley Innovation Branch (tentative name).
- (3) Reported by the 121st meeting of the 5th Board of Managing Directors on Jan. 5, 2018: One of the BOT directors representing labor, Hsu Ma, retired on January 16. Chen Jui-Lin was appointed by the BOT company union as his replacement, and shall serve from January 16 to July 30, 2018.
- (4) Reported by the 122nd meeting of the 5th Board of Managing Directors on Jan. 12, 2018: "2017 Table of Funding (Donations) from the Bank of Taiwan to Private Organizations and How the Funds Have Been Used."
- (5) Passed by the 126th meeting of the 5th Board of Managing Directors on Feb. 9, 2018: Plan by BOT and subsidiary BankTaiwan Insurance Brokers Co., Ltd. (BTIB) to raise employee compensation by 3% in 2018, based on a recent 3% salary adjustment for ordinary civil servants.
- (6) Reported by the 16th meeting of the 5th Board of Directors on Feb. 23, 2018: Bank of Taiwan 2017 business report, income statement, statement on appropriation of profit or coverage of loss, balance sheet, and cash flow statement.
- (7) Passed by the 16th meeting of the 5th Board of Directors on Feb. 23, 2018:
  - a. Bank of Taiwan 2017 Statement on Internal Control.
  - b. Bank of Taiwan 2017 Statement on Internal Controls for AML/CFT Compliance.
  - c. Bank of Taiwan Corporate Governance Best-Practice Principles.
- (8) Passed by the 129th meeting of the 5th Board of Managing Directors on Mar. 9, 2018: To make the BOT organizational vision more closely reflective of the direction in which the Bank intends to develop, the vision was amended to read as follows: "A Leading Bank with Global Presence."
- (9) Passed by the 130th meeting of the 5th Board of Managing Directors on Mar. 16, 2018:
  - a. "Bank of Taiwan Rules for Monitoring of Accounts and Transactions."
  - b. "Bank of Taiwan Rules for Verification of the Names of Individuals or Entities."
- (10) Reported by the 131st meeting of the 5th Board of Managing Directors on Mar. 23, 2018: Central Bank Governor Yang Chin-Long was relieved of his position on the Board effective February 26, 2018, and was replaced by Central Bank Deputy Governor Chen Nan-Kuang, who would serve from March 22 to July 30, 2018.

(11) Passed by the 131st meeting of the 5th Board of Managing Directors on Mar. 23, 2018:

a. Retirement on March 23, 2018 of BOT Senior Executive Vice President Chang Hong-Chi.

- b. Organization and operations of the Bank of Taiwan Cultural Heritage Committee.
- (12) Reported by the 133rd meeting of the 5th Board of Managing Directors on Apr. 13, 2018: "Bank of Taiwan 2017 Assurance Report on Personal Information Protection and Internal Controls," issued by an accounting firm.
- (13) Passed by the 16th interim meeting of the 5th Board of Directors on Apr. 20, 2018: The Executive Yuan sent instructions via the Ministry of Finance for BOT Executive Vice President & General Manager of the Dept. of Corporate Finance Hsu Chih-Wen to be appointed to the post of Senior Executive Vice President.
- (14) Passed by the 18th meeting of the 5th Board of Directors on May 11, 2018:
  - a. "Bank of Taiwan Rules on Assessment of the Qualification Requirements of Chief Compliance Officers at Overseas Branches."
  - b. "Bank of Taiwan Implementation Rules of Whistleblower System."
  - c. Proposals to establish a new Department of Cyber Security at the head office, and to transfer legal affairs work from the Department of Compliance to the Department of Planning.
- (15) Passed by the 139th meeting of the 5th Board of Managing Directors on May 25, 2018:
  - a. "Bank of Taiwan Customer Due Diligence Rules."
  - b. "Bank of Taiwan GDPR-Based Personal Information Protection Rules."
- (16) Reported by the 19th meeting of the 5th Board of Directors on Jul. 6, 2018: "A Report on the Status of Bank of Taiwan Promoting Taiwan Pay App."
- (17) Passed by the 17th interim meeting of the 5th Board of Directors on Jul. 20, 2018: Instructions from the Executive Yuan, sent via the Ministry of Finance, to transfer President Kang Fan of BankTaiwan Insurance Brokers Co., Ltd. to the position of BOT Senior Executive Vice President, replacing Yeh Shiou-Jsu upon the latter's retirement.
- (18) Reported by the 148th meeting of the 5th Board of Managing Directors on Jul. 27, 2018: "Bank of Taiwan 2018–2022 Information Operations Development Blueprint."
- (19) Reported by the 1st meeting of the 6th Board of Directors on Aug. 3, 2018:
  - A list of the members of the Bank's sixth Board of Directors, as adopted by the Taiwan Financial Holding Co., Ltd. Board of Directors.
  - b. Tsai Ming-Fang, Chen Ming-Chin, and Wang Yanzhi were appointed as Independent Directors on the Bank's fourth Audit Committee.

- (20) Elected by the 1st meeting of the 6th Board of Directors on Aug. 3, 2018: Chairman Joseph Jye-Cherng Lyu, President Wei Jan-Lin, Independent Director Tsai Ming-Fang, Director Chang Juin-Jen, and Director Juan Ching-Hwa were appointed to the 6th Board of Managing Directors.
- (21) Passed by the 1st meeting of the 6th Board of Directors on Aug. 3, 2018: A directive from the Ministry of Finance extending the term of then-current BOT President Wei Jan-Lin to 19 August 2018, and promoting Chiou Yeh-Chin on 20 August to replace Mr. Wei as BOT President.
- (22) Selected by the 1st meeting of the 6th Board of Managing Directors on Aug. 3, 2018: Managing Director Joseph Jye-Cherng Lyu was elected Chairman of the Bank.
- (23) By-election at the 2nd meeting of the 6th Board of Directors on Aug. 20, 2018: Director Chiou Yeh-Chin was appointed to the Managing Director.
- (24) Passed by the 9th meeting of the 6th Board of Managing Directors on Sep. 21, 2018: "Bank of Taiwan Information Security Policy."
- (25) Passed by the 3rd meeting of the 6th Board of Directors on Sep. 28, 2018:
  - a. "Bank of Taiwan ML/FT Risk Appetite Statement."
  - Bank of Taiwan 2018 Bank-wide ML/FT Risk Assessment" & "Bank of Taiwan 2019 AML/CFT Regime Improvement Plan."
- (26) Passed by the 4th meeting of the 6th Board of Directors on Nov. 9, 2018:
  - a. The Audit Plan of 2019 by the Department of Auditing, Board of Directors.
  - Bank of Taiwan 2019 Compliance/Anti-Money Laundering and Combating the Financing Terrorism Plan."
- (27) Passed by the 1st interim meeting of the 6th Board of Directors on Nov. 30, 2018: Pursuant to a document transferred by the Ministry of Finance and meeting with the Executive Yuan's approval, BOT Executive Vice President & General Manager of the Dept. of Corporate Finance Lin Li-Ling to be appointed to the post of Senior Executive Vice President.
- (28) Passed by the 5th meeting of the 6th Board of Directors on Jan. 11, 2019: The Bank's 2020 Business Plan (including the subsidiary).
- (29) Passed by the 7th meeting of the 6th Board of Directors on Feb. 22, 2019:
  - a. Bank of Taiwan 2018 Statement on Internal Control.
  - b. Bank of Taiwan 2018 Statement on Internal Controls for AML/CFT.
  - c. The Bank established the TY Inno Branch by moving the Taosing Branch and changing its name.

(30) Passed by the 3rd interim meeting of the 6th Board of Directors on Mar. 11, 2019:

- a. BOT Executive Vice President & General Manager of the Dept. of Economic Research Ou Shing-Shiang was promoted to the position of Senior Executive Vice President of Taiwan Financial Holdings.
- b. BOT Executive Vice President & General Manager of the Dept. of Treasury Hsieh Hsiu-Hsien was promoted to the position of Senior Executive Vice President of BankTaiwan Securities.
- (31) Passed by the 8th meeting of the 6th Board of Directors on Mar. 27, 2019:
  - a. Audited 2018 individual and consolidated statements, Business Report, Statement of Earnings Appropriation, and List of Major Properties.
  - b. Audited 2018 Internal Control System Recommendations.
  - c. "Bank of Taiwan 2018 Bank-wide Compliance Risk Assessment."
  - d. BOT "Form for Assessment of Implementation by Financial Institution of the 'Principles for Fair Treatment of Consumers' in 2018."
  - e. Bank of Taiwan Information Security Statement for 2018 (Jan. 1, 2018 to Dec. 31, 2018).
- (32) Reported by the 33rd meeting of the 6th Board of Managing Directors on Mar. 29, 2019: 2018 Special Audit Report on the Bank of Taiwan's Personal Information Protection Regime (CPA Assurance Report).
- Major Issues of Record or Written Statements Made by Any Director or Supervisor Dissenting to Important Resolutions Passed by the Board of Directors

None

## 11. Resignation or Dismissal of Personnel Related to the Bank

				Apr. 2, 2019
Title	Name	Date of Appointment	Date of Termination	Reasons for Resignation or Dismissal
Senior Executive Vice President	CHANG, HONG-CHI	Jul. 16, 2011	Mar. 23, 2018	Applying for Retirement
Senior Executive Vice President	YEH, SHIOU-JSU	Dec. 30, 2016	Jul. 16, 2018	Retirement
President	WEI, JAN-LIN	Oct. 28, 2016	Aug. 20, 2018	Personnel changes
Senior Executive Vice President	CHIOU, YE-CHIN	Jul. 16, 2011	Aug. 20, 2018	Applying for Retirement, and being promoted as President of the Bank on Aug. 20, 2018
Senior Executive Vice President & General Auditor	CHEN, YING-KUEI	Nov. 17, 2017	Jan. 16, 2019	Retirement
Executive Vice President & General Manager of the Dept. of Treasury	HSIEH HSIU-HSIEN	Jan. 16, 2016	Apr. 1, 2019	Being promoted to the position of SEVP of BankTaiwan Securities

Note: "Personnel related to the Bank" refers to the chairman, president, finance executive, accounting executive and chief internal auditor.

## **IV. CPA Information**

#### Audit Fee

Name of Accounting Firm	Name	of CPA	Period of Audit	Notes	
KPMG Certified Public Accountants	Feng-Hui Lee	Lin Wu	Jan. 1, 2018 ~ Dec. 31, 2018	Accountant Yen-Ling Fan retired.	

Amount	Auditing Fees	Non-Auditing Fees	Total
Under NT\$ 2,000,000			
NT\$2,000,000 ~ NT\$4,000,000	3,553,000		3,553,000
NT\$4,000,000 ~ NT\$6,000,000		5,422,000	5,422,000
NT\$6,000,000 ~ NT\$8,000,000			
NT\$8,000,000 ~ NT\$10,000,000			
Over NT\$10,000,000			

V. Number of Shares in the Same Reinvested Enterprises Held by the BOT and Its Directors, Supervisors, President, Senior Executive Vice Presidents, Heads of Departments and Branches, and Enterprises Controlled Directly or Indirectly by the Bank, and Ratios of Consolidated Shareholding

#### **Consolidated Shareholding Ratios**

#### Dec. 31, 2018

		Dec. 51, 2010	-			Unit: Share; %	
Reinvested Enterprise (Note)	Investment by	y the BOT	Investment by Supervisors, Pres Executive Vice Pre of Departments a and Enter Directly or Indirectly the BC	sident, Senior sidents, Heads nd Branches, prises y Controlled by	Consolidated Investment		
	No. of Shares Ratio of Shareholding		No. of Shares	Ratio of Shareholding	No. of Shares	Ratio of Shareholding	
First Financial Holding Co., Ltd.	919,818,795	7.45	78,964,311	0.64	998,783,106	8.09	
Taiwan Business Bank	1,101,291,214	17.22	117,212	0.00	1,101,408,426	17.22	
Cathay Financial Holding Co., Ltd.	63,521,565	0.45	59,454,956	0.42	122,976,521	0.87	
Mega Financial Holding Co.	334,951,379	2.46	45,970,938	0.34	380,922,317	2.80	
Taiwan Fire & Marine Insurance Co., Ltd.	64,608,278	17.84	95,000	0.03	64,703,278	17.87	
China Development Financial Holding Corporation	238,729,496	1.60	1,706,524	0.01	240,436,020	1.61	
Yuanta Financial Holding Co., Ltd.	242,813,206	2.08	45,137	0.00	242,858,343	2.08	
CTBC Financial Holding Co., Ltd.	299,632,426	1.51	43,092,487	0.22	342,724,913	1.73	
Taiwan Sugar Corporation	16,658,992	0.30	8,006,499	0.14	24,665,491	0.44	
Taiwan Power Company	865,191,972	2.62	148,281,465	0.45	1,013,473,437	3.07	
Taiwan Stock Exchange Corporation	69,456,684	10.01	20,812,682	3.00	90,269,366	13.01	
China Trade & Development Corp.	1,250,110	1.91	0	0.00	1,250,110	1.91	
China Daily News	62,882	0.14	0	0.00	62,882	0.14	
Central Motion Picture Corporation	15,869,677	14.39	0	0.00	15,869,677	14.39	
United Taiwan Bank S.A.	146,250	4.99	0	0.00	146,250	4.99	
Taipei Forex Inc.	1,400,000	7.06	700,000	3.53	2,100,000	10.59	
Taiwan Futures Exchange Corporation	6,848,868	2.05	11,374,117	3.40	18,222,985	5.45	
Taiwan Asset Management Corporation	60,000,000	5.68	120,000,000	11.35	180,000,000	17.03	
BankPro E-Service Technology Co., Ltd.	450,000	3.33	0	0.00	450,000	3.33	
Taiwan Financial Asset Service Corporation	10,000,000	5.88	5,000,000	2.94	15,000,000	8.82	
Financial Information Service Co., Ltd.	14,337,681	2.75	6,204,257	1.19	20,541,938	3.94	
Financial eSolution Co., Ltd.	1,268,688	5.77	404,936	1.84	1,673,624	7.61	
Sunny Asset Management Corporation	15,531	0.26	69,740	1.16	85,271	1.42	
International Property & Finance Co., Ltd.	14,658	0.92	0	0.00	14,658	0.92	
Taiwan Chung Hsing Paper Corporation	25,035,822	9.54	0	0.00	25,035,822	9.54	
Taiwan Mobile Payment Co., Ltd.	1,200,000	2.00	600,000	1.00	1,800,000	3.00	
Taiwania Capital Management Corporation	1,000,000	0.79	0	0.00	1,000,000	0.79	
Taiwan Urban Regeneration & Financial Services Co., Ltd.	2,500,000	5.00	10,000,000	20.00	12,500,000	25.00	
Hua Nan Financial Holdings Co., Ltd.	2,450,853,525	21.23	444,759,272	3.85	2,895,612,797	25.08	
Tang Eng Iron Works Co., Ltd.	74,802,414	21.37	16,074,512	4.59	90,876,926	25.96	
Taiyi Real Estate Management Co., Ltd.	1,500,000	30.00	0	0.00	1,500,000	30.00	
BankTaiwan Insurance Brokers Co., Ltd.	2,000,000	100.00	0	0.00	2,000,000	100.00	

Note: Investment according to Article 74 of the Banking Act.



# **Capital Overview**

49	I.	Capital and Shares
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- 50 II. Issuance of Financial Bonds
- 53 III. Comments on Implementation of Capital Allocation Plan

# Capital Overview

## **I.** Capital and Shares

#### 1. Source of Capital

Month/	Par Value	Authorize	ed Capital	Paid-in	Capital	Remark	
Year	Fai value	Shares	Amount	Shares	Amount	Sources of Capital	Others
Mar. 2019	NT\$10	9.5 billion	NT\$95 billion	9.5 billion	NT\$95 billion	Appropriation from the National Treasury, and a capital increase of NT\$5 billion due to a merger with the Central Trust of China. A capital increase of NT\$25 billion was carried out in 2010, and another NT\$25 billion capital increase (from capital surplus) was carried out in 2014.	

#### 2. Net Worth, Earnings, and Dividends Per Share

Unit: NT\$; Share

Items	Year	2018	2017
Nat Warth Day Chave	Before Appropriation	32.66	30.43
Net Worth Per Share	After Appropriation	32.57	30.36
Fornings Dor Shore	Weighted Average Issued Shares	9,500,000,000	9,500,000,000
Earnings Per Share	Earnings Per Share (After Tax)	1.09	1.09
Dividends Per Share	Cash Dividends	0.08	0.06

Note: Figures for 2017 are approved by the National Audit Office; figures for 2018 are CPA approved.

#### 3. Dividend Policy and Implementation Status

(1) Dividend Policy

The BOT Charter stipulates that if the final annual accounts show a profit, the profit will be distributed as follows:

- A. Payment of the income tax;
- B. Making up of losses for previous years;
- C. Allocation of 30% for legal reserve;

D. Allocation of 20~40% of the surplus, and allocation of special reserve according to rule.

Any remaining profits will be distributed, together with undistributed profits from the previous year, in accordance with the relevant laws and regulations.

Until the legal reserve reaches the total amount of capital, the maximum distribution of profits in the form of cash may not exceed 15% of the capitalization.

(2) Current Distribution of Stock Dividends

Following the write-down or offset of losses [re-measurements (losses) of defined benefit plans] through allocation of legal reserve and special reserve from the audited after-tax profit for 2018, the Bank decided to distribute a cash dividend of NT\$0.8 billion, or NT\$0.08 per share. Under Article 50 of the Audit Act, however, the final determinant of the BOT's profit is the National Audit Office. Since the Bank's 2018 final budget is still under examination by the National Audit Office, the actual amount of cash dividends distributed will be determined after the National Audit Office completes its final examination.

#### **II. Issuance of Financial Bonds**

Types of Financial Bonds	Bank of Taiwan's Series 102-1 Unsecured Subordinated Debentures	Bank of Taiwan's Series 103-1 Unsecured Subordinated Debentures	
Date and Serial No. Approved by Authority	Aug. 9, 2013 Letter No.(FSC) Gin-Guan-Ying Kong 10200215390	Aug. 9, 2013 Letter No.(FSC) Gin-Guan-Ying Kong 10200215390	
Issue Date	Dec. 2, 2013	<ol> <li>A Issue: Bonds issued on June 25, 2014</li> <li>B Issue: Bonds issued on June 27, 2014</li> <li>C Issue: Bonds issued on June 27, 2014</li> </ol>	
Par Value	NT\$10 million	NT\$10 million	
Currency	TWD	TWD	
Offering Price	Offered at full face value	Offered at full face value	
Issue Amount	NT\$16 billion	NT\$9 billion	
Interest Rate	The annual rate is a floating rate of the benchmark rate plus 0.15%. The benchmark rate is the Bank's (general) floating interest rate on one-year time deposits.	<ol> <li>A Issue: The annual interest rate is a simple floating rate equal to the benchmark rate plus 0.3%.</li> <li>B Issue: Annual interest rate — Fixed 1.70% simple rate.</li> <li>C Issue: The annual interest rate is a simple floating rate equal to the benchmark rate plus 0.15%.</li> </ol>	
Term	10-year term Maturity date: Dec. 2, 2023	<ol> <li>10-year term</li> <li>A Issue: Bonds to mature on June 25, 2024</li> <li>B Issue: Bonds to mature on June 27, 2024</li> <li>C Issue: Bonds to mature on June 27, 2024</li> </ol>	
Mortgage Priority	Subordinate to all BOT depositors and other ordinary creditors	Subordinate to all BOT depositors and other ordinary creditors	
Guarantor	None	None	
Trustee	None	None	
Underwriting Organization	None	None	
Verification Lawyer	None	None	
CPA-Auditor of the Financial Report	None	None	
Verification Financial Institution	None	None	

Types of Financial Bonds	Bank of Taiwan's Series 102-1 Unsecured Subordinated Debentures	Bank of Taiwan's Series 103-1 Unsecured Subordinated Debentures	
Settlement Method	Annual retirement of medium- and long-term loans, or rolled over through the issuance of new bonds.	Annual retirement of medium- and long-term loans, or rolled over through the issuance of new bonds.	
Unsettled Balance	NT\$16 billion	NT\$9 billion	
Paid-In Capital for the Previous Year	NT\$70 billion	NT\$70 billion	
Net Worth Following its Final Budget for the Previous Year	NT\$247,962,981,000	NT\$244,475,322,000	
Exercise	Normal	Normal	
The Conditions and Terms for Redemption or Early Settlement	None	None	
Conversion and Exchange Terms	None	None	
Restriction Terms	Subordinated Debentures	Subordinated Debentures	
Capital Investment Plans	Development of consumer loan and corporate loan.	Development of consumer loan and corporate loan.	
Ratio of Reported Issue Amount and Balance of Outstanding to the Net Worth Following its Final Budget for the Previous Year (%)	6.45%	10.23%	
Counting in Net Capital (Risk- Based Capital Ratio) and Its Tier	Listed as the Bank's Tier II capital	Listed as the Bank's Tier II capital	
Credit Rating Agency, Rating Date and Rating	Taiwan Ratings: twAA (Nov. 19, 2013) twAA+ (Sep. 30, 2014)	Taiwan Ratings: twAA (June 16, 2014) twAA+ (Sep. 30, 2014)	

Types of Financial Bonds	Bank of Taiwan 106-1 Unsecured USD Callable Bonds	Bank of Taiwan 107-1 Unsecured USD Callable Bonds	
Date and Serial No. Approved by		Aug. 23, 2016 Letter No.(FSC) Gin-Guan-Ying Kong 10500198980	
Authority	10500198980	Nov. 21, 2017 Letter No.(FSC) Gin-Guan-Ying Kong 10600272640	
Issue Date	1. A Issue: Bonds issued on April 7, 2017	1. A Issue: Bonds issued on Feb. 26, 2018	
Issue Dale	2. B Issue: Bonds issued on April 7, 2017	2. B Issue: Bonds issued on Feb. 26, 2018	
Par Value	US\$10 million	US\$10 million	
Currency	USD	USD	
Offering Price	Offered at full face value	Offered at full face value	
Issue Amount	US\$880 million	US\$620 million	
	1. A Issue: Coupon rate of 0%, with an implicit interest rate of 4.20% per annum.	1. A Issue: Coupon rate of 0%, with an implicit interest rate of 4.15% per annum.	
Interest Rate	2. B Issue: Coupon rate of 0%, with an implicit interest rate of 4.18% per annum.	2. B Issue: Coupon rate of 0%, with an implicit interest rate of 4.07% per annum.	
	1. 30-year term	1. 30-year term	
Term	2. A Issue: Bonds to mature on April 7, 2047	2. A Issue: Bonds to mature on Feb. 26, 2048	
leini	B Issue: Bonds to mature on April 7, 2047	B Issue: Bonds to mature on Feb. 26, 2048	
Mortgage Priority	Same priority as that enjoyed by other ordinary unsecured creditors.	Same priority as that enjoyed by other ordinary unsecured creditors.	

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Types of Financial Bonds	Bank of Taiwan 106-1 Unsecured USD Callable Bonds	Bank of Taiwan 107-1 Unsecured USD Callable Bonds
Guarantor	None	None
Trustee	None	None
Underwriting Organization	None	None
Verification Lawyer	None	None
CPA-Auditor of the Financial Report	None	None
Verification Financial Institution	None	None
Settlement Method	Annual retirement of medium- and long-term loans, or rolled over through the issuance of new bonds.	Annual retirement of medium- and long-term loans, or rolled over through the issuance of new bonds.
Unsettled Balance	US\$880 million	US\$620 million
Paid-In Capital for the Previous Year	NT\$95 billion	NT\$95 billion
Net Worth Following its Final Budget for the Previous Year	NT\$273,949,309,000	NT\$288,442,760,000
Exercise	Normal	Normal
The Conditions and Terms for Redemption or Early Settlement	<ol> <li>A Issue: Once two years have passed since the date of a bond issuance, each year on April 7 the Bank can exercise repurchase rights at full price plus interest accrued, including implied interest. (If April 7 falls on a weekend or holiday, the repurchase will be postponed to the next business day but not, in principle, past the end of the month.)</li> <li>B Issue: Once three years have passed since the date of a bond issuance, each year on April 7 the Bank can exercise repurchase rights at full price plus interest accrued, including implied interest. (If April 7 falls on a weekend or holiday, the repurchase will be postponed to the next business day but not, in principle, past the end of the repurchase will be postponed to the next business day but not, in principle, past the end of the month.)</li> </ol>	<ol> <li>A Issue: Once two years have passed since the date of a bond issuance, each year on Feb. 26 the Bank can exercise repurchase rights at full price plus interest accrued, including implied interest. (If Feb. 26 falls on a weekend or holiday, the repurchase will be postponed to the next business day but not, in principle, past the end of the month.)</li> <li>B Issue: Once five years have passed since the date of a bond issuance, each year on Feb. 26 the Bank can exercise repurchase rights at full price plus interest accrued, including implied interest. (If Feb. 26 falls on a weekend or holiday, the repurchase will be postponed to the next business day but not, in principle, past the end of the month.)</li> </ol>
Conversion and Exchange Terms	None	None
Restriction Terms	None	None
Capital Investment Plans	<ol> <li>Provide for the medium- and long-term funding needs of the Bank's overseas branches.</li> <li>Fund the medium- and long-term corporate loans (both domestic and overseas syndicated loans).</li> <li>Replace some of the Bank's borrowings made through the money market and through bond repo transactions.</li> </ol>	<ol> <li>Provide for the medium- and long-term funding needs of the Bank's overseas branches.</li> <li>Fund the medium- and long-term corporate loans (both domestic and overseas syndicated loans).</li> <li>Replace some of the Bank's borrowings made through the money market and through bond repo transactions.</li> </ol>
Ratio of Reported Issue Amount and Balance of Outstanding to the Net Worth Following its Final Budget for the Previous Year (%)	18.66%	24.65%
Counting in Net Capital (Risk- Based Capital Ratio) and Its Tier	No	No
Credit Rating Agency, Rating Date and Rating	None	None

## III. Comments on Implementation of Capital Allocation Plan

Year	2013	2016	2017
Description of Plan	In order to keep the BIS ratio at a proper level, and to meet medium- and long- term credit capital needs, the Bank filed a debt issue plan with the competent authority in 2013. On 9 August 2013, the competent authority approved [per Aug. 9, 2013 Letter No. (FSC) Gin- Guan-Ying Kong 10200215390] the issuance of NT\$25 billion in unsecured subordinated debentures.	In order to provide for the medium- and long-term credit capital needs of the bank and funding needs of the Bank's overseas branches, the Bank filed a debt issue plan with the competent authority, which approved the plan on 23 August 2016 [per Aug. 23, 2016 Letter No. (FSC) Gin-Guan-Ying Kong 10500198980]. Under the plan, BOT could issue US\$1 billion (or other foreign currencies or New Taiwan Dollar of equivalent value) in revolving debt.	To support implementation of the New Southbound Policy, the Bank will actively seek to open additional overseas business locations while building up its international finance operations in order to meet the medium- and long-term foreign exchange needs as well as working capital needs of its offshore banking business. With these goals in mind, the Bank filed a debt issue plan with the competent authority, which approved the plan on 21 November 2017 [per Nov. 21, 2017 Letter No. (FSC) Gin-Guan-Ying Kong 10600272640]. Under the plan, BOT could issue US\$500 million (or other foreign currencies or New Taiwan Dollar of equivalent value) in revolving debt.
Status of Implementation	<ol> <li>On 2 December 2013, the Bank issued NT\$16 billion in its Series 102-1 Unsecured Subordinated Debentures. The debentures have a 10-year term, the annual rate is a floating rate of the benchmark rate plus 0.15%, and will all be retired at maturity.</li> <li>On 25 June 2014, the Bank issued NT\$5.5 billion in its Series 103-1 Unsecured Subordinated Debentures (A Issue). The debentures have a 10- year term, the annual rate is a simple floating rate of the benchmark rate plus 0.3%, and will all be retired at maturity.</li> <li>On 27 June 2014, the Bank issued NT\$2 billion in its Series 103-1 Unsecured Subordinated Debentures (B Issue). The debentures have a 10- year term, the annual rate is a fixed 1.70% simple rate, and will all be retired at maturity.</li> <li>On 27 June 2014, the Bank issued NT\$1.5 billion in its Series 103-1 Unsecured Subordinated Debentures (C Issue). The debentures have a 10- year term, the annual rate is a simple floating rate of the benchmark rate plus 0.15%, and will all be retired at maturity.</li> </ol>	<ol> <li>On 7 April 2017, the Bank issued US\$500 million in its 106-1 Unsecured USD Callable Bonds (A Issue). The debentures have a 30- year term, a coupon rate of 0% with an implicit interest rate of 4.20% per annum (NC2*1), and will all be retired at maturity.</li> <li>On 7 April 2017, the Bank issued US\$380 million in its 106-1 Unsecured USD Callable Bonds ( B Issue). The debentures have a 30-year term, a coupon rate of 0% with an implicit interest rate of 4.18% per annum (NC3*1), and will all be retired at maturity.</li> <li>On 26 February 2018, the Bank issued US\$150 million in its 107- 1 Unsecured USD Callable Bonds ( A Issue) (US\$120 million of which counted against the US\$1 billion quota approved on 23 Aug. 2016). The debentures have a 30-year term, a coupon rate of 0% with an implicit interest rate of 4.15% per annum (NC2*1), and will all be retired at maturity.</li> </ol>	<ol> <li>On 26 February 2018, the Bank issued US\$150 million in its 107- 1 Unsecured USD Callable Bonds (A Issue) (US\$30 million of which counted against the US\$500 million quota approved on 21 Nov. 2017). The debentures have a 30-year term, a coupon rate of 0% with an implicit interest rate of 4.15% per annum (NC2*1), and will all be retired at maturity.</li> <li>On 26 February 2018, the Bank issued US\$470 million in its 107- 1 Unsecured USD Callable Bonds (B Issue). The debentures have a 30-year term, a coupon rate of 0% with an implicit interest rate of 4.07% per annum (NC5*1), and will all be retired at maturity.</li> </ol>
Date of Announcement on Market Observation Post System	<ol> <li>Nov. 29, 2013: Posted bond issue data for Bank of Taiwan's Series 102-1 NTD Unsecured Subordinated Debentures.</li> <li>June 20, 2014: Posted bond issue data for Bank of Taiwan's Series 103-1 NTD Unsecured Subordinated Debentures.</li> <li>Oct. 1, 2014: Reported change of bond rating from twAA to twAA+.</li> <li>Dec. 22, 2014: Announced change in issuance rules for Series 103-1, A issue.</li> </ol>	<ol> <li>March 29, 2017: Posted bond issue data for Bank of Taiwan's 106-1 Unsecured USD Callable Bonds.</li> <li>February 26, 2018: Posted bond issue data for Bank of Taiwan's 107- 1 Unsecured USD Callable Bonds.</li> </ol>	February 26, 2018: Posted bond issue data for Bank of Taiwan's 107-1 Unsecured USD Callable Bonds.
Effect of Implementation	<ol> <li>The proceeds from the NTD unsecured subordinated debentures issue in 2013 raised the Bank's BIS ratio from 10% at end-November 2013 to 10.73% at end-December 2013.</li> <li>The proceeds from the NTD unsecured subordinated debentures issue in 2014 raised the Bank's BIS ratio from 10.89% at end-May 2014 to 11.14% at end-June 2014.</li> </ol>	<ol> <li>BOT raised US\$880 million in 2017 through the issue of USD Debentures, all of which was used to fund the working capital needs of the Bank's overseas branches.</li> <li>BOT raised US\$120 million in 2018 through the issue of USD Debentures, all of which was used to meet medium- and long-term credit capital needs, and to fund the working capital needs of the overseas branches.</li> </ol>	BOT raised US\$500 million in 2018 through the issue of USD Debentures, all of which was used to meet medium- and long-term credit capital needs of the overseas business units expansion, and offshore banking business, and to fund the working capital needs of the overseas branches.



# **Operational Highlights**

- 55 I. Business Activities
- 68 II. Human Resources
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- 70 V. Information Equipment
- 72 VI. Labor Relations

# **Operational Highlights**

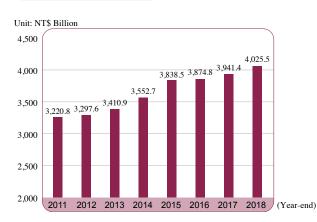
#### I. Business Activities

#### 1. Main Areas of Business Operations

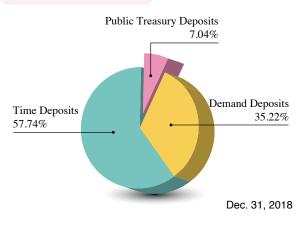
#### (1) Deposits

Total deposits in the Bank at the end of December 2018 amounted to NT\$4,025.5 billion, equal to 79.77% of the NT\$5,046.5 billion in the Bank's total assets and representing an increase of 2.13% over the previous year. Demand deposits and public treasury deposits in 2018 grew by 8.89% and 4.04%, respectively, while time deposits decreased by 1.80% over the year before.

#### Balance of Deposits

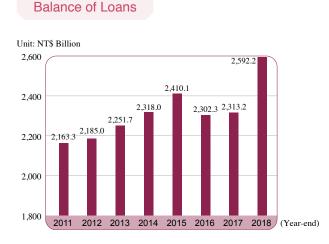


#### Structure of Deposits

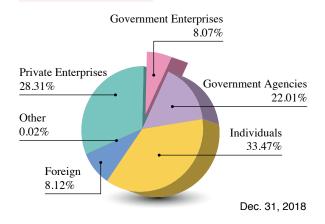


#### (2) Loans

The amount of the Bank's total loans outstanding at the end of December 2018 (including general loans as well as import and export negotiations) stood at NT\$2,592.2 billion, equal to 51.37% of the Bank's total assets and reflecting an increase of 12.06% over a year earlier.



#### Structure of Loans



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#### A. Corporate Banking

Corporate loans outstanding at the end of 2018 (including loans to government agencies and government-owned enterprises) amounted to NT\$1,723.9 billion, accounting for 34.16% of the Bank's total assets and representing an increase of 18.38% from the previous year. The amount of government enterprises and agencies loans outstanding at the end of 2018 reflected an increase of 40.89% from a year earlier, and that of large enterprises and SMEs indicating an increase of 4.78% and 4.05%, respectively, from a year earlier. According to statistics from the Bloomberg, the BOT's performance as lead bank for syndicated loans amounted to US\$5.656 billion in 2018, calculated as quota bookrunner, placed it first in the Taiwan's domestic market for the seventh consecutive year.

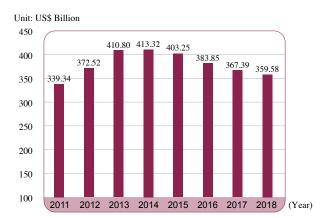
#### B. Consumer Banking

In order to better serve consumers, improve standards of living, and spur economic development, the Bank worked in line with market development trends, launching different types of preferential loans for different customers and areas in an active effort to solicit the business of high-quality buyers of owner-occupied homes. And in support of government policy, the Bank continued to offer various kinds of policy-driven personal loans to help consumers buy homes, start businesses, and further their education. Consumer loans outstanding at the end of 2018 amounted to NT\$824.1 billion, NT\$13.7 billion more than a year earlier for a growth of 1.69%.

(3) Foreign Exchange and International Banking The amount of foreign exchange transactions undertaken during the year reached US\$359.58 billion. A total of 158 branches were designated to handle foreign exchange services and 426 foreign-currency exchange bureaus at the end of 2018. The Bank has established correspondent banking relationships with 2,091 financial institutions in a web that covers major cities throughout the world.



#### Foreign Exchange Operations





BOT celebrated the opening of its Manila representative office on January 31, 2019. BOT Chairman Joseph Jye-Cherng Lyu (3rd from left ) was shown here together with veteran Philippine Senator Richard J. Gordon (center), ROC Representative to the Philippines Michael Peiyung Hsu (2nd from left), Philippine Representative to the ROC Mr. Angelito T. Banayo (3rd from right), Chairman of the Committee on the Philippines, Chinese International Economic Cooperation Association Clement Yang (2nd from right), BOT Executive Vice President & General Manager of the Dept. of Economic Research Ou Shing-Shiang (1st on right), and Representative Lee Shu-Sen of the BOT representative office in Manila(1st on left).

In addition to the deposit, loan, remittance, and import and export trade financing businesses, the Bank participated in international syndicated loans and engaged in international bond investment.

#### (4) Electronic Banking

A. The Bank enhanced the depth and breadth of its e-banking services by additionally providing access to the e-Bill National Payment Network which enable customers to pay bills that are not collected by BOT. The Bank's Internet Banking Portable Edition mobile app now supports the Taiwan Pay mobile payment app QR code specifications for debit transactions and bill and tax payments, and has a newly added Pay Tax mobile tax payment function. These improvements will make it easier for customers to make use of the BOT Portable Pay app. The Bank's Corporate e-Banking site now has a newly added "security control service that uses push one-time passwords for transaction approvals" and a "two-step login verification" procedure so that corporate customers can use the site with greater security. In addition, the Corporate e-Banking site now employs a mobile-friendly (RWD) design. The Bank continued conducting its electronics business, partnering with the Financial Information

Service Co. and Alipay to enable customers to use their BOT bank cards to pay for purchases in mainland China. Such purchases represent a significant business opportunity for the Bank.

B. At the end of 2018, the accumulated number of internet banking transfer accounts stood at 3.60 million. Transfers carried out during the year stood at 12.22 million. The number of internet forex transactions amounted to 2.27 million, and online purchase requests for funds amounted to 1.99 million. Gold Passbook internet transactions numbered 0.49 million. The number of Corporate e-Banking Site accounts stood at 73 thousand. Transfer transactions undertaken via the Bank's Corporate e-Banking site in 2018 numbered 6.43 million, up 9.54% from 2017, while corporate online foreign exchange transactions came to 227 thousand (up 4.61% from 2017). The total value of all transactions for the year came to NT\$779.7 billion. As of year-end 2018, there were 5,925 accounts using the Bank's electronic collection services, and some 13.39 million transactions had been processed.



BOT held a press conference on September 6, 2018 to announce the launch of its smart fee payment machine. BOT Chairman Joseph Jye-Cherng Lyu (2nd from right side of the back row) was shown here together with the Zhongyi Elementary School String Orchestra.

#### (5) Trust Business

Global economic conditions remained unstable in 2018, so investors were cautious. As a result, the average principal of trust property amounted to NT\$433.72 billion, up 0.25% from the previous year. At the end of December 2018, the amount of assets under custodianship by the BOT totaled NT\$1,839.63 billion, for an increase of 2.54% over the year earlier. Of this total, discretionary investment assets amounted to NT\$467.0 billion, and boosted the BOT to first place in market share in the fourth quarter of 2018. In addition, 178,162 enterprise units opened worker retirement fund accounts with total deposits of NT\$1,897.6 billion, retirement payments amounting to NT\$1,074.6 billion, and trust funds outstanding of NT\$823.0 billion.

#### (6) Investment

A. Bills Finance

Due mainly to an increase in loans and a decrease in free capital, short-term bills transactions by the Bank in 2018 totaled NT\$14,573.0 billion, a decrease of NT\$1,118.6 billion over a year earlier. The outstanding amount of bills dealing at the end of the year stood at NT\$907.4 billion, of which Central Bank negotiable certificates of deposit (NCD) accounted for NT\$852.9 billion. Due to outward remittances by foreign investors, market liquidity was somewhat limited, money market interest rates rose, and bills finance business volume was down from the previous year, but profits for the year on bills transactions came to NT\$5.521 billion, a year-on-year increase of NT\$527 million. The certification and underwriting of short-term bills by the Bank in 2018 totaled NT\$117.5 billion, a growth of NT\$34.9 billion over a year earlier. This growth was due mainly to an increase in the volume of guaranteed commercial paper II (CP2).

#### B. Bond

a. Proprietary Bond Dealing

The Bank's dealing in government bonds amounted to a total of NT\$36.37 billion in 2018, of which government bonds purchased amounted to NT\$28.10 billion and government bonds sold totaled NT\$8.26 billion. Repurchase agreements amounted to NT\$233.58 billion.

b. Bond Underwriting

BOT in 2018 underwrote the issuance of international bonds and Formosa Bonds by eight well-known international institutions, as well as one issue of NT Dollardenominated bonds by a domestic company. These underwriting activities diversified the Bank's financial products and increase revenues. c. Bond Investments

The Bank expanded its foreign currency bond positions in 2018 to put free capital to use and achieve better capital efficiency, and also invested in bond funds to diversify its investment channels.

C. Reinvestment

At the end of 2018, the Bank had investments in 32 enterprises with the book value of the investments totaling NT\$68.11 billion, an increase of 2.63% from the year before, due primarily to an increase in equity as calculated by the equity method. Profit on long-term equity investments amounted to NT\$5.63 billion in 2018, derived mainly from stock dividends and the benefit from booking by the equity method.

- D. Short-term Investment (in Stocks and Funds)
  - a. At the end of 2018, the costs of the Bank's investment in stocks were NT\$8.48 billion, and the operating volumes were NT\$8.94 billion, and the total return on investment (including unrealized gains or losses) was -1.01%. Compared with the Taiwan Stock Exchange Weighted Index (TAIEX), which fell 8.6% in 2018, the performance of the investment held by the Bank beat the market.
  - b. At the end of 2018, the costs of the Bank's investment in NT Dollar denominated equity funds certificates were NT\$40 million, the operating volumes were NT\$71 million, and the return on investment was -11.63%. The operating volumes of the Bank's investment in foreign-currency equity funds certificates were US\$4.2 million, and the return on investment was 2.63%.
  - c. At the end of 2018, the costs of the Bank's investment in foreigh-currency overseas ETFs were US\$4.5 million, the operating volumes were US\$11.1 million, and the return on investment was -8%. The costs of the Bank's investment in QFII (including money market fund) were US\$38.5 million, the operating volumes (excluding money market fund) were US\$26.4 million, and the return on investment was -25.8%. This decline was due primarily to a steep fall in mainland Chinese stocks that was triggered by US-China trade friction.
- (7) Business Derived from the Issuance of NT Dollar Currency for the Central Bank

As mandated by the Central Bank, the BOT handles collection and payment, transport, regulation of supply and demand, and the recovery of worn bills associated with the issuance of NT currency. The average amount of currency issued in 2018 was NT\$2,165.9 billion, an increase of 7.01% over the previous year. The currency issued peaked at NT\$2,474.3 billion, also an increase of 5.53% over the 2017 peak. The amount in circulation at the end of the year was NT\$2,197.2 billion, 7.60% more than year-end 2017.

(8) Government Employees Insurance

At the end of 2018, there were 7,396 insured units and 589,561 insured persons, income on insurance premiums in 2018 amounted to NT\$24.86 billion, and 46,050 claims totaling NT\$23.21 billion were paid that year. For 2018, the balance of civil servants' and teachers' insurance was NT\$1.37 billion, and the balance of retirement insurance was NT\$2.15 million, the full amount of which was allocated to reserves.

(9) Procurement Business

The primary mission of the BOT's procurement business is to execute the government's centralized procurement policy in carrying out procurement on behalf of government agencies, public schools, as well as government enterprises. The Bank also coordinates with government policy in carrying out special procurement projects designated by the government. The volume of the procurement business in 2018 amounted to NT\$62.43 billion, up 101.65% over the previous year. The increase came because BOT administered a purchase by the Taiwan Railways Administration of air-conditioned EMU local trains.

(10) Wealth Management Service

The commission income of the wealth management business in 2018 amounted to NT\$2.08 billion. At the end of 2018, a total of 144 business units were handling wealth management, 10 of them were flagship units, and 229 wealth-management agents were in place to serve high-net-worth customers.

(11) Precious Metals Business

The operating volume of the precious metals business in 2018 was NT\$127.17 billion, down by 2.17% year-on-year. Fee income from the handling of tariff-rate quotas and outsourced business services came to NT\$49 million, up by 1.12% year-on-year.

#### 2. Operating Plans for 2019

#### (1) Deposits

The Bank will continue to optimize deposit structure; implement cross-selling mechanism; strengthen risk management; strengthen internal audits and controls; and reduce operational risks. BOT will continue actively seeking to provide agent bank services to local government agencies at all levels in order to consolidate the Bank's agent banker status, take in more government deposits, and increase revenues.

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#### (2) Loans

A. Corporate Banking

Loans to private enterprises will be promoted continuously and loan risk controls will be reinforced. The Bank will seek opportunities to lead or participate in syndicated loans at home and abroad; strengthen OBU services and actively expand overseas credit business; promote e-Loan and factoring businesses to increase credit and fee income; actively pursue lending for the purpose of renovating or rebuilding hazardous and dilapidated buildings; actively participate in the Project for Provision of Special Loans and Credit Guarantees to the innovation and development of small and medium enterprises; In support of the government's "5+2 industrial innovation program," BOT will actively undertake loans to industrial firms to fund their development. To coordinate with the government's policy of encouraging Taiwanese firms abroad to come back and invest in Taiwan, BOT will actively lend to such firms to fund their construction or purchase of factory sites and facilities. And in response to the government's New Southbound Policy (NSP), the Bank will expand lending to firms in countries targeted by the NSP. The Bank is now drawing up plans regarding: (a) the matters to be implemented to assist with anti-money laundering and countering terrorism financing (AML/CFT) operations; and (b) related monitoring and control measures.

B. Consumer Banking

The Bank will continue to promote highquality loans for owner-occupied homes; actively undertake "Young Entrepreneur and Start-up Loans" and "Micro-business Start-up Phoenix Loans"; and familiarize the public with the Bank's Guide Dog Affinity Card to carry out business promotion and brand image. To support the government's policy of promoting digital banking, BOT worked actively with Taiwan Mobile Payments Co. and Financial Information Service Co. to jointly promote the Taiwan Pay mobile payments app, and issued an iPass affinity card that functions as an Electronic Stored Value Card as well. These actions promise to make the Bank more competitive.



(3) Foreign Exchange and International Banking

Promotion of the Bank's foreign-currency deposit business and developement of e-banking service will be continued. In overseas operations, cultivation of overseas markets will be deepened, the international syndicated loans and bond investment business will be developed, online banking services will be strengthened; a funds allocation platform for offshore Taiwan-invested firms will be established; risk management mechanisms will be strengthened and the business results of overseas branches will be enforced. BOT will continue to update rules governing the use of domestic banking units (DBUs) as agents for offshore banking unit (OBU) business. The Bank's aim is to facilitate the solicitation of OBU business.

#### (4) Electronic Banking

The Bank will adopt responsive web design to provide customers a user interface that is more individualized across a variety of different platforms, browsers, and devices; draw up plans to integrate overseas branch account services into the Corporate e-Banking site in order to reap maximum synergies from the Bank's digital corporate finance services; set up a cloud-based bank to provide customers with pre-filled forms, pre-appointment questionnaires, and other services involving pre-processing on the Bank's end, relying on the integration of its accounting servers, simplified business unit handling processes, and integrated online, mobile, and walk-in channels to improve customer experience.

(5) Trust Business

The Bank will continue to launch offshore bond products and add domestic and overseas fund products in combination with the wealth management business to increase the operating scale of fund and trust management products; continuously develop old-age trust products and property management trust of the disabled; and actively develop the Bank's real estate development trust and escrow businesses and continue promoting its real estate escrow service.

#### (6) Investment

In addition to the purchase of Central Bank negotiable certificates of deposit in its bills finance business in 2019, the Bank—subject to the availability of free capital—will increase its purchases of short-term bills in order to earn better investment returns; purchase commercial papers on the primary market in order to support the Bank's business units in their certification and underwriting of guaranteed issues of commercial paper, and to take part in the issuance of non-guaranteed commercial paper. To increase the fee income, the Bank will carry out bond investment under the principle of buying in batches in times of yield rebounds; actively seek opportunities to lead or participate in the underwriting of

international bonds and continue expanding into Asia, Europe, the US, Australia, and other markets where bank debentures and corporate bonds are relatively highly rated (investing primarily in bonds with international credit ratings of A- or higher); continue with the appropriate management of the reinvestment business; and continue to focus stock portfolio investment on blue chips, high cash dividend stocks, and ETFs. The principle of controlling risk-control positions will be observed, and hedging transactions will be used to lower market risk.

#### (7) Government Employees Insurance

The Bank will, in line with the policy of the competent authority, actively carry out the pensions business to safeguard the interests of insured parties; continue to write new insurance business and pay out cash benefits, and supported business development by adopting various improvement measures designed to enhance operating efficiency and service quality; strengthen administration of changes to information on insured persons in insurance policies, in order to improve the efficiency of the insurance writing business; continue holding Government Employees Insurance seminars; develop e-banking operations and plan for expanded functionality; and strengthen the diversified utilization and management of the government insurance reserve.

(8) Wealth Management Service

Wealth management channel deployment will be reinforced to expand the service network of wealth management; the integrated marketing effect will be maximized for holding company products and sales channels; professional manpower training will be strengthened to deeply implant wealth management capability; and the Bank will continue holding financial planning seminars and provide professional advisory services.

(9) Precious Metals Business

The Bank will continue promoting new gold-related businesses and products. It will reinforce customer services, providing the public with abundant and objective gold-related information. As a market maker and custodian bank for the Gold Trading Platform of the Taipei Exchange, the Bank helps investors to diversify their asset allocation.

#### 3. Market Analysis

#### (1) Business operations areas

The BOT is a 100% government-owned bank, and all of its financial products are marketed to customers through business branches and internet. At the end of March 2019, the BOT's business units included 163 domestic branches and one Offshore Banking Branch, and 18 overseas units (including New York Branch, Los Angeles Branch, Hong Kong Branch, Tokyo Branch, Singapore Branch, South Africa Branch, London Branch, Shanghai Branch,

Guangzhou Branch, Fuzhou Branch, Sydney Branch, Shanghai JiaDing Sub-Branch, Mumbai Representative Office, Yangon Representative Office, Silicon Valley Representative Office, Bangkok Representative Office, Frankfurt Representative Office, and Manila Representative Office).

(2) Future market supply and demand as well as growth prospects

Since 2018, trade disputes have roiled the global economy and exacerbated financial market volatility. Moving forward, the global economy will continue to grow, but the possible global economic impact of a number of situations merits close attention, including US-China trade friction, the slowing growth of emerging economies, heightened economic and financial risks in mainland China, the course of Brexit negotiations, continued interest rate hikes by the US Federal Reserve, and geopolitical risks. Taiwan economic growth rate in 2019 is calling for growth of 2.27% per Taiwan's Directorate-General of Budget, Accounting and Statistics (DGBAS) forecast. In the future, banks are going to face numerous domestic and external uncertainties, but domestic banks still have much room for growth thanks to the government's continued pursuit of economic and financial policies designed to facilitate banking industry development.

- (3) Competitive Niches
  - A. As the oldest bank in Taiwan, the BOT enjoys an outstanding reputation and the trust of the public.
  - B. An outstanding brand image and professional financial personnel, along with service channels spread over the whole country, will facilitate the promotion of business in various areas.
  - C. Financial holding company resources will be integrated to provide a comprehensive financial product line that will satisfy customers' diverse needs in financial services.
- (4) Factors Favorable and Unfavorable to the Bank's Development Prospects, and Countermeasures
  - A. Favorable factors
    - a. The BOT is a government-owned bank and has the highest credit rating of all domestic banks; with a solid operating base, it enjoys the trust of the public. The Bank's huge customer base facilitates efforts to solicit new business.
    - b. The Bank enjoys a No. 1 position in scale of deposits and loans, leadership among local banks in total assets and shareholders' equity, and a solid operating strength.
    - c. The BOT is a subsidiary of Taiwan Financial Holdings, the resource-sharing platform of which reinforces the operation of the primary and cross-sales systems, and realizes the synergies of business integration.

- d. The BOT serves as the cover bank for RMB cash in the Taiwan area and the settlement bank for the NT dollar in mainland China. This advantage facilitates the development of RMB-related businesses.
- B. Unfavorable factors
  - a. As a bank that is 100% owned by the government, the BOT has a personnel system, budget, and procurement that are relatively inflexible. The Bank's organizational framework makes it difficult to respond to changes of the external environment in a timely manner and grasp early opportunities in the market.
  - b. Domestic banks in Taiwan have long been dealing with intense competition and a low interest rate spread environment. The BOT, on top of that, also shoulders policy missions, which reduces profitability.
  - c. As a bank that is 100% owned by the government, capital accumulation is slow; the resulting difficulty of boosting capital through cash injections weakens the Bank's capital adequacy ratios.
  - d. In November 2018, the Financial Supervisory Commission (FSC) began to allow applications for the establishment of internet-only banks. This change has cleared the way for competition between traditional and internet banks.
- C. Countermeasures
  - a. BOT will gradually adjust the ratio of NT Dollar time deposits as a share of total deposits to lower the cost of funds, improve its channel deployments, leverage its superior brand power, and actively promote its wealth management business. The purpose of these actions is to improve the Bank's deposit structure and increase fee income.
  - b. In support of the government's New Southbound Policy, the Bank will seek out opportunities to set up new overseas business locations and upgrade the functions of existing ones, thereby strengthening its presence in Asian markets while bolstering the Bank's overseas business capabilities and international visibility.
  - c. In order to provide a high-quality financial services environment and expand the scope of services, the Bank's branches will make use of digital banking concepts and install various kinds of digital banking services equipment to provide a diverse range of automated financial services.
  - d. BOT will strengthen risk control and exchange rate hedge measures while accelerating its adoption of financial technologies to improve risk management capability, thereby reducing business impact and establishing more sound business operations.

4. Financial Product R&D and Business Development

Please refer to pages 77 and 78 of the Chinese annual report.

#### 5. Long-term and Short-term Development

- (1) Short-term development plan
  - A. Coordinate with government policy to support industrial development.
  - B. Build up overseas presence to increase offshore revenues.
  - C. Optimize asset allocations to strengthen funds management.
  - D. Encourage creative thinking to build smart financial services.
  - E. Improve the Bank's AML/CFT mechanism, strengthen risk management.
  - F. Actively cultivate high-quality human resources to make the organization more competitive.
  - G. Optimize information systems to improve information security.
  - H. Optimize credit structure to control credit risks.
  - I. Strengthen foreign exchange and international banking business.
  - J. Reinforce the credit card business and service to generate operating revenues.
  - K. Introduce a diverse range of insurance products to satisfy customer needs.
  - L. Strengthen the marketing of wealth management to increase commission revenues.
- (2) Long-term development plan

BOT has succeeded in building a new corporate culture defined by the Bank's "5P business operating policy" (People-centered, Portfolio-sound, Performance-driven, Prospectionoriented, and Principle-based) and its "5S corporate culture" (Simple organization, Simple goals, Simple decision making process, Simple strategy, and Simple intra-group relationship), and is working in line with the principles of "Integrity, Care, Efficiency, and Prudence" to achieve greater depth and breadth in its lineup of services. In line with its vision of "A Leading Bank with Global Presence," the Bank will continue strengthening its international presence while facilitating the government's New Southbound Policy by seizing upon business opportunities in "the age of the Asian economy." This entails adopting short, medium, and long-term international expansion plans and business development strategies, and offering government policy-driven loans. Toward that end, BOT will plan and operate many different lines of business, and join hands with the industrial community to create economic and social value for Taiwan.

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## **II. Human Resources**

Items	Year	2017	2018	As of Mar. 31, 2019
Number of Employees	Staff	7,333	7,380	7,345
	Guards	150	161	161
	Janitors	651	654	643
	Total	8,134	8,195	8,149
Average Age		45.37	45.44	45.46
Average Years of Service		18.06	18.04	18.05
Education (%)	Ph.D.	0.05	0.07	0.07
	Master's Degree	18.93	19.91	20.16
	Bachelor's Degree	72.35	71.83	71.68
	Senior High School	7.67	7.26	7.19
	Below Senior High School	1.00	0.93	0.90

Employee Statistics

Note: The above numbers do not include contract salespersons, contract workers, and overseas locally recruited staff.



At the opening ceremony for the 1st session of the BOT's Young Management Development Program (YMD Program), BOT Chairman Joseph Jye-Cherng Lyu posed for a group photo with all the program participants.

## **III.** Corporate Responsibility and Ethical Behavior

The Bank makes every effort to attain the budget targets set by the government, coordinates with the government's major construction plans and participates actively in the financing of infrastructure projects as well as large private investment projects in order to promote overall national economic development. Furthermore, the Bank will also participate in public welfare activities to pay back to the public and fulfill corporate social responsibility. In addition, the Bank further raised the level of its participation in corporate social responsibility activities in 2018 by holding the Bank of Taiwan Arts Festival and the 2018 Bank of Taiwan Awards for Economic and Financial Research to solicit academic papers.



BOT held an awards ceremony for the 2018 Bank of Taiwan Awards for Economic and Financial Research on May 15, 2018. Posing here for a photo with the award winners were BOT Chairman Joseph Jye-Cherng Lyu (6th from the right side of the front row), the chief juror (and Senior Advisor to the President) Chen Po-Chih (6th from the left side of the front row), Administrative Deputy Minister of Finance Su Jain-Rong (7th from the left side of the front row, current Minister of Finance), the former BOT President Wei Jan-Lin (5th from the left side of the front row), and BOT Executive Vice President & General Manager of the Dept. of Economic Research Ou Shing-Shiang (5th from the right side of the front row).

## IV. Number of Non-managerial Employees, Average Annual Benefit Expenditures per Employee, and Changes from the Preceding Year

The Bank had 7,938 non-managerial employees in 2017, and 8,017 in 2018. Average benefit expenditures came to NT\$1,475,672 per non-managerial employee in 2017 (baseline date: 31 December 2017), and NT\$1,528,651 in 2018 (baseline date: 31 December 2018), an increase of NT\$52,979 from 2017 to 2018.

## V. Information Equipment

#### 1. Installation and Maintenance of Hardware and Software for Major Information Systems

The Bank's core accounts system and overseas system consist of an exclusive server platform for deposit, foreign exchange, loan, and remittance account transactions; an open-system server for the trust, credit card, bonds, and notes businesses; and an operations management support system to make up a comprehensive back-office system for financial operations.

The Bank builds up a comprehensive financial service network that, in addition to traditional teller operations, has an user-end system that includes a global information network, ATM system, internet bank, corporate e-banking site, financial EDI, mobile banking, SuperPay, EasyGo and so on.

Key aspects of the Bank's information system operations in 2018 included the following:

- (1) The Bank won the Joint Credit Information Center's "Golden Security Award" and "Golden Quality Award." In addition, BOT was honored by the Joint Credit Information Center's "Special Contribution Award" for excellent contributions to the control of credit risks in the course of its maintenance of the data in the special account holding labor pension funds.
- (2) To strengthen Taiwan's AML/CFT mechanisms, the Bank carried out AML system upgrades at overseas branches in October 2018, and established AML/CFT mechanisms at domestic branches in December 2018.
- (3) In response to the issuance by the International Accounting Standards Board (IASB) of "International Financial Reporting Standards 16, Leases" (IFRS 16), BOT in December 2018 completed a lease contract management system, and on 1 January 2019 formally adopted an accounting system for the handling of lease contract-related accounts.
- (4) To safeguard the information access rights of persons with physical and mental disabilities, BOT in May 2018 had its accessible online banking portal and online ATM tested for certification of barrier-free status. The test resulted in the Bank receiving AA certification for compliance with the Version 2 Accessibility Standard.
- (5) To enable the Bank's business units to process interbank requests for confirmation of balances more efficiently, BOT in June 2018 completed a retrieval system for balance confirmation requests, and made it available bank-wide to ensure access to complete information.
- (6) In response to the Ministry of Finance's policy of promoting the use of the Taiwan Pay mobile payments app, BOT in June 2018 launched its BOT Portable Pay app, which supports the Taiwan Pay mobile payment app QR code specifications as well as the issuance of cloud invoices.

- (7) To provide customers with more convenient services, BOT in June 2018 launched a smart queuing system to integrate the queuing systems and multi-media information platform services in BOT domestic branches.
- (8) To broaden the scope of the Bank's mobile payment business, BOT and iPASS Corporation collaborated to develop a system supporting "payment via agreed linked deposit account," and in October 2018 the Bank began allowing the owners of BOT demand deposits to use LINE Pay to authorize iPass account top-ups, de-authorize, top-up, make debit transactions, transfer the funds of the iPass account, and return the stored value to their deposit accounts.
- (9) BOT undertook various measures to satisfy key performance indicators connected with the "Ministry of Finance Project for Adoption of ODF-CNS15251 as the Standard Government Document Format" (project duration: 2018–2020). Because BOT did an outstanding job of promoting this Project in 2018, the Ministry of Finance (MOF) invited the Bank to speak at various MOF units about its experience in implementing the ODF format.

#### 2. Future Development or Procurement Plans

- (1) In order to strengthen its ability to respond to high-risk events, the Bank is drawing up plans to upgrade the software and equipment that runs the Taiwan Financial Holding Co. groupwide email security platform and data leak prevention system, and has added new functions to its email anti-virus and spam filtering system, including malicious link protection and static analysis protection for attached files.
- (2) To enable customers of overseas branches to use a wide range of different mobile devices to browse and operate BOT online bank site, the Bank is planning to upgrade its basic platform system for internet banking at overseas branches as well as its responsive web design applications in order to improve system services and satisfy the need to access service via mobile devices.
- (3) To meet the need for business growth and improve the usability of the online services provided by bank branches, BOT is planning to install internet equipment at its branches to enable the BOT information center and branches to establish online connections and ensure uninterrupted access while maintaining network usability and transmission quality, thereby effectively safeguarding business system network performance and reliability.
- (4) To make effective use of transaction information on account servers at mainland China branches, the Bank is planning to install a mainland branch transaction data management platform and a platform for supervisory reporting forms. The purpose of these platforms is to store daily transaction data from the account servers and peripheral systems at mainland China branches, thereby supporting data analysis and the transmission of peripheral system data.

#### 3. Emergency Back-up and Security Measures

(1) Emergency Backup

The Bank formally inaugurated its integrated Taoyuan remote backup center to serve as a backup mechanism for the core accounts servers. Establishment of the Bank's backup systems for open front-end systems that are important and that involve a large volume of transactions is steadily being completed. The outsourcing of the remote backup center, with the leasing of specialized infrastructure facilities, the operation and management of the specialized computer room, and the provision of emergency response management planning services, enhances the availability of the backup center.

#### (2) Safety Protection

- A. The Bank smoothly passed follow-up audits by the British Standards Institution (BSI) in 2018, thus maintaining the following certifications: ISO 20000, ISO 27001, BS 10012, and ISO 22301.
- B. To enhance information security control, and better protect sensitive information, the Bank made continued use of a previously acquired IP Workstation Maximum Authorization Management System, an email sensitive-information detection and protection system, a Data Endpoint Protection System, an Outlook Web Access Control Platform for Email and a Web Domain Workstation Security Screening Platform.

#### VI. Labor Relations

# 1. Employee Welfare Measures, Retirement System and Its Implementation, Labor-Ownership Agreements, and Measures for Protecting Employee Interests

The BOT is a government enterprise in an industry that is subject to the Labor Standards Act. Working conditions, welfare measures, and the retirement system are all handled in accordance with the provisions of the Labor Standards Act and other laws and regulations governing civil servants. The Bank addresses concrete requests raised by employees by establishing a labor-ownership meeting for negotiation and communication and, whenever necessary, by using various other occasions or human resources evaluation committees at various levels to communicate with employees, resolve points of contention, and build consensus. The Bank seeks what is in the best interests of both labor and management, taking care always to cultivate mutual trust and respect.

## 2. Losses Due to Labor-Ownership Disputes, Estimated Possible Current and Future Amounts that Might Occur, and Countermeasures

A response mechanism to prevent an interruption in case of strikes has been set up to cope with potential disputes and bring about their early resolution. In the event of a large and relatively damaging labor-management dispute, the Bank is prepared to seek personnel support from the competent authority and work with the labor authority, engaging in talks, labor dispute arbitration procedures, or litigation to reach a resolution as quickly as possible and minimize losses.



# **Financial Information**

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# **Financial Information**

## I. Five-Year Financial Summary

## 1. Condensed Balance Sheets and Comprehensive Income Statements

#### Condensed Consolidated Balance Sheets

					Unit: NT\$1,000	
Year		2018	2017	2016	2015	2014
Cash, cash equivalents, pl and call loans to banks	acement with Central Bank	700,955,809	833,847,494	809,634,632	721,386,220	738,816,618
Financial assets measured or loss	d at fair value through profit	236,408,718	236,519,757	212,560,998	173,005,205	208,646,968
Financial assets measured comprehensive income	at fair value through other	1,117,727,277	-	-	-	-
Debt investments measure	ed at amortized cost	167,824,692	-	-	-	-
Available-for-sale financial	assets	-	1,135,942,401	1,037,841,339	1,053,598,710	797,692,802
Hedging derivative financia	al assets	41,693	22,759	21,221	15,970	25,613
Bills and bonds purchased	under resell agreements	-	-	-	50,040	1,956,563
Receivables, net		59,274,333	59,257,009	63,311,112	72,072,783	62,570,189
Current income tax assets		1,236,103	1,082,264	785,838	1,343,509	1,876,292
Assets held for sale, net		-	-	-	-	-
Loans and discounts, net		2,557,027,294	2,285,039,243	2,274,236,504	2,386,598,795	2,298,237,964
Held-to-maturity financial assets		-	144,060,765	138,812,328	113,786,391	77,372,697
Investments under equity r	nethod, net	38,007,840	36,203,500	35,055,524	35,855,822	36,989,325
Other financial assets, net		46,040,182	75,603,497	76,578,793	68,891,471	68,466,496
Property and equipment, n	et	96,226,027	96,344,383	96,695,326	96,733,221	97,108,785
Investment property, net		15,238,207	15,238,207	15,238,207	-	-
Intangible assets, net		764,936	708,732	803,225	853,946	941,417
Deferred tax assets, net		312,291	170,841	297,880	476,040	361,798
	Before distribution	8,989,114	8,171,938	8,745,962	7,820,323	11,400,793
Other assets	After distribution	8,989,114	8,171,939	8,745,962	7,820,323	7,750,867
<b>-</b>	Before distribution	5,046,114,516	4,928,212,790	4,770,618,889	4,732,488,446	4,402,464,320
Total assets	After distribution	5,046,114,516	4,928,212,791	4,770,618,889	4,732,488,446	4,398,814,394
Deposits of Central Bank and other banks		221,756,139	219,021,384	227,596,814	225,425,517	156,988,830
Financing from Central Ba	nk and banks	-	-	-	-	-
Financial liabilities measur	ed at fair value through	50,554,317	35,030,435	6,709,063	39,224,475	47,915,342
Hedging derivative financia	al liabilities	12,973	60,480	144,195	243,967	103,024

Items	Year	2018	2017	2016	2015	2014
Bills and bonds sold under	repurchase agreements	25,078,047	33,906,120	11,337,914	16,336,619	38,018,153
Payables		45,790,114	42,267,063	41,513,445	42,217,119	41,039,673
Current income tax liabilitie	S	291,444	488,722	673,312	395,504	240,379
Liabilities related to assets	held for sale	-	-	-	-	-
Deposits and remittances		4,025,739,102	3,941,132,048	3,873,982,764	3,837,520,416	3,554,081,722
Bonds payable		24,998,566	24,998,316	24,998,082	24,997,826	24,997,612
Preferred stock liabilities		-	-	-	-	-
Other financial liabilities		678,843	842,822	748,855	1,785,430	1,756,954
Provision		315,020,626	314,774,236	283,367,966	264,199,252	257,745,112
Deferred tax liabilities		18,191,904	18,143,074	18,173,159	18,340,284	18,348,772
Other lishilities	Before distribution	7,750,427	8,505,331	6,924,012	6,954,757	7,202,222
Other liabilities	After distribution	8,550,427	9,105,331	7,424,012	7,354,757	7,297,671
Total liabilitiaa	Before distribution	4,735,862,502	4,639,170,031	4,496,169,581	4,477,641,166	4,148,437,795
Total liabilities	After distribution	4,736,662,502	4,639,770,031	4,496,669,581	4,478,041,166	4,148,533,244
Equity attributable to	Before distribution	310,252,014	289,042,759	274,449,308	254,847,280	254,026,525
owners of the parent	After distribution	309,452,014	288,442,760	273,949,308	254,447,280	250,281,150
Capital stack	Before distribution	95,000,000	95,000,000	95,000,000	95,000,000	95,000,000
Capital stock	After distribution	95,000,000	95,000,000	95,000,000	95,000,000	95,000,000
Capital surplus		80,453,043	80,453,043	80,453,034	80,453,034	80,521,742
Detained cornings	Before distribution	92,884,633	84,512,109	75,707,978	59,290,245	54,966,997
Retained earnings	After distribution	92,084,633	83,912,110	75,207,978	58,890,245	51,221,622
Other equity		41,914,338	29,077,607	23,288,296	20,104,001	23,537,786
Treasury stock		-	-	-	-	-
Non-controlling interests		-	-	-	-	-
Total equity	Before distribution	310,252,014	289,042,759	274,449,308	254,847,280	254,026,525
	After distribution	309,452,014	288,442,760	273,949,308	254,447,280	250,281,150

Note: Figures for 2014 are readjusted by the CPA in accordance with figures approved by the National Audit Office; figures for 2015 to 2017 are approved by the National Audit Office; figures for 2018 are CPA approved.

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### Condensed Consolidated Statements of Comprehensive Income

					Unit: NT\$1,000
Year	2018	2017	2016	2015	2014
Interest income	63,883,640	59,105,478	59,402,785	64,758,332	65,232,885
Less: Interest expense	38,258,281	33,583,405	33,367,303	36,352,155	36,453,488
Net interest income	25,625,359	25,522,073	26,035,482	28,406,177	28,779,397
Non-interest income, net	13,823,128	7,563,752	18,658,370	6,807,204	7,274,161
Net Revenue	39,448,487	33,085,825	44,693,852	35,213,381	36,053,558
Bad debt expense and reserve for guarantees	7,302,488	1,685,005	5,183,736	4,404,468	7,284,809
Operating expenses	20,669,664	20,104,743	20,075,500	20,207,363	19,321,701
Income before tax from continued operations	11,476,335	11,296,077	19,434,616	10,601,550	9,447,048
Income tax expenses	1,108,160	941,749	1,780,559	1,730,852	1,245,800
Net income from continued operations	10,368,175	10,354,328	17,654,057	8,870,698	8,201,248
Gain (Loss) from discontinued operations	-	-	-	-	-
Net income	10,368,175	10,354,328	17,654,057	8,870,698	8,201,248
Other comprehensive income	3,365,802	4,739,114	2,347,971	- 4,235,860	1,432,360
Total comprehensive income	13,733,977	15,093,442	20,002,028	4,634,838	9,633,608
Net income attributable to owners of the parent company	10,368,175	10,354,328	17,654,057	8,870,698	8,201,248
Net income attributable to non-controlling interests	-	-	-	-	-
Total comprehensive income attributable to owners of the parent company	13,733,977	15,093,442	20,002,028	4,634,838	9,633,608
Total comprehensive income attributable to non- controlling interests	-	-	-	-	-
Earnings per share (NT\$)	1.09	1.09	1.86	0.93	0.86

Note: Figures for 2014 are readjusted by the CPA in accordance with figures approved by the National Audit Office; figures for 2015 to 2017 are approved by the National Audit Office; figures for 2018 are CPA approved.

#### Condensed Individual Balance Sheets

<u> </u>						Unit: NT\$1,000
Items	Year		2017	2016	2015	2014
Cash, cash equivalents, Bank and call loans to b	, placement with Central banks	700,995,779	833,847,464	809,634,602	721,386,190	738,816,588
Financial assets measured at fair value through profit or loss		236,408,718	236,519,757	212,560,998	173,005,205	208,646,968
Financial assets measu other comprehensive in	red at fair value through come	1,117,727,277	-	-	-	-
Debt investments meas	ured at amortized cost	167,824,692	-	-	-	-
Available-for-sale finance	cial assets	-	1,135,942,401	1,037,841,339	1,053,598,710	797,692,802
Hedging derivative finar	ncial assets	41,693	22,759	21,221	15,970	25,613
Bills and bonds purchas agreements	ed under resell	-	-	-	50,040	1,956,563
Receivables, net		59,258,329	59,237,166	63,288,567	72,046,562	62,547,115
Current income tax assets		1,236,103	1,082,264	761,713	1,343,508	1,876,292
Assets held for sale, net		-	-	-	-	-
Loans and discounts, net		2,557,027,294	2,285,039,243	2,274,236,504	2,386,598,795	2,298,237,964
Held-to-maturity financial assets		-	144,060,765	138,812,328	113,786,391	77,372,697
Investments under equity method, net		38,434,590	36,594,041	35,497,450	36,178,241	37,241,461
Other financial assets, net		46,040,182	75,603,497	76,578,794	68,891,471	68,466,496
Property and equipment, net		96,222,499	96,340,880	96,691,099	96,728,064	97,103,753
Investment property, ne	t	15,238,207	15,238,207	15,238,207	-	-
Intangible assets, net		764,829	708,629	802,989	853,571	940,987
Deferred tax assets, net	t	308,336	166,887	293,925	472,085	357,844
Other eccete	Before distribution	8,986,040	8,168,927	8,742,952	7,817,258	11,396,056
Other assets	After distribution	8,986,041	8,168,927	8,742,952	7,817,258	7,746,130
Total apparta	Before distribution	5,046,514,568	4,928,572,887	4,771,002,688	4,732,772,061	4,402,679,199
Total assets	After distribution	5,046,514,569	4,928,572,887	4,771,002,688	4,732,772,061	4,399,029,273
Deposits of Central Bank and other banks		221,756,139	219,021,384	227,596,814	225,425,517	156,988,830
Financing from Central Bank and banks		-	-	-	-	-
Financial liabilities measured at fair value through profit or loss		50,554,317	35,030,435	6,709,063	39,224,475	47,915,342
Hedging derivative finar	ncial liabilities	12,973	60,480	144,195	243,967	103,024
Bills and bonds sold und agreements	der repurchase	25,078,047	33,906,120	11,337,914	16,336,619	38,018,153
Payables		45,769,665	42,248,261	41,495,209	42,195,648	41,013,062

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Year		2018	2017	2016	2015	2014
Current income tax liab	ilities	262,675	480,372	610,261	368,527	213,270
Liabilities related to ass	ets held for sale	-	-	-	-	-
Deposits and remittance	es	4,026,190,539	3,941,518,628	3,874,447,418	3,837,851,868	3,554,349,701
Bonds payable		24,998,566	24,998,316	24,998,082	24,997,826	24,997,612
Preferred stock liabilitie	S	-	-	-	-	-
Other financial liabilities	3	678,843	842,822	748,855	1,785,430	1,756,954
Provision		315,017,702	314,774,236	283,367,966	264,199,252	257,745,112
Deferred tax liabilities		18,191,904	18,143,073	18,173,159	18,340,284	18,348,772
Other liebilities	Before distribution	7,751,184	8,506,000	6,924,444	6,955,368	7,202,842
Other liabilities	After distribution	8,551,185	9,106,000	7,424,444	7,355,368	7,298,291
	Before distribution	4,736,262,554	4,639,530,127	4,496,553,380	4,477,924,781	4,148,652,674
Total liabilities	After distribution	4,737,062,555	4,640,130,127	4,497,053,380	4,478,324,781	4,148,748,123
Equity attributable to	Before distribution	310,252,014	289,042,760	274,449,308	254,847,280	254,026,525
owners of the parent	After distribution	309,452,014	288,442,760	273,949,308	254,447,280	250,281,150
	Before distribution	95,000,000	95,000,000	95,000,000	95,000,000	95,000,000
Capital stock	After distribution	95,000,000	95,000,000	95,000,000	95,000,000	95,000,000
Capital surplus		80,453,043	80,453,043	80,453,034	80,453,034	80,521,742
Detained cominer	Before distribution	92,884,633	84,512,110	75,707,978	59,290,245	54,966,997
Retained earnings	After distribution	92,084,633	83,912,110	75,207,978	58,890,245	51,221,622
Other equity		41,914,338	29,077,607	23,288,296	20,104,001	23,537,786
Treasury stock		-	-	-	-	-
Non-controlling interest	S	-	-	-	-	-
Tatal a suite	Before distribution	310,252,014	289,042,760	274,449,308	254,847,280	254,026,525
Total equity	After distribution	309,452,014	288,442,760	273,949,308	254,447,280	250,281,150

Note: Figures for 2014 are readjusted by the CPA in accordance with figures approved by the National Audit Office; figures for 2015 to 2017 are approved by the National Audit Office; figures for 2018 are CPA approved.

Condensed Individual Statements of Comprehensive Income
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					Unit: NT\$1,000
Year	2018	2017	2016	2015	2014
Interest income	63,883,640	59,105,478	59,402,785	64,758,332	65,232,885
Less: Interest expense	38,258,657	33,583,762	33,367,745	36,352,682	36,453,834
Net interest income	25,624,983	25,521,716	26,035,040	28,405,650	28,779,051
Non-interest income, net	13,668,495	7,417,544	18,478,694	6,650,585	7,111,700
Net Revenue	39,293,478	32,939,260	44,513,734	35,056,235	35,890,751
Bad debt expense and reserve for guarantees	7,302,488	1,685,005	5,183,736	4,404,468	7,284,809
Operating expenses	20,563,400	19,998,078	19,958,435	20,098,410	19,201,141
Income before tax from continued operations	11,427,590	11,256,177	19,371,563	10,553,357	9,404,801
Income tax expenses	1,059,415	901,849	1,717,506	1,682,659	1,203,553
Net income from continued operations	10,368,175	10,354,328	17,654,057	8,870,698	8,201,248
Gain (Loss) from discontinued operations	-	-	-	-	-
Net income	10,368,175	10,354,328	17,654,057	8,870,698	8,201,248
Other comprehensive income	3,365,802	4,739,114	2,347,971	- 4,235,860	1,432,360
Total comprehensive income	13,733,977	15,093,442	20,002,028	4,634,838	9,633,608
Net income attributable to owners of the parent company	10,368,175	10,354,328	17,654,057	8,870,698	8,201,248
Net income attributable to non-controlling interests	-	-	-	-	-
Total comprehensive income attributable to owners of the parent company	13,733,977	15,093,442	20,002,028	4,634,838	9,633,608
Total comprehensive income attributable to non- controlling interests	-	-	-	-	-
Earnings per share (NT\$)	1.09	1.09	1.86	0.93	0.86

Note: Figures for 2014 are readjusted by the CPA in accordance with figures approved by the National Audit Office; figures for 2015 to 2017 are approved by the National Audit Office; figures for 2018 are CPA approved.

## 2. CPA-Auditor of Financial Report

Year	Name of Accounting Firm	Name of CPA	Audit Opinion
2014	KPMG Certified Public Accountants	Yen-Ling Fang, Derek Hsu	Modified Unqualified Opinion
2015	KPMG Certified Public Accountants	Yen-Ling Fang, Derek Hsu	Modified Unqualified Opinion
2016	KPMG Certified Public Accountants	Yen-Ling Fang, Feng-Hui Lee	Unqualified Opinion
2017	KPMG Certified Public Accountants	Yen-Ling Fang, Feng-Hui Lee	Unqualified Opinion
2018	KPMG Certified Public Accountants	Feng-Hui Lee, Lin Wu	Unqualified Opinion

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## **II. Five-Year Financial Analysis**

#### Consolidated Financial Analysis

					Ur	nit: NT\$1,000; %
Items		2018	2017	2016	2015	2014
	Ratio of Loans to Deposits	64.51	58.82	59.42	62.79	65.25
	Non-Performing Loan Ratio	0.21	0.29	0.26	0.23	0.31
	Ratio of Interest Cost to Annual Average Deposits	1.10	1.07	1.09	1.23	1.27
Operating Ability	Ratio of Interest Income to Annual Average Loans Outstanding	1.68	1.66	1.69	1.88	1.89
	Total Assets Turnover (Times)	0.79	0.68	0.94	0.77	0.83
	Average Revenue per Employee	4,729	4,007	5,517	4,343	4,485
	Average Profit per Employee	1,243	1,254	2,179	1,094	1,020
	Return on Tier 1 Capital	5.55	5.63	10.41	6.06	5.51
	Return on Assets	0.21	0.21	0.37	0.19	0.19
Profitability	Return on Equity*	3.46	3.68	6.67	3.49	3.27
	Net Income Ratio*	26.28	31.30	39.50	25.19	22.75
	Earnings per Share (NT\$)	1.09	1.09	1.86	0.93	0.86
Financial Structure	Ratio of Liabilities to Assets	93.83	94.11	94.22	94.59	94.20
	Ratio of Property and Equipment to Equity	31.02	33.33	35.23	37.96	38.23
0	Rate of Asset Growth*	2.39	3.30	0.81	7.50	3.48
Growth Rate	Rate of Profit Growth*	1.60	-41.88	83.32	12.22	6.78
	Cash Flow Ratio (Note 4)	-	1.36	81.26	2.47	16.29
Cash Flow	Cash Flow Adequacy Ratio* (Note 5)	1,187.81	1,580.25	1,745.34	683.66	674.42
	Cash Flow Satisfied Ratio (Note 4)	-	2,207.03	1,611.02	244.81	6,178.17
Liquidity Rese	erve Ratio	44.82	49.64	47.90	44.97	39.90
Loans to Part	ies with Material Relationship with the Bank	25,393,089	23,136,658	42,815,251	38,403,189	34,864,509
Ratio of Loan Bank to Total	s to Parties with Material Relationship with the Loans	0.94	0.96	1.79	1.53	1.44
	Market Share of Assets	9.22	9.40	9.50	9.68	9.34
Operating	Market Share of Net Worth	7.47	7.96	7.87	7.72	8.39
Scale	Market Share of Deposits	10.04	10.12	10.36	10.72	10.59
	Market Share of Loans	8.54	8.05	8.29	8.90	8.78

\*a. Return on Equity, and net income ratio decreased in 2018, derived mainly from the increment of average shareholders' equity by NT\$17.9 billion, and the net revenue by NT\$6.3 billion, respectively; the rate of asset growth decreased, derived mainly from the fact that the increase in assets in 2018 was less NT\$39.6 billion than that in 2017.

b. The rate of profit growth in 2017 was negative, derived mainly from the benefit from booking by the equity method in 2016 (including a real-estate asset revaluation gain of NT\$13.3 billion following the liquidation of Kaohsiung Ammonium Sulfate Co.); the rate of profit growth in 2018 turned out to be positive.

c.Cash flow adequacy ratio declined because the net cash outflow from the discounts and loans increased in 2018, NT\$267.1 billion more than in 2017.

- Notes: 1. Figures for 2014 are readjusted by the CPA in accordance with figures approved by the National Audit Office; figures for 2015 to 2017 are approved by the National Audit Office; figures for 2018 are CPA approved.
  - 2. Formulae used in calculations:
  - (1) Operating Ability
    - a. Ratio of loans to deposits = Annual average loans outstanding / Annual average deposits
    - b. Non-performing loan ratio = Non-performing loans / Total loans outstanding
    - c. Ratio of interest cost to annual average deposits = Interest cost related to deposits (Note 3) / Annual average deposits
    - d. Ratio of interest income to annual average loans outstanding = Interest income related to loans outstanding / Annual average amount of loans outstanding
    - e. Total assets turnover (times) = Net interest and non-interest income / Average Total Assets
    - f. Average revenue per employee = Net interest and non-interest income / Total number of employees
    - g. Average profit per employee = Net income / Total number of employees
  - (2) Profitability
    - a. Return on Tier 1 capital = Net income before tax / Net Average Tier 1 capital
    - b. Return on assets = Net Income / Average total assets
    - c. Return on equity = Net income / Average total equity
    - d. Net income ratio = Net income / Net interest and non-interest income
    - e. Earnings per share = (Net Income attributable to owners of the parent company preferred stock dividend) / Weighted average number of shares issued
  - (3) Financial Structure
    - a. Ratio of liabilities to assets = Total liabilities / Total assets
    - b. Ratio of property and equipment to equity = Net property and equipment / Net equity
  - (4) Growth Rate
    - a. Rate of asset growth = (Total assets for current year total assets for previous year) / Total assets for previous year
    - b. Rate of profit growth = (Before-tax profit or loss for current year before-tax profit or loss for previous year) / Before-tax profit for previous year
  - (5) Cash Flow
    - a. Cash flow ratio = Net cash flow from operating activities / (Call loans and overdrafts from banks + commercial paper + financial liabilities measured at fair value through profit or loss + bonds and bills sold under repurchase agreements + current portion of payables)
    - b. Cash flow adequacy ratio = Net cash flow from operating activities for the past five years / (Capital expenditures + cash dividends) for the past five years
    - c. Cash flow satisfied ratio = Net cash flow from operating activities / Net cash flow from investing activities
  - (6) Liquidity reserve ratio = Liquid assets specified by the Central Bank / Debt items for which liquidity reserves should be allocated
  - (7) Operating Scale
    - a. Market Share of Assets = Total assets / Total assets of the major financial institutions
    - b. Market Share of Net Worth = Net worth / Total net worth of the major financial institutions
    - c. Market Share of Deposits = Deposits / Total deposits of the major financial institutions
    - d. Market Share of Loans = Loans / Total loans of the major financial institutions
  - 3. To reasonably express average interest rate, excess interest paid on preferential-rate deposits was added back into total interest expenditures for 2018, 2017, 2016, 2015 and 2014 in the amounts of NT\$9,584,098,000, NT\$11,005,334,000, NT\$10,776,632,000, NT\$11,006,282,000, and NT\$10,663,279,000, respectively.
  - 4. Net cash outflow produced by operating activities in 2018, therefore no analysis on this ratio.
  - 5. Cash flow adequacy ratios for 2014 [2015/2016/2017/2018] were calculated using net cash flows from operating activities for past three [four/five/five/ five] years/(capital expenditures + cash dividends).

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#### Individual Financial Analysis

					Ur	nit: NT\$1,000; %
Items	Year	2018	2017	2016	2015	2014
	Ratio of Loans to Deposits	64.50	58.82	59.42	62.79	65.25
	Non-Performing Loan Ratio	0.21	0.29	0.26	0.23	0.31
	Ratio of Interest Cost to Annual Average Deposits	1.10	1.07	1.09	1.23	1.27
Operating Ability	Ratio of Interest Income to Annual Average Loans Outstanding	1.68	1.66	1.69	1.88	1.89
	Total Assets Turnover (Times)	0.79	0.68	0.94	0.77	0.83
	Average Revenue per Employee	4,711	3,989	5,519	4,342	4,481
	Average Profit per Employee	1,243	1,254	2,189	1,099	1,024
Return on Tier 1 Capital Return on Assets	Return on Tier 1 Capital	5.52	5.61	10.38	6.03	5.49
	Return on Assets	0.21	0.21	0.37	0.19	0.19
Profitability	Return on Equity*	3.46	3.68	6.67	3.49	3.27
	Net Income Ratio*	26.28	31.30	39.66	25.30	22.85
	Earnings per Share (NT\$)	1.09	1.09	1.86	0.93	0.86
Financial Structure	Ratio of Liabilities to Assets	93.83	94.11	94.23	94.59	94.20
	Ratio of Property and Equipment to Equity	31.01	33.33	35.23	37.96	38.23
0	Rate of Asset Growth*	2.39	3.30	0.81	7.50	3.48
Growth Rate	Rate of Profit Growth*	1.52	-41.89	83.56	12.21	6.62
	Cash Flow Ratio (Note 4)	-	1.36	81.26	2.45	16.30
Cash Flow	Cash Flow Adequacy Ratio* (Note 5)	1,189.33	1,580.25	1,745.42	683.58	674.62
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Loans to Part	ties with Material Relationship with the Bank	25,393,089	23,136,658	42,815,251	38,403,189	34,864,509
Ratio of Loan Bank to Total	s to Parties with Material Relationship with the Loans	0.94	0.96	1.79	1.53	1.44
	Market Share of Assets	9.22	9.40	9.50	6         25.30           6         0.93           3         94.59           3         37.96           1         7.50           6         2.45           2         683.58           5         247.61           0         44.97           1         38,403,189           9         1.53           0         9.68           7         7.72	9.34
Operating	Market Share of Net Worth	7.47	7.96	7.87	7.72	8.39
Scale	Market Share of Deposits	10.04	10.12	10.37	10.72	10.59
	Market Share of Loans	8.54	8.05	8.29	8.90	8.78

\*a. Return on Equity, and net income ratio decreased in 2018, derived mainly from the increment of average shareholders' equity by NT\$17.9 billion, and the net revenue by NT\$6.3 billion, respectively; the rate of asset growth decreased, derived mainly from the fact that the increase in assets in 2018 was less NT\$39.6 billion than that in 2017.

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- Notes: 1. Figures for 2014 are readjusted by the CPA in accordance with figures approved by the National Audit Office; figures for 2015 to 2017 are approved by the National Audit Office; figures for 2018 are CPA approved.
  - 2. Formulae used in calculations:
  - (1) Operating Ability
    - a. Ratio of loans to deposits = Annual average loans outstanding / Annual average deposits
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    - d. Ratio of interest income to annual average loans outstanding = Interest income related to loans outstanding / Annual average amount of loans outstanding
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    - f. Average revenue per employee = Net interest and non-interest income / Total number of employees
    - g. Average profit per employee = Net income / Total number of employees
  - (2) Profitability
    - a. Return on Tier 1 capital = Net income before tax / Net Average Tier 1 capital
    - b. Return on assets = Net Income / Average total assets
    - c. Return on equity = Net income / Average total equity
    - d. Net income ratio = Net income / Net interest and non-interest income
    - e. Earnings per share = (Net Income attributable to owners of the parent company preferred stock dividend) / Weighted average number of shares issued
  - (3) Financial Structure
    - a. Ratio of liabilities to assets = Total liabilities / Total assets
    - b. Ratio of property and equipment to equity = Net property and equipment / Net equity
  - (4) Growth Rate
    - a. Rate of asset growth = (Total assets for current year total assets for previous year) / Total assets for previous year
    - b. Rate of profit growth = (Before-tax profit or loss for current year before-tax profit or loss for previous year) / Before-tax profit for previous year
  - (5) Cash Flow
    - a. Cash flow ratio = Net cash flow from operating activities / (Call loans and overdrafts from banks + commercial paper + financial liabilities measured at fair value through profit or loss + bonds and bills sold under repurchase agreements + current portion of payables)
    - b. Cash flow adequacy ratio = Net cash flow from operating activities for the past five years / (Capital expenditures + cash dividends) for the past five years
    - c. Cash flow satisfied ratio = Net cash flow from operating activities / Net cash flow from investing activities
  - (6) Liquidity reserve ratio = Liquid assets specified by the Central Bank / Debt items for which liquidity reserves should be allocated
  - (7) Operating Scale
    - a. Market Share of Assets = Total assets / Total assets of the major financial institutions
    - b. Market Share of Net Worth = Net worth / Total net worth of the major financial institutions
    - c. Market Share of Deposits = Deposits / Total deposits of the major financial institutions
    - d. Market Share of Loans = Loans / Total loans of the major financial institutions
  - 3. To reasonably express average interest rate, excess interest paid on preferential-rate deposits was added back into total interest expenditures for 2018, 2017, 2016, 2015 and 2014 in the amounts of NT\$9,584,098,000, NT\$11,005,334,000, NT\$10,776,632,000, NT\$11,006,282,000, and NT\$10,663,279,000, respectively.
  - 4. Net cash outflow produced by operating activities in 2018, therefore no analysis on this ratio.
  - 5. Cash flow adequacy ratios for 2014 [2015/2016/2017/2018] were calculated using net cash flows from operating activities for past three [four/five/five/ five] years/(capital expenditures + cash dividends).

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#### Adequacy of Capital

Unit: NT\$1,000

							Unit: NI\$1,000
Year			2018	2017	2016	2015	2014
	Common Stor	cks Equity	209,451,511	204,281,845	196,707,640	176,651,076	173,517,616
Self-Owned	Other Total Tie Stocks Equity	er 1 of Non-Common					
Capital	Tier 2 Capital		41,031,241	42,705,800	44,259,621	50,075,363	50,204,345
	Self-Owned C	apital	250,482,752	246,987,645	240,967,261	226,726,439	223,721,961
		Standardized Approach	1,818,059,477	1,723,632,715	1,845,427,164	1,879,583,822	1,836,910,103
	Credit Risk	Internal Ratings- Based Approach					
		Securitization	438,445	249,668	248,551		
	Operational Risk	Basic Indicator Approach					56,984,163
Total Risk- Weighted Assets		Standardized Approach/ Alternative Standardized Approach	64,333,363	61,430,838	64,622,213	56,853,725	
		Advanced Measurement Approach					
		Standardized Approach	112,738,688	95,600,876	90,793,588	89,149,500	86,770,575
	Market Risk	Internal Model Approach					
	Total Risk-We	ighted Assets	1,995,569,973	1,880,914,097	2,001,091,516	2,025,587,047	1,980,664,841
Capital Adeq	uacy Ratio (%)		12.55	13.13	12.04	11.19	11.30
Ratio of Tier	1 Capital to Ris	k Assets (%)	10.50	10.86	9.83	8.72	8.76
Ratio of Com	mon Stocks Equ	uity to Risk Assets (%)	10.50	10.86	9.83	8.72	8.76
Leverage Ra	tio (%)		4.12	4.10	4.08	3.64	2.87

Notes: 1. Figures for 2014 to 2018 are CPA approved.

2. The definition of Self-owned capital, Risk-weighted assets and exposure measure hereby shall be in compliance with the "Regulations Governing the Capital Adequacy and Capital Category of Banks" and "Methods for Calculation the Self-Owned Capital and Risk-Weighted Assets of Banks."

3. Formulae used in calculations:

- (1) Self-owned capital = Common stocks equity + other total Tier 1 of non-common stocks equity + Tier 2 capital
- (2) Total risk-weighted assets = Credit risk-weighted assets + (Operational risk+Market risk) Capital requirement ×12.5
- (3) Capital adequacy ratio = Self-owned capital / Total risk-weighted assets
- (4) Ratio of Tier 1 capital to risk assets = (Common stocks equity + Other total Tier 1 of non-common stocks equity) / Total risk-weighted assets
- (5) Ratio of common stocks equity to risk assets = Common stocks equity / Total risk-weighted assets
- (6) Leverage ratio = Net Tier 1 capital / Exposure measurement

#### **III. Statement by the Audit Committee**

Please refer to page 99 of the Chinese annual report.

### **IV. Financial Statements of Recent Years, and Independent Auditors' Report**

#### **Independent Auditors' Report**

To the Board of Directors of Bank of Taiwan:

#### Opinion

We have audited the consolidated financial statements of Bank of Taiwan ("the Bank and its subsidiary") and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of other auditors (please refer to Other Matter paragraph), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank and its subsidiary as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the "Regulations Governing the Preparation of Financial Reports by Public Banks" and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

#### **Basis for Opinion**

We conducted our audit in accordance with the "Regulations Governing Auditing and Certification of Financial Statements of Financial Institutions by Certified Public Accountants" and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of Bank of Taiwan in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained, inclusive of the report from other auditors, is sufficient and appropriate to provide a basis of our opinion.

#### **Emphasis of Matter**

In accordance with the auditing regulations in Taiwan, the financial statements of the Bank and its subsidiary are required to be audited by the Ministry of Audit (the "MoA"). The financial statement for the financial year ended 2017 has been audited and approved by the MoA. The adjustments made by the MoA are reflected in the financial statement. For further information, please see note 16(b).

#### **Other Matter**

As stated in note 6(j) of the consolidated financial statements, we did not audit the financial statements of Hua Nan Financial Holdings Co., Ltd. and Tai Yi Real Estate Co., Ltd. of investments in associates accounted for using equity method of the Bank and its subsidiary amounting to NT\$36,994,293 thousand and NT\$34,887,145 thousand as of December 31, 2018 and 2017, respectively, constituting 0.73% and 0.71% of the related consolidated total assets; nor the related shares of investment profit in associates accounted for using equity method of NT\$3,108,235 thousand and NT\$2,559,751 thousand for the years then ended, respectively, constituting 7.88% and 7.74% of the related consolidated net income before tax. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts includes above, is based solely on the report of the other auditors.

We have also audited the separated financial statements of Bank of Taiwan as of 2018 and 2017, and have issued an unmodified opinion.

#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. The assessment of impairment of financial assets

Please refer to Note 4(1) "Impairment of assets" for related accounting policy, Note 5(b) "The evaluation of financial assets impairments" for the uncertainty of accounting assumptions and estimations, and Note 6(a) "Cash and Cash Equivalents", Note 6(b) "Placement with Central Bank and Call Loans to Banks", Note 6(d) "Financial assets measured at fair value through other comprehensive income", Note 6(g) "Receivables, net", Note 6(h) "Discounts and loans, net", Note 6(k) " Financial assets measured at amortized cost" and Note 6(m) "Other financial assets, net" for details of the valuation of financial assets impairments.

#### Description of key audit matters

When assessing whether there is any indication that the financial assets other than measured at fair value through profit or loss may be impaired, the Bank and its subsidiary rely on management for considering all kinds of observable data and using the expected credit loss model, including probability of default, loss of default, exposure at default and prospective economic factors, to calculate the impairment loss. The calculation process is complicated and involves the exercise of judgment. Furthermore, the amount of financial assets which required impairment tests is material to the Bank and its subsidiary. Therefore, the assessment of financial assets has been identified as a key audit matter in our audit.

#### How the matter was addressed in our audit

Our principal audit procedures included (i) inspecting the internal guidelines of impairment assessment, understanding the Bank's and subsidiary's procedures of the assessment of impairment of financial assets, and testing related internal control procedures; (ii) performing analytical procedures; (iii) assessing the reasonableness of the Bank's and subsidiary's assessment of impairment of financial assets and, if necessary, acquiring assistance from internal specialists; (iv) verifying the accuracy of loan loss provision based on "Regulations Governing the Procedures for Enterprises Engaging in Insurance to Evaluate Assets and Deal with Non performing/Non accrual Loans"; (v) assessing whether the impairment of financial assets is presented and disclosed fairly.

#### 2. The valuation of financial instruments

Please refer to Note 4(f) "Financial instrument" for related accounting policy, Note 5(a) "The valuation of financial instruments" for major sources of uncertainty for assumptions and estimation, and Note 7 "The fair value and fair value hierarchy of the financial instruments" for details of the valuation of financial instruments.

#### Description of key audit matters

The Bank and its subsidiary hold the value of financial assets and liabilities, which shall calculated by a model are classified as level 2 and level 3 expect for which shall calculated by an observable for active market are classified as level 1. The parameters of inputs which often involve the exercise of judgment in valuation process. The valuation of financial instruments may be misstated due to the use difference of valuation techniques and assumptions. The amount of financial asset and liabilities the Bank and its subsidiary hold as of December 31, 2018 were significant. Therefore, the valuation of financial instruments has been identified as a key audit matter in our audit.

#### How the matter was addressed in our audit

Our main audit procedures included (i) reviewing accounting policy about the fair value of financial instruments measurement and disclosure , and performing an assessment over the investment cycle of its initial recognition, subsequent measurement and disclosures on financial statement (ii) for the financial instruments measured at fair value with active market, sampling test of prices are quoted in an active market (iii) sampling to test whether the fair value of the financial instruments measured at fair value with active market, sampling the quoted price from counter parties or independent third parties, as well as appointing our valuation specialists to assess the reasonableness of the models and parameters the Bank used when deemed necessary (iv) assessing whether the disclosure of financial instruments in accordance with International Financial Reporting Standards.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the "Budget Law", "Account Settlement Law", "Uniform Regulations on Accounting Systems for Banks Governed by the Ministry of Finance", Regulations Governing the Preparation of Financial Reports by Public Banks and with the IFRSs, IASs, interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance (including members of the Audit Committee) are responsible for overseeing the Bank's and subsidiary's financial reporting process.

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Feng-Hui Lee and Lin Wu.

KPMG

Taipei, Taiwan (Republic of China) March 27, 2019

#### Notes to Readers

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

December 31, 2018 December 31, 2017	Amount % Amount %	4.	1 00,004,51 / 1 00,00,430	12,973 - 60,480 -	25,078,047 - 33,906,120 1	45,790,114 1 42,267,063 1	291,444 - 488,722 -	4,025,739,102 81 3,941,132,048 79	24,998,566 - 24,998,316 1	678,843 - 842,822 -	315,020,626 6 314,774,236 6	18,191,904 - 18,143,074 -	7,750,427 - 8,505,331 -	4,735,862,502 93 4,639,170,031 93		95,000,000 2 95,000,000 2	80,453,043 2 80,453,043 2		42,037,924 1 39,246,685 1	33,103,998 1 29,383,528 1	<u>17,742,711</u> - <u>15,881,896</u> - 92,884,633 - 84,512,109 - 2	 '	<u>310,252,014</u> <u>7</u> 289,042,759 <u>7</u> <u>5,046,114,516</u> <u>100</u> <u>4,928,212,790</u> <u>100</u>
	Liabilities and Equity	Deposits of Central Bank and other banks (note 6(s), 7 and 10)	Financial Liabilities Measured at Fair Value through Profit or Loss (note 6(t), 7, and 10)	Hedging Derivative Financial Liabilities, net (note 6(e) and 7)	Bills and Bonds Sold under Repurchase Agreements (note 6(f) and 7)	Payables (note 6(u), 7 and 10)	Current Income Tax Liabilities	Deposits and Remittances (note $6(v)$ , 7 and 10)	Financial Bonds Payable (note 6(w) and 7)	Other Financial Liabilities (note $6(x)$ and 7)	Provision (note $6(y)$ and $(z)$ )	Deferred Tax Liabilities	Other Liabilities (note 6(aa) and 10)	Total liabilities	Equity attributable to owners of parent(note 6(ac)):	Capital stock	Capital surplus	Retained earnings:	Legal reserve	Special reserve	Unappropriated retained carnings	Other equity	Total equity Total liabilities and equity
		21000	00077	22300	22500	23000	23200	23500	24000	25500	25600	29300	29500			31101	31500		32001	32003	32005	32500	
017	<u>%</u>	14	Ś					,	1		46	23	ŝ	-	2	7	,	,	,				100
December 31, 2017	Amount 158,343,084	675,504,410	236,519,757		,			22,759	59,257,009	1,082,264	2,285,039,243	1,135,942,401	144,060,765	36,203,500	75,603,497	96,344,383	15,238,207	708,732	170,841	8,171,938			4,928,212,790
œ	80	Ξ	2		22		ŝ		1		51			-	-	0	,	,	,				<u>[8</u>
=																							
December 31, 201	Amount 165,864,960	535,130,849	236,408,718		1,117,727,277		167,824,692	41,693	59,274,333	1,236,103	2,557,027,294	,		38,007,840	46,040,182	96,226,027	15,238,207	764,936	312,291	8,989,114			5,046,114,516
December 31, 201	Assets Assets Cash and Cash Equivalents (note $6(a)$ , (h), 7, 8 and 10) $\frac{\text{Amount}}{8}$ $\frac{\%}{165,864,960}$ $\frac{\%}{3}$	vith Central Bank and Call Loans to Banks (note 6(b), (h), 7, 8,	10 and 11) Financial Assets Measured at Fair Value through Profit or Loss (note 6(c), 7, 236,408,718	8 and 10)	Financial Assets Measured at Fair Value through Other Comprehensive 1,117,727,277	Income (note 6(d), (r), 7, 8 and 11)	Debt Investments Measured at Amortized Cost(note6(k), (r), 7, 8 and 11) 167,824,692	Hedging Derivative Financial Assets, net (note 6(e), 7 and 8) 41,693	Receivables, net (note 6(g), (h), 7, 8 and 10) 59,274,333	Current Income Tax Assets 1,236,103	Loans and Discounts, net (note 6(h), 7, 8 and 10) 2,557,027,294	Available-for-Sale Financial Assets, net (note 6(i), 7, 8 and 11)	Held-to-Maturity Financial Assets, net (note 6(j), 7, 8 and 11)	Investments under Equity Method, net (note 6(1)) 38,007,840	Other Financial Assets, net (note 6(g), (h), (m), (r), 7, 8 and 10) 46,040,182	Property and Equipment, net (note 6(n) and (r)) 96,226,027	Investment Property (note 6(o)) 15,238,207	Intangible Assets, net (note 6(p)) 764,936	Deferred Tax Assets 312,291	Other Assets, net(note 6(q) and 10) 8,989,114			Total assets S 5.046.114.516

#### BANK OF TAIWAN AND SUBSIDIARY

**Consolidated Statements of Comprehensive Income** 

#### For the years ended December 31, 2018 and 2017

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

		2018		2017		Change
		Amount	%	Amount	%	%
	Revenue and income:					
41000	Interest income (note 6(ad) and 10)	\$ 63,883,640	162	59,105,478	179	8
51000	Less:Interest expense (note 6(ad) and 10)	38,258,281	97	33,583,405	102	14
	Net interest income (note 6(ad))	25,625,359	65	25,522,073	77	-
	Non-interest income, net					
49100	Service fees ,net (note 6(ae) and 10)	5,299,378	13	5,178,019	16	2
49200	Gain (loss) on financial assets or liabilities measured at fair value through profit or loss (note 6(af) and 10)	(4,510,425)	(11)	31,513,696	95	(114)
49300	Realized gain (loss)on available-for-sale financial assets (note 6(ag) and 10)	-	-	3,013,653	9	(100)
49310	Realized gains from financial assets measured at fair value through other comprehensive income(note 6(ah))	2,925,419	7	-	-	-
49600	Foreign exchange gain (loss) (note 6(ai) and 10)	5,712,951	14	(3,249,634)	(10)	276
49700	Provision of impairment loss on assets (note 6(n) and (r))	(86,510)	-	(1,913)	-	(4,422)
49750	Share of profit (loss) of associates and joint ventures accounted for using equity method (note 6(1))	2,800,149	7	2,611,057	8	7
49837	Premiums loss (note 6(aj))	1,620,567	4	(1,445,511)	(4)	212
49843	Sales income (note 6(q) and (aj))	366,662	1	455,670	1	(20)
48054	Subsidized income from government (note 6(aj) and 12(c))	8,892,009	23	10,452,705	32	(15)
49898	Excess preferential interest expenses (note 6(g) and (aj))	(9,584,580)	(24)	(11,005,803)	(33)	13
49871	Provisions for policyholders' reserve premium (note 6(aj))	(1,371,850)	(3)	(30,214,824)	(92)	95
49899	Excess interest expenses(note 6(aj) and 10)	1,759,358	4	256,637	1	586
	Net Revenue	39,448,487	100	33,085,825	100	19
58200	Bad debt expense and reserve for guarantees (note 6(h))	7,302,488	19	1,685,005	5	333
	Expenses: (note 16(a))					
58500	Employee benefits expenses (note 6(z), (ak) and 10)	12,579,869	32	12,029,135	36	5
59000	Depreciation and amortization expenses (note 6(al))	987,343	3	1,101,527	3	(10)
59500	Other general and administrative expenses (note 6(am) and 10)	7,102,452	18	6,974,081	21	2
	Total Expenses	20,669,664	53	20,104,743	60	3
	Net income before income tax	11,476,335	28	11,296,077	35	2
61003	Income Tax Expenses (note 6(ab))	(1,108,160)	(3)	(941,749)	(3)	(18)
	Profit (loss)	10,368,175	25	10,354,328	32	-
65000	Other comprehensive income:					
65200	Components of other comprehensive income that will not be reclassified to profit or loss					
65201	Gains (losses) on remeasurements of defined benefit plans	(1,085,289)	(3)	(962,992)	(3)	(13)
65205	Change in fair value of financial liability attributable to change in credit risk of liability	239,502	1	(49,185)	-	587
65206	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components	(114,943)	-	(91,561)	-	(26)
	of other comprehensive income that will not be reclassified to profit or loss					
65220	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss					-
	Components of other comprehensive income that will not be reclassified to profit or loss	3,456,195	9	(1,103,738)	(3)	413
65300	Other components of other comprehensive income that will not be reclassified to profit or loss					
65301	Exchange differences on translation	574,152	1	(1,437,837)	(4)	140
65302	Unrealized gains (losses) on valuation of available-for-sale financial assets	-	-	7,119,853	22	(100)
65310	Gains (losses) on investments in debt instruments measured at fair value through other comprehensive income	(569,070)	(1)	-	-	-
65306	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components	(176,704)	-	195,022	1	(191)
	of other comprehensive income that will be reclassified to profit or loss					
65320	Income tax related to components of other comprehensive income that will be reclassified to profit or loss (note 6(ab))	81,229		(34,186)	-	338
	Components of other comprehensive income that will be reclassified to profit or loss	(90,393)	_	5,842,852	19	(102)
65000	Other comprehensive income	3,365,802	9	4,739,114	16	(29)
	Total comprehensive income	\$ 13,733,977	34	15,093,442	48	(9)
	Basic earnings per share(In dollars)(note 6(an))	\$	1.09		1.09	

See accompanying notes to consolidated financial statements.

quity attributable to owners of pare

$ \begin{array}{c c c c c c c c c c c c c c c c c c c $		Unrealized gains (10sses) on flaated assets measured at fair value through other comprehensive income		Change value and famo famo famo famo famo s.197	in fair s of cial lity able to 8,941	Other competensive competensive finances interments for applying overba hotiging approach	k isike d by critiy tch <u>33.288.2%</u>	Total equity           6         274,449,308           -         -           -         -           -         -           -         -           -         -
$ \begin{array}{c ccccccccccccccccccccccccccccccccccc$	Total         states           75,707,978         states           1         -           1         -           1         -           1         -           1         -           1         -	comprehensive income     	- 181 - 181 - 1		- 1			Total
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asciates and joint ventures accounted for using equity $\frac{9}{12}$ $\frac{9}{12}$ $\frac{1}{12}$								
$\begin{array}{c ccccccccccccccccccccccccccccccccccc$				,				
$ \begin{array}{cccccccccccccccccccccccccccccccccccc$			-					5
$\begin{array}{c ccccccccccccccccccccccccccccccccccc$							•	10,354,328
$\begin{array}{c ccccccccccccccccccccccccccccccccccc$	_	- (/	7,650,734	(4,206)	(53,540)		5,789,31	1 4,739,114
9, 246,685 2,338,528 (12,84,946 10, 10, 12,84,1946 10, 12,84,1946 10, 12,34,19499 10, 12,34,19499 10, 12,34,1949 10, 12,34,194		- -	7,650,734	(4,206)	(53,540)		5,789,31	1 15,093,442
			30,435,010	3,991	(44,599)	·	29,077,60	7 289,042,755
of a dra dragistments         92.36.6.85         29.36.8.5         29.36.8.5.78         15.689.487         28           of on of retained amings:         2.791.239         2.791.239         2.791.239         2.791.239           triad         2.791.239         2.791.239         3.72.511         (3.721.51)           triad         2.791.239         2.791.239         2.791.239           triad         2.791.239         2.791.239         (60.000)           triad         2.791.239         2.791.239         2.791.239           triad         2.791.239         2.791.239         2.791.239           triad         2.791.236         2.791.239         2.791.239           triad         2.791.239         2.791.239         2.701.000           triad         2.791.239         2.701.000         2.011           triad         2.791.739         2.011         2.011		38,683,823	(30, 435, 010)	(3,991)		3,991	18,874 8,267,687	7 8,075,278
toro of retainings: 2,791,239 - (2,791,239) - (2,791,239) - (2,791,239) - (2,791,239) - (2,791,239) - (2,791,239) - (2,711,235,11) - (2,725,11) - (2,75,11) - (2,75,11) - (2,75,11) - (2,75,11) - (2,75,		5) 38,683,823			(44,599)	3,991	18,874 37,345,29	297,118,037
cold         -         2.791,239         -         (2.791,239)         -         (2.791,239)         -         -         (2.791,239)         -								
inted 3,722,511 (3,722,511) any share (600,00) zrve (2,041) - 2,041 10,268,175 1	(6							
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10,368,175 1							•	
	_							10,368,175
Other comprehensive income - (1,208,115) (1,208,115) (1,208,115)					237,114	202 (2	(26,113) 4,573,917	
Total comprehensive income 9,160,060 9,160,060 9,160,060		4 3,696,730			237,114	202	(26,113) 4,573,91	7 13,733,977
Commediancies in equity instruments designated at fair value through other Commediancies incomes		(4.873)					(4.873	- (6
2018 S <u>95,000,000</u> 80,453,043 42,037,924 33,103,998 17,742,711 92,88	92.8	1) 42,375,680	  .	  .	192,515	4,193	(7,239) 41,914,338	8 310,252,014

BANK @F TAIWAN 2018 ANNUAL REPORT

#### BANK OF TAIWAN AND SUBSIDIARY Consolidated Statements of Cash Flows For the years ended December 31, 2018 and 2017 (Expressed in Thousands of New Taiwan Dollars)

		2018	2017
Cash flows from (used in) operating activities:	¢	11 476 225	11 206 077
Profit (loss) before tax Adjustments:	\$	11,476,335	11,296,077
Adjustments to reconcile profit (loss):			
Depreciation expense		755,550	780,880
Amortization expense		280,830	367,125
Provision (reversal of provision) for bad debt expense		7,302,488	1,685,005
Interest expense		38,258,281	33,583,405
Interest income		(63,883,640)	(59,105,478)
Dividend income		(7,710,596)	(7,342,219)
Net change in other provisions		1,372,219	30,213,909
Loss (gain) on financial assets securitization		(59)	59
Share of loss (profit) of associates and joint ventures accounted for using equity method		(2,800,149)	(2,611,057)
Loss (gain) on disposal of property and equipment		61,626	160,942
Impairment loss on financial assets		4,918	-
Impairment loss on non-financial assets		81,592	1,913
Total adjustments to reconcile profit (loss)		(26,276,940)	(2,265,516)
Changes in operating assets and liabilities:		00.000	(22,502,152)
Decrease (increase) in due from the central bank and call loans to banks		27,835,155	(32,592,172)
Decrease (increase) in financial assets at fair value through profit or loss		10,499,031	(15,213,726)
Decrease (increase) in financial assets at fair value through other comprehensive income Decrease (increase) in investments in debt instruments measured at amortised cost		(52,675,392)	-
Decrease (increase) in financial assets for hedging		(8,585,790) (18,934)	- (1,538)
Decrease (increase) in receivables		7,286,775	7,953,366
Decrease (increase) in discounts and loans		(279,369,555)	(12,308,842)
Decrease (increase) in available-for-sale financial assets		-	(95,374,243)
Decrease (increase) in held-to-maturity financial assets		_	1,460,149
Decrease (increase) in other financial assets		6,338,650	(111,670)
Decrease (increase) in other assets		49,805	950,393
Increase (decrease) in deposits from the central bank and banks		2,734,755	(8,575,430)
Increase (decrease) in financial liabilities at fair value through profit or loss		15,523,882	28,321,372
Increase (decrease) in financial liabilities for hedging		(47,507)	(83,715)
Increase (decrease) in notes and bonds issued under repurchase agreement		(8,828,073)	22,568,206
Increase (decrease) in payables		1,776,155	(478,548)
Increase (decrease) in deposits and remittances		84,607,054	67,149,284
Increase (decrease) in provisions for employee benefits		(1,075,797)	965,211
Increase (decrease) in other liabilities		234,213	(471,269)
Total adjustments		(219,992,513)	(38,108,688)
Cash inflow (outflow) generated from operations		(208,516,178)	(26,812,611)
Interest received		61,468,447	59,704,895
Dividends received		4,067,987	4,458,340
Interest paid		(36,511,135)	(32,351,005)
Income taxes refund (paid)		(1,546,467)	(1,325,812)
Net Cash flows from (used in) operating activities		(181,037,346)	3,673,807
Cash flows from (used in) investing activities:		(77( 04()	(604.266)
Acquisition of property and equipment Increase in refundable deposits		(776,946) (871,549)	(604,366) (376,488)
Acquisition of intangible assets		(336,980)	(272,572)
Increase in other financial assets		-	1,086,967
Net cash flows from (used in) investing activities		(1,985,475)	(166,459)
Cash flows from (used in) financing activities:		(1,505,115)	(100,155)
Increase in guarantee deposits received		_	2,052,589
Decrease in guarantee deposits received		(989,117)	-
Increase in other financial liabilities		-	93,967
Decrease in other financial liabilities		(163,979)	-
Cash dividends paid		(600,000)	(500,000)
Net cash flows from (used in) financing activities		(1,753,096)	1,646,556
Effect of exchange rate changes on cash and cash equivalents		667,091	(1,792,104)
Net increase (decrease) in cash and cash equivalents		(184,108,826)	3,361,800
Cash and cash equivalents at beginning of period		1,085,575,041	1,082,227,822
Cash and cash equivalents at end of period	\$	901,466,215	1,085,589,622
Composition of cash and cash equivalents:			
Cash and cash equivalents reported in the statement of financial position	\$	165,864,960	158,343,084
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7		162,126,076	274,645,417
Other items qualifying for cash and cash equivalents under the definition of IAS 7		573,475,179	652,601,121
Cash and cash equivalents at end of period	\$	901,466,215	1,085,589,622

See accompanying notes to consolidated financial statements.

## BANK OF TAIWAN AND SUBSIDIARY Notes to the Consolidated Financial Statements For the years ended December 31, 2018 and 2017 (Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

#### (1) Organization and Business Scope

Bank and subsidiary (the Bank) was incorporated on May 20, 1946 and transformed into a corporate entity since July 1, 2003, as approved by the Ministry of Finance on April 24, 2003, and became a public company from September 16, 2004.

On November 18, 2005, the House of Administration (Executive Yuan) authorized the merger of the Bank and the Central Trust of China. The merger plan was approved by the Fair Trade Commission, the Executive Yuan, and the Ministry of Finance. On December 22, 2006, the Financial Supervisory Commission, Executive Yuan, reauthorized the merger and indicated the Central Trust of China was the dissolved party and the Bank was the surviving party. The merger was accomplished on July 1, 2007.

On January 1, 2008, the Ministry of Finance organized Taiwan Financial Holding Co., Ltd. in accordance with the Act of Taiwan Financial Holding Co., Ltd., and the Bank is its subsidiary.

On January 2, 2008, the Bank decreased its capital by \$8 billion and split off its part of business and assets to set up two other subsidiaries of Taiwan Financial Holding Co., Ltd. (Taiwan Financial Holdings): BankTaiwan Securities Co., Ltd. (BankTaiwan Securities) and BankTaiwan Life Insurance Co., Ltd. (BankTaiwan Life Insurance), whose capital was \$3 billion and \$5 billion, respectively.

The Bank is primarily involved in (a) all commercial banking operations allowed under the Banking Law; (b) foreign exchange operations allowed under the Foreign Exchange Regulation Act; (c) operations of offshore banking unit allowed under the Offshore Banking Act; (d) savings and trust operations; (e) overseas branch operations authorized by the respective foreign governments; and (f) other operations as authorized by the central competent authority in charge.

The Bank's Trust department is engaged in the planning, management and operation of trusts under the Banking Law and Trust Law, along with the investment of overseas securities and trust funds.

In accordance to the Bank's policy approved by the Government, the Bank's mission's is to perform all functions in providing stable financial environment, contribute to the economic infrastructure and develop manufacturing industries. The Bank manages public treasury and ensures the smooth settlement of national operations, which later translated into providing normal banking facilities and issuing banknotes as Central Bank of the Republic of China was later promulgated in July, 1961. The relationship between the Bank and the Central Bank remained closely attached. Among the financial institutions in Taiwan, the Bank has always maintained its importance in the financial industry.

The assets of the Bank have continuously increased through revaluations of its legal and special reserve over the period since the Government provided the capital for the establishment of the Bank. After the currency revolution in June 1949, the Government approved \$5 million as the Bank's capital in May 1950; \$100 million in May 1954; \$300 million in August 1963; \$600 million in September 1967; \$1 billion in May 1973; \$2 billion in September 1977; \$4 billion in September 1980; \$8 billion in November 1982; \$12 billion in May 1990; \$16 billion in April 1992; \$22 billion in December 1994; \$32 billion in August 1998; \$48 billion in September 2002; \$53 billion in July 2007; \$45 billion in January 2008; \$70 billion in November 2010 and \$95 billion in October 2014.

As the Bank is funded and owned by the government, the execution and compliance with government policies is of importance to the Bank. The economy of Taiwan has developed considerably from the 50s and the Bank has contributed by supporting the planning and implementation of many medium to long term infrastructure. Through the years, the Government has actively increased strategic and critical industrial development. The Bank has similarly increased its support for the fund needed for such infrastructure in compliance with the Government policy.

The Bank has its Head Office in Taipei, and the Bank has established domestic and worldwide branch offices for expansion of various banking services. As of December 31, 2018, in addition to the Department of Planning, Department of Corporate Finance, Department of Credit Management, Department of Loan Management, Department of Wealth Management, Department of Circulation, Department of Public Treasury, Department of Risk Management, Department of Business, Department of International Banking, Department of Trusts, Department of Electronic Banking, Department of Consumer Finance, Department of Treasury, Department of Real Estate Management, Department of Procurement, Department of Domestic Operations, Department of Government Employees Insurance, Department of Precious Metals, Department of Credit Analysis, Department of Accounting, Department of Economic Research, Department of Information Management, Department of Cyber Security, Department of Compliance, Board Secretariat, Department of Auditing Board of Directors. There were 163 domestic branches, 1 offshore banking unit, 11 overseas branches, 1 subbranch (in Shanghai Jiading), 5 representative offices (in Mumbai, Yangon and Silicon Valley, Bangkok and Frankfurt) and 4 preparatory offices (in Ho Chi Minh City, Djakarta, Manila and Kuala Lumpur).

The Bank invested \$20 million dollars to set up a subsidiary, BankTaiwan Insurance Brokers, which was approved on January 23, 2013 and officially set up on February 6, 2013.

The parent company of the Bank is Taiwan Financial Holding Co., Ltd.

The consolidated financial statements as of December 31, 2018 include the accounts of the Bank and subsidiary (hereby referred as the Bank and subsidiary).

#### (2) Financial statements authorization date and authorization process:

The Bank appointed certified public accountant to audit and certifie the consolidated financial statements in accordance with Article 49.3 in the Banking Act. The consolidated financial statements were approved by the Audit Committee on March 21, 2019 and were authorized for issue by the Board of Directors on March 27, 2019.

#### (3) New Standards, Amendments and Interpretations Adopted:

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

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

	Effective date
New, Revised or Amended Standards and Interpretations	per IASB
Amendment to IFRS 2 "Clarifications of Classification and Measurement of	January 1, 2018
Share-based Payment Transactions"	

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

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

(i) IFRS 9 "Financial Instruments"

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

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

1) Classification of financial assets and financial liabilities

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

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

2) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with the 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39 – please see note 4(1).

3) Hedge accounting

When initially applying IFRS 9, the Bank and subsidiary may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. The Bank and subsidiary have chosen to continue the application of the hedge accounting requirements of IAS 39.

4) Transition

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

- Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as on January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
- All hedging relationships designated under IAS 39 on December 31 2017 met the criteria for hedge accounting under IFRS 9 on January 1, 2018, and are therefore, regarded as continuing hedging relationships.
- 5) Classification of financial assets on the date of initial application of IFRS 9

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

	IAS39		IFRS9			
E I A	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount		
Financial Assets Cash and equivalents	Amortized cost	158 343 084	Amortized cost (note 1)	158,328,503		
Placement with central bank and call loans to banks	Amortized cost		Amortized cost (note 1)	675,485,344		
Financial assets measured at fair value through profit or loss	Fair value through profit or loss	219,902,952	Fair value through profit or loss (mandatory)	219,902,952		
Financial assets measured at fair value through profit or loss	Fair value through profit or loss (designated)	14,987,524	Fair value through profit or loss (designated)	14,987,524		
Financial assets measured at fair value through profit or loss	Fair value through profit or loss (designated)	1,629,281	Fair value through profit or loss (mandatory) (note 2)	1,629,281		
Hedging derivative financial assets	Fair value through profit or loss	22,759	Fair value through profit or loss (mandatory)	22,759		
Discounts and loans net	Amortized cost	2,285,039,243	Amortized cost (note 3)	2,285,065,191		
Available for sale financial assets (Bond instrument)	Fair value through other comprehensive income	1,943,590	Fair value through profit or loss (mandatory) (note 4)	1,943,590		
Available for sale financial assets (Equity instrument)	Fair value through other comprehensive income	2,417,942	Fair value through profit or loss (mandatory) (note 4)	2,417,942		
Available for sale financial assets (Equity instrument)	Fair value through other comprehensive income	54,878,921	Fair value through other comprehensive income	54,878,921		
Available for sale financial assets (Bond instrument)	Fair value through other comprehensive income	1,073,010,580	Fair value through other comprehensive income	1,073,010,580		
Available for sale financial assets (Bond instrument)	Fair value through other comprehensive income	3,691,368	Amortized cost (note 5)	3,773,559		
Held to maturity financial assets	Amortized cost	144,060,765	Amortized cost (note 6)	144,014,153		
Bond investments without active market	Amortized cost	14,644,697	Fair value through other comprehensive income (note 7)	14,595,705		
Financial assets measured at cost (Equity instrument)	Financial assets measured at cost	10,097	Fair value through profit or loss (mandatory) (note 8)	202,500		
	Financial assets measured at cost	8,572,728	Fair value through other comprehensive income (note 8)	15,981,226		
Receivables net	Amortized cost	59,257,009	Amortized cost (note 3)	59,249,325		
Other financial assets (Short-term advances, remittances purchased, overdue receivables, call loan to brokers, and restricted deposits)	Amortized cost	52,375,975	Amortized cost (note 9)	52,378,832		
Other assets (Guarantee deposits paid)	Amortized cost	830,053	Amortized cost	830,053		
Investment accounted for using equity method	Recognized equity of investees based on proportion of investment	36,203,500	Recognized equity of investees based on proportion of investment (note 10)	36,675,538		
Provision						
Guarantee reserve	Financial guarantee contracts	1,298,033	Financial guarantee contracts (note 11)	1,312,483		
Loan commitments reserve	Loan commitments	-	Loan commitments (note 11)	10,421		
Reserve for government employees insurance	Reserve for government employees insurance	295,055,660	Reserve for government employees insurance (note 12)	295,007,942		

- Note 1: Placement with banks (included in cash and cash equivalents), and placement with central bank and call loans to banks are measured at amortized cost under IAS 39. The Bank and subsidiary consider that these financial assets are held within a business model whose objective is achieved by collecting contractual cash flows, and will hold these financial assets for the same purpose in future. Therefore, the Bank and subsidiary choose to continue to adopt the same classification and measurement approach under IFRS 9, as well as the increases of \$14,581 thousand and \$19,066 thousand in the allowance for impairment, respectively, were recognized in opening retained earnings on January 1, 2018, upon transition to IFRS 9.
- Note 2: Under IAS 39, these debt securities were designated as at FVTPL because the Bank and subsidiary managed these securities on a fair value basis and monitored their performance on this basis. Therefore, these financial assets have been classified as mandatorily measured at FVTPL, upon transition to IFRS 9.
- Note 3: Under IAS 39, loans and discounts, receivables are measured at amortized cost. The Bank and subsidiary consider that these financial assets are held within a business model whose objective is achieved by collecting contractual cash flows, and will hold these financial assets for the same purpose in future. Therefore, the Bank and subsidiary choose to continue to adopt the same classification and measurement approach under IFRS 9, as well as the decrease of \$25,948 thousand and increase of \$7,684 thousand in the allowance for impairment, respectively, were recognized in opening retained earnings on January 1, 2018, upon transition to IFRS 9.
- Note 4: Under IAS 39, the Bank and subsidiary assess that the equity and debt investments are held within a business model whose objective is achieved by both collecting dividends and interests, but also probably by selling securities to meet liquidity requirements in daily operation. Therefore, these investments are classified as held-to-maturity. The Bank and subsidiary then assess these equity investments are held within a business model whose objective is achieved by selling financial assets. Besides, the contractual cash flows on specific dates of the debt investments do not consist solely of payments of principal and interest on the principal amount outstanding. Therefore, these assets have been classified as financial assets measured at fair value through profit or loss under IFRS 9, then increased opening retained earnings \$106,467 thousand and decreased \$106,467 thousand in other equity, upon transition to IFRS 9 on January 1, 2018.

- Note 5: These debt investments are categorized as available-for-sale under IAS 39. The Bank and subsidiary then assess these debt investments are held within a business model whose objective is achieved by collecting contractual cash flows, and will hold these financial assets for the same purpose in future. Therefore, as permitted by IFRS 9, the Bank and subsidiary have designated these assets at the date of initial application as measured at amortized cost. A reversal of \$84,302 thousand loss on valuation and an increase of allowance for impairment of \$2,111 thousand were recognized in opening retained earnings and other equity, respectively, upon transition to IFRS 9 on January 1, 2018.
- Note 6: These debt investments are categorized as held-to-maturity under IAS 39. The Bank and subsidiary intend to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. Therefore, as permitted by IFRS 9, the Bank and subsidiary have reclassified these assets as financial assets measured at amortized cost. An increase of \$46,612 thousand in the allowance for impairment was recognized in opening retained earnings on January 1, 2018, upon transition to IFRS 9.
- Note 7: These debt investments are categorized as debt investment without an active market under IAS 39. The Bank and subsidiary assess that the equity and debt investments are held within a business model whose objective is achieved by collecting interests, and also probably by selling securities to meet liquidity requirements in daily operation. Because the contractual cash flows of these assets consist solely of payments of principal and interest on the principal amount outstanding. Therefore, as permitted by IFRS 9, the Bank and subsidiary have designated these financial assets at the date of initial application as measured at fair value through comprehensive income. An increase of \$43,241 thousand loss on valuation and an increase of \$5,751 thousand in the allowance for impairment were recognized in opening retained earnings and other equity, respectively, upon transition to IFRS 9 on January 1, 2018.
- Note 8: The Bank and subsidiary neither intend to sell these equity investments in near future nor to hold for long-term. As permitted by IFRS 9, the Bank and subsidiary have designated these investments at the date of initial application as measured at fair value through profit or loss, or measured at fair value through comprehensive income. Therefore, an increase of \$7,600,901 thousand in book value of assets, an increase of \$7,393,498 thousand in other equity, and an increase of \$207,403 thousand in opening retained earnings on January 1, 2018, upon transition to IFRS 9. (Including a reversal of \$15,000 thousand in the allowance for impairment under IAS 39.)

- Note 9: These financial assets were measured at amortized cost under IAS 39. The Bank and subsidiary assess that these financial assets are held within a business model whose objective is achieved by collecting contractual cash flows, and will hold these financial assets for the same purpose in future. Therefore, the Bank and subsidiary choose to continue to adopt the same classification and measurement approach under IFRS 9, as well as an decrease of \$2,857 thousand in the allowance for impairment was recognized in opening retained earnings on January 1, 2018, upon transition to IFRS 9.
- Note 10: Based on the proportion of shareholding, the Bank and subsidiary recognized equity effects from investee' s initial application of IFRS 9, decreased \$12 thousand in opening retained earnings and increased \$3 in other equity on January 1, 2018, respectively.
- Note 11: Guarantee reserve and loan commitments reserve were recognized under IAS 39 and IAS 37. The Bank and subsidiary reassess them on the initial application of IFRS 9 according to IFRS 9 and IAS 37, then increases of \$14,450 thousand and \$10,421 thousand in the allowance for impairment were recognized respectively in opening retained earnings on January 1, 2018, upon transition to IFRS 9.
- Note 12: Since the profit or loss of government employees' insurance department has nothing to do with the Bank and subsidiary, the Bank and subsidiary assess the effects of adopting IFRS 9 on the financial possition of Government Employees and School Insurance on the adoption date of IFRS 9. An increase of \$47,718 thousand was recognized in opening retained earnings, upon transition to IFRS 9 on January 1, 2018.

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

		2017.12.31 IAS 39			2018.1.1 IFRS 9	2018.1.1	2018.1.1
	_	Carrying Amount	Reclassifications	Remeasurements	Carrying Amount	Retained earnings	Other equity
Financial assets							
Financial assets measured at fair value through profit or loss (including Hedging derivative financial assets)	\$	236,542,516	-	-		-	-
Additions:							
From available for sale		-	4,255,065	106,467		106,467	-
From financial assets measured at cost (IAS 39)	_	10,097	-	192,403		192,403	-
Total changes of FVTPL	\$	236,552,613	4,255,065	298,870	241,106,548	298,870	-
Financial assets measured at fair value through other comprehensive income							
Additions - debt instruments:							
From available for sale (IAS 39)	\$	1,073,010,580	-	-		(73,167)	73,167
From amortized cost (IAS 39)( Bond investments without active market)		14,644,697		(48,992)		(5,751)	(43,241)
Addition - equity instruments:							
From available for sale (IAS 39)		54,878,921				-	-
From financial assets measured at cost (IAS 39)		8,572,728	-	7,408,498		15,000	7,393,498
Subtractions:							
Available for sale (IAS39)to FVTPL (IFRS9) -required reclassification according to classification conditions		4,361,532	(4,255,065)	(106,467)		-	(106,467)
Available for sale (IAS 39)to amortized cost (IFRS 9)	_	3,691,368	(3,775,670)	84,302		-	84,302
Total changes of FVOCI	\$	1,159,159,826	(8,030,735)	7,337,341	1,158,466,432	(63,918)	7,401,259

	2017.12. IAS 39 Carryin Amoun	g	lassifications	Remeasurements	2018.1.1 IFRS 9 Carrying Amount	2018.1.1 Retained earnings	2018.1.1 Other equity
Financial assets measured at Amortized cost							
Additions:							
From amortized cost (IAS 39)( Held to maturity)	\$ 144,06	0,765	-	(46,612)		(46,612)	-
From amortized cost (IAS 39)( Cash and cash equivalent)	158,34	3,084	-	(14,581)		(14,581)	-
From amortized cost (IAS 39)( Placement with central bank and call loans to banks)	675,50	4,410	-	(19,066)		(19,066)	-
From amortized cost (IAS 39)( Discounts and loans net)	2,285,03	9,243	-	25,948		25,948	-
From amortized cost (IAS 39)( Receivables net)	59,25	7,009	-	(7,684)		(7,684)	-
From amortized cost (IAS 39)( Other financial assets(Short-term advances, remittances purchased, overdue receivables, call loan to brokers, and restricted deposits))	52,37	5,975		2,857		2,857	-
From amortized cost (IAS 39) ( Other assets (Guarantee deposits paid))	83	0,053	-			-	
From available for sale (IAS 39)	-		3,775,670	(2,111)		(2,111)	-
Total changes of amortized cost	\$ 3,375,41	0,539	3,775,670	(61,249)	3,379,124,960	(61,249)	
Investment accounted for using equity method							
Balance of financial assets at January 1, 2018. Gross amount for reclassifications and remeasurements.	\$ 36,20	3,500	-	472,038	36,675,538	(394,390)	866,428
Provision							
Guarantee reserve	\$ 1,29	8,033	-	14,450		(14,450)	-
Reserve for government employees insurance	295,05	5,660	-	(47,718)	1	47,718	-
Additions:							
Loan commitments reserve	-		-	10,421		(10,421)	-
Balance of provision at January 1, 2018. Gross amount for reclassifications and remeasurements.	\$ 296,35	3,693	-	(22,847)	296,330,846	22,847	

Note: The difference between amounts of adjustments for retained earning and effects of retrospective application on consolidated statements of changes in equity is tax effects. (Anincrease of \$5,431 thousand in the deferred tax assets.)

The following table reconciles the loss allowance from the "incurred loss" model under IAS39 to the "expected credit loss" model under IFRS9 on January 1, 2018.

Loans and receivables (IAS39)/ FVTPL (IFRS9) Cash and cash equivalent — Placement with banks Placement with central bank and call loans to banks 58.4	-		
· · · · · · · · · ·	-		
Placement with central bank and call loans to banks		14,581	14,581
The content will contain bank and can found to banks 58,4	- +6	19,066	77,512
Receivables 127,1	- 30	7,684	134,814
Discounts and loans 33,041,8	- 52	(25,948)	33,015,914
Other financial assets (Short-term advances, 111,4 remittances purchased, overdue receivables, call loan to brokers, and restricted deposits)		(2,857)	108,578
33,338,8		12,526	33,351,399
Available-for-sale financial instruments (IAS 39)/ Financial assets measured at fair value through other comprehensive income (IFRS 9)			
Available-for-sale financial assets	-	73,167	73,167
Available-for-sale financial assets (IAS 39)/ Financial assets measured at amortized cost (IFRS 9)			
Available-for-sale financial assets	-	2,111	2,111
Held to maturity (IAS 39)/ Financial assets measured at amortized cost (IFRS 9)			
Held to maturity financial assets	-	46,612	46,612
Debt investments without active market (IAS39)/ Financial assets measured at fair value through other comprehensive income (IFRS 9)			
Bonds investments without active market		5,751	5,751
<del>_</del>		127,641	127,641
Loan commitments and guarantee			
Loan (loan commitments)	-	4,444	4,444
Credit cards (loan commitments)	-	5,948	5,948
Call loans to banks (loan commitments)	-	29	29
Guarantee receivables 886,7	- 32	14,470	901,252
Letter of credit receivables 411,2	51 -	(20)	411,231
1,298,0		24,871	1,322,904
Total carrying amounts \$ 34,636,9		165,038	34,801,944

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

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

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

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

#### (i) IFRS 16"Leases"

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

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

1) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Bank and subsidiary can choose to apply either of the following:

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

The Bank and subsidiary plan to apply the practical expedient to grandfather the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

2) Transition

As a lessee, the Bank and subsidiary can apply the standard using either of the following:

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

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

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

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

- apply a single discount rate to a portfolio of leases with similar characteristics.
- exclude the initial direct costs from measuring the right of use assets at the date of initial application.
- use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.
- 3) So far, the most significant impact identified is that the Bank and subsidiary will have to recognize the new assets and liabilities for the operating leases of its offices, warehouses, and factory facilities. The Bank and subsidiary estimated that the lease liabilities to increase by \$1,634,839 thousand, adding prepaid rent \$128,628 thousand, the right of use assets increase \$1,763,467 thousand on January 1, 2019. No significant impact is expected for the the Bank's and subsidiary's finance leases. Besides, The Bank and subsidiary do not expect the adoption of IFRS 16 to have any impact on its ability to comply with the revised maximum leverage threshold loan covenant. Also, the Bank and subsidiary are not required to make any adjustments for leases where the Bank and subsidiary are the intermediate lessor in a sub-lease.

The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

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

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

	Lincenve date
New, Revised or Amended Standards and Interpretations	per IASB
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020

(Continued)

Effective date

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

Those which may be relevant to the Group are set out below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
October 22, 2018	Amendments to IFRS 3 "Definition of a Business"	The IASB has issued narrow-scope amendments to IFRS 3 to improve the definition of a business. The amendments will help companies determine whether an acquisition made is of a business or a group of assets.
		The amended definition emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. In addition to amending the wording of the definition, the IASB has provided supplementary guidance.
October 31, 2018	Amendments to IAS 1 and IAS 8 "Definition of Material"	The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards.

The Bank and subsidiary are evaluating the impact on its consolidated financial position and consolidated financial performance upon the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed when the Bank and subsidiary complete their evaluation.

#### (4) Significant accounting policies:

(a) Statement of compliance

The Bank and subsidiary are a public company. The Bank and subsidiary set up their accounting policies and prepared financial statements according to the Regulations Governing the Preparation of Financial Reports by Public Banks, the International Financial Reporting Standards, the International Accounting Standards and the IFRS interpretation.

The Bank and subsidiary are government owned enterprises, so its accounting practices mainly follow the Budget Law, Account Settlement Law and Uniform Regulations on Accounting Systems for Banks Governed by the Ministry of Finance (the MoF). The annual financial statements are audited by the Ministry of Audit (the MoA) to ensure that the Bank complies with the budget approved by the Legislative Yuan, the parliament of ROC Taiwan. The financial statements become final only after such an endorsement by the MoA.

The financial statements in 2017 and 2016 were approved by the MoA, and the opening balances of retained earnings in 2018 and 2017 are the same as those approved in the closing balances in 2017 and 2016, respectively. Please see note 16(b) for the government audit adjustments.

- (b) Basis of consolidation
  - (i) Principle of preparation of the consolidated financial statements

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

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

(ii) List of subsidiaries in the consolidated financial statements

			Shareholdings		
			December	December	
Name of Investor	Name of Subsidiary	Principal activities	31, 2018	31, 2017	Note
Bank of Taiwan	BankTaiwan Insurance Brokers (BTIB)	Life and Property insurance broker	100.00 %	100.00 %	

- (c) Basis of preparation
  - (i) Basis of measurement

Except for the following items, the consolidated financial statements are prepared on a historical cost basis:

- 1) Financial instruments measured at fair value through profit or loss (including derivative financial instruments)
- 2) Financial assets measured at fair value through other comprehensive income (applicable from January 1, 2018);

- 3) Available-for-Sale financial assets measured at fair value (applicable before January 1, 2018);
- 4) Hedging derivatives are measured at fair value
- 5) The defined benefit assets are recognized as plan assets, plus unrecognized past service costs and unrecognized actuarial loss, less the unrecognized actuarial gain and the present value of the defined benefit obligation.
- (ii) Functional and presentation currency

The functional currency of the Bank's and subsidiary's entities are determined based on the primary economic environment in which the entities operate. The consolidated financial statements are presented in New Taiwan Dollars, the functional currency of the Bank. All financial information presented in New Taiwan Dollars is expressed in thousands of New Taiwan Dollars.

- (d) Foreign currency
  - (i) Foreign currency transactions

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

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

Foreign currency differences arising on retranslation are recognized in profit or loss, except for the following differences which are recognized in other comprehensive income arising on the retranslation:

- 1) available-for-sale equity investment;
- 2) a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- 3) qualifying cash flow hedges to the extent the hedge is effective.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Bank's and subsidiary's functional currency at the exchange rates of the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to the Bank's and subsidiary's functional currency at average rate. Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity.

However, if the foreign operation is a non-wholly owned subsidiary, then the relevant proportion of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Bank and subsidiary dispose of any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Bank and subsidiary dispose of only part of investment in an associate of joint venture that includes a foreign operation while retaining significant or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planed nor likely in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

(e) Cash and cash equivalents

For consolidated balance sheets, Cash and cash equivalents include cash on hand, due from banks, demand deposits and highly liquid investments that are readily convertible into known amount of cash and which are subject to insignificant risk of change in value. The aforementioned time deposits which are held for short-term cash commitment rather than investment or other purposes are recognized as cash equivalents.

For consolidated statement of cash flows, cash and cash equivalents refer to cash and cash equivalents presented in consolidated statement of balance sheet, deposit in the central bank, call loans to banks, and investments of bonds and callable notes which are in accordance with the definition of cash and cash equivalents in the International Accounting Standards 7 accepted by FSC.

#### (f) Financial instruments

The Bank and subsidiary adopt the trade date accounting for financial assets. The financial assets and liabilities are recognized when the Bank and subsidiary become a contracting party to the financial instrument agreement. Financial instruments are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank and subsidiary have transferred substantially all risks and rewards of ownership.

(i) Financial assets (applicable from January 1, 2018)

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

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

1) Financial assets measured at amortized cost (including cash and cash equivalent, placement with central bank and call loans to banks, discounts and loans, receivables, other financial assets and guarantee deposits paid)

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

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

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

If the credit risk has not increased significantly since initial recognition, the Bank and subsidiary should measure loss allowance for financial assets as 12-month ECL at reporting date; if the credit risk has increased significantly since initial recognition or the financial assets are credit-impaired, the Bank and subsidiary should measure loss allowance for financial assets at an amount equal to lifetime ECL at each reporting date. The Bank and subsidiary recognize the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

Credit maturing less than one year is called short-term loan; credit maturing more than one year but less than seven years is called medium-term loan; credit maturing more than seven years is called long-term loan. Loans against insurance policy is policy loan, and advance payment for insurance premium according to insurance contract is premium loan. Loans with collateral, pledged assets and qualified guarantees to secure credit are secured loans. Non-performing loans refer to those loans for which interests and principal payments has been in arrears for three months or more, and those loans which the principal or interest has not yet been in arrears for more than three months, but with regards to which the creditor has sought payment from primary/subordinate debtors or has disposed of collateral. All non-performing loans shall be transferred to non-accrual loans within six months after the end of the payment period expect for the loans repaid in installments by agreements. Interest shall not be accrued to non-performing loans that are transferred to non-accrual loans account. However, loan collection shall continue as per the terms of the relevant agreement, and accrued interest shall continue to be posted to the interest column of the non-accrual loans account for each borrower, or a notation of such shall be made.

The write-off of non-performing loans and non-accrual loans shall be discussed by the related committee, reviewed by the general manager and approved by a resolution passed by the board of directors or the board of managing directors and the audit committee shall be notified of the write-off. The board of directors shall be notified if the write-off case is passed by the board of the managing directors. Collections after writeoff shall be reversed from the allowance for bad debt.

2) Fair value through other comprehensive income (FVOCI)

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

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

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

A financial asset measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value:

a) Debt investments: Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairment losses, deriving from debt investments are recognized in profit or loss. Before derecognition, other net gains and losses of financial assets measured at FVOCI are recognized in OCI. On derecognition, gains and losses accumulated in OCI of debt investments are reclassified to profit or loss.

- b) Equity investments: Subsequently changes of fair value are recognized in OCI, including foreign exchange gains and losses. On derecognition, gains and losses accumulated in OCI of equity investments are reclassified to retain earnings instead of profit or loss. Dividend income derived from equity investments is recognized in profit or loss, except the dividend obviously represents the recovery of investment cost.
- 3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets and accounts receivable (except for those presented as accounts receivable but measured at FVTPL). On initial recognition, the Bank and subsidiary may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

- 4) Financial liabilities measured at fair value through profit or loss
  - a) With one of the following conditions:
    - i) Financial liabilities held for trading:
      - 1. It is incurred principally for the purpose of repurchasing it in the near term.
      - 2. On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.
      - 3. It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).
    - ii) Financial liabilities designated as fair value through profit or loss
  - b) Financial liabilities measured at fair value through profit or loss should measured at fair value. But the amount of changes in the fair value of financial liabilities designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability shall be recognized initially in other comprehensive income, except for the recognition in profit or loss, in order to avoid accounting mismatch. Moreover, the changes in the fair value of loan commitments and financial guarantee contracts shall also be recognized in profit or loss.

- 5) Other financial liabilities
  - a) The financial liabilities not belong to the financial liabilities at fair value through profit or loss shall be measured at fair value, plus, direct attributable transaction costs upon initial recognition.
  - b) The financial liabilities not belong to the financial liabilities at fair value through profit or loss shall be subsequently measured at amortized cost using effective interest method. Through derecognition and amortization, gains and losses shall be recognized in profit or loss.
- 6) Business model assessment

The Bank and subsidiary make an assessment of the objective of the business model in which a financial asset is held at portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's and subsidiary's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, and are consistent with the Bank's and subsidiary's continuing recognition of the assets.

7) Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial assets on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank and subsidiary considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Bank and subsidiary consider:

- · contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Bank's and subsidiary's claim to cash flows from specified assets (e.g. non-recourse features)
- 8) Derecognition of financial assets

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

On derecognition of a debt instrument in its entirety, the Bank and subsidiary recognize the difference between its carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in " other equity – unrealized gains or losses on fair value through other comprehensive income", in profit or loss.

On derecognition of a debt instrument other than in its entirety, the Bank and subsidiary allocate the previous carrying amount of the financial asset between the part that continues to recognize under continuing involvement, and the part that is derecognized on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized on the basis of the relative fair values of those parts.

(ii) Derivative financial instruments and hedge accounting (applicable from January 1, 2018)

The Bank and subsidiary hold derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are initially measured at fair value. Any attributable transaction costs thereof are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss and are included in the line item of non-operating income and expenses in the statement of comprehensive income. When a derivative is designated as, and effective for, a hedging instrument, its timing of recognition in profit or loss is determined based on the nature of the hedging relationship. When the fair value of a derivative instrument is positive, it is classified as a financial asset, whereas when the fair value is negative, it is classified as a financial liability.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the non-financial asset's host contract are not closely related to the embedded derivatives and the host contract is not measured at FVTPL.

The Bank and subsidiary choose to continue to apply the hedge accounting requirements of IAS 39.

(iii) Financial asset (applicable before January 1, 2018)

The Bank and subsidiary classify financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets, held-to-maturity financial assets, financial assets at cost and debt investment without active market.

1) Financial assets at fair value through profit or loss

A financial asset is classified in this category if it is classified as held-for-trading or is designated as such on initial recognition. Financial assets are classified as held-for-trading if they are acquired principally for the purpose of selling in the short term. The Bank and subsidiary designate financial assets, other than ones classified as held-for-trading, as at fair value through profit or loss at initial recognition under one of the following situations:

- a) Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- b) Performance of the financial asset is evaluated on a fair value basis;
- c) A hybrid instrument contains one or more embedded derivatives.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which take into account any dividend and interest income, are recognized in profit or loss, and are included in statement of comprehensive income statement.

2) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise accounts receivable and other receivables. Such assets are recognized initially at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less, any impairment losses other than insignificant interest on short-term receivables. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade date accounting.

Interests are presented under interest revenue in statement of comprehensive income.

Credit maturing less than one year is called short-term loan; credit maturing more than one year but less than seven years is called medium-term loan; credit maturing more than seven years is called long-term loan. Loans with collateral, pledged assets and qualified guarantees to secure credit are secured loans. Non-performing loans refer to those loans for which interests and principal payments has been in arrears for three months or more, and those loans which the principal or interest has not yet been in arrears for more than three months, but with regards to which the creditor has sought payment from primary/subordinate debtors or has disposed of collateral. All non-performing loans shall be transferred to non-accrual loans within six months after the end of the payment period expect for the loans repaid in installments by agreements. Interest shall not be accrued to non-performing loans that are transferred to non-accrual loans account. However, loan collection shall continue as per the terms of the relevant agreement, and accrued interest shall continue to be posted to the interest column of the non-accrual loans account for each borrower, or a notation of such shall be made.

The write-off of non-performing loans and non-accrual loans shall be discussed by the related committee, reviewed by the general manager and approved by a resolution passed by the board of directors or the board of managing directors and the audit committee shall be notified of the write-off. The board of directors shall be notified if the write-off case is passed by the board of the managing directors. Collections after write-off shall be reversed from the allowance for bad debt.

3) Available-for-sale financial assets

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

Dividend income is recognized in profit or loss on the date that the Bank's and subsidiary's rights to receive payment are established, which in the case of quoted securities is normally the ex-dividend date. Such dividend income is included in statement of comprehensive income.

Interest income from investment in bond security is recognized in profit or loss, and it is included in statement of comprehensive income.

4) Held-to-maturity financial assets

Financial assets which the Bank has the positive intent and the ability to hold debt securities to maturity, such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less, any impairment losses.

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

5) Financial assets at cost

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivatives those are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost.

6) Debts investment without active market

Debt investments without active market are the non-derivative instruments that have fixed or decidable price. Such assets are recognized initially at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, debts investment without active market are measured at amortized cost using the effective interest method.

(iv) Derivative financial instruments and hedge accounting (applicable before January 1, 2018)

Except the following policies applicable before January 1, 2018, other policies remain unchanged from January 1, 2018.

- 1) When the derivate is related to the unquoted security whose fair value cannot be measured at reliably without undue cost or effort, the derivate is measured at cost minus impairment loss, and is categorized as financial asset measured at cost. Financial liabilities are measured at cost, and are categorized as financial liabilities measured at cost.
- 2) When the risk and characteristics of the embedded derivate are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss, the derivate is treated as a separate derivative.

The Bank and subsidiary document at inception the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various hedge transactions. The Bank and subsidiary also document its assessments, both at hedge inception and on an ongoing basis, of whether the hedging instruments that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

Both of the fair value changes in hedging instruments which are designated for value hedge and in conformity with the fair value hedging definition and the fair value changes in hedged assets or liabilities with respect to the hedged risk are immediately recognized in the account related to the hedged item in the comprehensive income.

Hedge accounting must be discontinued prospectively if the Bank and subsidiary revoke the hedge designation or if the hedge instrument expires or is sold, terminated or exercised or if the hedge no longer meets the hedge accounting criteria.

Where hedge accounting is discontinued, adjustments to the carrying amount of a hedge financial asset for which the effective interest rate is used are amortized to profit or loss. The adjustment is based on a recalculated effective interest rate at the date amortization begins.

(v) Financial liability and equity instrument

The liability and equity instrument issued by the Bank were classified as financial liability and equity based on the substance of the agreement and the definition of financial liability and equity instrument.

1) Financial liabilities at fair value through profit or loss

This type of financial liabilities refers to the held-for-trading financial liabilities or the financial liabilities designated as fair value through profit or loss.

The held-for-trading financial liabilities are acquired or incur principally for the purpose of selling or repurchasing in a short term. Other than held-for-trading financial liabilities, those financial liabilities will be designated upon initial recognition as at fair value through profit or loss when one of the following situations takes place:

- a) Eliminate or significantly reduce the measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.
- b) The performance of the financial liabilities is evaluated on a fair value basis.
- c) Hybrid instrument contains embedded derivative.

These liabilities are recognized initially at fair value with transaction costs taken directly to income statement, and are subsequently re-measured at fair value. Gains and losses from changes in the fair value of such liabilities (including interest expenses) are reported in the account of profit or loss of financial assets and liabilities at fair value through profit or loss in the comprehensive income statement.

The amount of changes in the fair value of financial liabilities designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability shall be recognized initially in other comprehensive income, except for the recognition in profit or loss, in order to avoid accounting mismatch. Moreover, the changes in the fair value of loan commitments and financial guarantee contracts shall also be recognized in profit or loss.

The Bank and subsidiary issue financial guarantee contract and loan commitment and designate them as measured at fair value through profit or loss. Its profit or loss is presented in the account of profit or loss of financial assets and liabilities at fair value through profit or loss in the comprehensive income statement.

2) Other financial liabilities

The financial liabilities not belong to the financial liabilities at fair value through profit or loss shall be measured at fair value, plus, direct attributable transaction costs upon initial recognition, and they are subsequently measured at amortized cost using effective interest method. The un-capitalized interest expenses are presented as interest expense in profit/ loss in the consolidated statement of comprehensive income.

3) Financial guarantee contract

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a contract between the holder and debtor.

When the Bank issue and not designate the financial guarantee contract as measured at fair value through profit and loss, it shall be assessed at fair value, less, the directly attributable transaction costs initially. After initial recognition, an issuer of such a contract shall measure it at the higher of:

- a) the amount determined in accordance with IAS 37 "Provision, Contingent Liabilities and Contingent Assets" and
- b) the amount initially recognized, less, when appropriate, cumulative amortization recognized in accordance with revenue accounting policy.
- (g) Investments in associates

Associate refers to an entity in which the Bank, TFH and its subsidiary hold 20% of the voting power or less than 20% of the voting power but have significant influence. If the Bank and subsidiary have rights on the finance and operating policy decisions but not control or joint control these decisions, it is presumed that the Bank and subsidiary have significant influence.

The Bank and subsidiary use equity method for investments in associates. Under the equity method, an equity investment is initially recorded at cost. In the subsequent period, the carrying amount of the investments is adjusted by the share of the profit or loss of the associate and the distributions received. Besides, the Bank and subsidiary recognize the changes according to the holding shares.

If the Bank dispose the investment and loss significant influence, the residual investments shall be remeasured at fair value of the disposal date. The difference between the fair value of the residual investment plus the disposal price and the original carrying amount of the investment at that date is recognized in income statement. The related other comprehensive income is reclassified as profit or loss.

The associate issues additional share capital, but the Bank do not participate in the share issue on a pro-rata basis. It will lead to change in holding, but the Bank and subsidiary still have significant influence. As a result, the Bank and subsidiary shall adjust the APIC and investments in equity method accounts according to the changes in net assets of the associate.

Unrealized profits resulting from the transactions between the Bank and an associate are eliminated to the extent of the Bank's and subsidiary's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

When the Bank's share of losses exceeds its interest in associates, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Bank and subsidiary have an obligation or have made payments on behalf of the investee.

- (h) Property, plant and equipment
  - (i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset. The cost of a self-constructed asset comprises material, labor, any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that is eligible for capitalization. Cost also includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property and equipment. The cost of the software is capitalized as part of the property and equipment if the purchase of the software is necessary for the property and equipment to be capable of operating.

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

The gain or loss arising from the derecognition of an item of property and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized as other gains and losses.

(ii) Reclassification to investment property

When there is a change in use, the Bank and subsidiary treat the owner-occupied property as investment property; the property shall be reclassified to investment property at carrying amount from then on.

(iii) Subsequent cost

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

## (iv) Depreciation

The depreciable amount of an asset is determined after deducting its residual amount, and it shall be allocated on straight-line basis over its useful life. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period shall be recognized in profit or loss.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonably certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

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

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

Buildings	8 to 55 years
Machinery and equipment	2 to 20 years
Transportation equipment	2 to 15 years
Miscellaneous equipment	2 to 25 years
Leasehold improvements	5 years

- (i) Lease
  - (i) Operating Lease

A lease is classified as operating lease if it retains substantially all the risks and rewards of ownership. No matter the Bank and subsidiary are lessors or lessees, the rent is calculated over the lease term on a straight-line basis and recorded as rent revenue or rent expense respectively.

- (ii) Financial Lease
  - 1) The Bank is lessors. The assets under financial lease will be recognized as lease payment receivables by the net investment value. The original cost which is cause by the operating lease agreement is included in the net lease investment. Lease investment is recognized as financial lease because of it has a steady rate of return, apportioning into each lease period.
  - 2) The Bank is lessors. They capitalize the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments made are allocated as a reduction of the obligation and interest expenses. Interest expenses are calculated by the opening balance of lease obligation using the interest rate implicit in the lease or the lessee's incremental borrowing rate of interest and recognized in the income statement. The attained property, plant and equipment are measured at cost.

## (j) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, for use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at cost less accumulated depreciation and accumulated impairment losses. Depreciation expense is calculated based on the depreciation method, useful life, and residual value which are the same as those adopted for property, plant and equipment. Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self constructed investment property includes the cost of raw materials and direct labor, any other costs directly attributable to bringing the investment property to a working condition for its intended use, and capitalized borrowing costs.

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

## (k) Intangible assets

### (i) Computer Software

The Bank and subsidiary measure the computer software at cost less accumulated amortization and accumulated loss.

(ii) Subsequent Expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iii) Amortization

The depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and intangible assets with all indefinite useful life, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

## Computer software

### 5 years

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each fiscal year-end. Any change shall be accounted for as changes in accounting estimates.

Intangible asset is derecognized when disposed or expected that the usage or disposal will not generate economic benefit in the future. The resulted gain or loss is recognized in the income statement.

## (l) Impairment of Assets

- (i) Impairment of financial assets
  - 1) Applicable from January 1, 2018

The Bank and subsidiary recognize loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, placement with central bank and call loans to banks, amortized costs, discounts and loans, receivables, guarantee deposits paid and other financial assets), and debt investments measured at FVOCI.

At each reporting date, the Bank and subsidiary assess whether the credit risk of a financial asset has increased significantly since initial recognition. If the credit risk has increased significantly since initial recognition or the financial assets are credit impaired, the Company and subsidiaries should measure loss allowance for financial assets at an amount equal to lifetime ECL at each reporting date; if the credit risk has not increased significantly since initial recognition, the Company and subsidiaries measure loss allowance for financial assets at an amount equal to lifetime ECL at each reporting date; if the credit risk has not increased significantly since initial recognition, the Company and subsidiaries measure loss allowance for financial assets as 12 month ECL at reporting date.

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

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

The maximum period considered when estimating ECLs is the maximum contractual period over which the Bank and subsidiary are exposed to credit risk.

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

The Bank evaluates the categories and recognizes allowance for doubtful accounts according to the higher of the Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past Due/Non Performing Loans and the Regulation of Evaluating the Impairment Loss of Loans and Receivables. A bank shall classify credit assets on and off balance sheet.

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

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Bank and subsidiary determine that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's and subsidiary's procedures for recovery of amounts due.

## 2) Applicable before January 1, 2018

The financial assets with are not measured at fair value through ptofit or loss shall be assessed for impairment at each reporting date. A financial asset is impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Bank and subsidiary on terms that the Bank and subsidiary would not consider otherwise, indications that a debtor or issuers will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is accounted for as objective evidence of impairment.

Impairment losses and recoveries are recognized in profit or loss, and they are included in statement of comprehensive income.

Impairment losses recognized on an available-for-sale equity are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized, in profit or loss.

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

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessin collective impairment, the Bank and subsidiary use historical trends of the probability of default, the timing of recoveries, and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than those suggested by historical trends.

An impairment loss in respect of a financial asset is deducted from the carrying amount, except for trade receivables, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off from the allowance account. Any subsequent recovery of receivable written off is recorded in the allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

The Bank evaluates the categories and recognizes allowance for doubtful accounts according to the higher of the Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans and the Regulation of Evaluating the Impairment Loss of Loans and Receivables.

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

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reverdible in subsequent periods.

(ii) Impairment loss of non financial assets

For non financial assets except for the deferred tax asset and asset caused by the employee benefit, the Bank and subsidiary shall assess at the end of each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Bank and subsidiary shall estimate the recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the asset individually, they shall determine the recoverable amount of the cash generating unit to which the asset belongs.

The recoverable amount of an asset or a cash generating unit is the higher of its fair value less costs of disposal and its value in use. If the recoverable amount is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss which shall be recognized immediately in profit or loss.

The Bank and subsidiary assess at the end of each reporting date whether there is any indication that an impairment loss recognized in prior years for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset.

An impairment loss recognized in prior periods for an asset other than goodwill shall be reverse if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount. The carrying amount of the asset shall be increased to its recoverable amount, but the increased carrying amount of an asset or an cash generating unit other than goodwill attributable to a reversal of the impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset or the cash generating unit in prior years.

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

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or group of units.

If the carrying amount of the cash generating units exceeds the recoverable amount of the unit, the entity shall recognize the impairment loss, and the impairment loss shall be allocated to reduce the carrying amount of each asset in the unit.

Reversal of an impairment loss for goodwill is prohibited.

## (m) Provision

- (i) The Bank and subsidiary must recognize a provision if, and only if:
  - 1) There is a legal or constructive present obligation as a result of a past event, and
  - 2) Payment is probable, and
  - 3) The amount can be reliably estimated.
- (ii) The amount recognized as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date .In reaching its best estimate, the Bank and subsidiary shall take into account the risks, uncertainties that surround the underlying events and the time value of the currency.
- (iii) The Bank and subsidiary evaluate the provision at every end of the reporting date, and adjust the carrying amount according to the best estimation.
- (n) Other reserves

Provision for civil servants', teachers' and labor's insurance: The Bank recognizes the surplus of the insurance as provision and withdraws when there is a deficit according to the "Civil Servant and Teacher Insurance Act" and "Guidelines for Management and Employment of Public Servants and Teachers Insurance Reserve".

- (o) Revenue and expense recognition
  - (i) Applicable commencing January 1, 2018

Revenue is measured based on the consideration to which the Bank and subsidiary expect to be entitled in exchange for transferring goods or services to a customer. The Bank and subsidiary recognize revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer.

- 1) Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary operating activities of an entity when those inflows result in increases in equity, other than increase relating to contributions from equity participants.
- 2) The amount of revenue arising on a transaction is usually determined by agreement between the entity and the buyer or user of the asset. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity. Revenue shall be recognized when all of the following criteria have been satisfied:
  - a) the seller has transferred to the buyer the significant risks and rewards of ownership.
  - b) it is probable that the economic benefits associated with the transaction will flow to the seller
  - c) the costs incurred or to be incurred in respect of the transaction can be measured reliably,
  - d) the seller retains neither continuing managerial involvement to degree usually associated with ownership nor effective control over the goods sold, and
  - e) the amount of revenue can be measured reliably.
- 3) Except for the financial assets and liabilities at fair value through profit and loss, the interest revenue and interest expense caused by the interest-bearing financial assets or liabilities are calculated by effective interest method. For loans and receivables, the Bank and subsidiary shall consider the materiality principle to decide to measure the interest by agreed interest rate or effective interest rate.
- 4) Service fee income and expense
  - a) The service fee income arising from offering loan service or other services shall be recognized in the accounting period in which the services are rendered.
  - b) The service fee or expense arising from the loan service shall be amortized in the service period or taken into account for calculating the effective interest of loans and receivables in accordance with the materiality principle.
- 5) Dividend revenue: it shall be recognized if and only if the Bank and subsidiary have right to receive the dividend revenue.

- 6) According to the "Civil Servant and Teacher Insurance Act", if GESSI experiences a loss, the loss before May 31, 1999 would be covered by the Ministry of Finance; and the loss after that date would be covered by an adjustment of the insurance premium.
- 7) Revenue and expense that relate to the same transaction or other event are recognized simultaneously; this process is commonly referred to as the matching of revenue and expense.
- (ii) Applicable from January 1, 2018

Except the following policies applicable before January 1, 2018, other policies remain unchanged from January 1, 2018.

- 1) Revenue is only recognized to the extent that it is highly probable that economic benefits will flow to the Bank and subsidiary and the amount of revenue be measured reliably.
- 2) Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date.
- (p) Employee benefit
  - (i) Short-term employee benefit

The payroll, annual bonus, paid annual leave, interest expense arising from preferential interest rate and non-monetary benefit are recognized in the accounting year in which the services are rendered by employees.

- (ii) Employee benefit
  - 1) Employee pension:

The grant of employees' pension compromise: a) the contributions made by the Bank at the rate from 4% to 8.5% of the employee's monthly wage (depending on the employee's 'salary point' and service period before the Labor Standards Act was applied) and the contributions made by the employee at the rate of 3% of his or her monthly wage under Article 9 and Article 8, respectively, of the aforementioned regulations. (The Bank ceased to continue the contributions mentioned above after the Labor Standards Act was applied.) The Bank also contributed 3% of the total amount of the wages as reserve. ;b) the contributions calculated based on the employee's monthly wage and service period (after May 1, 1997) in accordance with Article 41.1 and the related regulations set forth in the Labor Standards Act. All the contributions are made to the fund managed by the Pension Supervision Committee for future payments.

2) Labor pension:

Labor Pension is a defined contribution pension plan. The grant of labors' pension is conducted under the Bank's Work Rules before the Labor Standards Act was applied. Under Article 73 of the Rules, the service period before and after May 1, 1997 is accumulated in accordance with the Rules and the Labor Standard Act, respectively. The contributions calculated at a certain rate under Labor Pension are made to a designated Labor Retirement Reserve Account for future payments. In addition, the Bank is required to allocate 6% of each employee's monthly wages to the labor pension personal account at the Bureau of the Labor Insurance in accordance with the provisions of the Labor Pension Act effective July 1, 2005.

- 3) For defined contribution plan, the employer has no further legal or constructive obligation to pay further contributions in accordance with the Labor Pension Act.
- 4) For the definite benefit plan, the independent actuary uses the projected unit credit method to calculate the present value of the defined benefit obligation and the current service cost. The present value of the defined benefit obligation is the projected future cash flow discounted by the market yields at the end of the reporting period on the bonds that have maturity dates approximating the terms of the obligation and that are denominated in the same currency in which the benefits are expected to be paid. The actuarial gains and losses are recognized in the other comprehensive income when they occur.

Remeasurements of the net defined benefit liability or asset comprise: a) actuarial gains and losses; b) return on plan assets, excluding the amounts included in net interest on the net defined benefit liability (asset); and c) any changes in the effect of the asset ceiling, excluding the amounts included in net interest on the net defined benefit liability (asset). The remeasurements of the net defined benefit liability or asset are recognized in other comprehensive income and the subsequent reclassification to profit or loss is prohibited. However, the Bank and subsidiary can , and have elected to transfer the amount (arising from remeasurement) to retained earnings. All actuarial gains and losses resulting from practical experiences and changes on actuarial assumptions are immediately recognized in other comprehensive income. Prior period servicing costs should immediately be recognized in profit or loss.

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

- 5) The oversea branches of the Bank abide by the foreign government's regulations.
- (iii) Preferential interest deposits
  - 1) The Bank and subsidiary provide their employees the preferential interest deposits, including that for current employees and retired employees. The difference between the preferential interest rate and the market rate are the employee benefit.

- 2) In accordance with the Article 28 of the Regulations Governing the Preparation of Financial Reports by the Public Banks, if the preferential interest rate for retired employees exceeds the market rate, the Bank and subsidiary shall calculate the excess interest using the actuarial method by adopting the IAS 19 when the employees retire. However the actuarial assumptions shall follow the government's related regulations. For the preferential interest deposits paid for current employees, the Bank and subsidiary shall calculate the interest monthly on accrual basis. The different amount of the preferential interest rate and market interest rate is recognized under the preferential interest account in the comprehensive Income statement.
- 3) As from July 1, 2018, the Bank terminates the preferential interest deposits for retired employees, in accordance with the rule Tai Tsai Ku No.10700624450 issued by the Ministry of Finance.
- (iv) Other employee's retirement benefits
  - 1) Include three Chinese festival gifts, survivors benefit, and special benefits to retired employees who were paid pension in early times.
  - 2) It belongs to the definite benefit plan, and the independent actuary uses the projected unit credit method to calculate the present value of the defined benefit obligation and the current service cost. The present value of the defined benefit obligation is the projected future cash flow discounted by the market yields at the end of the reporting period on the bonds that have maturity dates approximating the terms of the obligation and that are denominated in the same currency in which the benefits are expected to be paid. The actuarial gains and losses are recognized in the other comprehensive income when they occur.
- (q) Income tax

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

(i) Current income tax

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

## (ii) Deferred Tax

When measuring the deferred tax asset and deferred tax liability, the Bank and subsidiary shall use the enacted tax rate for the periods in which deferred tax asset or deferred tax liability are expected to be settled or realized. Due to the temporary difference between the carrying amount of the asset or liability in the consolidated financial report and the tax basis, the deferred income tax is recognized. The main temporary differences are resulted from the valuation of part financial instruments (including derivatives), pension and the reserves of other retirement benefits. If the temporary differences are arising from goodwill or original recognition of other assets and liabilities (excluding the merger) and the transaction does not affect the taxable income and the accounting income, it will not be recognized as deferred tax asset or deferred tax liabilities.

The deferred tax liability shall be recognized for all taxable temporary differences. But the deferred tax asset can only be recognized when there is enough taxable income for deductable temporary differences.

The temporary difference related to the investments in subsidiaries, branches and associates shall be recognized as deferred income liability. If the parent company can control the time to reverse the temporary difference and the temporary difference will probably not be reversed in the foreseeable future, the temporary difference is not recognized.

(r) Earnings per share

Basic earnings per share: The earnings per share is computed by dividing the net income or loss by the weighted average number of common stocks outstanding over the reporting term.

(s) Operating segments

An operating segment is a component of the Bank and subsidiary that engages in business activities that can generate revenues and expenses (including the revenues and expenses arising from intercompany transactions). The segments' operating results are reviewed regularly by the Bank's and subsidiary's chief operating officer in order to decide the resource allocation and assess the segments' performance. Each segment has separate financial information.

# (5) Significant Accounting Judgments, Estimations, Assumptions, and Sources of Estimation Uncertainty:

The preparation of the financial statements, in conformity with the Regulations Governing the Preparation of Financial Reports by Public Banks and the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC"), requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Management continued to monitor the accounting assumptions, estimates and judgments. Management recognized the changes in the accounting estimates during the period and the impact of the changes in the accounting estimates in the next period.

Determination of the book value of the assets and the liabilities as the following that significant impact on amounts recognized in the financial statements are influenced by accounting assumptions and judgments. Actual results may significantly differ from the followings due to the changes in accounting assumptions and judgments.

(a) The valuation of financial instruments

The fair value of non active market or non quoted financial instruments is determined using valuation techniques. Such fair value is based on observable data of similar financial instruments or valuation model. If there are no observable market parameters, the fair value of financial instruments is evaluated based on appropriate assumptions. If fair value is determined by the valuation model, the model is calibrated to ensure that all output data and the results reflect the actual market price. This valuation model use only observable data as much as possible. But for credit risk (both our own and the contracting parties credit risk), the managements shall estimate the relation and the variation.

- (b) The valuation of financial assets impairments
  - (i) Applicable from January 1, 2018

The financial asset impairments of the Bank and subsidiary (including gaurantees and loan commitiments off balance sheet), measuring the loss allowance at an amount equal to 12 month expected credit losses or lifetime expected credit losses, are determined by whether the credit risk of the financial instruments have increased significantly since initial recognition. In order to measure expected credit losses, the Bank and subsidiary consider the probability of default (" PD" ) of financial asset, issuer or counterparty, and include loss given default ("LGD") multiplied by exposure at default ("EAD"). Meanwhile, it also considers the impact of the time value of money to calculate the expected credit losses for 12 month and lifetime, respectively. At every reporting date the historical experience, current market situation and forward looking estimates, etc. are considered by the Bank and subsidiary to determine the adopted assumptions and parameters when calculating impairment.

- (ii) Applicable before January 1, 2018
  - 1) Valuation of impairment of loans and discounts

The Bank reviews loan portfolios to assess impairment periodically. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans, before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers (e.g. payment delinquency or default), or economic conditions that correlate with defaults on assets. The management uses estimates based on historical loss experience for assets with credit risk characteristics, and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly in order to decrease the difference between estimated loss and actual loss.

2) Available for sale securities

The Bank and subsidiary are required to assess whether there is any objective evidence of impairment. The objective evidence includes a significant or prolonged decline in its fair value, a significant financial difficulty of an issuer or debtor, default, indications that a debtor or issuer will enter bankruptcy or financial reorganization and so on.

3) Financial assets carried at amortized cost

If any such evidence exists, the insurance subsidiary is required to determine whether an impairment loss should be recognized. The aforementioned evidence is usually as below:

- a) Significant financial difficulty of the issuer/obligor.
- b) Default or breach of contract such as a default or delinquency in interest or principal payments.
- c) Granting of a concession by the lender.
- d) Bankruptcy or financial reorganization of the borrower.
- e) Disappearance of an active market for the assets concerned.

The management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly in order to decrease the difference between estimated loss and actual loss.

The inherent risks of the impairment evaluation for any financial assets include the following.

- a) The actual result in the market may differ from the expectation,
- b) The event and the condition may change in the future and differ from the original estimations and assumptions, or
- c) The Bank and subsidiary may decide to sell the related assets due to the changes in condition in the future.

Other than there is significant influence of recognized amount of financial report, the accounting policy involved significant judgments are as follows:

(c) Income tax

The Bank and subsidiary need to pay income tax for various countries. When estimating the globe income tax, the Bank and subsidiary relies on significant accounting estimations. Determine the final amount need to go through numerous transactions and calculations. The additional recognition of income tax liability which is related to the tax issue is based on deliberate evaluation of the affection by the issue. The difference between the amount of original estimation and the final amount will affect current income tax and deferred tax.

#### (d) Payments to defined contribution retirement benefit plans

The present value of retirement benefit obligation is based on several actuarial assumptions (including the decisions made by Financial Supervisory Commission, R.O.C.). Any changes on these assumptions will influence the fair value of the retirement benefit obligations. One of the assumptions used to determine net pension cost (income) is the discount rate. The Bank determined the appropriate discount rate at the end of each year, and used the rate to calculate the present value of future cash flows on estimated payment of retirement benefit obligation. To determine the appropriate discount rate, the Bank should consider the followings: (1) interest rate of high quality corporate bonds or government bonds, (2) the currency used for the corporate bonds or government bonds, (3) and the maturity period should be inconsistent with related pension liability periods.

Significant assumptions used on retirement benefit obligations are based on current market conditions.

## (6) Explanation of Significant Accounts:

(a) Cash and Cash Equivalents

	December 31, 2018		December 31, 2017
Cash on hand	\$	12,838,199	12,522,333
Foreign currency on hand		12,744,005	12,051,213
Notes and checks for clearing		9,914,126	9,980,049
Placement with banks		130,389,598	123,789,489
Less: Allowance for bad debts-placement with banks		(20,968)	
Total	\$	165,864,960	158,343,084

The balance of cash and cash equivalents presented in the statements of cash flows were as follows:

	D	ecember 31, 2018	December 31, 2017
Cash and cash equivalents in consolidated balance sheets	\$	165,864,960	158,343,084
Placement with the Central Bank of R.O.C. and other banks that meet the definition of cash and cash equivalents in IAS 7		162,126,076	274,645,417
Securities purchased under agreements to resell that meet the definition of cash and cash equivalents in IAS 7		573,475,179	652,601,121
Total	<b>\$</b>	901,466,215	1,085,589,622

The Bank and subsidiary assess the loss allowance for cash and cash equivalents by using the expected credit loss model. Due to the low credit risk of cash and cash equivalents, loss allowance is recognized based on 12 month expected credit loss.

The reconciliation of the balance of cash and cash equivalents between December 31, 2018 and 2017 was as follows:

		107.1.1
Cash and cash equivalents classified as financial assets carried at cost under IAS 39	\$	158,343,084
Effects of retrospective application due to adoption of IFRS 9	_	(14,581)
Cash and cash equivalents classified as financial assets carried at cost under IFRS 9		158,328,503
Placement with Central Bank of R.O.C. and other banks that meet the definition of cash and cash equivalents under the definition of IAS 7		274,645,417
Investments qualifying cash and cash equivalents under the definition of IAS 7		652,601,121
Total	\$	1,085,575,041

(b) Placement with Central Bank and Call Loans to Banks

	December 31, 2018		December 31, 2017	
Call loans to banks	\$	130,191,705	248,949,224	
Less: allowance for doubtful accounts – call loans to banks		55,833	58,446	
Deposit reserve – account A and account B		108,000,510	96,973,952	
Deposit reserve-foreign-currency deposits		720,060	675,337	
Deposits in Central Bank-oversea branches		2,779,045	2,436,464	
Deposits in Central Bank		293,495,362	326,527,879	
Total	<b>\$</b>	535,130,849	675,504,410	

According to the Central Bank of the Republic of China Act and the Banking Act, the deposit reserves are determined monthly at prescribed rates based on the average balances of customers' New Taiwan Dollar denominated deposits. The account B deposit reserve is subject to withdrawal restrictions, but reserve for account A and foreign currency denominated deposit may be withdrawn anytime and are non interest earning.

Additionally, as of December 31, 2018 and 2017, 60% of the reserve deposits collected on behalf of a government institution amounting to \$4,295,362 thousand and \$4,015,405 thousand, respectively, were deposited in the Central Bank and their use is restricted according to the regulations.

## (c) Financial Assets Measured at Fair Value through Profit or Loss

(i) Financial assets measured at fair value through profit or loss were as follows:

	December 31,	December 31,
	2018	2017
Financial assets designated at fair value through profit or loss	\$ 15,556,919	16,419,807
Add: Valuation adjustment	(91,199)	196,998
Subtotal	15,465,720	16,616,805
Financial assets mandatorily measured at fair value through profit or loss	203,210,301	
Add: Valuation adjustment	17,732,697	
Subtotal	220,942,998	
Financial assets held for trading		182,086,044
Add: Valuation adjustment		37,816,908
Subtotal		219,902,952
Total	\$236,408,718	236,519,757

(ii) Details of Financial assets designated at fair value through profit or loss were as follows:

	December 31, 2018		December 31, 2017	
Foreign government bonds, corporate bonds, financial bonds and others	\$	15,556,919	16,419,807	
Add: Valuation adjustment		<u>(91,199</u> )	196,998	
Total	\$	15,465,720	16,616,805	

(iii) Details of Financial assets mandatorily measured at fair value through profit or loss were as follows:

	December 31, 2018
Commercial papers	\$ 38,969,252
Foreign government bonds	59,999
Corporate bonds	517,928
Convertible bonds	3,969,775
Negotiable certificates of deposits	15,502,549
Stocks and beneficiary certificates	144,121,620
Foreign exchange call options	1,843
Currency futures	5,611
Commodity futures	61,724
Add: Valuation adjustment – Non derivative financial instruments	11,397,106
Valuation adjustment – Foreign exchange call options	537
Valuation adjustment-Swaps	5,866,915
Valuation adjustment-Asset swaps	25,483
Valuation adjustment—Interest rate swaps	384,341
Valuation adjustment – Forward foreign exchange	58,387
Valuation adjustment-Commodity futures	(72)
Total	\$ <u>220,942,998</u>

(iv) Details of financial assets held for trading were as follows:

	December 31, 2017
Commercial papers	26,396,634
Corporate bonds	20,491
Convertible bonds	4,590
Financial bonds	200,793
Foreign exchange call options	19,675
Stocks and beneficiary certificates	142,905,390
Foreign government bonds	637,973
Negotiable certificates of deposits	11,900,498
Add: Valuation adjustment-Non derivative financial instruments	30,735,655
Valuation adjustment – Foreign exchange call options	3,763
Valuation adjustment – Cross currency swaps	73,778
Valuation adjustment-Swaps	6,363,095
Valuation adjustment – Interest rate swaps	270,152
Valuation adjustment-Forward foreign exchange	180,265
Valuation adjustment-Fixed rate commercial papers	21
Valuation adjustment-Asset swaps	190,179
Total	219,902,952

(v) Details of unexpired derivative financial instruments (Notional principal amount) were as follows:

	December 31, 2018	December 31, 2017 2,024,129	
Foreign exchange call options	\$ 378,906		
Swaps	638,874,880	374,455,648	
Interest rate swaps	19,032,894	19,386,069	
Forward foreign exchange	7,230,247	14,305,231	
Fixed-rate commercial papers	-	500,000	
Cross currency swaps	4,702,455	26,890,080	
Commodity futures	-	697,620	
	4,207		
Total	<b>§</b> 670,223,589	438,258,777	

(vi) For details of the valuation of the financial assets measured at fair value through profit or loss, please see note 7, "The Fair Value and Fair Value Hierarchy of the Financial Instruments".

(vii) Profit and loss on investments, please refer to note 6(af).

- (viii) As of December 31, 2018, the Bank's and subsidiary's financial assets at fair value through profit or loss neither served as a guarantee or collateral, nor were they pledged.
- (d) Financial Assets at Fair Value through Other Comprehensive Income

	D	ecember 31, 2018
Debt instruments measured at fair value through other comprehensive income:		
Negotiable certificates deposits	\$	852,920,000
Government bonds		57,276,878
Foreign government bonds, corporate bonds, financial bonds, and NCDs		80,041,386
Financial bonds		8,705,001
Corporate bonds		40,835,988
Financial asset securitization beneficiary certificates		500,000
Add: Valuation adjustment		731,461
Subtotal		1,041,010,714
Equity instruments measured at fair value through other comprehensive income:		
Stocks		36,064,117
Add: Valuation adjustment		40,652,446
Subtotal		76,716,563
Total	<b>\$</b>	1,117,727,277

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

The Bank and subsidiary have assessed that the securities shown above are held within a business model whose objective is achieved by both collecting the contractual cash flows and selling securities; therefore, they have been classified as debt investments at fair value through other comprehensive income on January 1, 2018.

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

The Bank and subsidiary designated the investments shown above as equity securities as at fair value through other comprehensive income because these equity securities represent those investments that the Bank and subsidiary intend to hold for long term for strategic purposes.

1) As of December 31, 2018, the dividends of \$2,928,331 thousand, related to equity investments at fair value through other comprehensive income held on December 31, 2018, were recognized. In addition, the dividends of \$5,253 thousand, related to the investments derecognized was recognized in 2018.

- 2) As of December 31, 2018, the Bank and subsidiary sold its equity instruments measured at fair value through other comprehensive income as a result of adjustment in investment position and portfolio management. The equity instruments sold had a fair value of \$124,655 thousand and the Bank and subsidiary realized a loss of \$4,873 thousand, which was already included in other comprehensive income. The loss has been transferred to retained earnings.
- (iii) Profit and loss on investments, please refer to 6(ah).
- (iv) As of December 31, 2018, the Bank's and subsidiary's financial assets at fair value through other comprehensive income were used as collateral, please refer to 11.
- (e) Hedging Derivative Financial Instruments

The details of hedging derivatives financial assets were as follows:

	mber 31, 2018	December 31, 2017
Fair value hedges:		
Interest rate swap	\$ 41,693	22,759

The details of hedging derivatives financial liabilities were as follows:

	De	ecember 31, 2018	December 31, 2017
Fair value hedges:			
Interest rate swap	\$	12,973	60,480

In order to decrease the fair value volatility caused by changes of market interest rate, the Bank uses interest rate swaps and asset swaps for some debt investments with fixed interest rate. In doing so, the risk exposure position will be calculated by floating interest rate and the interest rate risk will be hedge.

		Hedging Investments				
			Fair Value			
Hedged Item	Designated Hedging Instruments		December 31, 2018	December 31, 2017		
USD financial bonds	Interest rate swap	\$	32,993	7,775		
USD corporate debts	"		3,954	6,035		
USD government debts	"		(8,227)	(51,531)		

The net gain(loss) of hedging instruments for the 2018 and 2017 amounted to \$29,480 thousand and (6,819) thousand, respectively. The net losses of hedged items embedded in hedging instrument for the 2018 and 2017 amounted to \$67,296 thousand and \$81,317 thousand, respectively.

(g)

# **BANK OF TAIWAN AND SUBSIDIARY** Notes to the Consolidated Financial Statements

## (f) Bills and Bonds Purchased / Sold under Resell (Repurchase) Agreements

The details of bonds and bills purchased / sold under resell (repurchase) agreements were as follows:

December 31,

December 31,

		2018	2017
Bills and bonds sold under repurchase agreements:			
Commercial papers	\$	29,975	49,936
Government bonds		6,607,072	17,130,485
Corporate bonds		2,200,333	1,477,417
Financial bonds		15,615,526	14,920,187
Foreign government bonds		333,911	328,095
Supranational bonds		291,230	
Total	\$	25,078,047	33,906,120
Receivables, Net			
	D	ecember 31, 2018	December 31, 2017
Notes receivable	\$	4,165	4,616
Accounts receivable		1,296,947	1,121,137
Long-term receivables – payment on behalf of the government		16,097,415	16,694,448
Accrued revenues		857,093	679,563
Interests receivable		14,554,314	12,139,121
Premiums receivable		138,389	143,394
Acceptance notes receivable		2,908,367	2,706,967
Accounts receivable factoring without recourse		13,232,575	11,462,524
Others-replenishment of national treasury		6,299,347	12,058,261
Others-undelivered spot exchanges		44	2,283
Other – ATM temporary receipts, payments and interbank differences		1,739,188	1,816,568
Others-FX Swaps		406,437	89,200
Others-pending settlement		1,306,065	134,941
Others – others		583,545	331,116
Subtotal		59,423,891	59,384,139
Less: allowance for doubtful accounts		149,558	127,130
Total	<u>\$</u>	59,274,333	59,257,009

In accordance with Executive Yuan Tai-79-JEN-Cheng-SZU-tsu No. 14525, and regulations of Retired Civil Servants Lump-sum Retirement Payment and Old-age Benefits and Preferential Interest Deposits which excess preferential interest expenses recognized as Excess interest expenses of Non-interest income, net were \$7,265,162 thousand and \$8,174,483 thousand , respectively, due to executing the government premium savings policy.

As of the year ended December 31, 2018 and 2017, the Bank had paid the following premium savings interest expenses on behalf of the government:

	Dece		December 31, 2017	
Long-term receivables	\$	16,097,415	16,694,448	
Short-term advances (booked under other financial assets, net)		43,617,208	48,928,992	
Total	\$	59,714,623	65,623,440	

(h) Loans and Discounts, Net

	December 31, 2018	December 31, 2017	
Discounts and export / import negotiations	\$ 3,576,638	3,970,292	
Overdrafts	13,541,985	19,375,066	
Secured overdrafts	1,258,259	954,176	
Short-term loans	695,119,592	447,088,805	
Short-term secured loans	97,778,149	92,121,185	
Accounts receivable financing	241,732	166,450	
Accounts receivable secured financing	8,757	7,338	
Medium-term loans	490,677,869	474,555,063	
Medium-term secured loans	235,517,119	239,572,988	
Long-term loans	158,795,092	166,879,651	
Long-term secured loans	895,678,323	868,466,755	
Non-performing loans	4,221,263	4,923,336	
Subtotal	2,596,414,778	2,318,081,105	
Less: allowance for doubtful accounts	39,387,484	33,041,862	
Total	\$ <u>2,557,027,294</u>	2,285,039,243	

The movements of allowance for doubtful accounts of loans and receivables were as follows:

	2018	2017
Loans:		
Beginning balance	\$ 33,041,862	32,812,787
Adjustment for retrospective application	(25,948)	-
Allowance for doubtful accounts	7,407,451	1,506,103
Write-off	(2,116,120)	(2,491,515)
Recovery from written-off	994,434	1,368,059
Effects of exchange rate changes and others	 85,805	(153,572)
Ending balance	\$ 39,387,484	33,041,862

	December 31, 2018		December 31, 2017	
Receivables (including call loans to banks and other financial assets):				
Beginning balance	\$	297.011	301,718	
Adjustment for retrospective application	Ψ	38,464	-	
Allowacne for doubtful accounts reversal		(77,781)	(48,248)	
Write-off		(11,491)	(14,780)	
Recovery from written-off		10,541	59,630	
Effects of exchange rate changes and others		637	(1,309)	
Ending balance	<u>\$</u>	257,381	297,011	
Total	\$	39,644,865	33,338,873	

Details of allowance for doubtful accounts were as follows:

	De	December 31, 2018	
Placement with banks	\$	20,968	-
Call loans to banks		55,833	58,446
Receivables		149,558	127,130
Loans and discounts		39,387,484	33,041,862
Other financial assets		31,022	111,435
Total	\$	39,644,865	33,338,873

Details of bad debt expenses and provisions for guarantee liabilities were as follows:

	2018		2017	
Bad debts	\$	7,329,670	1,457,855	
Provisions for guarantee liabilities		(6,854)	227,150	
Provision for loan commitment liabilities		5,182	-	
Provision for other liabilities		(25,510)	-	
Total	\$	7,302,488	1,685,005	

As of December 31, 2018 and 2017, the amounts of loans and receivables on which the interests stopped to accrue were \$4,226,046 thousand and \$5,005,039 thousand, respectively, which were booked under loans and discounts – non-performing loans and other financial assets-overdue receivables. As of December 31, 2018 and 2017, the non accrued interests were \$248,693 thousand and \$287,035 thousand, respectively.

For the date as above, the Bank did not write off any loan without legal proceedings having been initiated.

### (i) Available-for-sale Financial Assets, Net

	D	ecember 31, 2017
Negotiable certificates of deposits	\$	932,539,967
Government bonds		41,318,500
Foreign government bonds, corporate bonds, financial bonds and negotiable certificates of deposits		56,723,065
Financial bonds		10,532,340
Corporate bonds		33,840,601
Financial asset securitization investments		500,000
TSEC and OTC stocks and certificates		30,192,850
Add: Adjustment valuation		30,295,078
Total	\$	1,135,942,401

Please see note 7, "Fair Value And Fair Value Hierarchy of the Financial Instruments", for valuation of available-for-sale financial assets.

### (j) Held-to-maturity Financial Assets, Net

	December 31, 2017			
Domestic:				
Financial bonds	\$	16,680,754		
Corporate bonds		7,532,282		
Negotiable certificates of deposits		1,402,431		
Commercial papers		15,973,499		
Government bonds		70,037,492		
	\$	111,626,458		
Foreign:				
Corporate bonds and financial institution bonds		23,299,248		
Financial bonds		6,049,203		
Negotiable certificates of deposits		409,410		
Treasury bills		1,173,380		
Government bonds		1,503,066		
		32,434,307		
Total	\$	144,060,765		

### (k) Financial Assets Measured at Amortized Cost

	D	ecember 31, 2018
Negotiable certificates deposits	\$	1,202,690
Commercial papers		30,205,065
Government bonds		71,584,984
Foreign government bonds, corporate bonds, financial bonds, and NCDs		11,486,097
Financial bonds		16,414,377
Corporate bonds	_	36,981,015
		167,874,228
Less: accumulated impairment	_	(49,536)
	\$	167,824,692

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

- During 2018, the Bank and subsidiary haven't deposed financial assets measured at (i) amortized cost.
- (ii) As of December 31, 2018, the Bank's and subsidiary's financial assets measured at amortized cost were not used as collateral, please refer to 11.
- Investments Accounted for Using Equity Method, net (1)

		December	31, 2018	December 31, 2017		
Associates		Amount	Percentage of Ownership (%)	Amount	Percentage of Ownership (%)	
Hua Nan Financial Holdings Co., Ltd.	\$	36,973,209	21.23	34,866,577	21.23	
Tang Eng Iron Works Co., Ltd.		1,013,547	21.37	1,316,355	21.37	
Tai Yi Real Estate Management Co., Ltd.		21,084	30.00	20,568	30.00	
	\$	38,007,840		36,203,500		

(i) The Bank and subsidiary use equity method for investments in associates and the other comprehensive income:

		2017	
Hua Nan Financial Holdings Co., Ltd.	\$	(296,925)	122,484
Tang Eng Iron Works Co., Ltd.		5,278	(19,023)
Total	\$	(291,647)	103,461

(ii) The Bank and subsidiary use equity method for investments in associates, and Investment gains and losses recognized in the following table:

		2017	
Hua Nan Financial Holdings Co., Ltd.	\$	3,104,176	2,555,815
Tang Eng Iron Works Co., Ltd.		(308,086)	51,306
Tai Yi Real Estate Co., Ltd.		4,059	3,936
Total	\$	2,800,149	2,611,057

### (iii) Individually significant associate(s)

The Bank acquired up to 21.23% voting rights of outstanding shares of Hua Nan Financial Co., Ltd. on December 27, 2011, from which, its significant the influence has commenced. Hence, the investment has been accounted for using the equity method. Related information was as follows:

			shareholdii	entage of 1g interests ng rights
Associate(s)	The relationship with the Bank	Principal operating place/registration country	December 31, 2018	December 31, 2017
Hua Nan Financial Holdings Co., Ltd.	Enterprises permitted to invest Financial Holding Company Act, such as banks and bill finance companies	Taiwan	21.23 %	21.23 %

The fair value of the equity accounting for listed companies (major associates) is as follows:

		I	December 31, 2017	
Hua Nan Financial Holdings Co., Ltd.		\$	42,889,937	39,284,016
1)	Summarized Financial Information			
		Ι	December 31, 2018	December 31, 2017
	Total Assets	\$	2,684,206,863	2,573,419,750
	Total Liabilities	_	(2,510,049,280)	(2,409,185,587)
	Net Assets	\$	174,157,583	164,234,163
	Attributable to the Bank	\$	36,973,209	34,866,577

		2018	2017	
Net income	\$	14,621,435	12,015,568	
Other comprehensive income		(1,398,581)	599,718	
Total comprehensive income	\$ <u></u>	13,222,854	12,615,286	
Attributable to the Bank				
Investment income	\$	3,104,176	2,555,815	
Other comprehensive income		(296,925)	122,484	

 There are no significant restrictions on the ability of Hua Nan Financial Holding Co., Ltd. to transfer funds to its investors by distributing dividends, or repaying loans or advances.

3) The summarized financial information of Hua Nan Financial Holding Co., Ltd. has been adjusted to align its accounting results with those of the Bank accounted for using the equity method.

- 4) Hua Nan Financial Holdings Co.,Ltd.'s financial statements were audited by other auditors. The related investment gains were \$3,104,176 thousand and \$2,555,815 thousand for the 2018 and 2017, respectively.
- (iv) All other non-individually-significant associates
  - 1) Summarized Financial Information- Attributable to the Bank

	De	cember 31, 2018	December 31, 2017	
Investment in non-individually-significant associates in aggregate	\$	1,034,631	1,336,923	
		2018	2017	
Investment income	\$	(304,027)	55,242	
Other comprehensive income		5,278	(19,023)	

(v) Collateral

No investment in associates was used as collateral of December 31, 2018.

### (m) Other Financial Assets, net

	D	ecember 31, 2018	December 31, 2017
Short-term advances	\$	45,937,904	52,291,017
Less: allowance for doubtful accounts – short-term advances		(26,843)	(29,710)
Debt investments without quoted price in active markets		-	14,644,697
Financial assets carried at cost		-	8,597,825
Less: cumulative impairment – financial assets carried at cost		-	(15,000)
Remittances purchased		1,485	7,171
Less: allowance for doubtful accounts – remittances purchased		(15)	(71)
Overdue receivables		4,783	81,703
Less: allowance for doubtful accounts-overdue receivables		(4,156)	(81,654)
Others		127,043	107,519
Less: allowance for doubtful accounts-others		(8)	-
Less: accumulated impairment-others		(11)	
Total	\$	46,040,182	75,603,497

(i) Please see note 7, "Fair Value And Fair Value Hierarchy of the Financial Instruments", for details of the valuation of hedging derivative financial assets and debt investments without quoted price in active markets for December 31, 2018 and 2017.

(ii) Concerning for the payment of excess preferential interest on behalf of the government, booked under "short-term advances" for December 31, 2018 and 2017, please refer to note 6(g) for further information.

### (n) Property and Equipment, net

Changes in the cost, depreciation, and impairment of the properties and equipments of the Bank and subsidiary for the 2018 and 2017 were as follows:

Cost:		Land and Land provements	Buildings	Machineries and equipments	Transport equipments	Miscellaneous equipments	Leasehold improvements	Constructions in progress and prepayments for equipments	Total
Balance at January 1, 2018	\$	86,156,150	14,665,227	5,631,389	1,046,384	971,798	793,614	720,598	109,985,160
Additions		-	5,168	325,586	92,176	29,542	31,906	292,568	776,946
Disposals		(19,776)	(31,271)	(210,644)	(58,543)	(46,322)	(18,660)	-	(385,216)
Reclassification		-	163,060	93,438	5,528	3,567	10,476	(277,422)	(1,353)
Effect of change in exchange rates	_	-	-	407	272	872	2,763		4,314
Balance at December 31, 2018	<u>s</u>	86,136,374	14,802,184	5,840,176	1,085,817	959,457	820,099	735,744	110,379,851
Balance at January 1, 2017	\$	86,292,163	14,604,644	6,515,424	1,056,604	978,952	783,859	621,690	110,853,336
Additions		-	3,815	232,028	33,147	26,873	2,425	306,078	604,366
Disposals		(136,013)	(29,515)	(1,209,053)	(43,126)	(32,136)	(216)	-	(1,450,059)
Reclassification		-	86,283	97,633	931	426	16,997	(207,170)	(4,900)
Effect of change in exchange rates	_	-	-	(4,643)	(1,172)	(2,317)	(9,451)		(17,583)
Balance at December 31, 2017	<u>s</u>	86,156,150	14,665,227	5,631,389	1,046,384	971,798	793,614	720,598	109,985,160
	_							(Co	ntinued)

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Accumulated depreciation:		Land and Land provements	Buildings	Machineries and equipments	Transport equipments	Miscellaneous equipments	Leasehold improvements	Constructions in progress and prepayments for equipments	Total
Balance at January 1, 2018	\$	14,966	6,967,876	4,241,140	858,974	802,957	707,014	-	13,592,927
Depreciation		-	279,637	376,242	38,956	28,224	32,491	-	755,550
Disposal		-	(27,680)	(188,036)	(57,069)	(41,936)	(8,869)	-	(323,590)
Effect of change in exchange rates	_	-	-	353	85	739	2,891		4,068
Balance at December 31, 2018	<u>s</u>	14,966	7,219,833	4,429,699	840,946	789,984	733,527		14,028,955
Balance at January 1, 2017	\$	14,785	6,722,285	5,029,386	861,593	803,696	680,329	-	14,112,074
Depreciation		181	275,045	402,079	39,993	30,120	33,462	-	780,880
Disposal		-	(29,454)	(1,188,485)	(41,907)	(29,055)	(216)	-	(1,289,117)
Effect of change in exchange rates	_	-	-	(1,840)	(705)	(1,804)	(6,561)		(10,910)
Balance at December 31, 2017 Accumulated impairment:	\$	14,966	6,967,876	4,241,140	858,974	802,957	707,014		13,592,927
Balance at January 1, 2018	\$	47,850	-	-	-	-	-	-	47,850
Reversal of impairment loss		77,019							77,019
Balance at December 31, 2018	s_	124,869	-	-	-	_			124,869
Balance at January 1, 2017	\$	45,937	-	-	-	-	-	-	45,937
Reversal of impairment loss	_	1,913	-	-	-				1,913
Balance at December 31, 2018	<u>s</u>	47,850	-						47,850
Carrying amounts:	_								
December 31, 2018	<u>s</u>	85,996,539	7,582,351	1,410,477	244,871	169,473	86,572	735,744	96,226,027
January 1, 2017	\$	86,231,441	7,882,359	1,486,038	195,011	175,256	103,530	621,690	96,695,325
December 31, 2017	\$	86,093,334	7,697,351	1,390,249	187,410	168,841	86,600	720,598	96,344,383

The Bank and subsidiary conducted revaluations of land and buildings for many times over the past years, and the latest time was in December, 2011. As of December 31, 2018 and 2017, the total revaluation increments for land were \$81,590,877 thousand and \$81,603,802 thousand, respectively. The total revaluation increments for Buildings were \$34,307 thousand, both.

Based on the assessment in December, 2017, the carrying amount of the lands which have indicators of impairment was determined to be \$247,713 thousand higher than its recoverable amount of \$170,694 thousand, wherein an impairment loss of \$77,019 thousand was recognized. In 2016, the carrying amount of the lands which have an indicator of impairment was determined to be \$135,241 thousand lower than its recoverable amount of \$133,328 thousand. Therefore, the amount of \$1,913 thousand, which was initially recognized as impairment, has been reversed.

The recoverable amount was determined by using the fair value, less, cost of disposal or recent government assessed land value. The fair value is based on the market price of comparable properties within the same location. The cost of disposal is the land value increment tax payable. The inputs of levels of fair value hierarchy in determining the fair value is classified to Level 3.

As of December 31, 2018 and 2017, the Bank's and subsidiary's properties and equipments neither served as guarantees or collaterals, nor they were pledged.

### (o) Investment property

(i) Changes in the investment properties of the Bank and subsidiary for the year ended 2018 were as follows:

		Land
Cost:		
Balance at December 31, 2018 (same as beginning balance)	\$ <u></u>	15,238,207
Balance at December 31, 2017 (same as beginning balance)	\$ <u></u>	15,238,207
Carrying amounts:		
December 31, 2018	<u>\$</u>	15,238,207
January 1, 2017	\$	15,238,207
December 31, 2017	\$	15,238,207

The fair value of investment properties (as measured or disclosed in the financial statements) was based on a valuation by a qualified independent appraiser who has recent valuation experience in the location and category of the investment property being valued. The inputs of levels of fair value hierarchy in determining the fair value is classified to Level 3.

(ii) The fair value of investment property of the Bank and subsidiary were as follows:

	December 31,	December 31,
	2018	2017
The fair value of investment property	\$ <u>15,092,366</u>	15,282,337

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation technique The management evaluate and measure the effect of	Significant unobservable inputs• The rate of return• Overall capital interest	Inter-relationship between key unobservable inputs and <u>fair value measurement</u> The estimated fair value would increase (decrease) if:
using techniques of comparison approach or Land development analysis approach. After evaluating, the bank make judgment about the assessment that is using to align the market participants.	rate	<ul> <li>the rate of return were lower (higher); or</li> <li>the overall capital interest rate were lower (higher).</li> </ul>

The investment property measured at cost, and the fair value is recoverable amount of impairment testing. The fair value of investment property is used the comparison approach and land development analysis approach, and excuting assessment reference recent market price, the valuation technique is consistency from investment property of acquisition. After evaluating, the Bank did not recognized impairment loss.

(iii) As of December 31, 2018 the Bank did not provide any investment accounted for using equity method as collaterals for its loans.

### (p) Intangible Assets

Changes in costs, amortization, and impairment loss of the intangible assets of the Bank and subsidiary for the year ended 2018 and 2017 were as follows:

	Computer software
Costs:	
Balance at January 1, 2018	\$ 3,497,828
Additions	336,980
Balance at December 31, 2018	\$ <u>3,834,808</u>
Balance at January 1, 2017	\$ 3,225,256
Additions	272,572
Balance at December 31, 2017	\$ <u>3,497,828</u>
Amortization:	
Balance at January 1, 2018	\$ 2,789,096
Amortization for the year	280,776
Balance at December 31, 2018	\$ <u>3,069,872</u>
Balance at January 1, 2017	\$ 2,422,031
Amortization for the year	367,065
Balance at December 31, 2017	\$ <u>2,789,096</u>
Carrying amounts:	
December 31, 2018	\$ <u>764,936</u>
January 1, 2017	\$803,225
December 31, 2017	\$708,732

### (q) Other Assets

	De	cember 31, 2018	December 31, 2017	
Foreclosed collaterals and residuals taken over, net	\$	1,080,460	1,084,739	
Advance payments		4,790,148	4,708,723	
Operating guarantee deposits and settlement funds		10,000	10,000	
Refundable deposits		1,701,602	830,053	
Temporary Payments and Suspense Accounts		704,744	725,067	
Inventories		701,832	812,975	
Others		328	381	
Total	\$	8,989,114	8,171,938	

(i) Foreclosed collaterals and residuals taken over, net

	December 31, 2018		December 31, 2017	
Foreclosed collaterals and residuals taken over	\$ <u>1,08</u>	0,460	1,084,739	

(ii) Advance payments

	De	cember 31, 2018	December 31, 2017	
Prepaid expenses	\$	416,919	312,601	
Prepaid interests		12,745	17,596	
Business tax paid		-	662	
Business tax carry forward		686	511	
Other prepayment – Interbank Fund Transfer Special Accounts		4,300,622	4,301,227	
Other prepayments		59,176	76,126	
Total	\$	4,790,148	4,708,723	

(iii) Inventories

	Dec	cember 31, 2018	December 31, 2017 813,034	
Inventories	\$	701,832		
Less: allowance for inventory valuation		-	59	
Total	<b>\$</b>	701,832	812,975	

The effects on the cost of goods sold derived from the inventory write-off or reversal for the year ended 2018 and 2017 were as follows:

	20	18	2017
Net sales gain(loss)	\$	59	(59)

### (r) Impairment

For the year ended 2018 and 2017, the movements of the accumulated impairment were as follows:

	 2018	2017
Beginning balance	\$ 62,850	60,937
Adjustment for retrospective application due to IFRS 9	112,651	-
Impairment loss recognized for the current period	86,510	1,913
Effect of change in exchange rates and others	 (4,650)	-
Ending balance	\$ 257,361	62,850

Details of accumulated impairment were as follows:

		ember 31, 2018	December 31, 2017	
Financial assets at fair value through other comprehensive income	\$	82,945	-	
Financial assets measured at amortized cost		49,536	-	
Other financial assets		11	15,000	
Property and equipment		124,869	47,850	
Ending balance	\$	257,361	62,850	

(s) Deposits of Central Bank and other banks

	D	ecember 31, 2018	December 31, 2017
Deposits from Central Bank	\$	11,798,337	11,251,965
Deposits from banks-others		48,026,208	48,206,734
Postal deposits transferred		77,090	690,413
Bank overdrafts		1,559,942	2,271,023
Call loans from bank		160,294,562	156,601,249
Total	\$ <u></u>	221,756,139	219,021,384

- (t) Financial Liabilities Measured at Fair Value through Profit or Loss
  - (i) Details of financial liabilities measured at fair value through profit or loss were as follows:

		ecember 31, 2018	December 31, 2017	
Financial liabilities held for trading	\$	2,893	24,558	
Add: valuation adjustment		4,696,114	8,682,092	
Subtotal		4,699,007	8,706,650	
Financial liabilities designated as fair value through profit or loss		46,102,500	26,118,400	
Add: valuation adjustment		(247,190)	205,385	
Subtotal		45,855,310	26,323,785	
Total	\$	50,554,317	35,030,435	

(ii) For valuation of financial liabilities measured at fair value through profit or loss, please refer to note 7 "Fair Value And Fair Value Hierarchy of the Financial Instruments".

### (iii) Financial liabilities held for trading

	De	cember 31, 2018	December 31, 2017	
Foreign exchange options premium	\$	2,893	24,558	
Add: valuation adjustment				
Foreign exchange options premium		(508)	(944)	
Swaps		3,907,380	8,131,915	
Interest rate swaps		295,412	237,780	
Forward foreign exchanges		118,922	90,779	
Asset swaps		374,908	82,351	
Cross currency swaps		-	140,211	
Total	<b>\$</b>	4,699,007	8,706,650	

(iv) The details of the financial liabilities designated as fair value through profit or loss were as follows:

	December 31, 2018		December 31, 2017	
Financial bonds	\$	46,102,500	26,118,400	
Add: valuation adjustment		(247,190)	205,385	
Total	\$	45,855,310	26,323,785	

The Bank has been approved by the FSC on August 23, 2016, and November 21, 2017 to issue USD \$1.5 billion of 2017-1 Senior Unsecured Financial Bonds, denominated in U.S. dollar. The financial bonds amounted to USD \$1.5 billion had been issued in 2018.

The details of the financial bonds were as follow:

		Ca	nditions		Bond			
Name of bond	Beginning date	Maturity date	Coupon rate	Face value	Туре		Am	ount
						De	cember 31, 2018	December 31, 2017
2017-1 Senior unsecured financial bonds-A	2017/04/07	2147/04/07	0 %	USD \$500 million	Senior unsecured financial bond	\$	15,367,500	14,840,000
2017-1 Senior unsecured financial bonds-B	2014/11/26	2147/04/07	0 %	USD \$380 million	Senior unsecured financial bond		11,679,300	11,278,400
2018-1 Senior unsecured financial bonds-A	2018/02/26	2148/02/26	0 %	USD \$150 million	Senior unsecured financial bond		4,610,250	-
2018-1 Senior unsecured financial bonds-B	2018/02/26	2148/02/26	0 %	USD \$470 million	Senior unsecured financial bond		14,445,450	-
				Valuation adjustment	t	_	(247,190)	205,385
						\$_	45,855,310	26,323,785

For the bonds issued in 2017, the call option may be exercised 2 years for bond A, and 3 years for bond B, after the issuing date. If the call options are not exercised prior to the bonds maturity date, the Bank will pay the principal and interests accrued in full upon maturity. For the bonds issued in 2018, the call option may be exercised 2 years for bond A, and 5 years for bond B, after the issuing date. If the call options are not exercised prior to the bonds maturity date, the Bank will pay the principal and interests accrued in full upon maturity.

(v) Unmatured derivative financial instruments (stated at notional amount)

	December 31, 2018	December 31, 2017	
Foreign exchange options premium	\$ 371,765	2,031,573	
Swaps	559,887,222	643,607,664	
Interest rate swaps	15,310,983	12,033,783	
Forward foreign exchanges	11,423,307	9,249,532	
Asset swaps	46,498,490	801,360	
Cross currency swaps		2,478,420	
Total	\$ <u>633,491,767</u>	670,202,332	

(u) Payables

	December 31, 2018	December 31, 2017
Accounts payables	\$ 10,571,42	10,458,971
Receipts under custody	1,003,55	944,051
Accrued expenses	2,660,95	5 2,548,386
Other tax payables	464,59	3 467,776
Interests payables	14,426,72	3 12,679,576
Banker's acceptances payables	2,918,25	5 2,719,831
Payables to representative organizations	586,19	3 564,570
Construction payables	3,004	9,794
Accounts payables – non-recourse factoring	565,93	361,199
Other payables – undelivered spot exchange	834	4 192
Other payables – collection bills	977,184	4 744,435
Other payables – payments awaiting transfer	7,806,182	2 7,161,698
Other payables –ATM temporary receipts, payments and inter branch differences	2,220,32	9 1,931,229
Other payables – foreign exchange awaiting transfer	721,384	408,084
Other payables – amounts awaiting settlement	108,33	5 592,578
Other payables – overdue accounts	191,13	5 188,049
Other payables – checking accounts	103,02	5 115,216
Other payables – collection	11,98	5 20,897
Other payables – others	449,07	350,531
Total	\$ <u>45,790,11</u>	42,267,063

## (v) Deposits and Remittances

	D	ecember 31, 2018	December 31, 2017
Cheques deposits	\$	35,354,006	35,519,323
Government deposits		283,267,747	272,339,999
Demand deposits		373,958,430	404,154,620
Time deposits		746,883,592	678,567,393
Remittances		736,124	764,098
Savings account deposits:			
Demand savings deposits		983,561,781	836,924,067
Staff accounts		24,562,808	25,216,326
Club saving deposits		690,497	804,229
Non-drawing time savings deposits		402,536,104	392,680,420
Interest withdrawal on principal deposited		808,083,173	833,272,930
Preferential Interest deposits		366,104,840	460,888,643
Total	\$	4,025,739,102	3,941,132,048

### (w) Financial Bonds Payable

		Con	dition	В	lond	
Name of bond	Beginning date	Maturity date	Interest rate	Туре	Amou	ınt
					December 31, 2018	December 31, 2017
2013-1 TWD subordinated unsecured financial bonds	2013/12/2	2023/12/2	The Bank's listed annual fixed interest rate of time deposits, plus, 0.15%.	Subordinated unsecured financial bond	\$ 16,000,000	16,000,000
2014-1 TWD subordinated unsecured financial bonds-A	2014/06/25	2024/06/25	TAIBOR 3M plus 0.30%	Subordinated unsecured financial bond	5,500,000	5,500,000
2014-1 TWD subordinated unsecured financial bonds-B	2014/06/27	2024/06/27	1.70%	Subordinated unsecured financial bond	2,000,000	2,000,000
2014-1 TWD subordinated unsecured financial bonds-C	2014/06/27	2024/06/27	The Bank's listed annual fixed interest rate of time deposits, plus, 0.00%	Subordinated unsecured financial bond	1,500,000	1,500,000
			unamortized discount amount		(1,434)	(1,684)
Total					\$ <u>24,998,566</u>	24,998,316

(x) Other Financial Liabilities

	Dee	cember 31, 2018	December 31, 2017
Appropriated loan funds	\$	26,825	41,430
Principal from structured products		652,018	801,392
	<b>\$</b>	678,843	842,822

(y) Provision

	De	ecember 31, 2018	December 31, 2017
Employee benefit obligations	\$	17,344,746	18,420,543
Guarantee reserve		894,392	1,298,033
Reserve for government employees insurance		296,379,792	295,055,660
Loan commitments reserve		15,612	-
Others		386,084	
Total	\$	315,020,626	314,774,236
) Provisions – Employee benefits			
	D	ecember 31, 2018	December 31, 2017
Recognized in Consolidated Balance Sheet:			
Defined benefit plan	\$	11,119,607	10,243,681
Employees preferential interest		6,220,165	8,169,758
Three Chinese festival bonus		4,974	7,104

Total

(z)

- (i) BOT
  - 1) Defined contribution plans

The Bank and subsidiary have established the defined contributions plans in accordance with the provision of the Labor Pension Act since July 1, 2005. The Bank and subsidiary allocate 6% of each employee's monthly wages to his or her individual account of labor pension from which he or she is entitled to claim the principal and accrued dividends in fixed installments or in lump sum in the future. The pension costs recognized under the defined contribution plans were \$2,465 thousand and \$2,110 thousand for the years ended December 31, 2018 and 2017, respectively.

17,344,746

2) Defined benefit plans

The Bank and subsidiary have established the defined contributions plans in accordance with the provision of the Labor Standards Act, including the service periods of all the regular employees before the Labor Pension Act was adopted on July 1, 2005 and the service periods of regular employees electing to continue to apply the Labor Standards Act after July 1, 2005.

The payment of pension to an employee who is qualified for retirement is based on his or her years of service and 6- month average wages before retirement. Two bases are given for each full year of service until the service period is longer than 15 years. Those having served over 15 years are given one base for each full year of service, and the total number of bases shall be no more than 45.

18,420,543

The Bank and subsidiary allocate 8% of all the qualified employees' gross wages to the labor pension account in the name of Labor Pension Supervision Committee in the Bank' s Trust Department. The portfolio of this account is built up carefully with diversified investments and strengthened risk management and will adjust timely to stabilize income when the market changes. The portfolio is also regularly supervised and reviewed by the Ministry of Labor. Please refer to the website of the Ministry of Labor for information on the portfolio, such as fair value or percentages of assets.

The Bank and subsidiary have established the criteria for the payment to retired employees pursuant to the interpretations made by the Executive Yuan (Tai-Ren-Jen-Cheng-Szu-Tsu No. 6378, Tai-Ren-Jen-Cheng-Ji -Tsu No. 211191, Chu-Ji-Tsu No. 210226 and Chu-Ji-Tsu No. 211434), Examination Yuan (Kao-Tai-Mi-Yi No 3271 'Regulations for Taking Care of the Family of Deceased Civil Servant' and Kao-Tai-Tzu-Er-Er-Tsu No.10400039491 ' Regulations for Taking care of the Retired Civil Servant Claiming Lump-Sum Pensions before December 31, 1979' ) and the Ministry of Finance (Tai-Tsai-Ren No. 0890850993).

Every Spring Festival, Dragon Boat Festival, and Mid-Autumn Festival, the Bank and subsidiary are obligated to grant two thousand to each of those who are at the age of 60 or older, those who are at the age of 55 but have already served the Bank for 25 years, and those who are retired due to incapacity. In accordance with Executive Yuan Yuan-Shou-Ren-Ji-Kuei-Tsu No. 1050053161 on September 8, 2016 to amend the regulations about holiday benefits of "The Matter of Taking Care of the Retired Civil", that doesn't issue the holiday benefits as of January 1, 2017.

The Bank and subsidiary are obliged to grant \$18 thousand to those who retired before December 31, 1979 and claim pensions at one time every Spring Festival, Dragon Boat Festival and Mid-Autumn Festival. The amount will be raised to \$31 thousand if there are dependents.

The balances of pension account were \$1,225,373 thousand and \$1,163,544 thousand as of December 31, 2018 and 2017, respectively. Bank and subsidiary expect to contribute \$894,200 thousand to the account within one year after the balance date.

Weighted average duration of the defined contribution plans were as follows:

Defined Benefit Plans	11.70 year
Employee care bonuses during the three Chinese	11.70 year
festivals	

a) The reconciliation of recognized liabilities for the defined benefit obligations, present value of the defined benefit obligations, fair value of the plan assets, and the limit of assets adjustment are as follows:

	D	ecember 31, 2018	December 31, 2017
Present value of the defined benefit obligations	\$	18,988,352	17,745,198
Less: fair value of the plan assets		(7,866,695)	(7,494,413)
Recognized liabilities for the defined benefit obligations	\$	11,121,657	10,250,785

b) The movements in present value of the defined benefit obligations

	 2018	2017
Defined benefit obligation at January 1	\$ 17,745,198	16,800,503
Current service costs	696,074	653,610
Interest expense	195,197	235,207
Remeasurements of the defined benefit plans of other Comprehensive Income		
-3 percent increase in salary	-	516,683
<ul> <li>Changes in actuarial gains and losses in financial assumptions</li> </ul>	905,873	154,057
-Experience adjustments	217,645	274,982
Benefit payments	 (771,635)	(889,844)
Defined benefit obligation at December 31	\$ 18,988,352	17,745,198

c) The movements of fair value of defined benefit plan assets

		2018	2017
Fair value of plan assets at January 1	\$	7,494,413	7,327,801
Interest revenue		82,438	102,589
remeasurements of defined benefit plans of other comprehensive income			
-Return on plan assets		41,152	(17,270)
Contribution made by the Bank		923,853	887,453
Benefit payments		(675,161)	(806,160)
Fair value of plan assets at December 31	<u>\$</u>	7,866,695	7,494,413

d) Expense recognized in profit or loss

	2018	2017
Current service cost	\$ 696,074	653,610
Net interest of defined benefit obligations	 112,759	132,618
Total	\$ 808,833	786,228

e) Re-measurement of net defined benefit liability (asset) recognized in other comprehensive income

The Bank's and subsidiary's re-measurement of the net defined benefit liability (asset) recognized in other comprehensive income for the years ended December 31, 2018 and 2017, was as follows:

2010

2017

		2018	2017
Accumulated amount at January 1	\$	(3,513,783)	(2,550,791)
Recognized during the period		(1,082,366)	(962,992)
Accumulated amount at December 31	<b>\$</b>	(4,596,149)	(3,513,783)

f) Portfolio analysis of plan asset

	2018	2017
Bonds instruments	\$ 2,473,339	750,000
Others	 5,393,356	6,744,413
Total	\$ 7,866,695	7,494,413

The overall expected rate of return on assets is based on the historical trend of returns and the estimation of return on the portfolio as a whole. The Bank also refers to the return of the funds supervised by the Labor Pension Supervision Committee and then uses judgments and estimations to determine the rate which should not be lower than the two-year time deposits rate set by the local banks.

g) Actuarial assumptions

	December 31, 2018	December 31, 2017
Discount rate	1.10 %	1.10 %
Assets expected rate of return	1.10 %	1.10 %
Future of salary increases	2.00 %	1.50 %

The estimated future mortality rate used in calculating of the defined benefit plan of The Bank and subsidiary are based on the fifth round of the Taiwan Life Experience Life Table.

### h) Sensitivity analysis

The followings would be the impacts on the present value of defined benefit obligations as of December 31, 2018 and 2017 if the actuarial assumptions had changed:

	Impacts on the present value of the defined benefit obligation				
	Actuarial assumption changes(%)		Actuarial assumption increase	Actuarial assumption decrease	
December 31, 2018					
Discount rate					
Defined benefit plans	0.25%	\$	18,418,362	19,528,475	
Employee care bonus during the three Chinese festivals	0.25%		4,922	5,026	
Salary increase rate	0.50%		19,964,163	18,077,506	
December 31, 2017					
Discount rate					
Defined benefit plans	0.25%		17,198,892	18,243,289	
Employee care bonus during the three Chinese festivals	0.25%		6,953	7,199	
Salary increase rate	0.50%		18,646,280	16,898,386	

The aforementioned sentivitiy analysis is used to analyze what the impact could be when one variable changes while all other variables remain constant. In practice, however, this hypothesis may not exist as changes in variables could be correlative. Projected unit benefit method is also utilized in calculating the changes in present value of the defined benefit obligations when the Bank conducts the sentivitiy analysis.

Methods and variables used in preparing the sensitivity analysis are consistent with those of the previous period.

3) Employee preferential interest plan

Preferential Deposits of Employees of State-owned banks', the Bank is obligated to pay preferential interests generated from a fixed amount of deposit to each retired and inservice employee.

The subsidiary, BankTaiwan Insurance Broker Co., Ltd., is also obligated to pay preferential interests generated from a fixed amount of deposit to each retired and inservice employee in accordance with Tai-Cha-Ku-Tzu No.10103675500 and the agreement between the Bank and subsidiary.

a) The reconciliation of recognized liabilities for employee preferential interest plan, fair value of the plan, and limit of assets adjustment are as follows:

	De	2018	December 31, 2017
Fair value of the Employees preferential interest plan	\$	6,220,165	8,169,758
Limit of assets adjustment		-	
Recognized liabilities for the defined benefit obligations	\$	6,220,165	8,169,758

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b) The movements of present value of employees preferential interest plan

			2018	2017
	Present value of employees preferential interest plan at January 1	\$	8,169,758	7,982,630
	Interest expense		293,042	319,305
	Remeasurement of net employees preferential deposit			
	Benefit payments		1,448,429	2,004,037
	Benefit paid by the plan		(3,691,064)	(2,136,214)
	Present value of employees preferential interest plan at December 31	\$ <u> </u>	6,220,165	8,169,758
c)	Expense recognized in profit or loss			
			2018	2017
	Net interest of employees preferential deposit	\$	293,042	319,305
	Prior service costs and settlement of losses		1,448,429	2,004,037
	Total (booked under employee benefits expense, note 6(ah))	\$	1,741,471	2,323,342

d) Actuarial assumptions

	2018	2017
Discount rates of the employee preferential interest	4.00 %	4.00 %
Return on deposit	2.00 %	2.00 %
Pension preferential ratios deposit for withdrawal	1.00 %	1.00 %
The probability of changes in the policy of employee preferential interest plan	50.00 %	50.00 %
Rate of same type deposit offered to general customers	1.165 %	1.165 %

### e) Sensitivity analysis

The followings would be the impacts on the present value of defined benefit obligations as of December 31, 2018 and 2017 if the actuarial assumptions had changed:

	Impacts on the present value of the defined benefit obligation				
	Actuarial assumption changes(%)		Actuarial ssumption increase	Actuarial assumption decrease	
December 31, 2018		_			
Discount rate	0.25%	\$	6,111,549	6,332,547	
December 31, 2017					
Discount rate	0.25%		8,017,613	8,327,296	

The aforementioned sensitivity analysis is used to analyze what the impact could be when one variable changes, while all other variables remained constant. In practice, however, this hypothesis may not exist as changes in variables could be correlative. Projected unit benefit method is also utilized in calculating the changes in present value of the defined benefit obligations when the Bank conducts the sensitivity analysis.

The methods and variable used in preparing the sensitivity analysis are consistent with those of the previous period.

f) Future cash flow of Employees preferential interest plan

The Bank and subsidiary monitor and review the contributions to employee preferential interest plan annually to ensure the ability of payments. Within one year after the financial statement date, the Bank and subsidiary expect to contribute \$1,800,103 thousand to the plan.

### (ii) The subsidiary, BTIB

1) Defined benefit plans (including pension plans and excess annuity)

The retirement, indemnity and severance of BTIB certified staff are complied with the "Guideline of Indemnity and Severance of Financial and Insurance Enterprise Employees". Pension payments to staffs that the year of service before designated to apply to "Labor Standards Act" (as of May 1, 1997) are complied with the Article 41-1 and are separately appropriated wages of 4%~9% into mandatory pension contribution (defined contribution), according to the different monthly salary grade regulated by the Article 9. However, it is stopped contributing to mandatory pension contribution and the contributed part shall be retained after applying to "Labor Standards Act"; pension payments to labors that the year of service after applying to "Labor Standards Act" is calculated by the related regulations of "Labor Standards Act". When employees retire, they will be paid using their pension fund and mandatory pension contribution.

a) Composition of plan assets

The labor pension reserve consigned to "Labor Retirement Fund Supervisory Committee" by BTIB amounted to \$47,525 at the end of the reporting period.

b) The movements in present value of the defined benefit obligations

BTIB movements in present value of the defined benefit obligations for the years ended December 31, 2018 and 2017, was as follows:

	 2018	2017
Defined benefit obligation at January 1	\$ 43,219	32,901
Current service costs	4,651	3,794
Remeasurements of the defined benefit plans in other comprehensive income		
<ul> <li>Actuarial gains and losses in demographic changes in assumptions</li> </ul>	3,485	6,524
Benefits paid by the plan	 (907)	
Defined benefit obligation at December 31	\$ 50,448	43,219

### c) The movements of fair value of defined benefit plan assets

BTIB movements of fair value of defined benefit plan assets for the years ended December 31, 2018 and 2017, was as follows:

	2018	2017
Fair value of plan assets at January 1	\$ 45,495	42,811
Remeasurements of defined benefit plans in other comprehensive income		
<ul> <li>Return on plan assets(not including current interest)</li> </ul>	(113)	(147)
Contribution made by the Bank	2,309	2,151
Interest revenue	740	680
Benefit payments	 (907)	_
Fair value of plan assets at December 31	\$ 47,524	45,495

d) Expense recognized in profit or loss

BTIB expense recognized in profit or loss at December 31, 2018 and 2017, was as follows:

	2018	2017
Current service cost	\$ 3,964	3,290
Net interest of the defined benefit obligations(assets)	 (53)	(176)
	\$ 3,911	3,114

e) Re-measurement of net defined benefit liability (asset) recognized in other comprehensive income

BTIB re-measurement of net defined benefit liability (asset) recognized in other comprehensive income for the years ended December 31, 2018 and 2017, was as follows:

	2018	
Accumulated amount at January 1	\$	-
Recognized during the period		2,924
Accumulated amount at December 31	\$	2,924

f) Actuarial assumptions

The major actuarial assumptions used by BTIB at the end of reporting period were as follows:

	December 31, 2018	December 31, 2017
Discount rate	1.31 %	1.59 %
Future of salary increases	3.00 %	3.00 %

The expected payment made by BTIB to the defined benefit plans within one year after the reporting date is \$2,309  $\circ$ 

g) Sensitivity analysis

When calculating the present value of the defined benefit obligations, the subsidiary BTIB, uses judgments and estimations to determine the actuarial assumptions, including discount rates and future salary changes, as of the balance sheet date. Any changes in the actuarial assumptions may significantly impact the amounts of the defined benefit obligations.

The followings could impact the present value of the defined benefit obligations as of December 31, 2018 and 2017 if the actuarial assumptions change as follows:

	Impacts on the defined benefit obligation		
	Increase 0.5%	Decrease 0.5%	
December 31, 2018			
Discount rate	47,456	53,662	
Future of salary increases	52,874	48,103	
December 31, 2017			
Discount rate	40,639	46,091	
Future of salary increases	45,514	41,100	

The sensitivity analysis is used to analyze the impact when one assumption changes and other assumptions are unchanged. In practice, however, changes of assumptions might be correlative. The method used to conduct the sensitivity analysis is the same as that BTIB used to calculate the amount of net accrued pension liabilities on its balance sheet.

There were no changes in the method and assumptions used in the preparation of sensitivity analysis for 2017 and 2018.

2) Employee preferential interest plan

The subsidiary, BTIB has the obligation to pay the preferential interest deposits to current employees. If the preferential interest rate for retired employees exceeds the market rate, BTIB shall apply the accounting treatments required by IAS 19 to estimate the excess interest as the employees retired.

3) Defined contribution plans

BTIB contributed 6% of each employee's monthly salary to a personal labor pension account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. BTIB contributed a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

(aa) Other Liabilities

	December 31, 2018		December 31, 2017	
Advance collections	\$	2,509,422	2,266,090	
Guarantee deposits received		3,930,399	4,919,516	
Temporary receipt and suspense accounts		37,532	46,652	
Other liabilities to be settled		8,239	8,239	
Compensation arising from land revaluation		1,264,803	1,264,803	
Defered revenue		32	31	
Total	\$	7,750,427	8,505,331	

### (ab) Income Tax Expenses

(i) Income Tax expenses (benefits)

The income tax expenses for 2018 and 2017 were as follow:

	 2018	
Current income tax expense	\$ 1,119,551	878,981
Deferred tax expense (benefit)	 (11,391)	62,768
Income tax expenses	\$ 1,108,160	941,749

Income tax (expenses) benefits recognized directly in other comprehensive income for 2018 and 2017 were as follows:

	2018		2017
Gains (losses) on debt instruments measured at fair value through other comprehensive income	\$	(81,229)	-
Unrealized gain(loss) on available for sale financial assets			34,186
	\$	(81,229)	34,186

The amount of expense (income) tax recognized in other comprehensive income for in 2018 and 2017 were as follows:

	2018	2017
Profit before tax	\$ <u>11,476,335</u>	11,297,096
Income tax using the company's domestic tax rate(17%)	-	1,920,333
Income tax using the company's domestic tax rate(20%)	2,295,267	-
Income tax expenses of overseas branches	357,969	544,692
Net movements of deferred tax assets	(11,391)	62,768
Tax-exempt effects and others	(1,533,685)	(1,586,044)
Total	\$ <u>1,108,160</u>	941,749

### 1) Unrecognized Deferred Tax Assets

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

	December 31,	December 31,	
	2018	2017	
Deductible Temporary Differences	\$ <u>5,819,532</u>	4,685,497	

2) Recognised Deferred Tax Assets and Liabilities

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

Deferred Tax Assets:

	F	air Value Gains	Others	Total
Balance at January 1, 2018	\$	166,887	3,954	170,841
Recognized in profit or loss		2,554	5,623	8,177
Recognized in other comprehensive income		112,262	21,011	133,273
Balance at December 31, 2018	\$	281,703	30,588	312,291
Balance at January 1, 2017	\$	293,926	3,954	297,880
Recognized in profit or loss		(93,232)	-	(93,232)
Recognized in other comprehensive income		(33,807)		(33,807)
Balance at December 31, 2017	\$_	166,887	3,954	170,841

Deferred Tax Liabilities:

	Land Value Increment	Fair Value		
	Tax	Gains	Others	<u> </u>
Balance at January 1, 2018	\$ 18,080,886	62,188	-	18,143,074
Recognized in profit or loss	(3,214)	-	-	(3,214)
Recognized in other comprehensive income	-	51,166	878	52,044
Balance at December 31, 2018	\$ <u>18,077,672</u>	113,354	878	18,191,904
Balance at January 1, 2017	\$ 18,106,962	66,197	-	18,173,159
Recognized in profit or loss	(26,076)	(4,388)	-	(30,464)
Recognized in other comprehensive income	-	379	-	379
Balance at December 31, 2017	\$ <u>18,080,886</u>	62,188		18,143,074

(ii) The Bank's and subsidiary's income tax returns have been audited by the MoA up until 2017 and examined by the National Tax Administration up until 2016.

### (ac) Equity

(i) Capital stock

As of December 31, 2018 and 2017, the Bank's authorized and issued shares of common stock were 9,500,000 thousand shares. The above mentioned common stock had a par value of \$10.

(ii) Capital surplus

According to the ROC Company Act, the Company can declare dividend with capital surplus. The share capital capitalized in any one year may not exceed a certain percentage for the Company's increasing share capital under the Regulations Governing the Offering and Issuance of Securities by Securities Issuers. The Company may only increase its capital reserve out of the share capital from cash premium on capital stock once a year. The additional capital reserve from the share capital may not be increased during the same fiscal year as the additional share capital form cash premium on capital stock.

(iii) Legal reserve

According to the ROC Company Act, the distribution of the legal reserve by issuing new shares or by cash is allowed only with the approval granted through the shareholder's meeting when the Company does not have any deficit, and only the portion of legal reserve which exceeds 25 percent of the paid-in capital may be distributed.

	Total	29,077,607	8,267,687	37,345,294	665,984	3,696,730	(4,873)	202	237,114	(26,113)	41,914,338
Other Comprehensive	income reclassified by applying overlay approach	  .	18,874	18,874					·	(26,113)	(7,239)
	Gains (losses) on financial Instruments for hedging		3,991	3,991		ı	ı	202		·	4,193
Change in fair value of financial	liability attributable to change in credit risk of liability	(44,599)		(44,599)		·	ı		237,114		192,515
	Gains (losses) on effective portion of cash flow hedges	3,991	(3,991)			ı	ı				,
	Unrealized gains (losses) on available for sale financial assets	30,435,010	(30, 435, 010)			ı	ı		,		,
Unrealized gains (losses) on financial assets	measured at fair value through other comprehensive income		38,683,823	38,683,823		3,696,730	(4,873)	,	,		42,375,680
	Exchange differences on translation of foreign operations	\$ (1,316,795)	'	(1,316,795)	665,984				ı		\$ (650,811)
		Balance at January 1, 2018	Effects of retrospective application	Equity at beginning of period after adjustments	Exchange differences on translation of foreign operations	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Disposal of investments in equity instruments measured at fair value through other comprehensive income	Gains (losses) of associates and joint ventures accounted for using equity method on financial Instruments for hedging	Change in fair value of financial liability attributable to change in credit risk of liability	Other Comprehensive income reclassified by applying overlay approach	Balance at December 31, 2018

(iv) Other equity

# BANK @F TAIWAN 2018 ANNUAL REPORT

**BANK OF TAIWAN AND SUBSIDIARY** 

	Notes to the	to the Consolidated Financial Statements	incial Statements			
	Exchange differences on translation of foreign operations	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available for sale financial assets	Gains (losses) on effective portion of cash flow hedges	Change in fair value of financial liability attributable to change in credit risk of liability	Total
Balance at January 1, 2017	\$ 486,882	'	22,784,276	8,197	8,941	23,288,296
Exchange differences on translation of foreign operations	(1,803,677)	-	·			(1,803,677)
Unrealized gains (losses) on available for sale financial assets	,		7,650,734			7,650,734
Gains (losses) of associates and joint ventures accounted for using equity method on financial Instruments for hedging				(4,206)		(4,206)
Change in fair value of financial liability attributable to change in credit risk of liability					(53,540)	(53,540)
Balance at December 31, 2017	\$ <u>(1,316,795)</u>	-	30,435,010	3,991	(44,599)	29,077,607

(v) Appropriation of earnings

The articles of incorporation of the Bank and subsidiary stipulate that net income should be distributed in the following order:

- 1) to settle all outstanding tax payable;
- 2) to offset prior years losses;
- 3) to appropriate 30% as legal reserve;
- 4) special reserve

To appropriate 20~40% as special reserve; In accordance with the Order No. 1010012865 issued by the FSC on April 6, 2012, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded in the shareholders equity which the Bank and subsidiary elect to transfer to retained earnings by application of the exemption under IFRSs No. 1, the Bank and subsidiary shall set aside an equal amount of special reserve. When the Bank and subsidiary subsequently use, dispose of, or reclassify the relevant assets, it may reverse to distributable earnings a proportional amount of the special reserve originally set aside.

In accordance with the guidelines of the above Ruling, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as special earnings reserve during earnings distribution. The amount to be reclassified should be equal to the difference between the total net current-period reduction of special earnings reserve resulting from the first-time adoption of IFRSs and the carrying amount of other shareholder's equity as stated above. Similarly, a portion of undistributed prior-period earnings shall be reclassified as special earnings reserve (which does not qualify for earnings distribution) to account for cumulative changes to other shareholder's equity pertaining to prior due to the first-time adoption of IFRSs. Amounts of subsequent reversals pertaining to the net reduction of other shareholder's equity shall qualify for additional distributions.

5) To appropriate dividends.

The remaining balance would be appropriated, combining accumulated retained earnings, in accordance with related laws and regulations.

According to the Banking Law, before the legal reserve balance amounts to the authorized capital, cash dividend distributions cannot exceed 15% of the authorized capital.

- 6) The meeting of Board of Directors held on February 23, 2018 resolved to follow the budget approved by the government and distributed the amount of \$600 million to TFH as dividend for the year 2017.
- 7) The meeting of Board of Directors held on February 22, 2019 resolved to follow the budget approved by the government and distributed the amount of \$800 million to TFH as dividend for the year 2017.

Please refer to Consolidated Statement of Change in Equity about the change of equity.

### (ad) Net interest income

			2018	2017
	Interest income:			
	Loans and discounts	\$	40,270,142	38,596,404
	Placement with Central Bank and call loans to banks		10,093,672	8,565,108
	Securities investment		12,390,502	11,103,318
	Credit cards		25,191	26,392
	Others	_	1,104,133	814,256
		_	63,883,640	59,105,478
	Interest expense:			
	Deposits from customers		33,862,058	30,379,528
	Deposits of Central Banks and other banks		3,758,265	2,750,030
	Bonds sold under repurchased agreements		278,451	110,407
	Financial bonds		304,470	304,369
	Structured deposits		22,686	17,242
	Others	_	32,351	21,829
			38,258,281	33,583,405
	Total	\$	25,625,359	25,522,073
(ae)	Service fees, net			
			2018	2017
	Service fees revenue:			
	Trust services	\$	912,556	916,419
	Custody services		135,509	136,629
	Foreign exchange business		290,027	273,700
	Credit business		579,748	610,663
	Credit card services		132,651	138,133
	Deposit, remittance and other services		3,908,205	3,745,324
	Subtotal	_	5,958,696	5,820,868
	Service fees expense:			
	Trust services		91,322	88,325
	Custody services		13,418	15,381
	Credit card services		123,154	121,710
	Deposit, remittance and other services	_	431,424	417,433
	Subtotal	_	659,318	642,849
	Total	\$	5,299,378	5,178,019

(af)	Gain (loss) on financial assets or liabilities measured at fair v	value t	hrough profit or	loss
			2018	2017
	Gain on financial assets or liabilities measured at fair value through profit or loss:			
	Dividend income	\$	4,782,264	4,600,572
	Net interest (loss) income		(923,860)	(43,946)
	Net gain on disposal		10,026,826	8,921,436
			13,885,230	13,478,062
	Gain on financial assets or liabilities measured at fair value through profit or loss – evaluation:			
	Net (loss) gain on valuation		(18,395,655)	18,035,634
	Total	\$	(4,510,425)	31,513,696
(ag)	Realized gain (loss) on available-for-sale financial assets			
			2017	
	Dividend income	\$	2,505,077	
	Gain on disposal		637,069	
	Subtotal		3,142,146	
	Loss on disposal		128,493	
	Total	\$	3,013,653	
(ah)	Realized gains (losses) on financial assets measured at fair vaincome	alue th	nrough other com	prehensive
			2018	
	Dividend income	\$	2,928,331	
	Gain (loss) on disposal		(2,912)	

# (af) Gain (loss) on financial assets or liabilities measured at fair value through profit or loss

(ai) Foreign exchange gain or loss

Total

	_	2018	2017
Foreign exchange gains	\$	11,767,888	8,626,221
Foreign exchange losses	-	(6,054,937)	(11,875,855)
Foreign exchange gains or losses	\$	5,712,951	(3,249,634)

2,925,419

\$

(aj)	Other non-interest income (expense)		
		2018	2017
	Premiums income	\$ 24,863,334	23,478,165
	Sales revenue	127,169,376	129,984,314
	Subsidized income from government	8,892,009	10,452,705
	Benefits and claims	(23,242,767)	(24,923,676)
	Cost of goods sold	(126,802,714)	(129,528,644)
	Provisions for policy holders' reserve premium	(1,371,850)	(30,214,824)
	Excess preferential interest expenses	(9,584,580)	(11,005,803)
	Others	 1,759,358	256,637
	Total	\$ 1,682,166	(31,501,126)
(ak)	Employee benefits expenses		
		 2018	2017
	Salaries	\$ 10,961,871	10,479,618
	Labor and health insurances	520,763	506,574
	Pensions	838,371	808,792
	Others	 258,864	234,151
	Total	\$ 12,579,869	12,029,135
(al)	Depreciation and amortization expenses		
		2018	2017
	Depreciation expenses	\$ 706,513	734,402
	Amortization expenses	 280,830	367,125
	Total	\$ 987,343	1,101,527
(am)	Other general and administrative expenses		
		2018	2017
	Taxes	\$ 3,091,823	3,170,497
	Rental expenses	831,866	720,049
	Insurance expenses	969,002	949,931
	Postage and phone / fax expenses	242,342	228,216
	Utilities	193,187	193,641
	Supplies expenses	168,937	161,546
	Repair and maintenance expenses	415,096	413,208
	Marketing expenses	317,709	312,921
	Professional service fees	420,225	415,196
	Cashes transferring expenses	123,782	87,590
	Others	 328,483	321,286
	Total	\$ 7,102,452	6,974,081

(aj) Other non-interest income (expense)

(Continued)

### (an) Earnings per Share

The basic earnings per share of the Bank and subsidiary were calculated as follows:

		Unit: the	usand dollars / t	housand shares
	20	18	201	7
	<b>Before-Tax</b>	After-Tax	<b>Before-Tax</b>	After-Tax
Consolidated net income	\$ <u>11,476,335</u>	10,368,175	11,296,077	10,354,328
Weighted average outstanding shares	9,500,000	9,500,000	9,500,000	9,500,000
Basic earnings per share (In dollars)	\$ <u>1.21</u>	1.09	1.19	1.09

### (7) The Fair Value Information of Financial Instruments:

- (a) Fair value information
  - (i) Overview

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

Financial instruments are recognized initially at fair values. In many case, they usually refer to transaction prices. Subsequent to initial recognition, they are also measured at fair value except for those that are measured at amortized cost. The best evidence of fair value is the quoted price in an active market. If financial instruments do not have a quoted market price in an active market, the Bank uses the valuation techniques or refers to the quoted prices set by Bloomberg, Reuters or the Counterparties to determine the fair value.

- (ii) The Three-level Definition
  - 1) Level 1

Inputs are quoted prices of same financial instruments in an active market. An active market indicates the market that is in conformity with all the following conditions: (i) the products in the market are identical; (ii) it is easy to find a willing party; (iii) the price information is attainable for the public. The equity investments, beneficiary certificates, certain Taiwan government bonds, and derivatives with quoted prices in an active market are classified as level 1.

2) Level 2

Inputs are those that are observable for asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices), other than quoted prices included within Level 1. The non-popular government bonds, corporate bonds, financial bonds, convertible bonds, most of the derivatives, and financial bonds issued by the Bank and subsidiary are classified as level 2.

3) Level 3

Inputs are not based on observable market data (unobservable inputs parameters), i.e., historical volatility which cannot represent an expected value of all the market participators but is used as a model for the calculation of options. Certain derivatives and equity investments without a non-active market belong to level 3.

- (b) Measure at fair value measurement
  - (i) Fair value hierarchy

Financial instruments measured at fair value and investment property are measured at fair value, while assets held for sale are measured at the lower of carrying value and fair value, minus, cost of disposal. The table below analyses the financial instruments carried at fair value by their levels in the fair value hierarchy.

	December 31, 2018						
Financial instruments measured at fair value	Total	Level 1	Level 2	Level 3			
Non-derivative financial instruments	I Otal	Level I	Level 2	Level 5			
Assets:							
Financial assets measured at fair value through profit or loss	230,003,94	155,634,700	74,158,049	211,200			
Financial assets designated as fair value through profit or loss	15,465,72	20	15,465,720				
Investment in bonds	15,465,72	- 20	15,465,720	-			
Financial assets mandatorily as fair value through profit or loss	214,538,22	155,634,700	58,692,329	211,200			
Investments in stocks	85,526,65	85,315,459		211,200			
Investment in bonds	59,151,69	459,364	58,692,329	-			
Others	69,859,87	69,859,877	-	-			
Financial assets at fair value through other comprehensive income	1,117,727,27	920,170,473	180,921,194	16,635,610			
Investments in stocks	1,041,010,71	4 860,089,520	180,921,194				
Investment in bonds	76,716,56	60,080,953	-	16,635,610			
Liabilities:							
Financial liabilities designated at fair value through profit or loss	\$ 45,855,31	- 0	45,855,310	-			
<b>Derivative financial instruments</b>							
Assets:							
Financial assets measured at fair value through profit or loss	6,404,76	67,262	6,337,507	-			
Hedging derivatives financial assets	41,69	- 03	41,693	-			
Liabilities:							
Financial liabilities measured at fair value through profit or loss	4,699,00	)7 -	4,699,007	-			
Hedging derivatives financial liabilities	12,97		12,973	-			

	December 31, 2017					
<b>Financial instruments</b>				x 1.0		
measured at fair value	Total	Level 1	Level 2	Level 3		
Non-derivative financial instruments						
Assets:						
Financial assets measured at fair value through profit or loss	229,418,830	174,480,334	54,938,496	-		
Financial assets held for trading	212,802,025	174,480,334	38,321,691			
Investment in stocks	93,049,983	93,049,983	-	-		
Investment in bonds	874,788	850,578	24,210	-		
Others	118,877,254	80,579,773	38,297,481	-		
Financial assets designated as fair value through profit or loss	16,616,805	-	16,616,805	-		
Available-for-sale financial assets	1,135,942,401	64,779,914	1,071,162,487			
Investment in stocks	57,296,863	57,296,863	-	-		
Investment in bonds	1,076,876,603	5,714,116	1,071,162,487	-		
Others	1,768,935	1,768,935	-	-		
Liabilities:						
Financial liabilities measured at fair value through profit or loss	26,323,785	-	26,323,785	-		
Financial liabilities designated as fair value through profit or loss	26,323,785	-	26,323,785	-		
<b>Derivative financial instruments</b>						
Assets :						
Financial assets measured at fair value through profit or loss	7,100,927	-	7,100,927	-		
Hedging derivatives financial assets	22,759	-	22,759	-		
Liabilities :						
Financial liabilities measured at fair value through profit or loss	8,706,650	-	8,706,650	-		
Hedging derivatives financial liabilities	60,480	-	60,480	-		

### (ii) Financial instruments measured at fair value

Fair value of an assets or liability is the amount at which the asset could be bought or sold in a current transaction between both willing parties who have full understanding, or transferred to an equivalent party.

Financial instruments are recognized initially at fair values. In many case, they usually refers to transaction price. Subsequent to initial recognition, they are also measured at fair value except for those that are measured at amortized cost. The best evidence of fair value is the quoted price in an active market. If a financial instrument do not have a quoted market price in an active market, the Bank uses the valuation techniques or refers to the quoted prices set by Bloomberg, Reuters or the Counterparties to determine the fair value.

The fair value of financial instruments is based on the quoted prices in an open market. These include trading prices of equity instruments listed on a major stock exchange or of the government bonds in an over the counter ("OTC") market.

When a quoted price of a financial instrument is timely available in a stock exchange or an a OTC market or from brokers, underwriter, industry associations, pricing service organizations and the authorities and the price is often used in a arm's length transaction, the financial instrument is considered to have a quoted price in an active market. If the above criteria are not met, the market is considered inactive. In general, a large or significantly increasing bid-ask spread and very low transaction volume indicate that the market where the financial instrument is trade is not active.

Other than those traded in an active market, the fair value of all other financial instruments is determined by using a valuation model or referring to the quoted price of the counterparty. The Bank refers to the present values, the discounted cash flow or the values calculated under other valuation methods of financial instruments with similar terms and characteristics, including the one calculated by a model which uses the available market data at the financial statement day as inputs. (i.e. the applicable yield curve of bonds traded in the Taipei exchange and average prices of commercial papers quoted on Reuters)

When measuring a financial instrument which no specific techniques can be applied to but do not create challenge in valuation, such as bonds traded in an inactive market, interest rate swap, FX swaps and options, the Bank and subsidiary adopt the valuation methods which are widely used and accepted by other market participants. The parameters used are usually the observable market data or information.

For complex financial instruments, the Bank not only refers to the valuation methods which are widely used and accepted by other banks but also develops its own valuation models to determine the fair value. These valuation models are usually applied to the valuation of derivatives, debt instruments with embedded derivatives, or securitization products. The parameters used in such models are usually not observable in a market, and therefore, the Bank has to make proper estimates based on assumptions and judgments.

- (iii) Fair value adjustment
  - 1) Limitations of valuation models and uncertainty input

Outputs of valuation models are approximate values and valuation techniques may not be able to reflect critical factors of all the financial and non-financial instruments. As such, additional parameters shall be incorporated into the fair value measurement, such as modeling risk and liquidity risk, when necessary. The management of the Bank believes that the adjustments made to the fair value of financial and non-financial instruments are appropriate and necessary since they are performed in accordance with the Bank's policies governing the fair value of valuation models and related internal controls. All the information and parameters are based on current market conditions and thoroughly reviewed by the Bank.

2) Credit risk valuation adjustment

Credit risk valuation adjustment consists of credit valuation adjustments and debit valuation adjustments to the derivatives traded in an OTC market instead of a stock exchange market. The definitions are as follows:

- a) Credit value adjustments (CVA): adjust the valuation on transactions that occurs outside the exchange market, which refers to OTC derivative contracts, to reflect the possibility of the counter parties' delayed payment and default into fair value.
- b) Debit value adjustments (DVA): adjust the valuation on transactions that occurs outside the exchange market, which refers to OTC derivative contracts, to reflect the possibility of the Company and its subsidiaries' delayed payment and default into fair value.

The key inputs of the measurement of credit risk and the quality of the Bank's counterparties are the probability of default (PD), loss given default (LGD) and exposure at default (EAD).

CVAs are calculated by considering the counterparty's probability of default (PD) under the condition that the Bank is not in default, Loss give default (LGD) and Exposure at default (EAD). On the contrary, DVAs are calculated by considering the Bank's PD under the condition that the counterparty is not in default, LGD and EAD.

The Bank refers to the counterparty's default rate graded by Moody's, experiences of John Gregory (scholar), and foreign financial institutions, to determine the PD at 60%. The Bank may also use other alternative PD assumptions if data availability is limited. Moreover, the Bank also takes the credit risk valuation adjustments into consideration when calculating fair value by referring to the Mark-to-Market values of derivatives traded in the OTC markets to reflect the counterparty's credit risk and the Bank's creditworthiness.

(iv) Reconciliation for fair value measurements in Level 3 of the fair value hierarchy were as follows:

There were no financial instruments categorized in level 3 as of December 31, 2017.

Reconciliation for fair value measurements categorized in level 3 as of December 31, 2018 were as follows:

	t	air value hrough ofit or loss	Fair value through other comprehensive income	
	ma meas valu pro (U	derivative indatorily ured at fair te through ofit or loss Inquoted equity truments)	Unquoted equity instruments	Total
Opening balance, January 1, 2018	\$	202,500	15,981,226	16,183,726
Total gains and losses recognized:				
In profit or loss		8,700	-	8,700
In other comprehensive income		-	810,291	810,291
Purchased		-	35,643	35,643
Derecognized or repaid		-	(191,550)	(191,550)
Ending Balance, December 31, 2018	\$	211,200	16,635,610	16,846,810

(v) The process of fair value measurements in Level 3

Referring to IFRS 13, the Trading Department should inform the Risk Management Department regarding the related valuation methods before any financial instruments categorized in Level 3 are bought or sold. The valuation result of such financial instruments is quarterly reported to Asset and Liability Management Committee.

(vi) Fair value measurements in Level 3 – sensitivity analysis of reasonably possible alternative assumptions

The Bank considers the valuation techniques used by the Bank for fair value measurements in Level 3 reasonable. However, any changs in one or more of the parameters or assumptions may lead to a different result.

The favorable and unfavorable effects represent the changes in fair value, and the fair value are based on a variety of unobservable inputs calculated using a valuation technique. There are no such effects as of December 31, 2018 and 2017. The analysis only reflects the effects of changes in a single input, and it does not include the inter-relationships with another input.

(vii) The sensitivity analysis for the financial assets measured at fair value classified to the Level 3.

The Bank's and subsidiary's financial instruments that use Level 3 inputs to measure fair value include "financial assets measured at fair value through profit or loss – equity investments" and "fair value through other comprehensive income – equity investments".

Inter-relationship

# BANK OF TAIWAN AND SUBSIDIARY Notes to the Consolidated Financial Statements

Quantified information of significant unobservable inputs was as follows:

Item	Valuation technique	Significant _unobservable inputs_	between significant unobservable inputs and fair value <u>measurement</u>
Financial assets measured at fair value through profit or loss and Financial assets at fair value through other comprehensive income – Contingent consideration	Comparable company method (Market approach)	<ul> <li>P/E ratio</li> <li>P/B ratio</li> <li>EV/Operating revenue</li> <li>EV/EBITDA</li> <li>EV/Total assets</li> <li>Liquidity discount rate</li> </ul>	<ul> <li>The estimated fair value would increase (decrease) if:</li> <li>the P/E ratio, P/B ratio, EV/Operating revenue, EV/EBITDA and EV/Total assets were higher (lower);</li> <li>the liquidity discount rate were lower (higher).</li> </ul>

(c) Hierarchy information of financial instruments not measured at fair value

### (i) Fair Value Information

In addition to the following items, the Bank's financial instruments that are not measured at fair value include cash and cash equivalents, due from the central bank and call loans to banks, securities purchased under resell agreements, receivables, other financial assets, discounts and loans, deposit from and due to the central bank and banks, securities sold under repurchase agreements, commercial papers issued, payables, deposits, other borrowings and other financial liabilities. Since their book value is a reasonable approximation to fair value, there is no fair value disclosure.

Item	<b>Book value</b>	Fair value
December 31, 2018		
Financial Assets		
Financial Assets measured at amortized cost	167,824,692	168,444,682
December 31, 2017		
Financial Assets		
Held-to-maturity financial assets	144,060,765	145,207,512
Other financial assets – Debt investments without quoted price in active markets	14,644,697	14,595,704

### (ii) Fair value hierarchy

	December 31, 2018					
Assets and liabilities item	Total	Quoted prices in active markets for identical asset (Level1)	Significant other observable inputs (Level2)	Significant observable inputs (Level3)		
Financial Assets:						
Financial Assets measured at amortized cost	\$ 168,444,682	85,189,779	83,254,903	-		
		December	31, 2017			
		Quoted	,			
Access and lightlitics item	Tatal	prices in active markets for identical	Significant other observable inputs	Significant observable inputs (Laual2)		
Assets and liabilities item Financial Assets:	Total	<u>asset (Level1)</u>	(Level2)	(Level3)		
	¢ 145 207 512	61 975 950	90 221 652			
Held-to-maturity financial assets	\$ 145,207,512	64,875,859	80,331,653	-		
Other financial assets – Debt investments without quoted price in active markets	14,595,704	-	14,595,704	-		

The methods and assumptions to estimate the financial instruments not measured at fair value are as follows.

- Financial instruments that have short term to maturity or of which the agreed prices are close to carrying amounts are recognized using their carrying amounts at reporting date. These financial instruments include cash and cash equivalents, placement with Central Bank and call loans to banks, bills and bonds purchased under resell agreements, receivables, limited assets, deposits of Central Bank and other banks, loans to the Central Bank and other banks, bills and bonds sold under repurchase agreements, payables and guarantee deposits received.
- 2) The discounts and loans (including non-performing loans): The Bank use the floating interest rate to be the interest rate of loans. The floating interest rate can also reflect the market interest rate. So it is reasonable to use the carrying amount and the recoverability to estimate the fair value. The mid-term and long-term loans using with fixed interest rate should use the discounted present value of expected future cash flow to estimate their fair value. However, if the loans with fixed interest rate are minor, it is reasonable to use the carrying amount and their recoverability to estimate their fair value.

3) Financial assets measured at amortized cost (applicable since January 1, 2018)

If the quoted prices in active markets are available, the market price is established as the fair value. However, if quoted prices in active markets are not available, the estimated valuation or prices used by competitors are adopted:

- a) If there is quoted price generated by transactions, the recent transaction price and quoted price data is used as the basis for fair value measurement.
- b) If no quoted prices are available, the discounted cash flows are used to estimate fair values.
- 4) Held-to-maturity financial assets (applicable before 2017): The quoted price in an active market shall be used to estimate the fair value. Otherwise, the quoted price of the counterparty or the valuation methods will be used instead.
  - a) New Taiwan Dollar Government Bonds: The "Government Bonds Fair Value" offered by the Taipei Exchange is used to evaluate the bonds.
  - b) New Taiwan Dollar Corporate Bonds and Financial Bonds: The present value is decided by the present value discounted at the yield offered by the Taipei Exchange or the fair value offered by the Taipei Exchange.
- 5) Deposits and Remittances: The Bank and subsidiary consider the characteristic of bank industries to decide the fair value. The deposits with market interest rate are those almost with due within one year and their carrying amounts are reasonable basis for estimating the fair value. The long-term deposits with fixed interest rate are measured using the discounted present value of expected future cash flow. Because the term to maturity is less than three years, it is reasonable to use the carrying amount to estimate the fair value.
- 6) Financial Bonds Payable: It refers to the convertible corporate bonds and financial bonds issued by the Bank and subsidiary. Their coupon rates are almost equal to the market interest rate, so it is reasonable to using the discounted present values of the expected future cash flow to estimate their fair values. The present values are almost equal to the carrying amounts.
- 7) Other Financial Assets Bonds Investments with Non-active Market: If there are related transactions or quoted price from market makers, the latest strike price or quoted price should be used to measure the fair value. Otherwise, use the valuation methods to estimate the discounted present value of cash flow.
- 8) Other Financial Assets Financial Assets Carried at Cost: Because there is no quoted price in the active market and the interval of estimated fair values is significant or it is not reasonable to evaluate the probability of each estimated fair value within the interval, therefore, the fair value cannot be measured reliably. Hence, the Bank and subsidiary can not disclose the fair value.

### (8) Financial Risk Management:

(a) Overview

The Bank's activities has expose to various risks from financial instruments, which included credit risk, market risk, operational risk, interest rate risk, liquidity risk, national risk, legal risk and so forth. The principle of risk management is as follow:

- (i) Monitor the BIS Capital Adequacy Ratio in response to operation scale, credit risk, market risk, operational risk and the operating trades in the future.
- (ii) Establish a systematic risk measure and control mechanism to measure, monitor and control every risk.
- (iii) Manage every business risk considering the risk capacity, capital reserve, nature of debts and performance.
- (iv) Establish a valuation method for the quality and classification of assets, control the intensity of exposure and significant exposure, check periodically and recognize allowance for loss.
- (v) Establish information system protection mechanism and emergency plan for bank operation, transactions, and information. Build an independent and effective risk management mechanism and strengthen the risk management of business through appropriate policies, procedures, and systems.
- (b) Risk management structure

The risk management structure of the Bank and subsidiary are composed of the Board of Directors, risk management committee, risk management department and every operational unit.

- (i) The Board of Director is the final decision maker for risk management and is responsible for the result of risk. The Board of Director should decide the entire risk management policies in view of operational strategies and business environment to monitor the risk management mechanism which understand the risk status and maintain the appropriate Capital Adequacy Ratio in response to all risk.
- (ii) Risk management committee under the Board of Directors is responsible for executing risk management policies and coordinating interdepartmental management of risk.
- (iii) Risk management department is responsible to monitor, trace the execution status of risk management policies and submit reports to the board of directors or risk management committee. If a significant risk exposure is discovered, the risk management department has to make appropriate procedures and report them to the board of directors.
- (iv) Every department should identify, evaluate, and control the risks of new products or business, set related risk management regulations as a guideline, and monitor the risk management to ensure the risk control of entire company.
- (v) All operational units shall comply with the regulations for risk management.

### (c) Credit Risk

(i) Causes and definition of credit risk

Credit risk is the risk of financial loss to the Bank if a borrower, issuer or a counterparty to a financial instrument fails to meet its contractual obligations principally due to their credit deterioration or other factors (i.e. disputes between a loanee and its counterparty), including:

- 1) Credit risk from a borrower/issuer refers to the risk that the Bank and subsidiary may suffer from financial losses when the borrower/issuer is not able to meet its contractual obligations due to default, bankruptcy or liquidation.
- Credit risk form counterparties refers to the risk that the Bank and subsidiary may suffer from financial losses when the counterparty is not able to settle the contracts or execute its repayments.
- 3) Credit risk form underlying assets refers to the risk that the Bank and subsidiary may suffer from financial losses when the credit quality of the underlying assets linked by the financial instruments turns vulnerable, which leads to an increase of risk premium or a downgrade of credit rating.

Credit risk is derived both from on and off balance sheet items. On balance sheet items include loans, placement with banks, call loans to banks, acceptance bills, debt instruments, derivatives, etc. Off balance sheet items include guarantees, acceptances, letter of credits, loan commitments, etc.

(ii) Identification and measurement of credit risk

To ensure the credit risk is in a tolerable range, the Bank and subsidiary set the credit risk management policies which identified that the credit risk includes all the transactions and business related to the assets, liabilities and off-balance sheet items. Before executing present or new businesses, the Bank and subsidiary shall identify the credit risk, understand the risk exposure through appropriate evaluation and assess the possibilities of default.

Except that the local financial supervisory institutions have their own regulations, the overseas business units of the Bank and subsidiary shall conduct the credit ability of the loans and discounts, and recognized impairment in accordance with the "Operational Manual of Evaluating the Impairment of Loans and Receivables". The followings are the detailed information of how major businesses of the Bank measure and manage credit risk.

- 1) Credit business(including loan commitments and deposit)
  - a) Credit assets categories and post-loan management

The Bank has established the "Operational Manual of Evaluating the Impairment of Loans and Receivables" and has classified the credit assets into five categories. Except for the normal credit assets that are classified at the first category, the other bad credit rating assets are classified as the second category- requiring attention, the third category- collectable, the fourth category hard to collect, and the fifth category-impossible to collect by assessing the collaterals and overdue days. In order to reinforce the post-loan management, the Bank and subsidiary set the "Credit Review and Follow up Evaluations Provision", the "Review of the Credit Conducted by Managers Provision" and "Warning Mechanism Provision" and evaluate and monitor the quality of credit assets regularly. Also, the Bank and subsidiary audit credit cases periodically, to enhance the management of abnormal credit, and to achieve the purpose of warning and interim monitor.

b) Internal credit rating

When conducting credit review, the Bank will obtain necessary collateral to mitigate risk arising from financial loss due to the environment, economic changes, risk factors of business development strategies and policies. In order to balance the credit risk and earnings target, they strengthen the market competitiveness of products strive for customer identification and broaden the business. The following are the credit process of corporate finance and consumer finance.

i) Corporate Finance

The Bank has established a credit policy under which each new customer is analyzed individually for creditworthiness before the interest rate is offered. The Banks review includes external rating, when available, and in some cases, the information that is publicly available. The clients are classified into two types based on the scorecards, the large-scale enterprise and the mediumscale enterprise. Then they measure their scale, financial and business status, business management and industry characteristic. There are eight credit ratings, all in all.

ii) Consumer Finance

The Bank and subsidiary use the credit application scorecard and behavior scorecard, both of them have seven grades for the purpose of credit risk evaluation and differential pricing. Unsecured consumer loans are graded based on seven scoring items and are classified into the seventh rating. The Bank and subsidiary will reject those below the lowest scores; the others are reviewed in accordance with related provisions.

2) Due from Banks and Call Loans to Banks

The Bank will assess the counterparty's creditworthiness, and refer to external ratings provided by domestic and international credit rating agencies, to set up different credit risk limits before any transactions are carried out.

3) Investment in debt instruments and financial instrument derivatives

The Bank identifies and manages credit risk of debt instruments by reviewing the external ratings, creditworthiness of bonds, and geographic region of its counterparties. Most of the Bank's derivative contracts with its counterparties are financial institutions with good credit ratings. For those financial institutions whose ratings are not available, the Bank reviews the transactions individually. All the counterparties, including non-financial institutions, are managed based on their lines of credit (including loans at call).

- (iii) Measurement of credit risk
  - 1) Categories for credit risk quality

The Bank and subsidiary internally categorize the credit risk into four levels, which are low risk, moderate risk, high risk and impaired risk. The definition of each level is as follows:

- a) Low risk: The issuers or the counterparties are rated as robust or above to fulfill their obligation of the contracts. Even under various negative news or disadvantageous economic conditions, the companies are capable of dealing with the situations.
- b) Moderate risk: The possibility that the issuers or counterparties fulfill their obligation is remote. Operating performance and disadvantageous economic conditions will lower their ability and willingness to fulfill their obligation.
- c) High risk: The possibility that the issuers or counterparties fulfill their obligation is remote and mainly relies on the business environment. Negative news or disadvantageous economic conditions will lower their ability and willingness to fulfill their obligation.
- d) Impaired risk: the counterparties or the target did not perform its obligation according to the contracts, and the potential estimated loss of the Company has reached the standard of impairment.
- 2) Determination on the credit risk that has increased significantly since initial recognition

The Bank and subsidiary determine whether the credit risk of financial instruments applying the impairment requirements in IFRS 9 increased significantly since the initial recognition on each reporting date. For this assessment, the Bank and subsidiary consider the reasonable and supportable information (including forward looking information) which shows that the credit risk has increased significantly since initial recognition. The main considerations.

a) Credit business (including loan commitments and financial deposit)

The Bank's and subsidiary's credit business scoring model and risk degree were as follows:

Risk degree	Corporate Finance IRB scoring model	Consumer Finance IRB application/ behavioral scoring model (including credit cards, excluding student loans)	Student Loans behavioral scoring model
	1	1	1
Low	2	2	
	3	3	2
	4	1	
	5	4	3
	6	5	4
Moderate	7		5
	8	6	
	9	1	6
	10	1	
	11		7
High	12	7	8
	13	1	9
			10

i) Loans and Discounts and credit related receivables

The Bank and subsidiary will determine if the credit risk of loans and discounts or financing receivables has increased significantly since initial recognition, when the financial instrument applying the impairment requirements in IFRS 9 meets the following conditions at each reporting date:

- The borrower's internal or external rating has significantly dropped;
- The borrower's contract payment has been overdue for more than one month but still within 3 months (there are additional 45 days for a borrower who does not have a credit account in the Bank);
- The borrower's internal credit level is assessed as" Poor" under post loan review or alert.

### ii) Credit Cards

The Bank and subsidiary will determine if the credit risk of credit card loans has increased significantly since initial recognition when the credit card loans applying the following conditions: The borrower has not used revolving credit facility, but whose internal rating has dropped more than 3 levels, or the borrower has used revolving credit facility without overdue, or overdue within 3 months, or non-conforming assets excluding assets previously determined as credit risk has increased significantly or credit impairment.

b) Debt investments and placement with central bank and call loans to banks

The Bank and subsidiary follow the table below to determine whether that the credit risk of debt investments or placement with central bank and call loans to banks have increased significantly since initial recognition at each reporting date:

	STAGE 1 (credit risk has not significantly increased)	STAGE 2 (credit risk has significantly increased)	STAGE 3 (credit has been impaired)
1.	The credit rating of a counterparty is higher than Moody's A3, S&P's A , Fitch's A or Taiwan Ratings' twA at the reporting date. (Note)		
2.	1 1	credit of counterparty is not	Not assessed as Stage 1, but the credit of counterparty has been impaired.
3.	The credit rating of a counterparty lower than Moody's Baa3 or equivalent drops 1 level during the period of the transaction date and each reporting date.		

- Note: If the credit risk of the credit assets is low, the Bank and subsidiary may consider that the credit risk of debt investments and placement with central bank and call loans to banks has not significantly increased since initial recognition.
- 3) Definitions for default and credit impairment of financial assets

The Bank and subsidiary use the same definitions for default and credit impairment of financial assets. If one or more of the following conditions are met, the Branch determine that the financial assets have been defaulted and credit impaired:

- a) Credit business (including loan commitments and financial deposit)
  - i) Loans and discounts and credit related receivables
    - 1. Quantitative indicators
      - The borrower's principals or interests have been overdue than 3 months.
      - The borrower's internal rating is assessed as the lowest.

2. Qualitative indicators

If there is evidence that the borrower will be unable to pay the contract, or show that the borrower has significant financial difficulties, such as:

- The borrower has requested to postpone the repayment of principles and interests;
- The borrower's internal credit level is assessed as "Terrible" under post loan review or alert;
- The borrower's internal credit level is assessed as "Dangerous" under post loan review or alert;
- The borrower is reported by the Bank due to significant and unfavorable events;
- The borrower is under debt negotiation.
- ii) Credit card business

The loan which borrower's payment has been overdue more than 3 months, or is reclassified as non-accrual loans, or was credit-impaired before, or which borrower is dead.

- b) Debt investments and placement with central bank and call loans to banks
  - i) If there is evidence showing that the borrower will be unable to repay the principal or interests, or that the borrower has significant financial difficulties, such as:
    - The issuer has breached the contract, such as a default or delinquency in interest or principal payments;
    - The issuer reorganizes its debt, such as a slash on the interest rate or principals, an exchange of debts, subordination of debt repayment or a postpone in maturity date;
    - · The issuer has filed a bankruptcy; or
    - The issuer's rating is optional default or default.
  - ii) A combination of individual and independent events may lead to an impairment on financial assets.

If the aforementioned definition of breach of contract and credit impairment applies to all financial assets held by the Bank and subsidiary no longer meets the definition of default and credit impairment for a period of time, it is deemed to return to the state of compliance and is no longer considered defaulted and credit impaired.

The aforementioned definition of breach of contract and credit impairment, and is consistent with the definition used for the purpose of internal credit risk management for financial assets, and is also applied to the relevant impairment assessment model.

4) Write off policy

If there is no realistic prospect of recovery for the financial assets (either partially or in full), the Bank and subsidiary will write off part or full of the financial assets. The indications of financial assets which have no realistic prospect of recovery include:

- a) The loan cannot be recovered in full or in part because the issuers or debtors have dissolved, gone into hiding, reached a settlement, declared bankruptcy, or for other reasons.
- b) The collateral and property of the primary/subordinate debtors or issuers have been appraised at a very low value or become insufficient to repay the loan after the subtraction of senior mortgages; or the execution cost approaches or possibly exceeds the amount that the Bank and subsidiary might collect from the debtors where there is no financial benefit in execution.
- c) The primary/subordinate debtor or an issuer's collateral has failed to sell at successive auctions where the price of such collateral has been successively lowered, and there is no financial benefit to be derived from the Bank's and subsidiary's taking possession of such collateral.
- d) More than two years have elapsed since the maturity date of the non performing loans or non accrual loans, and the efforts of collection have failed.
- 5) Amendments of contractual cash flows of financial assets

The contractual cash flows of loans and discounts may be amended due to the borrower's financial difficulties or in order to increase the recovery rate. An amendment may involve an extension of contract period, a change in the timing of repayments or in the interest rate, which may lead to a de-recognition of current financial assets and a re-recognition of the financial assets at fair value, in accordance with the Bank's and subsidiary's policy (Please see note 4(f)).

If the amendments do not lead to a de-recognition, the Bank and subsidiary will determine the credit of financial assets have been impaired and will assess expected credit loss accordingly since debt negotiation or extension is one of the conditions that define whether financial assets are credit-impaired or not.

The Bank and subsidiary assesse the possibility of default of the amend financial assets by considering the condition of repayments after the amendment and several related behavior indexes, and re-evaluate whether the amendment has improved or restore the client's ability to make the required loan payments. According to the the Bank's and subsidiary's policy, a borrower cannot be reverted to Stage 1 until the borrower can continuously repay the new contractual amounts for a certain period and shows good payment behaviors.

The Bank and subsidiary will periodically review changes of credit risk after amendments in accordance with related policy.

- 6) Expected credit loss measurement
  - a) Adopted methods and assumptions

For the Bank and subsidiary, if the financial assets are of low credit risk or no significant increase in credit risk, the 12 month expected credit losses will be recognized. If the financial assets are significantly increased in credit risk or the credits have been impaired, the expected credit losses for a lifetime will be recognized.

In order to measure expected credit losses, the Bank and subsidiary adopt Probability of default ("PD"), and include Loss given default ("LGD") and Exposure at default ("EAD"), and consider the impact of the time value of money, to calculate the expected credit losses for 12 months and for a lifetime, respectively.

Default probability is how likely the issuer or the counterparty breaches the contract, and the loss given default is the rate of loss due to default by the issuer or the counterparty. The default probability and loss given default used by the Bank and subsidiary, related impairment assessments are based on international credit rating agencies (S&P and Moody's), regularly publish information on default rate and loss given default, or internal historical information and calculate based on current observable data and forward looking general economic information (such as gross domestic production) after adjusting historical data.

The Exposure at default is measured by amortized cost of financial asset.

The estimation techniques or material assumptions made by the Bank and subsidiary to assess expected credit losses have no significant changes during the year.

b) Forward looking information considerations

The Bank and subsidiary take forward looking information into account when judging whether the credit risk of a debt instrument has increased significantly since its initial recognition, and when the expected credit loss is measured.

i) Credit business (including loan commitments and financial deposit)

The Bank and subsidiary take forward looking information into account when the expected credit loss is measured by considering Monitoring Indicator released by National Development Council as prediction for the future economic status. The indicator includes important macroeconomic variables reflected economic activities and degree of prosperity, and is used to measure the pulse of economy. The Bank and subsidiary adjust PD in coming year based on signals of Monitor Indicator and average historical probability of default, in order to make expected credit loss reflect forward looking information.

The overall monitoring indicator the Bank and subsidiary used to measure expected credit losses flashed "yellow-blue" in 2018. The indicator reflected that the prediction of economy from balanced to downturn, then the Bank and subsidiary expected credit losses to be in upper trend, and raised PD on December 31, 2018.

ii) Debt investments and placement with central bank and call loans to banks

The Bank and subsidiary evaluate the expected credit loss based on the external rating outlook or observation at the reporting date. If any of an issuer's credit rating granted by Moody's, S&P, Fitch, or Taiwan Rating is "Negative" or "-", the issuer will be determined as negative outlook or negative observation.

- 1. When the issuer's credit rating outlook is "Negative" or credit rating observation is "-", the Bank and subsidiary use the average of the long-term PD and one level reducted PD.
- 2. Otherwise, the PD will remain unchanged.
- (iv) Management of maximum exposure to credit risk and excessive risk concentration
  - 1) In accordance with the Banking Law, there is a credit limitation management for the Bank's and subsidiary's person in charge, employees, and any interested party. In respect to credit intensity, the Bank and subsidiary provide credit and investment quota rules for the same enterprise, and industry. The Bank and subsidiary also limit and manage the credit amount for enterprises, groups and every industry.
  - 2) The Bank's and subsidiary's Treasury Department, OBU, and foreign branches provide different credit amount according to external credit evaluation and rankings when having a transaction in the currency market or capital market, foreign exchange, new financial instruments transactions and negotiable security transactions.
  - 3) To spread the country risks, the Bank and subsidiary allocate different credit amount, based on the ranking of the countries in "Euromoney", to the Financing Department, OBU, and foreign branches. The covered businesses are loan assets, transaction assets, and off balance sheet positions.
- (v) Policies of credit risk deduction
  - 1) Collateral

The Bank has established policy and procedures to mitigate credit risk. Among them, one of the most common ways, is to demand for collateral. In terms of collateral management and valuation, the Bank established policies governing the scope of collateral and related procedures to secure debts. Moreover, the Bank also requires the provisions that secure debts and collateral should be contained within a credit agreement to reduce credit risk by clearly defining the amounts the Bank can cut and the grace periods the bank can offer or even requesting for a prepayment.

Non-credit businesses are not required to collect collateral, depending on the nature of the financial instruments. Only asset-backed securities and other similar financial instruments are required to pledge an asset pool of financial instruments as collateral.

Considering both credit control and business expansion, the Bank and subsidiary shall request collaterals or guarantees to decrease the credit risk. The permitted collaterals and guarantees included mortgages on real estate or properties (i.e., land, building, machinery, car, ship, aircraft, etc.), pledges of securities or other rights (i.e., certificates of deposit; various bonds, stocks, or other securities), guarantees provided by the government agencies, banks, or credit guarantee institutions authorized by the government, and any other guarantees or collaterals approved by the Bank and subsidiary.

2) Master netting agreement

The Bank's transactions are usually settled individually without bundling or netting with any other transactions. However, the Bank also enters into netting agreements or chooses to settle net and terminates the deal if the counterparty is in default.

3) Other credits enhancement

The Bank's credit contract contains the term that the Bank is entitled to offset the obligation by claiming the deposits of the borrower who are in default to mitigate credit risk.

- (vi) The maximum credit exposure to the credit risk of financial assets (without considering the allowance for bad debt, collaterals and guarantees)
  - 1) As of December 31, 2018, the amounts of maximum credit risk exposure to the credit risk displayed by credit rating are as follows:

	Discounts and loans						
	December 31, 2018						
	12	2 month ECLs	Lifetime ECLs not impaired_	Lifetime ECLs impaired	Credit impairments of originated or purchased new financial assets — impaired	Total	
Credit rating							
Low	\$	852,843,775	13,694	172,377	-	853,029,846	
Medium		908,380,450	32,983,797	2,178,188	-	943,542,435	
High		34,148,546	23,860,376	2,377,382	-	60,386,304	
Others	_	720,769,597	566,568	18,120,028		739,456,193	
Gross carrying amount		2,516,142,368	57,424,435	22,847,975	-	2,596,414,778	
Allowance for bad debts		(20,113,903)	(1,805,624)	(4,887,531)	-	(26,807,058)	
Impairment recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans	_					(12,580,426)	
Total	\$	2,496,028,465	55,618,811	17,960,444		2,557,027,294	

		I	December 31, 2018		
				Cardit	
	12 month ECLs	Lifetime ECLs — not impaired	Lifetime ECLs — impaired	Credit impairments of originated or purchased new financial assets — impaired	Total
Credit rating					
Aaa~Baa3	\$ 1,036,587,799	-	-	-	1,036,587,799
Bal~Ba3	2,599,246	1,092,208			3,691,454
Gross carrying amount	1,039,187,045	1,092,208	-	-	1,040,279,253
Allowance for impairment	(76,773)	(6,172)	-	-	(82,945)
Valuation adjustment	731,461	-			731,461
Total	\$ <u>1,039,841,733</u>	1,086,036			1,040,927,769
			nts measured at am		
	12 month ECLs	Lifetime ECLs not impaired	<u>cember 31, 201</u> Lifetime ECLs <u>—impaired</u>	Credit impairments of originated or purchased new financial assets — impaired	Total
Credit rating					15000000
Aaa~Baa3	\$ 156,881,045	-	-	-	156,881,045
Ba1~Ba3	10,993,183			·	10,993,183
Gross carrying amount	167,874,228	-	-	-	167,874,228
Accumulated impairment Total	(49,536)				(49,536)
Total	\$ 167,824,692	<u> </u>			167,824,692
	Lette			for Trade Receivab	les
		De	cember 31, 201	ð Credit	
Credit rating	12 month ECLs	Lifetime ECLs — not impaired	Lifetime ECLs — impaired	impairments of originated or purchased new financial assets — impaired	Total
Low	\$ 60,379,626	217,144	709	-	60,597,479
Medium	45,743,181	1,243,038	296,427	-	47,282,646
High	188,282	567,393	130,011	-	885,686
Others	4,982,111	-	29,599	-	5,011,710
Gross carrying amount	111,293,200	2,027,575	456,746		113,777,521
Allowance for bad debts(Guarantee reserve and other reserve)	(370,671)		(158,226)	-	(562,437)
Impairment recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans					(718,039)
	\$ 110,922,529	1,994,035	298,520		112,497,045

				oan Commitments cember 31, 201	0	
	12	month ECLs	Lifetime ECLs not impaired_	Lifetime ECLs impaired	o Credit impairments of originated or purchased new financial assets — impaired	Total
Credit rating						
Low	\$	2,205,098	98,762	63	-	2,303,923
Medium		-	140,328	371	-	140,699
High		53,145	-	-	-	53,145
Others		412,585,699				412,585,699
Gross carrying amount		414,843,942	239,090	434	-	415,083,466
Allowance for bad debts (Loan commitments reserve)		(13,309)	(2,067)	(236)	-	(15,612
Total	\$	414,830,633	237,023	198	<u> </u>	415,067,854
	Accounts Receivable(including other financial assets) December 31, 2018 Credit impairments of					
	12	month ECLs	Lifetime ECLs — not impaired	Lifetime ECLs —impaired	Credit impairments of originated or purchased new financial assets — impaired	Total
Credit rating					impairments of originated or purchased new financial assets	
Aaa~Baa3	<u>12</u> \$	8,827,396	— not impaired		impairments of originated or purchased new financial assets	8,827,396
Aaa~Baa3 Ba1~Caa1		8,827,396 94,231	<u>- not impaired</u> - 15,890	— impaired - -	impairments of originated or purchased new financial assets	8,827,396 110,121
Aaa~Baa3 Ba1~Caa1 Others		8,827,396 94,231 88,321,178	- not impaired - 15,890 823,467	impaired 	impairments of originated or purchased new financial assets	8,827,396 110,121 89,254,372
Aaa~Baa3 Ba1~Caa1 Others Gross carrying amount (Note 1)		8,827,396 94,231 88,321,178 97,242,805	<u>- not impaired</u> - 15,890 <u>823,467</u> 839,357	impaired 	impairments of originated or purchased new financial assets	8,827,396 110,121 89,254,372 98,191,889
Aaa~Baa3 Ba1~Caa1 Others		8,827,396 94,231 88,321,178	- not impaired - 15,890 823,467	impaired 	impairments of originated or purchased new financial assets	8,827,396 110,121

Note 1: The gross carrying amount of the table was not included the Bank's restrictive deposit \$19,469 thousand and Department of Government Employees' Insurance's accounts receivable \$7,283,748 thousand evaluated by simplification method.

Note 2: The allowance for bad debts of the table were not included the Bank's accumulated impairment recognized in restrictive deposit \$11 thousand and Department of Government Employees' Insurance's allowance for impairment \$1,022 thousand evaluated by simplification method.

2) Assets in the Financial Statements (applicable before January 1, 2018)

Unit: In million of TWD

	December 31, 2017				
Item	-	Book Value	Maximum credit exposure (Note 2)		
Cash and cash equivalents	\$	114,043	79,489		
Placement with Central Bank and call loans to banks		675,563	251,386		
Financial assets measured at fair value through profit or loss		64,827	64,827		
Available for sale financial assets		1,135,941	161,370		
Hedging derivative financial assets		23	23		
Receivables		100,519	83,175		
Loans and discounts		2,318,081	2,252,679		
Held-to-maturity financial assets		81,258	12,809		
Other financial assets		75,715	75,632		
Total	\$	4,565,970	2,981,390		

Note : December 31, 2017

- The amount of non-performing loans which included the department of loan management was \$4,923 million)
- (2) Apart from cash, the maximum exposure to credit risk of other assets shall exclude the debts (including tax receivables, placement with Central Bank and deposits in Central Bank) from the government and the Central Bank. Explanations were as follows:
  - 1) Cash and cash equivalents exclude cash, notes, and checks for clearing of \$34,554 million.
  - Placement with Central Bank and call loans to banks exclude placement with Central Bank and deposits in Central Bank of \$424,177 million.
  - 3) Available-for-sale financial assets exclude the government bonds of \$42,225 million and negotiable certificate of deposits of \$932,346 million.
  - 4) Held-to-maturity financial assets exclude the government bonds of \$68,449 million.
  - Receivables exclude tax receivables of \$650 million and long-term receivables of \$16,694 million.
  - 6) Loans and discounts exclude loans to government of \$65,402 million.
  - 7) Other financial assets exclude short-term advances to government of \$83 million.
- (3) The greatest impact of the credit exposure is the fair value at the balance sheet date; the book value of hedging derivatives is the principal of the hedging instruments (IRS); and the amount of greatest credit exposure is the adjusted amount of hedging derivatives at fair value.
- (4) The carrying amounts excluded the assets of the Department of Government Employees Insurance and BankTaiwan Insurance Brokers Co., Ltd.

### 3) Off-balance sheet Items (applicable before January 1, 2018)

Unit: In million of TWD

		December	31, 2017
Item	Bo	ook Value	Maximum credit exposure (Note 2)
Irrevocable loan commitment (with lines of credit)	\$	431,389	12,627
Letter of credit receivables		25,419	23,548
Deposits receivables		85,039	85,000
Total	\$	541,847	121,175

Note: December 31, 2017

- (1) While measuring the maximum exposure to credit risk, the Bank and subsidiary only consider the items that are positive at the reporting date, the off-balance commitments and guarantee contracts and exclude the position to the government.
  - 1) Irrevocable loan commitment with credit agreement excludes \$418,762 million.
  - 2) Letter of credit receivables exclude \$1,871 million.
- (2) This table excludes the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.
- 4) The assets in the balance sheet and off-balance sheet items held as collateral, master netting arrangement and other credit enhancements related information on the financial impact the maximum amount of the violence risk in credit risk shows in the following table :

Unit: In million of TWD

December 31, 2018		Collateral	General agreement of net amount settlement	Enhancement of other credits	Total
In balance sheet:					
Receivables					
Others	\$	1,284	379	2,765	4,428
Loans and discounts		1,342,676	-	1,252,821	2,595,497
Financial assets measured at fair value through profit or loss					
Others		112	-	-	112
Off-balance sheet					
Irrevocable loan commitments		-	-	414,844	414,844
Standby letters of credit		1,650	-	25,026	26,676
Financial guarantees	_	7,581		79,520	87,101
Total	\$_	1,353,303	379	1,774,976	3,128,658

December 31, 2017		Collateral	General agreement of net amount settlement	Enhancement of other credits	Total
In balance sheet:					
Receivables					
Others	\$	1,161	3	2,427	3,591
Loans and discounts		1,314,590	-	1,002,505	2,317,095
Off-balance sheet					
Irrevocable loan commitments		2,432	-	428,686	431,118
Standby letters of credit		1,506	-	23,913	25,419
Financial guarantees	_	7,008		78,031	85,039
Total	<u></u>	1,326,697	3	1,535,562	2,862,262

The Management believes that the reason why the Bank can continuously manage and minimize the exposure of credit risk to off-balance sheet items is because a stricter review process is adopted, and cases are reviewed regularly in subsequent periods.

5) The Bank closely observes the value of collateral for financial instruments, and considers the allowance for impairment of credit-impaired financial assets. Information about credit-impaired financial assets and the value of collateral which may decrease potential loss is shown below:

			December	31, 2018	
	Gı	oss carrying amount	Allowance for _impairment_	Exposure amount (Amortized 	Fair value of collateral
Impaired financial assets:					
Receivables					
Credit card business	\$	5,238	4,122	1,116	-
Others		104,489	44,886	59,603	-
Loans and discounts		22,847,975	4,887,531	17,960,444	9,178,478
Total amount of impaired financial assets	\$	22,957,702	4,936,539	18,021,163	9,178,478

6) Financial assets not applicable for rules of impairment:

	D	ecember 31, 2018
	Ma	ximum credit exposure
Financial assets measured at fair value through profit or loss		
Debt instruments	\$	144,477,290
Derivative		6,404,769

### (vii) Concentration of credit risk

When the transaction of financial instruments is concentrated in a single industry or region, the ability to oblige the contract would be impacted by similar factors, thereby, causing concentration of credit risk.

The credit risk of the Bank is derived from credit, placement with banks, call loans to banks, security investments and so on. Disclosures of concentration of credit risk by industries, regions and collaterals were as follows:

1) Industry

		December 3	1, 2018	December 31	, 2017
	В	ook Value		Book Value	
Industry type		(Note 1)	<u>%</u>	(Note 2)	%
Finance and insurance	\$	1,396,688	33.84 %	1,536,358	38.58 %
Individuals		869,958	21.08 %	859,455	21.59 %
Manufacturing		391,096	9.48 %	364,778	9.16 %
Government Agencies		710,576	17.22 %	523,183	13.14 %
Shipping, warehousing and communications		151,845	3.68 %	119,558	3.00 %
Electricity and gas supply		107,084	2.59 %	105,930	2.66 %
Others		499,570	<u>12.11</u> %	472,697	<u>11.87</u> %
Total	<u>\$</u>	4,126,817	<u>100.00</u> %	3,981,959	<u>100.00</u> %

Note 1: December 31, 2018

- (1) The carrying amounts include loans (\$2,596,415 million), call loans to banks, overdraft of banks and placement with banks (\$210,945 million), security investments (\$1,319,457 million) and so on. Loans refer to discounts, overdrafts, government overdrafts, secured overdrafts, short-term loans, short-term secured loans, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, import bill advance and nonperforming loans (\$4,221 million). Security investments include bonds and stocks. Bonds are measured at fair value. However, the bonds classified as held-to-maturity financial assets or bond investments in non-active market are carried at cost. Equity investments are measure at fair value but those classified as cost of long-term equity investments under the equity method and financial assets carried at cost are measured at cost.
- (2) This table excludes the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

Note 2: December 31, 2017

(1) The carrying amounts include loans (\$2,318,081 million), call loans to banks, overdraft of banks and placement with banks (\$328,438 million), security investments (\$1,335,440 million) and so on. Loans refer to discounts, overdrafts, government overdrafts, secured overdrafts, short-term loans, short-term secured loans, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, import bill advance and nonperforming loans (\$4,923 million). Security investments include bonds and stocks. Bonds are measured at fair value. However, the bonds classified as held-to-maturity financial assets or bond investments in non-active market are carried at cost. Equity investments are measure at fair value but those classified as cost of long-term equity investments under the equity method and financial assets carried at cost are measured at cost.

Unit: In million of TWD; %

(2) This table excludes the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

### 2) Region

Unit: In million o	f TWD; %
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		December 3	1, 2018	December 3	1, 2017
Areas type	Va	Book llue(Note 1)	%	Book Value(Note 2)	%
Domestic	\$	3,681,225	89.20 %	3,508,669	88.11 %
Foreign		445,592	10.80 %	473,290	11.89 %
Total	\$	4,126,817	100.00 %	3,981,959	100.00 %

Note 1: December 31, 2018

- (1) The carrying amounts include loans (\$2,596,415 million), call loans to banks, overdraft of banks and placement with banks (\$210,945 million), security investments (\$1,319,457 million) and so on. Loans refer to discounts, overdrafts, government overdrafts, secured overdrafts, short-term loans, short-term secured loans, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, import bill advance and nonperforming loans (\$4,221 million). Security investments include bonds and stocks. Bonds are measured at fair value. However, the bonds classified as held-to-maturity financial assets or bond investments in non-active market are carried at cost. Equity investments are measure at fair value but those classified as cost of long-term equity investments under the equity method and financial assets carried at cost are measured at cost.
- (2) This table excludes the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

Note 2: December 31, 2017

- (1) The carrying amounts include loans (\$2,318,081 million), call loans to banks, overdraft of banks and placement with banks (\$328,438 million), security investments (\$1,335,440 million) and so on. Loans refer to discounts, overdrafts, government overdrafts, secured overdrafts, short-term loans, short-term secured loans, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, import bill advance and nonperforming loans (\$4,923 million). Security investments include bonds and stocks. Bonds are measured at fair value. However, the bonds classified as held-to-maturity financial assets or bond investments in non-active market are carried at cost. Equity investments are measure at fair value but those classified as cost of long-term equity investments under the equity method and financial assets carried at cost are measured at cost.
- (2) This table excludes the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

### 3) Collateral

		December 31	, 2018	December 31, 2017			
		Book		Book			
Type of collateral	Va	lue(Note 1)	%	Value(Note 1)	%		
Non-secured	\$	1,253,738	48.29 %	1,003,492	43.29 %		
Secured		1,342,677	51.71 %	1,314,589	56.71 %		
Guarantee		141,408	5.44 %	144,249	6.22 %		
Securities		80,505	3.10 %	85,437	3.68 %		
Real estate		1,045,746	40.28 %	1,029,837	44.43 %		
Chattel		74,905	2.88 %	54,961	2.37 %		
Valuables		113	0.01 %	105	0.01 %		
Total	\$	2,596,415	<u>100.00</u> %	2,318,081	<u>100.00</u> %		

Note 1: The carrying amounts only contain loans which refer to discounts, overdrafts, government overdrafts, secured overdrafts, short-term loans, short-term secured loans, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, import bill advance and non-performing loans (\$4,221 million at December 31, 2018; \$4,923 million at December 31, 2017).

Note 2: This table excludes the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

(Continued)

Unit: In million of TWD; %

(viii) Changes in loss allowance

- 1) Changes in loss allowance of discounts and loans
- As of December 31, 2018, the reconciliations of the beginning and ending balances for loss allowance of discounts and loans were as follows: a)

Total	33,015,914		,	,		(3,903,118)	17,660,535	3,916,096	(2,116,120)	994,434	(10,180,257)	39,387,484
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming/Nona certaal Loans	8,664,330							3,916,096				12,580,426
The loss allowances measured in with IFRS 9	24,351,584		,			(3,903,118)	17,660,535		(2, 116, 120)	994,434	(10,180,257)	26,807,058
Lifetime ECLs (purchased or originated credit impaired financial assets)	ı		ı	·			ı	ı				
Lifetime ECLs (not purchased or originated financial assets)	3,728,448		(184,046)	96,546	(77,199)	(3,693,297)	2,109,276		(1,661,290)	994,434	3,574,659	4,887,531
Lifetime ECLs (collectively assessed)	3,337,527		344,957	(74,769)	(2,452,291)	(2,498)	459,339				193,359	1,805,624
12 month ECLs	\$ 17,285,609		(160,911)	(21,777)	2,529,490	(207, 323)	15,091,920	·	(454, 830)		(13,948,275)	\$ <u>20,113,903</u>
	Beginning balance	Changes due to financial instruments recognized as at beginning:	- Transfer to lifetime expected credit losses	- Transfer to lifetime ECL not credit impaired	Transfer to 12month expected credit losses	Financial assets that have been derecognized during the period	Originated or purchased new financial assets	Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccutal Loans	Bad debts written off	The recovery of bad debts written off	Foreign exchange and other movements	Ending balance

Financial Information

b) As of December 31, 2018, the carrying amounts of discounts and loans were as follows:

Total	2,318,081,105				(923, 258, 048)	1,205,278,845	(2, 116, 120)	109	(1,571,113)	2,596,414,778
Lifetime ECLs (purchased or originated credit impaired financial assets)		ı	ı	ı	ı	·	ı	ı	,	-
Lifetime ECLs (not purchased or originated credit impaired financial assets)	17,493,186	(777,906)	5, 339, 405	(570, 809)	(8,093,468)	4,935,710	(2,094,735)	109	6,616,483	22,847,975
Lifetime ECLs (collectively assessed)	190,591,002	35,375,630	(2,585,704)	(143, 849, 225)	(31, 130, 544)	9,421,456	ı	ı	(398, 180)	57,424,435
12 month ECLs	2,109,996,917	(34, 597, 724)	(2,753,701)	144,420,034	(884, 034, 036)	1,190,921,679	(21, 385)	ı	(7,789,416)	2,516,142,368
	Beginning balance	- Transfer to lifetime expected credit losses	<ul> <li>Transfer to lifetime ECL not credit impaired</li> </ul>	- Transfer to 12month expected credit losses	Financial assets that have been derecognized during the period	Originated or purchased new discounts and loans	Bad debts written off	Changes form the amendments not leading to de recognition	Other movements	Ending balance \$

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- Changes in loss allowance of debt instruments measured at fair value through other comprehensive income 6
- As of December 31, 2018, the reconciliations of the beginning and ending balances for loss allowance of debt instruments measured at fair value through other comprehensive income were as follows: a)

	12 month FCT 6		Lifetime	Lifetume ECLs (not purchased or originated credit impaired financial	Lifetume ECLs (purchased or originated credit impaired financial	The loss allowances measured in accordance	Total
Beginning balance	<u>5 78,</u>	78,918		assus) -	-	78,918	78,918
Changes due to financial instruments recognized as at beginning:							
- Transfer to lifetime expected credit losses	(5,	(5,858)	5,858	ı			ı
Financial assets that have been derecognized during the period	(15,	(15,785)		·		(15,785)	(15,785)
Originated or purchased new financial assets	20,	20,599		·	·	20,599	20,599
Foreign exchange and other movements	(1,	(1,101)	314	'	,	(787)	(787)
Ending balance	s 76.	76,773	6,172			82,945	82,945

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As of December 31, 2018, the carrying amounts of debt instruments measured at fair value through other comprehensive income were as follows: q

Total	1,086,229,259	ı	(920, 991, 519)	875,749,012	(707, 499)	1,040,279,253
Lifetime ECLs (purchased or originated credit impaired financial assets)				·		
Lifetime ECLs (not purchased or originated credit impaired financial assets)	I	ı	ı	ı		
Lifetime ECLs	ı	1,036,692	·	ı	55,516	1,092,208
		(1,036,692)	(920, 991, 519)	875,749,012	(763,015)	<u> </u>
	Beginning balance	- Transfer to lifetime expected credit losses	Financial assets that have been derecognized during the period	Originated or purchased new financial assets	Other movements	Ending balance

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Notes to the Consolidated Financial Statements **BANK OF TAIWAN AND SUBSIDIARY** 

- Changes in loss allowance of debt instruments measured at amortized cost 3
- As of December 31, 2018, the reconciliations of the beginning and ending balances for loss allowance of debt instruments measured at amortized cost were as follows: a)

Total	48,723	(13,706)	17,247	(2,728)	49,536
The loss allowances measured in accordance with IFRS 9	48,723	(13,706)	17,247	(2,728)	49,536
Lifetime ECLs (purchased or originated credit impaired financial assets)			·	'	
Lifetime ECLs (not purchased or originated credit impaired financial assets)		ı	ı	'	-
Lifetime ECLs	.		ı		
12 month ECLs	48,723	(13, 706)	17,247	(2,728)	49,536
-	\$				s.
	Beginning balance	Financial assets that have been derecognized during the period	Driginated or purchased new financial assets	Foreign exchange and other movements	Ending balance

As of December 31, 2018, the carrying amounts of debt instruments measured at amortized cost were as follows: q

Total	147,836,435	(31, 546, 259)	51,409,494	174,558	167,874,228
Lifetime ECLs (purchased or originated credit impaired financial assets)	   1	ı	ı	, 	
Lifetime ECLs (not purchased or originated credit impaired financial assets)	1	ı	ı		1
Lifetime ECLs		·			1
2 month ECLs	147,836,435	(31, 546, 259)	51,409,494	174,558	167,874,228
-	~	inancial assets that have been derecognized during the period		1	∽II

# Notes to the Consolidated Financial Statements **BANK OF TAIWAN AND SUBSIDIARY**

- Changes in guarantee reserve and other reserve 4
- As of December 31, 2018, the reconciliations of the beginning and ending balances for loss allowance of letter of credit receivables and guarantee for trade receivables (guarantee reserve and other reserve) were as follows: a)

Total	1,312,483					(487,283)	154,272	381,882	(80, 878)	1,280,476
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming/Nona corual Loans	336,157							381,882		718,039
The loss allovances measured in accordance with IFRS 9	976,326		,	,		(487,283)	154,272		(80,878)	562,437
Lifetime ECLs (purchased or originated credit impaired financial assets)										
Lifetime ECLs (not purchased or originated credit impaired financial assets)	196,387		,	4,823		(52,985)	5,162		4,839	158,226
Lifetime ECLs	73,177		7,332		(62,325)	(12,380)	6,574		21,162	33,540
12 month ECLs	\$ 706,762		(7,332)	(4,823)	62,325	(421,918)	142,536	·	(106, 879)	\$ 370,671
	Beginning balance	Changes due to financial instruments recognized as at beginning:	- Transfer to lifetime expected credit losses	- Transfer to lifetime expected credit losses	- Transfer to 12month expected credit losses	Financial assets that have been derecognized during the period	Originated or purchased new financial assets	Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming /Nonaccrual Loans	Foreign exchange and other movements	Ending balance

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As of December 31, 2018, the carrying amounts of letter of credit receivables and guarantee for trade receivables were as follows: q

Lifetime ECLs

Lifetime ECLs

			(not purchased or originated credit impaired	(purchased or originated credit impaired	
	12 month ECLs	Lifetime ECLs	financial assets)	financial assets)	Total
Beginning balance	\$ 102,108,066	8,095,456	254,064	1	110,457,586
- Transfer to lifetime expected credit losses	(1, 156, 684)	1,156,684	ı	ı	
<ul> <li>Transfer to lifetime ECL not credit impaired</li> </ul>	(100, 104)	(51,433)	151,537	ı	ı
<ul> <li>Transfer to 12month expected credit losses</li> </ul>	6,520,097	(6,520,097)	ı	ı	ı
Financial assets that have been derecognized during the period	(50, 324, 989)	(1,862,162)	(191,086)	,	(52, 378, 237)
Originated or purchased new discounts and loans	55,053,614	360,711	242,231	ı	55,656,556
Other movements	(806, 800)	848,416	ı		41,616
Ending balance	<u>s 111,293,200</u>	2,027,575	456,746		113,777,521

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- 5) Changes in loan commitments reserve
- As of December 31, 2018, the reconciliations of the beginning and ending balances for loss allowance of loan commitments (loan commitments reserve) were as follows: a)

Total	10,421		ı	,		(5, 143)	2,699	7,635	15,612
The loss allowances measured in accordance with IFRS 9	10,421		ı	ı		(5, 143)	2,699	7,635	15,612
Lifetime ECLs (purchased or originated credit impaired financial assets)	1		ı	ı	ı	ı	ı		
Lifetime ECLs (not purchased or originated credit impaired financial assets)	31		ı	20		(505)	183	507	236
Lifetime ECLs	2,284		223	(20)	(2,910)	(1,736)	1,592	2,634	2,067
12 month ECLs	8,106		(223)	ı	2,910	(2,902)	924	4,494	13,309
	Beginning balance	Changes due to financial instruments recognized as at beginning:	<ul> <li>Transfer to lifetime expected credit losses</li> </ul>	<ul> <li>Transfer to lifetime expected credit losses</li> </ul>	- Transfer to 12month expected credit losses	Financial assets that have been derecognized during the period	Originated or purchased new financial assets	Foreign exchange and other movements	Ending balance <b>S</b>

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Notes to the Consolidated Financial Statements **BANK OF TAIWAN AND SUBSIDIARY** 

As of December 31, 2018, the carrying amounts of loan commitments were as follows: (q

Total	431,388,831		(30, 300, 383)	13,991,084	3,934	415,083,466
Lifetime ECLs (purchased or originated credit impaired financial assets)	1	ı	ı	ı	,	
Lifetime ECLs (not purchased or originated credit impaired financial assets)	81	2,105	(2, 338)	586		434
Lifetime ECLs	270,461	(2,105)	(746, 137)	716,871		239,090
12 month ECLs	431,118,289	ı	(29, 551, 908)	13,273,627	3,934	414,843,942
	Beginning balance \$	<ul> <li>Transfer to lifetime ECL not credit impaired</li> </ul>	Financial assets that have been derecognized during the period	Originated or purchased new discounts and loans	Other movements	Ending balance

- 6) Changes in loss allowance of receivables(including other financial assets)
- As of December 31, 2018, the reconciliations of the beginning and ending balances for loss allowance of receivables were as follows: a)

	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Lifetime ECLs (purchased or originated credit impaired financial assets	The loss allowances measured in accordance with ITRS 9	Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming/Nona ccrual Loans	Total
Beginning balance (Note 1)	\$ 50,863	12,145	95,308	-	158,316	84,043	242,359
Changes due to financial instruments recognized as at beginning:							
- Transfer to lifetime expected credit losses	(1,273)	1,648	(375)				
<ul> <li>Transfer to lifetime ECL not credit impaired</li> </ul>	(20)	(630)	650				
- Transfer to 12month expected credit losses	5,037	(4,728)	(309)				
Financial assets that have been derecognized during the period	(43,063)	(5,514)	(75,005)		(123,582)		(123,582)
Originated or purchased new financial assets	57,300	8,168	23,507		88,975		88,975
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans	·					(35,387)	(35,387)
Bad debts written off	(800)	(924)	(9,767)		(11,491)		(11,491)
The recovery of bad debts written off	70		10,471		10,541		10,541
Foreign exchange and other movements	1,629	1,986	4,528		8,143		8,143
Ending balance (Note 2)	\$ 69,743	12,151	49,008		130,902	48,656	179,558
Note 1: Not included the Bank's accumulated impairment recognized in restrictive deposit \$10 thousand and Department of Government Employees' Insurance's	pairment recogniz	zed in restrictiv	e deposit \$10 th	nousand and De	spartment of G	overnment Employees	Insurance' s

- allowance for impairment \$1,022 thousand evaluated by simplification method.
- Not included the Bank's accumulated impairment recognized in restrictive deposit \$11 thousand and Department of Government Employees' Insurance's allowance for impairment \$1,022 thousand evaluated by simplification method. Note 2:

b) As of December 31, 2018, the carrying amounts of receivables were as follows:

	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Lifetime ECLs (purchased or originated credit impaired financial assets)	Total
Beginning balance (Note 1)	\$ 98,555,440		274,468	-	99,649,667
<ul> <li>Transfer to lifetime expected credit losses</li> </ul>	(333,056)	6) 335,528	(2,472)		
<ul> <li>Transfer to lifetime ECL not credit impaired</li> </ul>	(3,277)	7) (20,951)	24,228		
- Transfer to 12month expected credit losses	250,596	6 (248,650)	(1,946)		
Financial assets that have been derecognized during the period	(33,675,724)	4) (600,581)	(137,734)		(34, 414, 039)
Originated or purchased new discounts and loans	32,451,447	7 538,775	49,599		33,039,821
Bad debts written off	(800)	0) (924)	(9,767)		(11, 491)
Other movements	(1,821)	1) 16,401	(86,649)		(72,069)
Ending balance (Note 2)	\$ <u>97,242,805</u>	839,357	109,727		98,191,889
	- - -		(		

Note 1: Not included the Bank's gross carrying amount of restricted deposit \$18,478 thousand and Department of Government Employees' Insurance's accounts receivables \$12,203,403 thousand evaluated by simplification method.

Note 2: Not included the Bank's gross carrying amount of restricted deposit \$19,469 thousand and Department of Government Employees' Insurance's accounts receivables \$7,283,748 thousand evaluated by simplification method.

c) BOT's department of government employees' insurance adopts simplification method to estimate expected credit losses of receivables (including accrued income, premiums receivable, and other receivable), namely, measures expected credit losses for a life time. For the purpose of measurement, these notes receivables and account receivables are classified based on credit risk characteristics reflected the borrower's ability to meet its contractual obligations. Analysis of receivables held by BOT's department of government employees' insurance at December 31, 2018 is shown below:

	C	oss amounts of account eceivables	Weighted average expected loss <u>rate</u>	Allowance for expected credit loss for a life time
Non-overdue	\$	7,282,726	0%	-
Overdue more than 91 days		1,022	100%	1,022
	\$	7,283,748		1,022

The movements of allowance for impairment of account receivables held by BOT's department of government employees' insurance:

	2018
Beginning balance (under IAS 39)	\$ 1,022
Adjustment for retrospective application due to IFRS 9	 -
Beginning balance (under IFRS 9) (equal to ending balance)	\$ 1,022

(ix) The analysis of credit quality and impairment of financial instruments (applicable before January 1, 2017)

The financial instruments held by the Bank, such as cash and cash equivalents, due to the Central Bank and other banks, financial assets measured at fair value through profit, bills and bonds purchased under resell agreements, guarantees deposits paid, operating guarantee deposits and settlement funds, are considered to have "very low risk" since all counterparties have good credit ratings.

1) The credit quality of loans and receivables

											Unit: In tho	usand of TWD
			Perform	ng loans			NPL but	Impairment	Total	Impairme	nt loss(D)	Net
December 31, 2017	Very good	Good	Medium	Weak	Non-evaluate	Subtotal(A)	not impair amount(B)	Amount(C)	(A)+(B)+(C)	With objective	No objective	(A)+(B)+(C)-(D)
Account receivables												
Credit card business	296,330	80,898	115,560	321,905	318	815,011	23,377	9,044	847,432	6,620	884	839,928
Others	250,773	2,007,931	923,157	222,199	184,417	3,588,477		176,389	3,764,866	118,684	66,586	3,579,596
Loans and Discounts	160,621,243	1,286,089,052	591,286,363	142,319,646	118,120,011	2,298,436,315		19,644,790	2,318,081,105	10,493,372	22,548,490	2,285,039,243

2) Credit quality analysis for either overdue nor impaired bill purchases discounts and loans by customers

Unit: In thousand of TWD

	Performing loans						
December 31, 2017	Very good	Good	Medium	Weak	Non-evaluate	Total	
Government agencies	65,402,181	335,655,307	-	-	-	401,057,488	
Financial, investment, and insurance industries	16,300,000	1,336,447	23,044,411	3,397,193	727,554	44,805,605	
Corporate and business	77,401,746	117,213,170	477,218,999	113,669,740	18,093,934	803,597,589	
Individuals	-	814,290,345	7,612,739	-	28,409,712	850,312,796	
Others	1,517,316	17,593,783	83,410,214	25,252,713	70,888,811	198,662,837	
Total	160,621,243	1,286,089,052	591,286,363	142,319,646	118,120,011	2,298,436,315	

3) Credit quality analysis for security investments

December 31, 2017

			Perform	ing loans			NPL but	Impairment	Total	(D)	Net
Item	Very good	Good	Medium	Weak	Non-evaluate	Subtotal(A)	not impair amount(B)	Amount(C)	(A)+(B)+(C)	With objective evidence	(A)+(B)+(C)- (D)
Available-for-sale Financial Assets											
Bond investment	90,525,466	33,649,293	18,404,341	1,008,514	227,651	143,815,265	-	-	143,815,265	-	143,815,265
Stock investment	2,556,148	50,329,096	3,552,208	-	2,131,835	58,569,287		-	58,569,287	-	58,569,287
Others	932,640,422	421,060	-	-	496,367	933,557,849		-	933,557,849	-	933,557,849
Held-to-maturity Financial Assets											
Bond investment	120,364,279	1,783,360	2,657,617	296,789	-	125,102,045		-	125,102,045	-	125,102,045
Others	18,549,310	-	409,410	-	-	18,958,720		-	18,958,720	-	18,958,720
Other financial assets											
Stock investment	-	-	6,805,780	-	1,764,358	8,570,138		27,687	8,597,825	15,000	8,582,825
Bond investment	10,743,196	3,901,501	-	-	-	14,644,697		-	14,644,697	-	14,644,697

(x) Aging analysis of overdue but not impaired financial assets (applicable before January 1, 2017)

Unit: In thousand of TWD

	December 31, 2017						
Item	Overdue lessOverduethan 1 month1 to 3 months		Total				
Accounts Receivable							
-Credit Card Business	\$	4,411	1,980	6,391			

(xi) The analysis of allowance for doubtful accounts of loans and receivables (applicable before January 1, 2017)

#### Loans

December 31, 2017									
Iten	Item Total Loans		Allowance for doubtful accounts						
There is objective evidence of impairment on individual	Individual assessment of impairment	6,587,942	1,185,732						
asset	Collective assessment of impairment	13,048,535	3,108,230						
There is no objective evidence of impairment on individual asset	Collective assessment of impairment	2,298,444,628	28,747,900						
Subtotal	•	2,318,081,105	33,041,862						

Receivables (including other financial assets)

	December 31, 2017								
Iten	Total Loans	Allowance for doubtful accounts							
There is objective evidence of impairment on individual	Individual assessment of impairment	28,944	13,501						
asset	Collective assessment of impairment	192,202	124,315						
There is no objective evidence of impairment on individual asset	Collective assessment of impairment	360,492,108	159,195						
Subtotal	-	360,713,254	297,011						
Total			33,338,873						

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

	December 31, 2018												
Type / Item		Amount of overdue loans (Note 1)	Total amount of loans	Ratio (%) (Note 2)	Allowance for doubtful debt	Coverage ratio(%) (Note 3)							
Enterprise	Secured	1,613,717	555,425,190	0.29 %	11,850,338	734.35 %							
	Non secured	411,776	1,219,569,860	0.03 %	21,460,074	5,211.59 %							
	House mortgage (Note 4	) 2,020,486	579,538,061	0.35 %	3,305,763	163.61 %							
	Cash card	-	-	- %	-	- %							
Consumer	Micro credit (Note 5)	24,018	4,610,709	0.52 %	211,695	881.40 %							
finance	Others Secured	1,222,024	207,712,918	0.59 %	2,082,759	170.44 %							
	(Note 6)Non secured	215,050	29,558,040	0.73 %	476,855	221.74 %							
Total		5,507,071	2,596,414,778	0.21 %	39,387,484	715.22 %							
		Overdue receivables	Account receivable	Ratio (%)	Allowance for bad debt	Cover ratio							
Credit car	d business	2,498	816,123	0.31 %	9,849	394.28 %							
Non-recou	urse factoring (Note 7)	-	13,232,575	- %	67,352	- %							

1) Asset Quality of overdue loans and receivables

			De	cember 31, 2017			
Type / Item		Amount of overdue loans (Note 1)	Total amount of loans	Ratio (%) (Note 2)	Allowance for doubtful debt	Coverage ratio(%) (Note 3)	
Enterpris	eSecured		2,095,613	540,476,564	0.39 %	11,362,328	542.20 %
	Non secu	ıred	571,687	968,383,422	0.06 %	13,698,993	2,396.24 %
	House m	ortgage (Note 4)	2,341,594	563,681,594	0.42 %	4,597,724	196.35 %
	Cash car	ď	-	-	- %	-	- %
Consume	rMicro cr	edit (Note 5)	31,440	4,856,602	0.65 %	148,237	471.49 %
	Others	Secured	1,364,773	210,430,752	0.65 %	2,650,379	194.20 %
	(Note 6)	Non secured	232,525	30,252,171	0.77 %	584,201	251.24 %
Total			6,637,632	2,318,081,105	0.29 %	33,041,862	497.80 %
			Overdue receivables	Account receivable	Ratio (%)	Allowance for doubtful debt	Cover ratio
Credit ca	rd busines	s	2,356	849,735	0.28 %	10,096	428.52 %
Non-reco	urse facto	ring (Note 7)	-	11,462,525	- %	52,894	- %

Note 1: Nonperforming loans are reported to the authorities and disclosed to the public, as required by the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Non-accrued Loans." Nonperforming credit card receivables are reported to the authorities and disclosed to the public, as required by the Banking Bureau's letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: Ratio of nonperforming loans: Nonperforming loans÷Outstanding loan balance. Ratio of nonperforming credit card receivables: Nonperforming credit card receivables÷Outstanding credit card receivables balance.

Note 3: Coverage ratio of loans: Allowance for possible losses for loans+Nonperforming loans. Coverage ratio of credit card receivables: Allowance for possible losses for credit card receivables+Nonperforming credit card receivables.

Note 4: The mortgage loan is for house purchase or renovation and is fully secured by housing that is purchased (owned) by the borrower, the spouse or the minor children of the borrowers.

- Note 5: Based on the Banking Bureau's letter dated December 19, 2005 (Ref. No. 09440010950), small-scale credit loans are unsecured, involve small amounts, and exclude credit cards and cash cards.
- Note 6: Other consumer banking loans refer to secured or unsecured loans that exclude housing mortgages, cash cards, credit cards and small-scale credit loans.

Note 7: As required by the Banking Bureau in its letter dated July 19, 2005 (Ref. No. 0945000494),non-recourse factoring are reported as nonperforming receivables within three months after the factors or insurance companies refuse to indemnify banks for any liabilities on these accounts.

#### 2) Non-performing Loans and Overdue Receivables Exempted from Reporting

	Unit: In thousand of TV December 31, 2018 December 31, 2017						
	December 31, 2018 Excluded NPL receivables			r 31, 2017 Excluded overdue receivables			
As a result of debt consultation and loans agreement	306	-	471	-			
As a result of debt solvency and restart plan	21,289	19,984	29,209	20,554			
Total	21,595	19,984	29,680	20,554			

	December 31, 20	)18	
Rank	Group Name	Credit Extensions Balance	% of Net Asset Value
1	A company – Transport via Railways	54,026	17.41 %
2	B group—Air Transport	51,010	16.44 %
3	C group—Retail Sale in Nonspecialized Stores	28,028	9.03 %
4	D group – Smelting and Refining of Iron and steel	80,978	26.10 %
5	E group – Aluminum material Rolls over Extends and Crowding	50,348	16.23 %
6	F group—Cable Television	36,782	11.86 %
7	G group—Real Estate Development Activities	21,529	6.94 %
8	H group – Air Transport	15,952	5.14 %
9	I group—Real Estate Development Activities	26,029	8.39 %
10	J group-Ocean Transportation	13,138	4.23 %

### 3) Concentration of Credit Risk

	December 31, 2017								
Rank	Group Name	Credit Extensions Balance	% of Net Asset Value						
1	A company-Transport via Railways	55,856	19.32 %						
2	B group—Air Transport	39,771	13.76 %						
3	C group—Smelting and Refining of Iron and steel	24,625	8.52 %						
4	D group – Ocean Transportation	20,083	6.95 %						
5	E group—Smelting and Refining of Iron and steel	20,028	6.93 %						
6	F group—Cable Television	17,190	5.95 %						
7	G group—Real Estate Development Activities	16,089	5.57 %						
8	H group—Ocean Transportation	11,908	4.12 %						
9	I group – Air Transport	11,384	3.94 %						
10	J group—Manufacture of Liquid Crystal Panel and Components	11,138	3.85 %						

Unit: In million of TWD; %

Unit In million of TWD: 0/

# BANK OF TAIWAN AND SUBSIDIARY Notes to the Consolidated Financial Statements

 Average balance and current average interest rates of interest-bearing assets and liabilities

			Unit: In milli	on of TWD; %
	 December	31, 2018	Decembe	er 31, 2017
	 Average	Average interest rate (%)	Average	Average interest rate (%)
Interest earnings assets				
Call loans and placement with banks	\$ 273,478,077	2.37	279,785,036	1.78
Placement with Central Bank	439,388,837	0.69	463,711,187	0.69
Financial assets	1,282,180,900	0.91	1,192,639,414	0.87
Negotiation, discounts and total loans	2,389,866,529	1.69	2,326,583,609	1.66
Interest bearing liabilities				
Deposit of Central Bank	15,077,628	-	13,783,569	-
Deposits and call loans from banks	221,694,751	1.46	212,369,290	1.06
Demand deposits	398,352,371	0.22	395,050,689	0.15
Demand savings	947,078,863	0.48	869,863,600	0.57
Time savings	1,630,869,080	1.52	1,700,764,509	1.57
Time deposits	721,675,689	1.83	636,316,359	1.44
Government deposits	280,344,637	0.18	265,804,022	0.19
Structured products	908,476	2.50	1,296,613	1.33
Financial bonds	25,000,000	1.22	25,000,000	1.22

Note:1. Each average balance is calculated by respectively summing up the daily average balances and then dividing the number of days in the year starting from January to the financial statement date.

2. The balances are derived from the Department of banking, credit cards, trusts and securities.

#### (d) Liquidity Risk

(i) Causes and definition of liquidity risk

The definition for liquidity risk is the Bank encounter difficulty in meeting the obligations with its financial liabilities and causes the losses, for example, a saving account cancels its saving ahead of time, the ways or conditions to call loans to banks drop, creditors' credit become worsen and cause an exceptional condition, financial instruments cannot be financed and etc. The situation mentioned above may reduce the cash flow for lending, trading, and investing activities. In some extreme situation, the poor liquidity position may decrease the level of balance sheet, sale assets, or the possibility of not fulfilling the contractual loan balance. Liquidity risk is containing in the inherent risk of bank operation, and could be affected by a separate industry or whole market's incident, which are included but not only as: credit event, consolidation or merger and acquisition, system shock, and natural disaster.

- (ii) Management policies of liquidity risk
  - To optimize the structure of assets and liabilities, the Bank set up an Assets and Liabilities Management Committee of which the chairperson is the general manager and the vice chairpersons are the vice general managers to decide the direction of assets and liabilities management, to manage the liquidity portion and interest rate risk, and to review the structure of deposits and loans and so on.

- 2) To enforce the management of liquidity and interest rate risk and maintain suitable liquidity for higher effectiveness of capital and good operations, the Bank set up policies for liquidity and interest rate risk. Assets and Liabilities Management Committee discusses the liquid position and risk management every month and reports to the Board of Directors periodically.
- 3) Management of liquidity risk
  - a) Maintain liquidity reserve ratio: According to "Liquidity Guidelines for Financial Institutions" published by the Central Bank, the Bank and subsidiary have to maintain the liquidity reserve ratio of deposit balances greater than 15%.
  - b) Short term gap analysis: Calculate 1~10 day and 11~30 day gaps which should be greater than zero.
  - c) Liquidity coverage ratio: calculate their liquidity coverage ratio and report it to the authorities on a monthly basis. In accordance with the "Standards Implementing the Liquidity Coverage Ratio of Banks" announced by FSC and Central Bank, the ratio shall be higher than 100%.
  - d) Net stable funding ratio: Calculate their net stable funding ratio and report it to the authorities on a monthly basis. In accordance with the "Standards Implementing the Net Stable Funding Ratio of Banks" announced by FSC and Central Bank, the ratio shall be higher than 100%.
  - e) Foreign currency gap management: Make sure the ratio of accumulated capital liquidity gap to each currency assets of the major foreign currencies of the Bank and subsidiary measured for every month and every term under one year between  $\pm$  50% and  $\pm$ 40%.
  - f) Fund management: Utilize the Assets and Liabilities Management Information System to analyze the gaps of assets and liabilities and the change of the structure. Allocate appropriate fund and adjust the fund structure according to financial status. For TWD fund management, the bank maintains appropriate cash and cashable securities on hand, draw up notice about TWD fund management and request every unit to notify on significant cash transactions, analyze the gaps for maturity amount of purchased bills, bonds and call loans to control the fund trend and decrease the liquidity risk. For foreign currencies, manage the financial gap of actual amount received on due date and payment in a year by using the maturity method.
  - g) Establish "Bank of Taiwan operational crisis management plan" to prevent and response quickly to the crisis.
- (iii) Maturity date analysis of non derivative financial assets and liabilities

These tables represent the cash outflow analysis of non derivative financial liabilities of the Bank's major currencies according to the unexpired term of the contracts. The disclosed amounts are presented on the basis of contract cash flows, so some disclosed items are not correspond to the accounts in the financial statements. These tables don't include BankTaiwan Insurance Brokers.

### Maturity analysis of assets and liabilities (United State Dollars)

						nit: In thousand USD
December 31, 2018	1~30days	31~90days	91~180days	181day1year	Over one year	Total
Cash and placement with banks	733,223	92,000	39,550	46,550	943	912,266
Call loans to banks and overdrafts	905,000	948,000	275,000	355,000	-	2,483,000
Investment securities	50,400	68,435	89,085	119,508	1,660,622	1,988,050
Loans (including overdue loans)	651,046	495,734	325,227	253,169	4,215,327	5,940,503
Interest receivables and income receivables	20,128	20,428	8,339	4,158	55,588	108,641
Other expired items	9,077,528	7,312,653	7,487,994	3,816,275	3,786,310	31,480,760
Total major matured capital inflow	11,437,325	8,937,250	8,225,195	4,594,660	9,718,790	42,913,220
December 31, 2018	1~30days	31~90days	91~180days	181day1year	Over one year	Total
Deposits from banks, bank overdrafts, and call loans from bank	2,350,755	728,700	138,000	-	30,000	3,247,455
Demand deposits	872,953	881,191	1,321,787	-	816,700	3,892,631
Time deposits	2,738,632	3,990,237	2,095,007	3,494,759	-	12,318,635
Bills and bonds sold under repurchase agreements	600,000	-	-	-	-	600,000
Borrowings	-	-	-	-	1,500,000	1,500,000
Interest payables	33,935	33,705	18,250	11,817	62,377	160,084
Loan Commitments	372,680	75,852	339,246	408,081	756,112	1,951,971
Equities	-	-	-	-	(29,239)	(29,239)
Other expired items	5,842,470	5,501,033	3,799,972	543,788	4,530,252	20,217,515
Total major matured capital outflow	12,811,425	11,210,718	7,712,262	4,458,445	7,666,202	43,859,052

Maturity analysis of assets and liabilities (New Taiwan Dollars)

						it: In thousand TWD
December 31, 2018	1~30days	31~90days	91~180days	181day1year	Over one year	Total
Cash and placement with banks	62,641,140	207,866,979	75,915,116	68,287,753	46,728,229	461,439,217
Call loans to banks and overdrafts	28,565,000	-	-	-	10,000	28,575,000
Investment securities	698,753,368	52,746,345	94,758,612	264,243,329	232,833,911	1,343,335,565
Loans (including overdue loans)	177,994,043	235,838,634	290,925,948	385,556,753	1,264,332,745	2,354,648,123
Interest receivables and income receivables	3,045,670	2,589,786	1,835,638	1,315,878	106,356	8,893,328
Other expired items	199,992,760	131,705,103	99,654,174	13,685,935	219,639,092	664,677,064
Total major matured capital inflow	1,170,991,981	630,746,847	563,089,488	733,089,648	1,763,650,333	4,861,568,297
December 31, 2018	1~30days	31~90days	91~180days	181day1year	Over one year	Total
Deposits from banks, bank overdrafts, and call loans from bank	68,374,187	6,384,285	7,105,680	12,329,177	6,717,822	100,911,151
Demand deposits	62,280,862	38,851,395	33,068,172	5,041,784	1,343,635,449	1,482,877,662
Time deposits	158,954,887	257,910,512	296,021,871	732,412,354	379,501,013	1,824,800,637
Bills and bonds sold under repurchase agreements	2,442,473	3,553,108	634,463	7,003	-	6,637,047
Borrowings	25	4,847	5,470	6,529	25,009,954	25,026,825
Interest payables	5,306,528	658,627	852,310	1,326,182	312,572	8,456,219
Loan Commitments	77,334,309	154,832,462	232,166,771	464,497,385	709,607,821	1,638,438,748
Equities	-	-	-	-	308,486,503	308,486,503
Other expired items	271,073,338	211,900,608	198,808,152	119,913,803	114,337,772	916,033,673
Total major matured capital outflow	645,766,609	674,095,844	768,662,889	1,335,534,217	2,887,608,906	6,311,668,465

### Maturity analysis of assets and liabilities (United State Dollars)

						nit: In thousand USD
December 31, 2017	1~30days	31~90days	91~180days	181day1year	Over one year	Total
Cash and placement with banks	685,562	43,000	36,550	61,100	423	826,635
Call loans to banks and overdrafts	2,237,500	1,444,000	267,000	208,500	-	4,157,000
Investment securities	22,427	67,451	29,522	92,248	1,344,039	1,555,687
Loans (including overdue loans)	420,914	525,476	403,829	296,249	4,155,407	5,801,875
Interest receivables and income receivables	13,289	19,152	6,007	8,069	28,134	74,651
Other expired items	8,306,433	9,250,130	4,715,773	2,094,134	4,407,708	28,774,178
Total major matured capital inflow	11,686,125	11,349,209	5,458,681	2,760,300	9,935,711	41,190,026
December 31, 2017	1~30days	31~90days	91~180days	181day1year	Over one year	Total
Deposits from banks, bank overdrafts, and call loans from bank	2,396,271	1,044,500	30,000	-	206,000	3,676,771
Demand deposits	1,042,282	1,110,732	1,666,098	-	1,044,795	4,863,907
Time deposits	2,567,487	3,006,595	2,377,422	2,740,567	-	10,692,071
Bills and bonds sold under repurchase agreements	317,487	246,047	-	-	-	563,534
Borrowings	-	-	-	-	880,000	880,000
Interest payables	17,582	20,541	11,238	6,049	16,985	72,395
Loan Commitments	167,632	120,972	220,707	589,353	774,240	1,872,904
Equities	-	-	-	-	(3,059)	(3,059)
Other expired items	6,629,444	4,481,628	2,033,486	1,113,112	5,740,471	19,998,141
Total major matured capital outflow	13,138,185	10,031,015	6,338,951	4,449,081	8,659,432	42,616,664

### Maturity analysis of assets and liabilities (New Taiwan Dollars)

						nit: In thousand USI
December 31, 2017	1~30days	31~90days	91~180days	181day1year	Over one year	Total
Cash and placement with banks	55,920,213	208,085,904	87,158,581	87,954,053	40,896,697	480,015,448
Call loans to banks and overdrafts	94,006,000	10,000	-	-	-	94,016,000
Investment securities	781,053,459	47,862,163	77,980,002	167,211,276	294,779,406	1,368,886,306
Loans (including overdue loans)	143,714,983	202,597,837	229,077,697	254,480,215	1,263,075,307	2,092,946,039
Interest receivables and income receivables	2,877,709	2,289,307	1,522,539	1,135,370	163,342	7,988,267
Other expired items	191,298,745	84,594,075	78,046,142	75,976,583	188,353,831	618,269,376
Total major matured capital inflow	1,268,871,109	545,439,286	473,784,961	586,757,497	1,787,268,583	4,662,121,436
December 31, 2017	1~30days	31~90days	91~180days	181day1year	Over one year	Total
Deposits from banks, bank overdrafts, and call loans from bank	58,057,801	5,440,244	11,017,475	14,319,145	6,546,530	95,381,195
Demand deposits	54,078,111	31,091,592	35,476,304	49,294,790	1,158,759,736	1,328,700,533
Time deposits	189,544,537	298,535,702	318,110,861	734,670,472	396,460,681	1,937,322,253
Bills and bonds sold under repurchase agreements	10,249,342	6,248,588	668,324	14,167	-	17,180,421
Borrowings	41	5,735	6,494	7,954	25,021,206	25,041,430
Interest payables	6,605,481	660,718	1,271,377	743,557	371,796	9,652,929
Loan Commitments	81,988,270	164,150,244	246,138,515	492,277,029	752,485,566	1,737,039,624
Equities	-	-	-	-	286,583,277	286,583,277
Other expired items	236,169,834	254,727,798	143,979,169	66,186,480	82,212,914	783,276,195
Total major matured capital outflow	636,693,417	760,860,621	756,668,519	1,357,513,594	2,708,441,706	6,220,177,857

### (iv) Maturity analysis of derivatives

December 31, 2018 Derivative financial instruments	1.Overdue less than 1 month	2.Overdue 1 to 3 months	3.Overdue 3 to 6 months	4.Overdue 6 months to 1 year		6.Overdue more than 5 years	Total
Financial assets and liabilities	measured at fair value	e through profit or los	s, Derivative instrum	ents (Foreign exchan	ige)		
Foreign exchange outflow	10,223,061	9,560,999	2,409,367	1,489,024	163,842	1,607	23,847,900
Foreign exchange inflow	10,197,799	9,643,345	1,810,879	1,489,024	163,842	1,607	23,306,496
Financial assets and liabilities	measured at fair value	e through profit or los	s, Derivative instrum	nents (Interest)		•	
Foreign exchange outflow	400,981,674	345,120,973	280,552,565	116,063,674	1,355,589	13,543	1,144,088,018
Foreign exchange inflow	390,596,031	331,184,919	273,717,175	98,828,449	1,390,496	4,392	1,095,721,462
Hedging derivative financial ir	struments (Interest)		•			•	
Foreign exchange outflow	13,010	44,751	49,645	-	-	-	107,406
Foreign exchange inflow	14,671	33,483	49,459	-	-	-	97,613
Financial assets and liabilities	measured at fair value	through profit or los	s, Derivative instrum	ents (Commodity)		• •	
Foreign exchange outflow	-	-	-	-	-	-	-
Foreign exchange inflow	-	(72)	-	-	-	-	(72

December 31, 2017 Derivative financial instruments	1.Overdue less than 1 month	2.Overdue 1 to 3 months	3.Overdue 3 to 6 months	4.Overdue 6 months to 1 year		6.Overdue more than 5 years	Total			
Financial assets and liabilities measured at fair value through profit or loss, Derivative instruments (Foreign exchange)										
Foreign exchange outflow	11,228,075	12,985,294	1,638,380	770,031	1,616,418	-	28,238,198			
Foreign exchange inflow	11,245,164	13,606,119	1,638,380	840,360	1,616,418	-	28,946,441			
Financial assets and liabilities	measured at fair value	through profit or los	s, Derivative instrum	ients (Interest)						
Foreign exchange outflow	361,851,127	322,601,974	184,332,159	80,730,081	1,440,668	45,318	951,001,327			
Foreign exchange inflow	366,976,122	317,192,197	184,044,239	82,146,280	1,606,216	28,390	951,993,444			
Hedging derivative financial in	Hedging derivative financial instruments (Interest)									
Foreign exchange outflow	17,286	55,112	39,465	-	-	-	111,863			
Foreign exchange inflow	13,299	34,877	23,301	-	-	-	71,477			

(v) Maturity analysis of off-balance sheet items

Guarantee receivables

otal

If the off-balance credit items of the Bank and subsidiary are classified as "Under One Year", "One to Five Years" and "Above Five Years", the maturity analysis of both off-balance items and lease agreements and capital expenditures are disclosed together.

					Unit: I	n thousand of TWD
December 31, 2018	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year	Total
Irrevocable loan commitment	-	211,375,700	1,280,000	202,000,000	188,242	414,843,942
Irrevocable credit card commitment	-	-	-	-	239,524	239,524
Unused letter of credit	8,665,257	1,940,266	4,163,251	7,861,398	4,046,012	26,676,184
Guarantee receivables	56,869,848	2,312,070	4,151,114	11,885,401	11,882,902	87,101,335
Total	65,535,105	215,628,036	9,594,365	221,746,799	16,356,680	528,860,985
					Unit: I	n thousand of TWD
December 31, 2017	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year	Total
Irrevocable loan commitment	-	-	1,171,662	239,283,744	190,662,883	431,118,289
Irrevocable credit card commitment	-	-	-	-	270,542	270,542
Unused letter of credit	5,475,797	3,050,021	3,790,534	11,362,227	1,740,268	25,418,847

3,058,657

6,108,678

58,542,125

64,017,922

4,792,337

9,754,533

9,826,968

260,472,93

8,818,651

201,492,344

### (Continued)

85,038,738

541,846,416

(vi) Maturity analysis of lease agreements and capital expenditures

The lease agreements of the Bank and subsidiary refer to operational lease.

Maturity analysis of lease agreements and capital expenditures were as follows:

December 31, 2018	Less than 1 year	1-5 years	Over 5 years	Total
Lease agreements				
Operating lease payments (Lessee)	(330,878)	(557,578)	(1,805)	(890,261)
Operating lease income(Lessor)	144,332	256,379	-	400,711
Total	(186,546)	(301,199)	(1,805)	(489,550)
December 31, 2017	Less than1 year	1-5 years	Over 5 years	Total
Lease agreements			ž	
			(270)	(0.51.070)
Operating lease payments (Lessee)	(336,672)	(514,828)	(370)	(851,870)
Operating lease payments (Lessee) Operating lease income(Lessor)	(336,672) 137,470	(514,828) 180,893	- (370)	(851,870) 318,363

- (vii) Disclosures required by the "Regulations Governing the Preparation of Financial Reports by Public Banks"
  - 1) Maturity analysis of assets and liabilities (New Taiwan Dollars) (excluding BankTaiwan Insurance Brokers)

December 31, 2018

						Unit: In	thousand of TWD		
			Amount for each remaining period to maturity						
	Total	Less than 10 days	11~30 days	31~90 days	91~180 days	181~365 days	Over 1 year		
Major matured capital inflow	\$ 4,861,568,297	613,718,976	557,273,005	630,746,847	563,089,488	733,089,648	1,763,650,333		
Major matured capital outflow	6,311,668,465	261,875,331	383,891,278	674,095,844	768,662,889	1,335,534,217	2,887,608,906		
Capital gap	(1,450,100,168)	351,843,645	173,381,727	(43,348,997)	(205,573,401)	(602,444,569)	(1,123,958,573)		

December 31, 2017

						Unit: In	thousand of TWD		
		Amount for each remaining period to maturity							
	Total	Less than 10 days	11~30 days	31~90 days	91~180 days	181~365 days	Over 1 year		
Major matured capital inflow	\$ 4,662,121,436	739,299,500	529,571,609	545,439,286	473,784,961	586,757,497	1,787,268,583		
Major matured capital outflow	6,220,177,857	255,400,881	381,292,536	760,860,621	756,668,519	1,357,513,594	2,708,441,706		
Capital gap	(1,558,056,421)	483,898,619	148,279,073	(215,421,335)	(282,883,558)	(770,756,097)	(921,173,123)		

2) Maturity analysis of assets and liabilities (United State Dollars) (excluding BankTaiwan Insurance Brokers)

December 31, 2018

	_	Unit: In thousand of USE								
				Amount for each remaining period to maturity						
		Total	Less than 30 days	31~90 days	91~180 days	181~365 days	Over 1 year			
Major matured capital inflow	\$	42,913,220	11,437,325	8,937,250	8,225,195	4,594,660	9,718,790			
Major matured capital outflow		43,859,052	12,811,425	11,210,718	7,712,262	4,458,445	7,666,202			
Capital gap		(945,832)	(1,374,100)	(2,273,468)	512,933	136,215	2,052,588			

Unit: In thousand of USD									
			Amount for each remaining period to maturity						
		Total	Less than 30 days	31~90 days	91~180 days	181~365 days	Over 1 year		
Major matured capital inflow	\$	41,190,026	11,686,125	11,349,209	5,458,681	2,760,300	9,935,711		
Major matured capital outflow		42,616,664	13,138,185	10,031,015	6,338,951	4,449,081	8,659,432		
Capital gap		(1,426,638)	(1,452,060)	1,318,194	(880,270)	(1,688,781)	1,276,279		

#### (e) Market risk

(i) Causes and definition of market risk

Market risk means the changes in market price that lead to the fair value and future cash flow volatility risk of the held financial instruments, even if it is not included in the financial statements. The risk factors usually refer to interest rate, exchange rate, equity investment and price. When the factors change, the Bank's net operating income and the value of investment portfolio will have volatility risk.

The main market risks of the Bank is interest rate risk, exchange rate risk and equity investment risk. The main position of interest rate risk includes transactions with conditions, bonds, securities investments, interest rate swaps and so on. The main position of exchange risks includes forward exchange, foreign exchange swaps, FX options and so on. The main position of equity investment risk includes stocks, funds, stock market index futures and so on.

(ii) Management policies of market risk

The Bank sets up market risk management regulations and policies according to the risk management strategies approved by the Board of Directors, the Basel Accord and government regulations. In order to identify, assess, measure and monitor various risks of investments, they also decide the quota of investments and stop-loss point for financial instruments by types and characteristics in accordance with whole management target and offer reports to the Board of Directors, risk management committee and high-level managers.

- (iii) Procedures of market risk management
  - 1) Identification

The identification procedures are as follows. First, use the business analysis or product analysis to identity the market risk factors of financial instruments. Second, measure the market risk of all financial instruments according to the risk factors changes of the important exposure. Finally, identify the market risk factors of every constitution of structured products and use the factors as the measurement basis. The above risk factors include interest rate, exchange rate and price of equity security.

2) Measurement

The Bank's market risk exposure can be classified into trading book and banking book. The financial instruments classified in trading book are measured at market value every day; those classified in banking book are measured at market value at least once a month. Following IFRS 13, the Bank ensures that Level-1 inputs (i.e. quoted prices in an active market, such as OTC or Bloomberg) and Level-2 inputs (those which can be directly or indirectly observed in the market) are available. When the aforementioned inputs are not available, the related instruments shall be classified to Level 3. The sources from which the Bank obtains inputs largely remain the same as prior periods and the Bank will check if a financial instrument can be reasonably measured before entering into a transaction.

3) Monitor and Report

The Bank conducts various risks monitoring for ordinary trading activities. The monitor includes the control of market risk position and profit and loss, the control of exposure and quota of investments, the control of concentration, the sensitivity analysis and the stress testing. They report to the risk management committee or the Board of Directors to let the directors understand the market risk control status. The Bank also have communication mechanism. Each operating units put forward transaction information to management departments periodically in order to ensure accuracy and effectiveness, and communicate the events when trading amount excesses the quota, important events and abnormal conditions.

(iv) Management policies of trading book risk

The trading book refers to the financial instruments held for trading or hedging. The positions held for trading mean the positions that are held to earn profit from the buy-sell spread. The positions not belonging to trading book are regarded as banking book.

1) Policy and Procedure

The Bank formulates "Taiwan Bank Trading Book Management Provision" as important guideline for all trading units.

2) Valuation Policy

The Bank's market risk exposure can be classified into trading book and banking book. Following IFRS 13, the Bank ensures that Level-1 inputs (i.e. quoted prices in an active market, such as OTC or Bloomberg) and Level-2 inputs (which can be directly or indirectly observed in the market) are available. When the aforementioned inputs are not available, the related instruments shall be classified to Level 3. The sources from which the Bank obtains inputs largely remain the same as prior periods and the Bank will check if a financial instrument can be reasonably measured before entering into a transaction.

- 3) Measurement Method
  - a) Monitoring the trading book of risk exposure including stocks, funds, bonds, spot exchanges, forward exchanges, rate swap, option, etc. Checking the ratio of risk exposure with total investment everyday and reporting monthly.

- b) The Bank conducts stress test every quarter under unfavorable economic scenarios which are set up risk factors: equity securities, interest rate, foreign exchange and commodities, setting the scene to calculate possible impacts by inputting different on profit or loss of each risk factor.
- c) Check the market price every month.
- d) Prepare the risk monitor report to chief director and put it on the Bank's website as reference.
- (v) Interest rate risk management for trading book
  - 1) Definition of interest rate risk

The interest rate risk means the changes of interest rate that lead to the fair value changes or loss. The main products include securities related to interest rate and derivatives.

2) Procedures of interest rate risk management

The Bank and subsidiary set quota and stop-loss points for short-term securities, bonds and derivatives related to interest rate. Each trading units measure the market price for the position of trading book every day and submit monthly reports to risk management department and quarterly reports to the risk management committee and the Board of Directors.

3) Measurement method

The Bank and subsidiary also use the PV01 and Duration to monitor the influence of interest risk.

- (vi) Exchange rate risk management
  - 1) Definition of exchange rate risk

The exchange rate risk refers to the profit or loss resulted from two different currencies transferred at different times. The Bank's exchange rate risk is derived from exchange, forward exchange, FX swaps, cross currency swaps, and foreign exchange options. Because the Bank squares customer's position every day, the exchange rate does not have any significant risk.

2) Management procedures and measurement method of exchange rate risk

To control the exchange rate risk, the Bank sets different quotas and stop-loss point for employees with different levels and have annual total loss quota to control the loss in a tolerable range.

The Bank conducts stress testing. The simulated situations are  $\pm 3\%$  changes of exchange rate for every currency. The relevant statements are disclosed at sensitivity analysis.

- (vii) Equity security risk management
  - 1) Definition of equity security risk

The market risk of holding equity securities includes the respective risk arising from the market price changes of respective equity security and general market risk resulting from the whole market price changes.

2) The intention of equity security price risk management

The intention is to avoid loss and worse financial status due to violent fluctuations of equity security price and increase the effectiveness of capital usage and improve the business.

3) Procedure of equity security price risk management

The Bank sets different investment quotas by industries, enterprises and groups. They use the  $\beta$  value to measure the influence of systematic risk monthly and monitor the risk value of equity securities and unrealized profit/loss ratio every day. The stop-loss point mechanism is approved by the security investment committee and executed by the risk management department.

4) Measurement method

The control of the equity security price risk is based on the unrealized gain (loss) ratio,  $\beta$  value and the aforementioned investment limitations.

The Bank conducts stress testing every season. The simulated situations are  $\pm 15\%$  changes of equity security price. The relevant statements are disclosed at sensitivity analysis.

- (viii) Market risk valuation technique
  - 1) Interest rate risk sensitivity

The Bank assume that other factors did not change and the yield curve of the whole world moves upward by 100 bps at December 31, 2018 and 2017. Under this assumption, the income after tax will decrease \$3,814 million and \$4,743 million, respectively, and the other comprehensive income will decrease \$6,369 million and \$6,169 million, respectively. If the yield curve moves downward by 100 bps, the income after tax will increase \$4,364 million and \$5,362 million, respectively, and the other comprehensive income will increase \$6,659 million and \$6,440 million, respectively.

2) Exchange rate risk sensitivity

The Bank assumes that other factors did not change and the foreign currency to New Taiwan Dollars exchange rate appreciates by 3% at December 31, 2018 and 2017. Under this assumption, the income after tax will increase \$1,410 million and \$1,795 million, respectively, and the other comprehensive income will increase \$2,771 million and \$2,285 million, respectively.

If the exchange rate depreciates by 3%, the income after tax will decrease \$1,410 million and \$1,795 million, respectively, and the other comprehensive income will decrease \$2,771 million and \$2,285 million, respectively.

3) Equity security price risk sensitivity

The Bank assumes that other factors did not change and the market prices of the equity securities increase by 15% at December 31, 2018 and 2017. Under this assumption, the income after tax will increase \$6,482 million and \$8,177 million, respectively, and the other comprehensive income will increase \$11,507 million and \$8,860 million, respectively.

If the market prices decrease by 15 %, the income after tax will decrease \$6,482 million and \$8,177 million, respectively, and the other comprehensive income will decrease \$11,507 million and \$8,860 million, respectively.

		Unit: In	million of TWD			
	December 31, 2018					
		Amount	Influence			
Main risk	Range of changes	Equity	Gain or loss			
Interest rate risk	Interest rate curve rise 100BPS	(6,369)	(3,814)			
Interest rate risk	Interest rate curve fall 100BPS	6,659	4,364			
Exchange rate risk	Other foreign currency/ TWD rise3%	2,771	1,410			
Exchange rate risk	Other foreign currency / TWD fall 3%	(2,771)	(1,410)			
Price of equity stock risk	Price of equity stock rise 15 %	11,507	6,482			
Price of equity stock risk	Price of equity stock fall 15 %	(11,507)	(6,482)			

4) Sensitivity analysis is as follows:

		Unit: In	million of TWD
	December 31, 2017		
		Amount	Influence
Main risk	Range of changes	Equity	Gain or loss
Interest rate risk	Interest rate curve rise 100BPS	(6,169)	(4,743)
Interest rate risk	Interest rate curve fall 100BPS	6,440	5,362
Exchange rate risk	Other foreign currency/ TWD rise 3%	2,285	1,795
Exchange rate risk	Other foreign currency / TWD fall 3%	(2,285)	(1,795)
Price of equity stock risk	Price of equity stock rise 15 %	8,860	8,177
Price of equity stock risk	Price of equity stock fall 15 %	(8,860)	(8,177)

(ix) Information of currency risk concentrate

Net position of major foreign currencies

			Unit: In thousand of stated currencies		
	December 31, 2018				
	Amount in original cur	rency	Amount in New Taiwan Dollars		
USD		939,761	28,883,554		
CNY		1,209,269	5,404,223		
JPY		2,985,129	828,075		
GBP		18,272	710,781		
AUD		28,452	616,128		

Unit: In thousand of stated currencies

December 31, 2017					
Amount in original cu	Amount in New Taiwan Dollars				
USD	962,416	28,564,507			
CNY	1,271,223	5,782,793			
JPY	2,966,635	781,115			
GBP	18,387	734,193			
KRW	16,555,529	460,244			

Note 1: The major foreign currencies were the top 5 currencies by position expressed in New Taiwan Dollars after exchange rate conversion.

Note 2: The net position represented the absolute value of each currency.

All held foreign financial assets and liabilities are classified by currencies and represented using the carrying amounts. The following tables display the information at December 31, 2018 and 2017, respectively.

			Unit: In	thousand of TWD
	Dec	ember 31, 2018		
Assets	U	SD to TWD	Other currencies to TWD	Total TWD
Cash and cash equivalents	\$	43,760,141	62,182,412	105,942,553
Placement with Central Bank and call loans to banks		49,080,583	56,035,227	105,115,810
Financial assets measured at fair value through profit or loss		66,053,621	18,865,443	84,919,064
Financial assets measured at fair value through other comprehensive income		15,097,620	74,984,013	90,081,633
Debt investments measured at amortized cost		20,099,228	21,975,671	42,074,899
Hedging derivative financial assets		-	41,693	41,693
Receivables, net		10,629,303	4,778,805	15,408,108
Current income tax assets		170,067	175,802	345,869
Loans and Discounts, net		141,013,561	97,830,017	238,843,578
Other financial assets, net		108,944	19,758	128,702
Property and equipment, net		63,559	52,505	116,064
Intangible assets, net		14,435	5,124	19,559
Deferred income tax assets, net		127,740	62,149	189,889
Other assets, net		41,697,422	(39,551,956)	2,145,466
Total assets	<b>\$</b>	387,916,224	297,456,663	685,372,887

	Other currencies to	
USD to I WD	TWD	Total TWD
\$ 68,635,480	52,209,508	120,844,988
46,316,712	63,924	46,380,636
-	12,973	12,973
18,441,000	-	18,441,000
7,612,984	2,264,724	9,877,708
42,749	6,888	49,637
469,398,377	249,114,004	718,512,381
385,459	266,559	652,018
11,301	5,305	16,606
-	21,541	21,541
112,470,812	33,217,502	145,688,314
\$ <u>723,314,874</u>	337,182,928	1,060,497,802
	46,316,712 - 18,441,000 7,612,984 42,749 469,398,377 385,459 11,301 - 112,470,812	\$ 68,635,480       52,209,508         46,316,712       63,924         -       12,973         18,441,000       -         7,612,984       2,264,724         42,749       6,888         469,398,377       249,114,004         385,459       266,559         11,301       5,305         -       21,541         112,470,812       33,217,502

December 31, 2017

# BANK OF TAIWAN AND SUBSIDIARY Notes to the Consolidated Financial Statements

Assets	U	SD to TWD	currencies to TWD	Total TWD
Cash and cash equivalents	\$	37,363,032	64,466,405	101,829,437
Placement with Central Bank and call loans to banks		85,638,257	72,348,322	157,986,579
Financial assets measured at fair value through profit or loss		69,756,516	19,029,826	88,786,342
Available-for-sale financial assets		11,107,435	60,532,829	71,640,264
Hedging derivatives financial assets		-	22,759	22,759
Receivables, net		7,213,203	3,912,394	11,125,597
Current income tax assets		131,895	267,825	399,720
Loans and Discounts, net		136,368,376	86,447,448	222,815,824
Held-to-maturity financial assets, net		10,601,839	21,832,468	32,434,307
Other financial assets, net		1,200,256	13,558,975	14,759,231
Property and equipment, net		53,789	19,396	73,185
Intangible assets, net		6,030	4,095	10,125
Deferred income tax assets, net		212,323	39,876	252,199
Other assets, net		537,939	628,723	1,166,662
Total assets	<b>\$</b>	360,190,890	343,111,341	703,302,231

Unit: In thousand of TWD

Other

	December 31, 2017		
Liabilities	USD to TWD	Other currencies to TWD	Total TWD
Deposits of Central Bank and other banks	\$ 64,847,252	58,792,937	123,640,189
Financial liabilities measured at fair value through profit or loss	270,822	26,196,172	26,466,994
Hedging derivatives financial liabilities	-	60,480	60,480
Bills and bonds sold under repurchase agreement	16,725,699	-	16,725,699
Payables	5,857,607	663,414	6,521,021
Current income tax liabilities	75,125	52,691	127,816
Deposits and remittances	436,646,132	238,849,658	675,495,790
Other financial liabilities	136,760	664,632	801,392
Provisions	5,862	2,486	8,348
Deferred income tax liabilities	-	49,172	49,172
Other liabilities	109,269,941	41,007,308	150,277,249
Total liabilities	\$ <u>633,835,200</u>	366,338,950	1,000,174,150

(x) Disclosures required by the Regulations Governing the Preparation of Financial Reports by Public banks

1) Interest rate sensitivity assets and liabilities analysis (New Taiwan Dollars)

December 31, 2018						
Item	1~90 days	91~180 days	181 days to one year	Over one year	Total	
Interest rate sensitive assets	\$ 1,673,382,215	1,638,302,711	266,935,209	307,311,037	3,885,931,172	
Interest rate sensitive liabilities	422,546,294	2,955,016,635	331,223,291	77,972,260	3,786,758,480	
Interest rate sensitive gap	1,250,835,921	(1,316,713,924)	(64,288,082)	229,338,777	99,172,692	
Net worth						
Ratio of interest rate sensitive assets to liabilities (%)					102.62	
Ratio of interest rate sensitive gap	to net worth (%)				32.15	

Unit: In thousand of TWD

December 31, 2017						
Item	1~90 days	91~180 days	181 days to one year	Over one year	Total	
Interest rate sensitive assets	\$ 1,789,260,805	1,368,411,212	274,603,809	321,835,409	3,754,111,235	
Interest rate sensitive liabilities	473,231,012	2,777,386,813	293,928,923	131,538,240	3,676,084,988	
+Interest rate sensitive gap	1,316,029,793	(1,408,975,601)	(19,325,114)	190,297,169	78,026,247	
Net worth						
Ratio of interest rate sensitive assets to liabilities (%)					102.12	
Ratio of interest rate sensitive gap	to net worth (%)				27.23	

- Note 1: The above amount included only new Taiwan dollar amounts held by the Bank, and excluded contingent assets and contingent liabilities.
- Note 2: Interest rate sensitivity assets and liabilities are interest-earning assets and interesting-bearing liabilities with revenues and costs affected by interest rate changes.

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

Note 4: Ratio of interest-rate-sensitivity assets to liabilities=Interest-rate-sensitivity assets/Interest-rate-sensitivity liabilities (in New Taiwan Dollars).

2) Assets and liabilities interest rate sensitivity analysis (United State Dollars)

December 31, 2018						
Item	1~90 days	91~180 days	181 days to one year	Over one year	Total	
Interest rate sensitive assets	\$ 25,735,649	7,127,788	5,381,028	756,158	39,000,623	
Interest rate sensitive liabilities	23,004,234	8,930,311	4,038,545	1,539,087	37,512,177	
Interest rate sensitive gap	2,731,415	(1,802,523)	1,342,483	(782,929)	1,488,446	
Net worth						
Ratio of interest rate sensitive assets to liabilities (%)						
Ratio of interest rate sensitive gap	Ratio of interest rate sensitive gap to net worth (%)					

Unit: In thousand of USD

Unit: In thousand of USD

December 31, 2017							
Item	1~90 days	91~180 days	181 days to one year	Over one year	Total		
Interest rate sensitive assets	\$ 28,823,293	5,395,605	3,420,487	787,330	38,426,715		
Interest rate sensitive liabilities	nterest rate sensitive liabilities 20,704,148 9,049,931 3,406,640 1,112,683						
Interest rate sensitive gap	nterest rate sensitive gap 8,119,145 (3,654,326) 13,847 (325,353)						
Net worth							
Ratio of interest rate sensitive assets to liabilities (%)							
Ratio of interest rate sensitive gap	to net worth (%)				(36,728.98)		

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

Note 2: Interest rate sensitivity assets and liabilities are interest-earning assets and interest-bearing liabilities with revenues and costs affected by interest rate changes.

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

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

(xi) Interest rate risk management for banking book

The main management purpose is to strengthen the interest rate risk management, increase the effectiveness of capital usage and improve the business.

1) Strategy

The interest rate risk management increases the Bank flexibility in order to measure, manage and hedge the interest rate risk. The Bank formulate "Liquidity and Interest Rate Management Strategies" to reinforce the management and maintain proper liquidity and adjust the interest rate sensitivity gap for the steady long-term profitability and business growth.

2) Management procedure

In order to adapt the economic financial environment changes and to fulfill the capital requirement, the Bank conducts different pricing management strategies, such as adopting variable or fixed interest rate, and use financial futures, foreign exchange swaps, interest rate swaps to manage the interest rate sensitivity gap. To adjust the interest rate sensitivity gap properly, the risk management department monitors the ratio of interest rate sensitivity assets to interest rate sensitivity liabilities, the ratio of TWD capital gap to equity and the interest rate sensitivity gap of foreign exchange, and report monthly to the risk management committee and board of directors.

3) Measurement method

The Bank uses the "Assets and Liabilities Management Information System" to identify interest rate sensitivity assets and liabilities and analyses the maturity gap and changes of maturity structure as the basis of interest rate risk management and pricing strategies. They also make proper financial transfer and adjust the capital structure to lower the liquidity risk and increase the profit.

- (f) Other risks
  - (i) Operational risk and legal risk

The Bank has identified, measured and monitored operational risk and legal risk and also disclosed qualitative and quantitative information in accordance with the "Information of the Capital Adequacy and the Risk Managements" and the FSC's requirements.

According the "The Explanations and Formats of Calculation of Bank' s Self-Owned Capital and Risk-Weighted Assets," operation risks is the risk of a change in value caused by the fact that actual losses, incurred for inadequate or failed internal processes, people and systems, or from external events (including legal risk), differ from the expected losses. As legal risk is part of the operational risk, where it involves legal risk to be reported together with the operation risk to the appropriate management level.

(ii) Compliance risks and reputation risks

The Department of Compliance have set out "Regulations for legal compliance ", regulate the authority of the Governance unit (as settle by Department of Compliance), the management unit (settle by Department of head office, Board Secretariat, Department of Auditing Board of Directors), training unit (settle by Department of Human Resources), own estimates unit (every operational unit (excluding Department of Auditing Board of Directors), and respond separately to the bank's legal compliance's planning, management, and executing. For example, the management unit should look through the possible risks of legal compliances, before applying to bring out new type of business as the bank sets out new product and service, and let the main of department of legal compliance to issue and sign a recommendation which in according to the legal and internal guideline.

In response to changing of external regulations, Legal and Compliance Division uses "The Legislation and Amendment of External Financial Regulations Checklist" to let every operation unit check and amend their internal regulations. And pass the information to colleagues about changing of financial regulations which were related to the Bank's operations to lower the risk of legal and compliance. If the operational loss event of legal and compliance happen, it will be involved in the monitor report of operation risk.

The Bank's "Declaration of Operation Risk Appetite" stressed that not only attaching importance to direct financial losses cause by operational loss event, but also to indirect losses which might damage the quality of service and reputation. In view of internal fraud will cause enormous losses and serious reputation hazard. The Bank actively established the enterprise culture with risk awareness. Enhancing colleagues' concept of risk (collecting and compiling the information to the report about the concept of risk), executing internal control certainly, and emphasizing the importance of compliance with regulations and laws which can avoid internal fraud.

In the future, except for meeting the requirements of the Competent Authority, the Bank collects domestic and international information and the reference with the inter-related banking pragmatic way to enhance the quantitative measurement and qualitative management about operation risk, legal risk, compliance risk and reputation risk.

(iii) Money laundering and terrorist financing risks

The Bank has established and amended the related policies and procedures in accordance with the "Money Laundering Control Act" and related regulations announced by the FSC, as well as the "Template of Directions Governing Anti-Money Laundering and Countering the Financing of Terrorism of Banks" and the 53 suspicious transaction patterns amended or issued by the bankers association of the R.O.C. The Bank took the following actions to combat money laundering and terrorism financing (AML/CFT):

1) Setting up responsible unit and appoint AML/CFT Responsible Officer

The board of directors of the Bank appointed the Chief Compliance Officer to serve as AML/CFT Responsible Officer, and set up "AML Center" under The Department of Compliance in January 16, 2017. A Supervisor and a Vice Supervisor are set up in the center, and the Deputy Chief Compliance Officer is appointed to serve as the Supervisor. So far, there are 13 members in the center.

2) Setting up AML/CFT Committee

The Bank sets up "Anti-Money Laundering and Combating Terrorism Financing Committee (AML/CFT Committee)" according to the "Regulations for Anti-Money Laundering and Combating Terrorism Financing Committee, Bank of Taiwan". The President is the Chairperson, and the Chief Compliance Officer is the Vice President of the committee. The managers of the 16 other departments also serve as the committee members. The AML/CFT Committee is responsible for examining and supervising AML/CFT related affairs.

- 3) Optimizing AML/CFT managerial mechanisms
  - a) In order to strengthen the Bank's AML/CFT managerial mechanisms, the Bank has already hired independent third parties to audit the effectiveness of the AML/CFT managerial mechanisms in 2016 and 2017. Against the findings of the audit, the Bank then hired external consultants to assist the Bank for improvement. The external consultants also participated and provided suggestions in the establishment of the Bank's AML/CFT information systems.
  - b) The consulting engagement is divided into three stages, including "Anti-Money Laundering and Combating Terrorism Financing System Difference analysis", "Anti-Money Laundering and Combating Terrorism Financing Managerial System Improvement and Optimization", and "Managerial System Operation". By analyzing the differences between the Bank's current AML/CFT operation and the regulatory requirements all over the world, the consulting engagement focuses on mitigating the differences, optimizing the mechanisms, and re-examing the effectiveness of the optimized managerial mechanisms to ensure the perfectness of the systems.
- 4) Setting up and optimizing AML/CFT information systems

According to "Regulations Governing Anti-Money Laundering" Art. 9.1., financial institutions should gradually integrate customer information and transaction data by information systems, for the purpose of enhancing its capability of account and transaction monitoring. The Bank will strengthen its policies and procedures regarding ongoing monitoring of accounts and transactions by applying risk-based approach and the assistance of information systems.

5) Establishing AML/CFT area in its internal information network

In order for its employees to have an immediate access to AML/CFT related information, the Bank sets up an AML/CFT website within its internal network. This measure simplifies the procedures of collecting related information, and is beneficial to the Bank by providing compliance guidance to its employees in their daily operations.

- 6) Training responsible officers and supervisors
  - a) In order to respond to the announcement of the amendments to AML/CFT related regulations and to enhance the employees' understanding of related regulations, the Bank hired external expert to hold orientation training for the Bank's responsible officers and supervisors. The Bank also held seminars and invited professional lecturer to discuss the amendments to AML/CFT related regulations and patterns for the Board of Directors, General President, and responsible officers or supervisors.
  - b) To propagate "Money Laundering Control Act" and related regulations, the Bank recorded AML/CFT online courses, and requires all employees to finish the online courses. The Bank also drew up "Understanding AML Q&A", and held online exam about the Q&A. The Bank requires all its employees to read the Q&A thoroughly and finish the online exam so as to improve their knowledge on AML related regulations.

### (g) Transfer of Financial Assets - Transferred financial assets that are not completely derecognized

The transferred financial assets of the Bank and subsidiary that are not qualified for de-recognition in the daily operation are mainly debt securities under repurchase agreements. Since the right to receive cash flow is transferred and it reflects the associated liabilities to repurchase transferred financial assets at a fixed price in the future period, the Bank and subsidiary cannot use, sell or pledge these transferred financial assets during the valid transaction period. However, since the Bank and subsidiary still bear the interest rate risk and credit risk, their transferred financial assets are not completely derecognized. Analysis of financial assets that are not completely derecognized and the associated liabilities are as follows.

	December 31, 2018						
Type of financial assets	Carrying amount of the transferred financial assets	Carrying amount of the Financial liability	Fair value of transferred financial assets	Fair value of financial liabilities	Fair value net position		
Financial asset measured at fair value through profit or loss							
Under repurchase agreements Available for sale-financial assets	\$ 5,577,177	5,272,516	5,577,177	5,272,516	304,661		
Under repurchase agreements	21,193,500	19,805,531	21,193,500	19,805,531	1,387,969		
		D	ecember 31, 20	17			
	Carrying amount of						
Type of financial assets	the transferred financial assets	Carrying amount of the Financial liability	Fair value of transferred financial assets	Fair value of financial liabilities	Fair value net position		
fair value through profit or loss							
Under repurchase agreements	\$ 4,351,953	4,154,202	4,351,953	4,154,202	197,751		
Available for sale-financial assets							
Under repurchase agreements	30,614,896	29,751,918	30,614,896	29,751,918	862,978		

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

financial assets

The Bank and subsidiary hold financial instruments which meet Section 42 of the IAS 32 endorsed by FSC. Therefore, the financial instrument will be offset on the balance sheet.

Although the Bank and subsidiary do not engage in transactions that meet the offsetting condition in IFRSs, they have signed the net settlement contracts of similar agreements with counterparties, such as global master repurchase agreement, global securities lending agreement and similar repurchase agreement or reverse-repurchase agreement. If both parties choose to net settle, the abovementioned executable net settlement contracts or similar agreements will be allowed to be settled in net amount after offsetting the financial assets and financial liabilities. Otherwise, the transaction will be settled in gross amount. However, if one party defaults, the other party could opt for net settling.

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The offsetting information of financial assets and financial liabilities is shown below:

		D	ecember 31, 2018			
Finan	cial assets under o	ffsetting or gene	ral agreement of 1	net amount settle	ment or similar n	orms
<u>Financial assets</u> Derivative financial assets	\$ <u>6,298,504</u>	Total recognized financial liabilities offsetting on the balance sheet (b) -	Net amount of financial assets on the balance sheets (c)=(a)-(b) 6,298,504	Relevant amo on the balar Financial instrument (note) 1,735,071	unt not offset nee sheet (d) Cash received as collaterals 38,214	Net amount (e)=(c)-(d) 4,525,219
Financi	al liabilities under		ecember 31, 2018 leral agreement of		lement or similar	norms
	Total recognized	Total recognized financial assets offsetting on	Net amount of financial liabilities	Relevant amo on the balan	unt not offset	
Financial liabilities Derivative financial liabilities	financial liabilities (a) \$4,646,438	the balance sheet (b)	on the balance sheets (c)=(a)-(b) 4,646,438	Financial instrument (note) 1,735,071	Pledged cash Collaterals 387,813	Net amount (e)=(c)-(d) 2,523,554
Note: Master netting arrangements and non-cash financial collaterals are included. December 31, 2017						

	December 31, 2017								
Financia	Financial assets under offsetting or general agreement of net amount settlement or similar norms								
		Total							
		recognized							
		financial							
	Total	liabilities	Net amount of	Relevant amo	unt not offset				
	recognized	offsetting on	financial assets	on the bala	nce sheet (d)				
	financial	the balance	on the balance	Financial					
	assets	sheet	sheets	instrument	Cash received	Net amount			
<b>Financial assets</b>	(a)	(b)	(c)=(a)-(b)	(note)	as collaterals	(e)=(c)-(d)			
Derivative \$	7,071,851	-	7,071,851	529,545	1,461,975	5,080,331			

		D	ecember 31, 2017			
Financi	al liabilities under	offsetting or gen	eral agreement of	f net amount sett	lement or similar	norms
	Total recognized	Total recognized financial assets offsetting on	Net amount of financial liabilities	Relevant amo		
Financial liabilities Derivative financial liabilities	financial liabilities \$	the balance sheet (b) 	on the balance sheets (c)=(a)-(b) 8,722,072	Financial instrument (note) 529,545	Pledged cash Collaterals 200,773	Net amount (e)=(c)-(d) 7,991,754

Note: Master netting arrangements and non-cash financial collaterals are included.

#### (9) Capital Management:

(a) The Target and Procedure of capital management

The Target of capital management is to achieve the authority's requirements for the BIS Capital Adequacy Ratio and to improve the efficiency of capital usage through capital management procedures.

The Bank consider the short-term and long-term capital demand, operating plans and the lowest requirement to the BIS ratio to draft the capital plan. The Bank conducts the stress testing, the simulation analysis periodically, consider the external conditions and other factors, such as potential risks, environment changes of the financial market and other events that will affect the risk tolerable ability to ensure the Bank can maintain sufficient capital while unfavorable events and significant changes to the market occur.

(b) The definition and regulations of capital

The Competent authority of the Bank is the Financial Supervisory Commission (the FSC). The Bank and subsidiary follow the "Regulations Governing the Capital Adequacy and Capital Category of Banks" issued by the FSC.

The term "Ratio of Regulatory Capital to Risk-weighted Assets" shall mean Common Equity Tier 1 Ratio, Tier 1 Capital Ratio, and Total Capital Adequacy Ratio. Except computing the Bank's own ratios, it also calculates the ratios using the consolidated financial information according to the IAS 27. All mentioned ratios should be in conformity with article 5 of the regulations.

#### (c) Regulatory Capital

The term "Regulatory Capital" shall mean the net Tier 1 Capital and the net Tier 2 Capital according to the Regulations Governing the Capital Adequacy and Capital Category of Banks."

- (i) The term "Net Tier 1 Capital" shall mean the aggregate amount of net Common Equity Tier 1 and net additional Tier 1 Capital.
  - 1) The common equity Tier 1 capital consists of the common equity that reduces intangible assets, the deferred tax assets due to losses from the previous year, the insufficiency of operation reserves and loan loss provisions, the revaluation surplus of real estate, unamortized losses on sales of non-performing loans, and the statutory adjustment items calculated in accordance with other rules for calculation methods. The common equity tier 1 capital shall mean the sum of the common stock and additional paid-in capital in excess of par- common stock, the capital collected in advance, the capital reserves, the statutory surplus reserves, the special reserves, the accumulated profit or loss, the non-controlling interests and the other items of interest.
  - 2) The range of additional Tier 1 capital shall mean the total amount of the following items reduces the total amount of the deductible items in accordance with the rules for calculation methods.
    - a) Non-cumulative perpetual preferred stock and its capital stock premium.
    - b) Non-cumulative perpetual subordinated debts.
    - c) The non-cumulative perpetual preferred stock and its capital stock premium, and the non-cumulative perpetual subordinated debts which are issued by banks' subsidiaries, and are not directly or indirectly held by banks.
- (ii) The range of Tier 2 capital shall mean the total amount of the following items reduces the total amount of the deductible items in accordance with the rules for calculation methods.
  - 1) Cumulative perpetual preferred stock and its capital stock premium.
  - 2) Cumulative perpetual subordinated debts.
  - 3) Convertible subordinated debts
  - 4) Long-term subordinated debts
  - 5) Non-perpetual preferred stock and its capital stock premium
  - 6) When the real estate was adopted by the International Financial Reporting Standards for the first time and used the fair value or the re-estimated value as the deemed cost. The difference in amount between the deemed cost and the book value was recognized in retained earnings, the 45% of unrealized gain on available-for-sale financial assets, as well as operational reserves and loan-loss provisions.

7) The cumulative perpetual preferred stock and its capital stock premium, cumulative perpetual subordinated debts, convertible subordinated debts, long-term subordinated debts, and the non-perpetual preferred stock and its capital stock premiums which are issued by banks' subsidiaries, and are not directly or indirectly held by banks.

When a bank reports its capital adequacy ratio according to the regulations, the competent authority shall examine its capital category in accordance with the provisions of these regulations on the calculation of capital adequacy ratio.

When a bank's capital is graded as inadequate capital, significantly inadequate capital or seriously inadequate capital by the competent authority's examination, the competent authority shall take prompt corrective actions in pursuant to Sections 1 to 3, Paragraph 1, Article 44-2 of the Act.

The government regulations are formulated in accordance with the Basel Accord. The followings are the content of the Basel Accord and the implementation of the Bank and subsidiary.

(i) The First Pillar

The first pillar contains the capital requirements for credit risks, market risks and operation risks.

- 1) Credit risks refer to the default risk resulted from the counterparties. The credit risk is derived from the assets, liabilities or off-balance sheet items. There are two measurement methods, the Standardized Approach and the Internal Ratings-Based Approach (the IRB). The Bank and subsidiary use the Standardized Approach.
- 2) Market risks refer to the loss due to the changes of the market price, such as the changes of the market interest rate, the exchange rate, the stock price and the product price. There are two measurement methods, the Standardized Approach and the Internal Model Approach. The Bank and subsidiary use the Standardized Approach.
- 3) Operation risks refer that the Bank has loss caused by the internal operations, the employee's faults, the system errors or external events. The operation risks include legal risks but exclude strategy risks and reputation risks. The measurement methods are the Basic Indicator Approach, the Standardized Approach, the Alternative Standardized Approach and the Advanced Measurement Approach. The Bank has adopted the Basic Indicator Approach since the first quarter of 2015 after obtaining the approval from the authorities.
- (ii) The Second Pillar

The second pillar is used to ensure that each bank has sufficient internal assessment procedures and each bank can understand the capital adequacy through complete risk measurements. At the same time, it also uses proper supervisory operations to ensure the regulatory capital accord with the whole risk characteristics. The Bank and subsidiary report the capital adequacy measurements and the risk management situations to the competent authority with related information.

(iii) The Third Pillar

The third pillar is related to the market discipline. It requires banks to disclose more information about the risks, the capital and the risk managements according the new Basel Accord in order to increase their information transparency. As a result, the Bank and subsidiary have offered the "Information of the Capital Adequacy and the Risk Managements" in our website to disclose the qualitative data and the quantitative data.

(d) Capital adequacy ratio

Analyze	Items	Year	December 31, 2018	December 31, 2017
Eligible	Common stock capital		209,451,511	204,281,845
	Other tier 1 capital		-	-
capital	Tier 2 capital		41,031,241	42,705,800
	Eligible capital		250,482,752	246,987,645
Risk assets	Credit	Standardized approach	1,818,497,922	1,723,882,383
weighted		Internal rating based approach	-	-
assets	risk	Securitization	-	-
	Operational	Basic indicator approach	-	-
		Standardized approach/Alternative standardized approach	64,333,363	61,430,838
	risk	Advance measurement approach	-	-
	Market	Standardized approach	112,738,688	95,600,876
	risk	Internal models approach	-	-
	Total risk weighted assets		1,995,569,973	1,880,914,097
Capital a	dequacy ratio		12.55 %	13.13 %
Common	stock based capital ratio		10.50 %	10.86 %
Tier 1 ris	k based capital ratio		10.50 %	10.86 %
Leverage	ratio		4.12 %	4.10 %

Note 1: The calculation of eligible capital, risk-weighted assets, and the total amount of risk exposure shall follow the Regulations Governing the Capital Adequacy and Capital Category of Banks, and Calculation of Equity Capital and Risk Assets.

Note 2: The annual report shall disclose the current and preceding period of BIS ratio. The semiannual report (beside the current and preceding period) shall disclose the information one year before.

Note 3: The table shall disclose the calculation formula as follows:

- 1. Equity Capital = shareholders' equity + other tier 1 capital + tier 2 capital
- 2. Risk-weighted assets = credit risk-weighted assets + (capital requirement for operational risk + capital requirement for market risk) × 12.5
- 3. Capital adequacy ratio = equity capital / internal models approach
- 4. Common stock based capital ratio = shareholders' equity / total risk weighted assets
- 5. Tier 1 risk based capital ratio = (shareholders' equity + Other tier 1 capital)/ weighted risk
- 6. Leverage ratio = tier 1 capital / total risk exposure
- Note 4: The table may choose not to disclose in Q1 and Q3 financial report.
- (e) Stress test: In addition to the FSC's requirement regarding the stress test to be conducted by the Bank, the Bank also establishes its own stress test policy based on global environment and economic situations. The testing includes the average common equity ratio, the first class capital ratio, the capital adequacy ratio, and the leverage ratio, calculated by the Bank under different assumptions of scenarios, which had been approved by the Bank's Board of Directors and risk management committee.

### (10) Related-party Transactions:

(a) Name of related party and relationship

Name	Relationship
Taiwan Financial Holding Co., Ltd.	Parent company of the Bank and subsidiary
BankTaiwan Life Insurance Co., Ltd.	Wholly-owned subsidiary
BankTaiwan Securities Co., Ltd.	Wholly-owned subsidiary
Hua Nan Financial Holdings Co., Ltd.	Investee company of the Bank under the equity method
Taiwan Life Insurance Co., Ltd.	Investee company of the Bank under the equity method
Tang Eng Iron Works Co., Ltd.	Investee company of the Bank under the equity method
Tai Yi Real Estate Management Co., Ltd.	Investee company of the Bank under the equity method
Taiwan business bank Co., Ltd.	Related- Party
Land Bank of Taiwan	Related- Party
Deutsche Bank Taipei Branch	Directors, supervisors, managers and their relatives up to the second degree, affiliates and so on
The Export-Import Bank of the Republic of China	Related- Party
Cathy United Bank	Related- Party
Chang Hwa Bank	Related- Party
Others	Directors, supervisors, managers and their relatives up to the second degree, affiliates and so on

### (b) Key Management Personnel Compensation

The related information about the salaries and bonus for the key management personnel for the 2018 and 2017 were as follows:

	2018	2017
Short-term employee benefits	\$ 9,844	9,836

### (c) Other related-party transactions

(i) Call loans to bank

	December 31, 2018					
	Interest					
	Highest balance	Ending balance	rate range (%)	Interest income		
Hua Nan Financial Holdings Co., Ltd.	\$ 19,663,275	1,299,175	0.178~5.08	46,434		

	 December 31, 2017					
	Interest					
	Highest	Ending	rate range	Interest		
	balance	balance	(%)	income		
Hua Nan Financial Holdings	\$ 11,112,275	1,528,375	0.17~5.10	50,551		
Co., Ltd.						

(ii) Receivables

	December 3		<u>31, 2018</u>	December 31, 2017	
Name	A	mount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holding Co., Ltd.	\$	5,760	0.01	3,238	0.01
BankTaiwan Life Insurance Co., Ltd.		46,420	0.08	35,010	0.06
Total	<u>\$</u>	52,180	0.09	38,248	0.07

<sup>(</sup>iii) Other assets

	December 31, 2018			December 31, 2017	
			Percentage of account		Percentage of account
Name	A	mount	balance	Amount	balance
BankTaiwan Life Insurance Co., Ltd.	\$	5,891	0.07	5,873	0.07
BankTaiwan Securities Co., Ltd.		14		14	
Total	\$	5,905	0.07	5,887	0.07

### (iv) Deposits of banks

	December	31, 2018	December 31, 2017		
		Percentage		Percentage	
		of account		of account	
Name	Amount	balance	Amount	balance	
Hun Nan Financial Holdings Co., Ltd.	\$ <u>228,890</u>	0.48	317,818	0.66	

(v) Call loans from banks (recognized as deposit of central bank and other bank)

		December 3	31, 2018	
			Interest	
	Highest balance	Ending balance	rate range (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$ 10,670,305	245,880	0.09~4.4	8,693

	December 31, 2018							
		Highest balance	Ending balance	rate range (%)	Interest expense			
Hua Nan Financial Holdings Co., Ltd.	\$	10,000,000	296,800	0.01~5.10	1,459			

#### (vi) Deposits

		December	31, 2018	December 31, 2017	
Name		Amount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holding Co., Ltd.	\$	291,908	0.01	130,657	-
BankTaiwan Life Insurance Co., Ltd.	\$	2,485,748	0.06	3,656,360	0.09
BankTaiwan Securities Co., Ltd.		263,988	0.01	377,400	0.01
Hua Nan Financial Holdings Co., Ltd.		371,497	0.01	376,291	0.01
Tai Yi Real Estate Management Co., Ltd.	_			12,035	
Total	\$_	3,413,141	0.09	4,552,743	0.11

(vii) Payables

		December	31, 2018	December	· 31, 2017
Name	A	mount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holding Co., Ltd.	\$	7	-	3	-
BankTaiwan Life Insurance Co., Ltd.	\$	541	-	1,746	-
BankTaiwan Securities Co., Ltd.		61		61	
Total	\$	609		1,810	

# (viii) Other liabilities

			December	31, 2018	December	31, 2017
				Percentage		Percentage
	N			of account		of account
	Name Taiwan Financial Holding Co., Ltd.	\$	Amount 2,762	<u>balance</u> 0.04	<u>Amount</u> 2,717	<u>balance</u> 0.03
	BankTaiwan Securities Co., Ltd.	φ	2,702 1,794	0.04	1,792	0.03
	Total	\$	4,556	0.02	4,509	0.02
	Total	°=	4,000	0.00	4,307	0.03
(ix)	Interest income					
			20	18	20	17
				Percentage		Percentage
				of account		of account
	Name		Amount	balance	Amount	balance
	Taiwan Financial Holding Co., Ltd.	\$	170,324	0.27	132,410	0.22
	BankTaiwan Securities Co., Ltd.	_	657		520	
	Total	\$	170,981	0.27	132,930	0.22
(x)	Interest expense					
		_	20	18	20	17
				Percentage		Percentage
				of account		of account
	Name		Amount	balance	Amount	balance
	Taiwan Financial Holding Co., Ltd.	\$	512	-	321	-
	BankTaiwan Life Insurance		48,705	0.13	41,251	0.12
	BankTaiwan Securities Co., Ltd.	_	734		826	
	Total	\$_	49,951	0.13	42,398	0.12
(xi)	Service fee income					
		_	20	18	20	17
				Percentage		Percentage
	N			of account		of account
	Name BankTaiwan Life Insurance	\$	Amount 600 563	balance	Amount 568 102	balance
		Ф	609,563	10.23	568,193	9.76
	BankTaiwan Securities Co., Ltd. Total	<u>م</u>	<u>3,643</u> <b>613,206</b>	<u> </u>	<u>2,935</u> <b>571,128</b>	0.05
	Total	\$	013,200	10.29		9.81
(xii)	Service fee expense					
			20		20	
				Percentage		Percentage
	N		A	of account	A	of account
	Name BankTaiwan Securities Co., Ltd.	¢	Amount	balance	Amount	balance
	Bank I arwan Securities Co., Ltd.	\$_	10,660	1.62	12,008	1.87
						(Continued)

(xiii) Gain (loss) on financial assets or liabilities measured at fair value through profit or loss

	_	20	18	2017		
			Percentage of account		Percentage of account	
Name		Amount	balance	Amount	balance	
BankTaiwan Life Insurance	\$	697,995	(15.48)	372,504	1.18	
BankTaiwan Securities Co., Ltd.	_	(6,614)	0.15	(4,315)	0.01	
Total	\$_	691,381	(15.33)	368,189	1.19	

(xiv) Realized loss on available-for-sale financial assets

	20	17
		Percentage of account
Name	Amount	balance
BankTaiwan Securities Co., Ltd.	\$ <u>(1,84</u>	0.06

### (xv) Other non-interest income (expense)

	_	20	18	2017	
Name	-	Amount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holding Co., Ltd.	\$	28,177	1.68	28,796	0.09
BankTaiwan Life Insurance		43,634	2.59	37,363	0.12
BankTaiwan Securities Co., Ltd.	-	30,915	1.84	30,350	0.10
Total	\$_	102,726	<u> </u>	96,509	0.31

(xvi) Other general and administrative expense

		20	18	2017		
N	_	A	Percentage of account		Percentage of account	
Name	_	Amount	balance	Amount	balance	
Taiwan Financial Holding Co., Ltd.	\$	645	0.01	822	0.01	
BankTaiwan Life Insurance		35,618	0.50	35,574	0.51	
BankTaiwan Securities Co., Ltd.	_	86		86		
Total	\$_	36,349	0.51	36,482	0.52	

# (xvii)Loans

December 31, 2018								
Category	House holder amount or name of related party	Highest balance in current period	Ending balance	Status of p Performing loans	erformance Non- performing loans	Type of collateral	Differences in transaction terms between related and non related parties	
Consumer loans	30 households	15,070	9,374	9,374	-	None	None	
House mortgages	191 households	721,580	622,246	622,246	-	Land and buildings	None	
Call loans to banks	Land Bank of Taiwan Co., Ltd.	19,500,000	-	-	-	None	None	
Call loans to banks	Hua Nan Financial Holdings Co., Ltd.	15,000,000	-	-	-	None	None	
Call loans to banks	Taiwan Business Bank Co., Ltd.	2,000,000	-	-	-	None	None	
Call loans to banks	Cathy United Bank	11,000,000	-	-	-	None	None	
Call loans to banks	The Export-Import Bank of the Republic of China	2,300,000	1,050,000	1,050,000	-	None	None	
Call loans to banks	Deutsche Bank Taipei Branch Co., Ltd.	3,500,000	-	-	-	None	None	
Short-term loans	Taiwan financial Holding Co., Ltd.	25,800,000	25,800,000	25,800,000	-	None	None	
Short-term secured loans	BankTaiwan Securities Co., Ltd.	500,000	-	-	-	Government (or financial institutions) guarantee	None	
Secured overdrafts loans	Tang Eng Iron Works Co., Ltd.	67,405	67,405	67,405	-	Land and factory	None	
Short-term secured loans	Tang Eng Iron Works Co., Ltd.	100,000	100,000	100,000	-	Land and factory	None	
Short-term secured loans	Tang Eng Iron Works Co., Ltd.	1,882,984	1,200,000	1,200,000	-	Land and factory	None	
Medium-term secured loans	Tang Eng Iron Works Co., Ltd.	1,800,000	1,800,000	1,800,000	-	Land and factory	None	

			December 3	1,2017			
Category	House holder amount or name of related party	Highest balance in current period	Ending balance	Status of p Performing loans	erformance Non- performing loans	Type of collateral	Differences in transaction terms between related and non related parties
Consumer loans	27 households	14,354	9,642	9,642	-	None	None
House mortgages	104 households	574,881	521,316	521,316	-	Land and buildings	None
Call loans to banks	Land Bank of Taiwan Co., Ltd.	15,000,000	5,000,000	5,000,000	-	None	None
Call loans to banks	Hua Nan Financial Holdings Co., Ltd.	5,000,000	-	-	-	None	None
Call loans to banks	Taiwan Business Bank Co., Ltd.	3,000,000	-	-	-	None	None
Call loans to banks	Cathy United Bank Co., Ltd.	10,000,000	-	-	-	None	None
Call loans to banks	The Export-Import Bank of the Republic of China	1,800,000	1,500,000	1,500,000	-	None	None
Call loans to banks	Chang Hwa Bank Co., Ltd.	5,000,000	-	-	-	None	None
Short-term loans	Taiwan financial Holding Co., Ltd.	16,250,000	16,250,000	16,250,000	-	Government (or financial institutions) guarantee	None
Secured overdrafts loans	Tang Eng Iron Works Co., Ltd.	402,676	91,395	91,395	-	Land and factory	None

			December 31	1, 2017			
Category	House holder amount or name of related party	Highest balance in current period	Ending balance	Status of po Performing loans	erformance Non- performing loans	Type of collateral	Differences in transaction terms between related and non related parties
Short-term secured loans	Tang Eng Iron Works Co., Ltd.	100,000	100,000	100,000		Land and factory	None
Short-term secured loans	Tang Eng Iron Works Co., Ltd.	1,189,338	973,428	973,428	-	Land and factory	None
Long-term secured loans	Tai Yi Real Estate management Co., Ltd.	2,934	-	-	-	Land and factory	None
Medium-term secured loans	Tang Eng Iron Works Co., Ltd.	400,000	-	-	-	Land and factory	None
Medium-term secured loans	Tang Eng Iron Works Co., Ltd.	1,600,000	1,300,000	1,300,000	-	Land and factory	None
Short-term secured loans	BankTaiwan Securities Co., Ltd.	500,000	-	-	-	Government (or financial institutions) guarantee	None

Note 1: The consumer loans to staff and mortgage loans to staff can be lumped together for disclosure. The disclosure of other loans is sorted by interested parties.

Note 2: Collateral is classified by real estate, short term notes, government bonds, secured or non secured bonds, TSEC and GTSM stocks, non TSEC and non GTSM stocks, and others.

#### (xviii) Derivative financial instruments

December 31, 2018						
					Balance sheet	
Name of related party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Account name	Amount
BankTaiwan Life Insurance Co., Ltd.	Swap agreement	2017.08.04~ 2019.02.20	9,161,600		Valuation adjustment of financial assets measured at fair value through profit or loss - swap	21,138
BankTaiwan Life Insurance Co., Ltd.	Swap agreement	2010.08.20~ 2019.03.20	13,938,680		Valuation adjustment of financial liabilities measured at fair value through profit or loss - swap	(29,327)

December 31, 2017								
					Balance s	sheet		
Name of related party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Account name	Amount		
BankTaiwan Life Insurance Co., Ltd.	1	2010.08.20~ 2018.04.20	19,890,440		Valuation adjustment of financial assets measured at fair value through profit or loss - swap	(221,156)		

(xix) The expenses of shared assets allocated to Taiwan Financial Holding Co., Ltd, BankTaiwan Life Insurance Co., Ltd, BankTaiwan Securities Co., Ltd, by the Bank was as follows:

		20	18	2017		
			Percentage of account		Percentage of account	
Name	_	Amount	balance	Amount	balance	
Taiwan Financial Holding Co., Ltd.	\$	43,634	2.59	37,363	0.12	
BankTaiwan Life Insurance Co., Ltd.		20,098	1.19	20,319	0.06	
	_	75,494	4.48	70,228	0.22	
Total	\$	139,226	8.26	127,910	0.40	

#### (11) Pledged Assets:

Pledged assets	Purpose of pledge	December 31, 2018	December 31, 2017
Available-for-sale financial assets —bonds	Guarantee deposit for provisional seizure against defaulted loans and others	\$ -	520,400
Available-for-sale financial assets —bonds	Operating deposit for securities investment trust and consulting	-	150,000
Held-to-maturity financial assets – government bonds	Guarantee deposits for trust business compensation reserve	-	450,000
Deposits in Central Bank-time deposits	Payment and settlement systems of Central Bank	20,000,000	20,000,000
Available-for-sale financial assets – negotiable certificate of deposit	Payment and settlement systems of Central Bank	-	27,400,000
Financial assets measured at fair value through other comprehensive income-bonds	Guarantee deposit for provisional seizure against defaulted loans and others	471,100	-
Financial assets measured at fair value through other comprehensive income-bonds	Operating deposit for securities investment trust and consulting	150,000	-
Financial assets measured at amortized cost – bonds	Guarantee deposits for trust business compensation reserve	450,000	-
Financial assets measured at fair value through other comprehensive income – negotiable certificate	Payment and settlement systems of Central Bank	27,400,000	-
C		\$ 48,471,100	48,520,400

#### (12) Commitments and Contingencies:

(a) Commitments and contingencies

	December 31,		December 31,
		2018	2017
Consignment collection	\$	49,477,512	51,138,609
Contract guarantee on behalf of counter parties		1,241,441	1,230,613
Traveler's checks held on consignment		884,739	971,512
Marketable securities held as custodian		2,215,098,957	1,945,718,196
Letters of credit		26,676,184	25,418,847
Goods held in custody		42,603,991	39,968,747
Issuance of New Taiwan Dollars		2,199,308,024	2,044,208,550
Trustee of behalf of Lenders		608,892,514	697,542,841
Registered government bonds for sale		798,484,400	802,097,600
Registered short term bills for sale		254,133,758	257,055,720
Consigned sales of goods		885,736	1,625,640
Trust liabilities		601,845,330	618,391,788
Guarantees		87,101,336	85,038,738
	\$	6,886,633,922	6,570,407,401

#### (b) Balance sheet, income statement and details of assets under trust

Trust assets		December 31, 2	December 31, 2017		
		Amount	%	Amount	%
Deposits					
Deposits in BOT	\$	29,268,129	5	33,934,811	6
Deposits in other banks		310,038	-	892,101	-
Short term investment					
Investment in funds		164,389,046	27	164,744,058	27
Investment in bonds		260,782,413	43	246,406,386	40
Common stock investment-marketable securities		51,622,134	9	50,742,896	8
Receivables					
Interest receivable		1,376,314	-	1,470,549	-
Cash dividend receivable		1,267	-	591	-
Receivables from trading securities		292,965	-	211,773	-
Receivables from forward contracts		5,553,635	1	4,498,190	1
Real estate					
Land		22,894,616	4	17,554,272	3
Buildings		121,199	-	121,433	-
Construction in progress		3,691,800	1	20,867,817	3
Marketable securities under custody	_	61,541,774	10	76,946,911	12
Total of trust assets	<b>\$_</b>	601,845,330	100	<u>618,391,788</u>	100

Trust liabilities		December 31, 2	December 31, 2017		
		Amount	%	Amount	%
Payables					
Payables from trading securities	\$	87,901	-	214,740	-
Payables from forward contracts		5,462,050	1	4,611,400	1
Payables from management fee		2,909	-	2,846	-
Payables from supervision fee		413	-	329	-
Other payables		1,575	-	1,498	-
Tax payable		722	-	402	-
Securities held in custody payable		61,541,774	10	76,946,911	12
Trust capital					
Money trust		388,748,062	64	395,622,083	64
Marketable securities trust		155,028	-	169,981	-
Real estate investment trust		28,387,883	5	41,897,668	7
Other reserve and accumulated income					
Accumulated loss		89,196,791	15	72,680,382	12
Foreign currency translation		(7,715,868)	(1)	(7,696,426)	(1)
Deferred unrealized income		13,805,837	2	14,243,990	2
Current income		22,170,253	4	19,695,984	3
Total of trust liabilities	\$	601,845,330	100	618,391,788	100

Note: Including fund and bond investments of the offshore branch amounting to \$291,683 and \$297,466 as of December 31, 2018 and 2017, respectively.

Details of trust	D	ecember 31, 2018	December 31, 2017	
Deposits				
Deposits in the Bank	\$	29,268,129	33,934,811	
Deposits in other banks		310,038	892,101	
Short term investment				
Investment in funds		164,389,046	164,744,058	
Investment in bonds		260,782,413	246,406,386	
Common stock investment- marketable securities		51,622,134	50,742,896	
Real estate				
Land		22,894,616	17,554,272	
Buildings		121,199	121,433	
Construction in progress		3,691,800	20,867,817	
Marketable securities under custody		61,541,774	76,946,911	
Total	\$	594,621,149	612,210,685	

Income statement for assets under trust		2018	2017	
Trust revenue				
Capital interest revenue	\$	11,987,923	11,074,157	
Cash dividend revenue		2,297,993	1,993,096	
Donation revenue		328,336	344,272	
Realized capital gain shares		308,916	120,211	
Realized capital gain fund		2,265,566	2,384,913	
Realized exchange gain – bond		1,980,364	852,895	
Realized gain on property exchange		316,380	1,210,426	
Income from beneficiary certificates		4,021,211	3,475,430	
Realized foreign exchange gains		42,586	-	
Other revenue		63	61	
Total trust revenue		23,549,338	21,455,461	
Trust expense				
Capital management fee		449,652	474,397	
Tax expense		10,653	21,560	
Supervisory fee		476	353	
Storage fee		13,710	8,939	
Commission fee		89	18	
Donation cost		880,657	594,640	
Realized foreign exchange losses		-	585,715	
Other expense		23,848	73,855	
Total trust expense		1,379,085	1,759,477	
Net income	<b>\$</b>	22,170,253	19,695,984	

#### (13) Profitability:

Item		December	· 31, 2018	December 31, 2017	
		Before adjusting	After adjusting	Before adjusting	After adjusting
Return on total assets	Before income tax	0.23	0.40	0.23	0.43
(Note 6)	After income tax	0.21	0.38	0.21	0.41
Return on net worth	Before income tax	3.83	6.25	4.01	6.91
(Note 7)	After income tax	3.46	5.88	3.68	6.58
Profit margin			26.28		31.30

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

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

- Note 3: Profit margin=Income after income tax/Total operating revenues.
- Note 4: Income before (after) income tax is the income for the whole year of 2018 and 2017.
- Note 5: The above profitability ratios are at annual rates.
- Note 6: Return on total assets after adjusting means assets excluding the short-term advances and long-term receivables resulted from government policies, and the assets of government employees insurance department; it also refers to income before (after) tax, plus, excess preferential interest expense. (If return on total assets- after adjusting at December 31, 2018 means assets excluding the assets of government employees insurance department and the income before and after tax, plus, excess preferential interest revenue from the advance resulted from government policies, the adjusted return on total assets before (after) tax are 0.41% and 0.39%.)
- Note 7: Return on net worth after adjusting means income before (after) tax, plus, excess preferential interest expense. (If the return on net worth- after adjusting at December 31, 2018 means income before (after) tax, plus, excess preferential interest expense and interest revenue from the advance resulted from government policies, the adjusted returns on net worth before and after tax are 6.47% and 6.10%.)

#### (14) Losses Due to Major Disasters:None

#### (15) Subsequent events:None

#### (16) Other:

(a) The employee benefit expenses, depreciation, depletion and amortization, categorized by function, were as follows:

By function		2018			2017	
By nature	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expenses						
Salaries	62,839	10,959,527	11,022,366	66,365	10,477,062	10,543,427
Labor and health insurances	104,620	520,763	625,383	101,216	506,574	607,790
Pensions	2,984	838,371	841,355	3,180	808,792	811,972
Director and supervisor compensation payment	-	2,344	2,344	-	2,556	2,556
Others	2,319,418	258,864	2,578,282	2,831,332	234,151	3,065,483
Depreciation	49,037	706,513	755,550	46,478	734,402	780,880
Amortization expenses	-	280,830	280,830	-	367,125	367,125

The number of employees for the 2018 and 2017 were 8,352 and 8,268, respectively.

#### (b) Financial Statements Audited adjustment

The accounting records as at and for the year ended December 31, 2017, have been audited and examined by the MoA, and the resulting adjustments are summarized as follows:

Government audit adjustments for fiscal year ended December 31, 2017:

Balance Sheet	As Previously Reported December 31, 2016		Adjustments — Increase (Decrease)	As Audited by the MoA, December 31, 2016	
Assets					
Current income tax assets	\$	1,160,916	(78,652)	1,082,264	
Deferred tax assets		167,171	3,670	170,841	
Liabilities					
Current income tax liabilities		514,709	(25,987)	488,722	
Deferred tax liabilities		18,130,057	13,017	18,143,074	
Stockholders' equity					
Unappropriated retained earnings		15,930,139	(48,243)	15,881,896	
Other equity		29,091,376	(13,769)	29,077,607	

	Adjustments						
<b>.</b>	As Previously		-Increase	As Audited by			
Income statement	Ke	ported 2015	(Decrease)	the MoA, 2015			
Share of profit of associates and joint ventures accounted for using equity method	\$	2,612,076	(1,019)	2,611,057			
Income tax expense		893,506	48,243	941,749			
Net income		10,403,590	(49,262)	10,354,328			

Revised entries by the MoA in 2017 were as follows:

Item	Adjustment accounts	Amount revis	ed by the MoA	Explanation of revision by the MoA
1.	Current income tax assets	\$ 28		The accountant of Hong Kong branch adjusted taxable income.
	Income tax expense		28	
2.	Unrealized gain on available for sale financial assets	\$ 13,017		The accountant of Singapore branch adjusted taxable income.
	Income tax expense	924		
	Current income tax liabilities		924	
	Deferred tax liabilities		13,017	

Item	Adjustment accounts	Amo	ount revise	ed by the MoA	Explanation of revision by the MoA			
3.	Deferred tax assets	\$	3,636		The accountant of South Africa branch adjusted taxable income.			
	Income tax expense		31					
	Unrealized gain on available for sale financial assets		752					
	Current income tax assets			4,419				
4.	Deferred tax assets		34		The accountant of Shanghai branch adjusted taxable income.			
	Current income tax liabilities		27,083					
	Current income tax assets			20,474				
	Income tax expense			6,643				
5.	Income tax expense	\$	172		The accountant of Fuzhou branch adjusted taxable income.			
	Current income tax liabilities			172				
6.	Income tax expense	\$	53,787		MoA adjusted taxable income by amendment.			
	Current income tax assets			53,787				
7.	Profit (loss) of accounted for using equity method	\$	1,019		MoA adjusted the CPA adjusting entries for investments under equity method of Tang Eng.			
	Gain or loss accumulated in equity			1,019				

- (c) Supplementary information for government employees' insurance department
  - (i) Balance sheets

		Government of insurance de	1 0
	D	ecember 31, 2018	December 31, 2017
Cash and cash equivalents	\$	49,625,324	44,300,291
Financial assets measured at fair value through profit or loss		151,082,813	171,775,507
Debt investments measured at amortized cost		84,604,931	-
Receivables, net		8,052,203	13,045,439
Held-to-maturity financial assets		-	62,802,459
Property and equipment, net		4,673	5,842
Intangible assets, net		4,657	6,017
Other assets, net		3,039,547	3,228,093
Total assets	\$	296,414,148	295,163,648
		Government e insurance de	1 0
	D	ecember 31, 2018	December 31, 2017

	2010	2017
Payables	34,334	107,877
Provisions	296,379,792	295,055,660
Other liabilities	22	111
Total liabilities	\$ <u>296,414,148</u>	295,163,648

#### (ii) Income statement

		Government er insurance dep	* •
		2018	2017
Net interest income	\$	2,088,822	1,758,366
Service fee expenses		(1,942)	(15,411)
Gain (loss) on financial assets and liabilities at fair value through profit or loss		(12,832,454)	24,913,983
Foreign exchange gain (loss)		1,827,970	(5,235,079)
Impairment loss of assets		(5,024)	-
Premium income		24,863,334	23,478,165
Government subsidy		8,892,009	10,452,705
Insurance payments		(23,242,767)	(24,923,675)
Recovered premium reserve		-	-
Provision for insurance premium reserve		(1,371,850)	(30,214,824)
Miscellaneous expense		(89,704)	(93,142)
Miscellaneous revenue		15,591	13,504
Net revenue		143,985	134,592
Bad debt expenses and reserve for guarantees		3,639	_
Employee benefits		122,437	116,354
Depreciation and amortization expenses		3,318	4,779
Other general and administrative expenses		14,591	13,459
		140,346	134,592
Net income	<u>\$</u>		

Note: According to Government Employees and School Staff Insurance Act, if GESSI experiences a loss, the loss before May 30, 1999, would be covered by the Ministry of Finance; and the loss after that date would be covered by an adjustment of the insurance premium. Besides, according to the same Act, the expenses to carry on government employees and school staff insurance are subsidized by the budget designated by the Ministry of Civil Service.

(d) Ruling No. 10400177950 issued on August 19, 2015, by the FSC, the Bank, has obtained approval from the competent authority to engage in the business of electronic payment institutions. The Bank opened the business in 2016 and according to Article 4 of the Regulations Governing the Organization and Administration of Sinking Fund Established by Electronic Payment Institutions, in first year the Bank should appropriate the amount of \$500 thousand for its dedicated sinking fund account, in which the Bank had already appropriated the full amount into its account in May 2017. The Bank's fee income generated from electronic payment business for year for the 2018 and 2017 were \$147 thousand and \$3 thousand, respectively. There were no interest revenue and other revenue in 2018 and 2017.

#### (17) Notes to Disclosure Items:

(a) Information on Significant Transactions:

Following the principle of financial report for public bank, the disclosure of information on significant transaction of the Bank and subsidiary were as follow:

- (i) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 10% of the capital stock:None
- (ii) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 10% of the capital stock:None
- (iii) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 10% of the capital stock:None
- (iv) Service charge discounts on transactions with related parties in an aggregate amount of NT\$5 million or more:None
- (v) Receivables from related parties with amounts exceeding the lower of NT\$300 million or 10% of the capital stock:None
- (vi) Information on NPL disposal transaction:
  - 1) Summary table of NPL disposal:None
  - 2) Disposal of a single batch of NPL up to NT\$1 billion and information on each transaction:None
- (vii) Types of securitization instruments approved to be issued pursuant to financial assets securitization rules or real estate securitization rules and other relevant information:None
- (viii) Business relationships and significant intercompany transactions:

(In Thousands of New Taiwan Dollars)

					State	of transaction	
Number		Name of the counter-party	Existing relationship with the counter-party		Amount	Terms of trading	Percentage of the total consolidated revenues or total assets
0		BankTaiwan Insurance Brokers	1	Deposits		Same as regular transaction	0.01 %
-	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Placement with banks	401,436	//	0.01 %
0		BankTaiwan Insurance Brokers	1	Cheques deposits	50,000	//	- %
	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Placement with banks	50,000	"	- %
0		BankTaiwan Insurance Brokers	1	Other receivables	58,088	"	- %
-	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Other payables	58,088	"	- %
0		BankTaiwan Insurance Brokers	1	Service fees revenue	1,345,343	"	3.41 %
	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Service fees expenses	1,345,343	"	3.41 %
0	Bank of Taiwan	BankTaiwan Insurance Brokers	1	Miscellaneous revenues	417	"	- %
	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Administrative expense	417	"	- %
0	Bank of Taiwan	BankTaiwan Insurance Brokers		Refundable deposits	808	"	- %
	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Guarantee deposits paid	808	"	- %
0		BankTaiwan Insurance Brokers	1	Miscellaneous revenue	14,499	"	0.04 %
	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Operating expenses	14,499	"	0.04 %
0		BankTaiwan Insurance Brokers	1	Other operating income	4,753	"	0.01 %
	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Operating expenses	4,753	"	0.01 %
	Bank of Taiwan	BankTaiwan Insurance Brokers	1	Interest payables	10	"	- %
	BankTaiwan Insurance Brokers	Bank of Taiwan	-	Interest receivables	10	//	- %

				State of transaction						
Number	Name of Company	1 .	Existing relationship with the counter-party		Amount	Terms of trading	Percentage of the total consolidated revenues or total			
							assets			
0	Bank of Taiwan	BankTaiwan Insurance Brokers	1	Interest expenses	376	//	- %			
	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Interest incomes	376	"	- %			

Note 1: Number is based on the following rules:

1) The parent company is 0.

2) Subsidiaries are numbered by company from 1.

Note 2: The relation with trader is numbered as follow:

1) The parent company to its subsidiary is 1.

2) The subsidiary to its parent company is 2.

Note 3: The transactions mention above have already write-off when building the financial report.

(ix) Other significant transactions that may have substantial influence upon the decisions made by financial report users:None

#### (b) Information on Investees:

The followings are the information on investees during 2018:

				Highest holding ratio	Original	Gain(Loss) recognized	Held by the bank and related party at year-end				
Name of the	Investee	Major	% of	for the	investment	during the			Sub		Notes
investee	Location	Operation	shares	period	amount	period	Shares		Shares	% of Shares	
Hua Nan Financial Holdings Co., Ltd.	Taipei	Financial Holding	21.23 %	- %	36,973,209	3,104,176	2,894,429	-	2,894,429	25.07%	
Fang Eng Iron Works Co., Ltd.	Kaohsiung	Iron Industry	21.37 %	- %	1,013,547	(308,086)	74,802	-	74,802	21.37%	
Tai Yi Real Estate Management Co., Ltd.	Taipei	Real Estate Service	30.00 %	- %	21,084	4,059	1,500	-	1,500	30.00 %	
BankTaiwan nsurance Brokers Co., Ltd.	Taipei	Insurance Brokers	100.00%	- %	426,750	194,980	2,000	-	2,000	100.00%	note 4

Note 1: The shares held or to be held by The Bank or its directors, supervisors, president, vice president and investees held by the affiliates as defined in the Company Act shall be included.

Note 2: 1) The shares to be held shall mean the shares acquired upon conversion, as hypothesized, of equity securities purchased or contracted for derivative products concluded (not yet converted to equity) in accordance with the trading terms and conditions and The Bank's intent to link with the reinvested enterprise's equity for the purpose of reinvestment provided in Article 74 of the Act.

 The "equity securities" referred to in the preceding paragraph shall mean the valuable securities referred to in Paragraph 1 of Article 11 of the Securities and Exchange Law Enforcement Rules, e.g. convertible corporate bond and warrant.

3) The "derivative products" referred to in the preceding paragraph shall comply with the definition of derivative products referred to in Statement of Financial Accounting Standards No. 34, e.g. stock option.

Note 3: The table do not need to disclosure in the financial statement at first and third quarter.

Note 4: This transaction had been written off when preparation the consolidated financial statements

#### (c) Information on Investment in Mainland China:

#### (i) Information on investees' names, locations, etc. in China:

	(In Thousands of New Taiwan Dollars)													
Investee Company	Main Business	Total Amount of Paid-in Capital	Investment	Accumulated outflow of Investment from Taiwan as of January 1, 2015	Investmer Outflow	nt flows Regain	Accumulated outflow of investment from Taiwan as of December 31, 2015	Net income from investee		The highest % of shares in the midterm	Equity in the Earnings (gains) (Note2)	Carrying value as of December 31, 2018	Accumulated inward remittance of earnings as of December 31, 2018	
	Banking	4,469,000 CNY1,000,000	(3)	4,469,000 CNY1,000,000	-	-	4,469,000 CNY1,000,000	-	- %	- %	169,150	5,776,052	. ,	
· · · · · · · · · · · · · · · · · · ·	Banking business	4,469,000 CNY1,000,000		4,469,000 CNY1,000,000	-	-	4,469,000 CNY1,000,000		- %	- %	(26,569)	4,896,494	-	
	Banking business	4,469,000 CNY1,000,000		4,469,000 CNY1,000,000	-	-	4,469,000 CNY1,000,000		- %	- %	(49,643)	4,742,475	-	

Note 1: Three types of investments:

1) Direct investment in Mainland China.

2) Investment in Mainland China through a company set up in a third region.

3) Others through overseas branches.Note 2: Equity in the earnings for the year:

1) If a subsidiary has no income or loss during the period, the parent company should disclose all the related information.

- 2) A Company can recognize the investment income by obtaining the followings:
  - a) Financial statements audited or reviewed by an international accounting firm which has a member firm in Taiwan.
  - b) Financial statements audited or reviewed by the auditor of the parent company.

c) Others.

3) If the information regarding a subsidiary's current profit and loss is not available, the parent company should disclose it.

Note 3: Numbers in this table are shown in thousands of TWD.

(ii) Limitation on investment in Mainland China:

		Unit: In thousands of TWD
Current period of accumulate	The rationed investing amount	The regulation announced by
investment amount remitting from	approved by Investment Commission,	Investment Commission, MOEA
Taiwan	MOEA	rationed investing amount
13,407,000	13,407,000	186,151,208

(d) Subsidiaries lending to other parties, guarantees and endorsements for other parties, securities held as of December 31, 2018, securities for which purchase or sale amount for the period exceed \$300 million or 10% of the Bank's paid-in capital, and trading in derivative financial instruments: None.

#### (18) Segment Information:

- (a) Bank department: include transacting deposit, loan, and foreign exchange; dispatching, managing, performing TWD and foreign currency; investing in securities, and analyzing, managing interest for loan and deposit, and etc.
- (b) Government employees' insurance department: include managing government employees' insurance business; auditing insurance, cash settlement, and issue business; analyzing, managing, and taking statistics of government employees' insurance business, and etc.
- (c) Department of Procurement: include managing government institutions, public schools, and public enterprises' centralized purchasing business; being agency of government institutions, public schools, and public enterprises for inter-entity supply contract, and etc.
- (d) Department of Precious Metals: include managing gold, silver, precious metals and analyzing customs duty; gold, silver and precious metals intermediary trading, planning, marketing, training, settlement, risk management, assuring and etc.

## (e) BankTaiwan Insurance Broker: operation businesses include insuring personal, property insurance, related services, and the business approved by the authority which related to insurance broker.

				2018			
	Bank departme	Department of Government Employees at Insurance	Department of Procurement	Department of Precious Metals	BankTaiwan Insurance Brokers	Reconciliation and elimination	Total
Interest income	\$ 61,793	,949 2,088,822	12	857	376	(376)	63,883,640
Less: interest expense	38,258	,657 -				(376)	38,258,281
Interest income, net	23,535	,292 2,088,822	12	857	376	-	25,625,359
Non-interest income, net	22,533	,984 (11,011,450)	330,832	111,989	370,589	(194,982)	12,140,962
Other non-interest income	(7,619	,153) 9,066,613	(14,052)	269,731	(1,305)	(19,668)	1,682,166
Net revenue	38,450	,123 143,985	316,792	382,577	369,660	(214,650)	39,448,487
Bad debt expenses and reserve for guarantees	(7,298	,861) (3,639)	-	12	-	-	(7,302,488)
Operating expenses	(20,220	,693) (140,346)	(109,528)	(92,833)	(125,935)	19,671	(20,669,664)
Continuing operating income before income tax	\$ <u>10,930</u>	,569 -	207,264	289,756	243,725	(194,979)	11,476,335
Continuing operating income after inocme tax	\$ <u>9,871</u>	,154	207,264	289,756	194,980	(194,979)	10,368,175
Total assets	\$ <u>4,751,358</u>	,643 296,414,148	2,002,026	1,479,559	537,039	(5,676,899)	5,046,114,516
Total Liabilities	\$ 4,441,603	,649 296,414,148	1,794,762	1,189,803	110,289	(5,250,149)	4,735,862,502

			Department					
	d	Bank lepartment	of Government Employees Insurance	Department of Procurement	Department of Precious Metals	BankTaiwan Insurance Brokers	Reconciliation and elimination	Total
Interest income	\$	57,346,281	1,758,366	9	822	357	(357)	59,105,478
Less: interest expense	_	33,583,762		-			(357)	33,583,405
Interest income, net		23,762,519	1,758,366	9	822	357	-	25,522,073
Non-interest income, net		18,915,588	19,663,493	256,313	62,369	361,926	(194,811)	39,064,878
Other non-interest income	_	(10,540,493)	(21,287,267)	(14,394)	361,934	(1,234)	(19,672)	(31,501,126)
Net revenue		32,137,614	134,592	241,928	425,125	361,049	(214,483)	33,085,825
Bad debt expenses and reserve for guarantees		(1,685,005)	-	-	-	-	-	(1,685,005)
Operating expenses	_	(19,625,653)	(134,592)	(107,463)	(91,022)	(126,339)	(19,674)	(20,104,743)
Continuing operating income before income tax	\$_	10,826,956		134,465	334,103	234,710	(234,157)	11,296,077
Continuing operating income after inocme tax	\$_	9,925,108		134,465	334,103	194,809	(234,157)	10,354,328
Total assets	<u>\$_</u>	4,634,831,225	295,163,648	1,835,376	1,445,558	489,753	(5,552,770)	4,928,212,790
Total Liabilities	\$ <u>_</u>	4,346,257,035	295,163,648	1,700,910	1,111,455	99,212	(5,162,229)	4,639,170,031

2017

V. Individual Financial Statements of Recent Years, and Independent Auditors' Report

#### **Independent Auditors' Report**

To the Board of Directors of Bank of Taiwan:

#### Opinion

We have audited the financial statements of Bank of Taiwan ("the Bank"), which comprise the balance sheets as of December 31, 2018 and 2017, the statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of other auditors (please refer to Other Matter paragraph), the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with the "Regulations Governing the Preparation of Financial Reports by Public Banks" and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

#### **Basis for Opinion**

We conducted our audit in accordance with the "Regulations Governing Auditing and Certification of Financial Statements of Financial Institutions by Certified Public Accountants" and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Bank of Taiwan in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained, inclusive of the report from other auditors, is sufficient and appropriate to provide a basis of our opinion.

#### **Emphasis of Matter**

In accordance with the auditing regulations in Taiwan, the financial statements of the Bank are required to be audited by the Ministry of Audit (the "MoA"). The financial statement for the financial year ended 2017 has been audited and approved by the MoA. The adjustments made by the MoA are reflected in the financial statement. For further information, please see note 16(b).

#### Other Matter

As stated in note 6(j) of the financial statements, we did not audit the financial statements of Hua Nan Financial Holdings Co., Ltd. and Tai Yi Real Estate Co., Ltd. of investments in associates accounted for using equity method of the Bank amounting to NT\$36,994,293 thousand and NT\$34,887,145 thousand as of December 31, 2018 and 2017, respectively, constituting 0.73% and 0.71% of the related total assets; nor the related shares of investment profit in associates accounted for using equity method of NT\$3,108,235 thousand and NT\$2,559,751 thousand for the years then ended, respectively, constituting 7.91% and 7.77% of the related net income before tax. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts includes above, is based solely on the report of the other auditors.

We have also audited the separated financial statements of Bank of Taiwan as of 2018 and 2017, and have issued an unmodified opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. The assessment of impairment of financial assets

Please refer to Note 4(1) "Impairment of assets" for related accounting policy, Note 5(b) "The evaluation of financial assets impairments" for the uncertainty of accounting assumptions and estimations, and Note 6(a) "Cash and Cash Equivalents", Note 6(b) "Placement with Central Bank and Call Loans to Banks", Note 6(d) "Financial assets measured at fair value through other comprehensive income", Note 6(g) "Receivables, net", Note 6(h) "Discounts and loans, net", Note 6(k) " Financial assets measured at amortized cost" and Note 6(m) "Other financial assets, net" for details of the valuation of financial assets impairments, respectively.

#### Description of key audit matters

When assessing whether there is any indication that the financial assets other than measured at fair value through profit or loss may be impaired, the Bank relys on management for considering all kinds of observable data and using the expected credit loss model, including probability of default, loss of default, exposure at default and prospective economic factors, to calculate the impairment loss. The calculation process is complicated and involves the exercise of judgment. Furthermore, the amount of financial assets which required impairment tests is material to the Bank. Therefore, the assessment of impairment of financial assets has been identified as a key audit matter in our audit.

#### How the matter was addressed in our audit

Our principal audit procedures included (i) inspecting the internal guidelines of impairment assessment, understanding the Bank's procedures of the assessment of impairment of financial assets, and testing related internal control procdures; (ii) performing analytical procedures; (iii) assessing the reasonableness of the Bank's assessment of impairment of financial assets and, if necessary, acquiring assistance from internal specialist; (iv) verifying the accuracy of loan loss provision based on "Regulations Governing the Procedures for Enterprises Engaging in Insurance to Evaluate Assets and Deal with Non performing/Non accrual Loans"; (v) assessing whether the impairment of financial assets is presented and disclosed fairly.

2. The valuation of financial instruments

Please refer to Note 4(f) "Financial instrument" for related accounting policy, Note 5(a) "The valuation of financial instruments" for major sources of uncertainty for assumptions and estimation, and Note 7 "The fair value and fair value hierarchy of the financial instruments" for details of the valuation of financial instruments.

#### Description of key audit matters

The Bank holds the value of financial assets and liabilities, which shall calculated by a model are classified as level 2 and level 3 expect for which shall calculated by an observable for active market are classified as level 1. The parameters of inputs which often involve the exercise of judgment in valuation process. The valuation of financial instruments may be misstated due to the use difference of valuation techniques and assumptions. The amount of financial asset and liabilities the Bank hold as of December 31, 2018 were significant. Therefore, the valuation of financial instruments has been identified as a key audit matter in our audit.

#### How the matter was addressed in our audit

Our main audit procedures included (i) reviewing accounting policy about the fair value of financial instruments measurement and disclosure , and performing an assessment over the investment cycle of its initial recognition, subsequent measurement and disclosures on financial statement (ii) for the financial instruments measured at fair value with active market, sampling test of prices are quoted in an active market (iii) sampling to test whether the fair value of the financial instruments measured at fair value with out of the financial instruments measured at fair value without an active market are appropriate by re-calculating and obtaining the quoted price from counter parties or independent third parties, as well as appointing our valuation specialists to assess the reasonableness of the models and parameters the Bank used when deemed necessary (iv) assessing whether the disclosure of financial instruments in accordance with International Financial Reporting Standards.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the "Budget Law", "Account Settlement Law", "Uniform Regulations on Accounting Systems for Banks Governed by the Ministry of Finance", Regulations Governing the Preparation of Financial Reports by Public Banks and with the IFRSs, IASs, interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance (including members of the Audit Committee) are responsible for overseeing the Bank and its subsidiaries' financial reporting process.

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

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

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

- 1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- 3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- 4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- 5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Feng-Hui Lee and Lin Wu.

KPMG

Taipei, Taiwan (Republic of China) March 27, 2019

#### Notes to Readers

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

### BANK <sup>®</sup>F TAIWAN 2018 ANNUAL REPORT

BANK OF TAIWAN Balance Sheets December 31, 2018 and 2017 (Expressed in Thousands of New Taiwan Dollars)

Docember 21 2019 December 21 2017		\$ 221,756,139 4 219,021,384 4	50,554,317 1 35,030,435 1	12,973 - 60,480 -	25,078,047 - 33,906,120 1	45,769,665 1 42,248,261 1	262,675 - 480,372 -	4,026,190,539 81 3,941,518,628 80	24,998,566 - 24,998,316 1	678,843 - 842,822 -	315,017,702 6 314,774,236 6	18,191,904 - 18,143,074 -	7,751,184 - 8,506,000 -	4,736,262,554 93 4,639,530,128 94	95,000,000 2 95,000,000 2	80,453,043 2 80,453,043 2		42,037,924 1 39,246,685 1	33,103,998 1 29,383,528 1	<u>17,742,711</u> - <u>15,881,896</u> -	92,884,633 2 84,512,109 2	41,914,338 1 29,077,607 -	310,252,014 7 289,042,759 6	$\frac{5,046,514,568}{100}$ $\frac{100}{4,928,572,887}$ $\frac{100}{100}$
	Liabilities and Equity	Deposits of Central Bank and other banks	Financial Liabilities Measured at Fair Value through Profit or Loss	Hedging Derivative Financial Liabilities, net	Bills and Bonds Sold under Repurchase Agreements	Payables	Current Income Tax Liabilities	Deposits and Remittances	Financial Bonds Payable	Other Financial Liabilities	Provision	Deferred Tax Liabilities	Other Liabilities	Total liabilities	Capital stock	Capital surplus	Retained earnings:	Legal reserve	Special reserve	Unappropriated retained earnings		Other equity	Total equity	Total liabilities and equity
		21000	22000	22300	22500	23000	23200	23500	24000	25500	25600	29300	29500		31101	31500		32001	32003	32005		32500		
ŗ	<u> % </u> ~	14	5					1		46	23	б	1	7	7		,	,					I	<u>10</u>
December 31 3017	Amount 21, 20 158,343,054	675,504,410	236,519,757				22,759	59,237,166	1,082,264	2,285,039,243	,135,942,401	144,060,765	36,594,041	75,603,497	96, 340, 880	15,238,207	708,629	166,887	8,168,927					4,928,572,887
	1 -100	11	5	22		ю		1		51 2	-		-	-	0			,	,					<u>100</u>
Perception 21 301	Amount 21, 2010 8 165,864,930	535,130,849	236,408,718	1,117,727,277		167,824,692	41,693	59,258,329	1,236,103	2,557,027,294		,	38,434,590	46,040,182	96,222,499	15,238,207	764,829	308,336	8,986,040					\$ <u>5,046,514,568</u>
	quivalents	lacement with Central Bank and Call Loans to Banks	Financial Assets Measured at Fair Value through Profit or Loss	Financial Assets Measured at Fair Value through Other Comprehensive		Debt Investments Measured at Amortized Cost	Hedging Derivative Financial Assets, net	et	te Tax Assets	counts, net	Available-for-Sale Financial Assets, net	Held-to-Maturity Financial Assets, net	Investments under Equity Method, net	Other Financial Assets, net	Property and Equipment, net	operty	sets, net	Assets	net					
	Assets Cash and Cash Equivalents	Placement with	Financial Asse	Financial Asset	Income	Debt Investme	Hedging Deriv	Receivables, net	Current Income Tax Assets	Loans and Discounts, net	Available-for-	Held-to-Matu	Investments u	Other Financi	Property and	Investment Property	Intangible Assets, net	Deferred Tax Assets	Other Assets, net					Total assets

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#### BANK OF TAIWAN

Statements of Comprehensive Income

#### For the years ended December 31, 2018 and 2017

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

		2018		2017		Change
		Amount	%	Amount	%	%
	Revenue and income:					
41000	Interest income	\$ 63,883,640	163	59,105,478	178	8
51000	Less:Interest expense	38,258,657	97	33,583,762	102	14
	Net interest income	25,624,983	66	25,521,716	76	-
	Non-interest income, net					
49100	Service fees ,net	4,928,791	12	4,816,095	15	2
49200	Gain (loss) on financial assets or liabilities measured at fair value through profit or loss	(4,510,425)	(11)	31,513,696	97	(114)
49300	Realized gain (loss)on available-for-sale financial assets	-	-	3,013,653	9	(100)
49310	Realized gains from financial assets measured at fair value through other comprehensive income	2,925,419	7	-	-	-
49600	Foreign exchange gain (loss)	5,712,951	14	(3,249,634)	(10)	276
49700	Provision of impairment loss on assets	(86,510)	-	(1,913)	-	(4,422)
49750	Share of profit (loss) of associates and joint ventures accounted for using equity method	2,995,129	8	2,805,867	9	7
49837	Premiums loss	1,620,567	4	(1,445,511)	(4)	212
49843	Sales income	366,662	1	455,670	1	(20)
48054	Subsidized income from government	8,892,009	23	10,452,705	32	(15)
49898	Excess preferential interest expenses	(9,584,098)	(24)	(11,005,334)	(33)	13
49871	Provisions for policyholders' reserve premium	(1,371,850)	(3)	(30,214,824)	(91)	95
49899	Excess interest expenses	1,779,850	5	277,074	1	542
	Net Revenue	39,293,478	102	32,939,260	102	19
58200	Bad debt expense and reserve for guarantees	7,302,488	19	1,685,005	5	333
	Expenses:					
58500	Employee benefits expenses	12,530,866	32	11,982,202	36	5
59000	Depreciation and amortization expenses	986,495	3	1,100,306	3	(10)
59500	Other general and administrative expenses	7,046,039	18	6,915,570	21	2
	Total Expenses	20,563,400	53	19,998,078	60	3
	Net income before income tax	11,427,590	30	11,256,177	37	2
61003	Income Tax Expenses	(1,059,415)	(3)	(901,849)	(3)	(17)
	Profit (loss)	10,368,175		10,354,328	34	-
65000	Other comprehensive income:					
65200	Components of other comprehensive income that will not be reclassified to profit or loss					
65201	Gains (losses) on remeasurements of defined benefit plans	(1,082,366)	(3)	(962,992)	(3)	(12)
65205	Change in fair value of financial liability attributable to change in credit risk of liability	239,502	1	(49,185)	-	587
65207	Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method,	(117,866)	-	(91,561)	-	(29)
	components of other comprehensive income that will not be reclassified to profit or loss					
65220	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss			-	-	-
	Components of other comprehensive income that will not be reclassified to profit or loss	3,456,195	9	(1,103,738)	(3)	413
65300	Other components of other comprehensive income that will not be reclassified to profit or loss					
65301	Exchange differences on translation	574,152	1	(1,437,837)	(4)	140
65302	Unrealized gains (losses) on valuation of available-for-sale financial assets	-	-	7,119,853	22	(100)
65310	Gains (losses) on investments in debt instruments measured at fair value through other comprehensive income	(569,070)	(1)	-	-	-
65307	Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method,	(176,704)	-	195,022	1	(191)
	components of other comprehensive income that will be reclassified to profit or loss					
65320	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	81,229		(34,186)	_	338
	Components of other comprehensive income that will be reclassified to profit or loss	(90,393)		5,842,852	19	(102)
65000	Other comprehensive income	3,365,802	9	4,739,114	16	(29)
	Total comprehensive income	\$_13,733,977	36	15,093,442	50	(9)
	Basic earnings per share(In dollars)	s	1.09		1.09	. /

$ \begin{array}{c ccccccccccccccccccccccccccccccccccc$								Exchange differences on translation of	Unrealized gains (losses) on financial assets measured at fair value through	Unrealized gains (losses) on	Gains (losses) on	Change in fair value of financial liability	Gains (losses) on	Other comprehensive income		Equity attributable to former owner of business	
$ \begin{array}{c c c c c c c c c c c c c c c c c c c $		Share capital			Retained es	unings		foreign	other	available-for-	effective	attributable to	financial	reclassified by		combination	
5         9,00,000         0,04,51,01         2,5,06,201         0,06,050         0,0000         0,000 <th></th> <th>Ordinary shares</th> <th>Canital surplus</th> <th>Legal reserve</th> <th>Special reserve</th> <th>Undistributed earnings</th> <th>Total</th> <th>financial statements</th> <th>comprehensive income</th> <th>sale financial assets</th> <th>portion of cash flow hedges</th> <th>change in credit risk of liability</th> <th>instruments for hedeine</th> <th>applying overlay annroach</th> <th>Total</th> <th>under ommon control</th> <th>Total equity</th>		Ordinary shares	Canital surplus	Legal reserve	Special reserve	Undistributed earnings	Total	financial statements	comprehensive income	sale financial assets	portion of cash flow hedges	change in credit risk of liability	instruments for hedeine	applying overlay annroach	Total	under ommon control	Total equity
$ \  \  \  \  \  \  \  \  \  \  \  \  \ $	Balance at January 1, 2017	\$ 95,000,000		34,201,365	22,686,273	18.820.340	75,707,978	486,882		22,784,276	8.197	8.941	a ,	-	23.288.296		274,449,308
xecontral         5,045,30         x         (6,45,20)         x         (6,45,20)         x         <	Appropriation and distribution of retained earnings:																
$ \  \  \  \  \  \  \  \  \  \  \  \  \ $	Legal reserve appropriated			5,045,320		(5,045,320)										,	
$ \  \  \  \  \  \  \  \  \  \  \  \  \ $	Special reserve appropriated	,			6,727,093	(6,727,093)		,		,	,				,		
acconted         -         (29,83)         28,88         -         (29,43)         (18,60,73)         (13,64,19)	Cash dividends of ordinary share	,		,	,	(500,000)	(500,000)	,		,	,		,		,		(500,000)
s accontict	Reversal of special reserve	,	,	,	(29,838)	29,838		,	,	,	,	,	,	,	,		
$ \begin{array}{cccccccccccccccccccccccccccccccccccc$	Changes in equity of associates and joint ventures accounte	F	c														c
$ \begin{array}{cccccccccccccccccccccccccccccccccccc$	Ior using equity me urou Not income for the nerical		Υ.														6
$ \begin{array}{c ccccccccccccccccccccccccccccccccccc$						10,534,528	10,554,528										10,554,528
$ \begin{array}{c ccccccccccccccccccccccccccccccccccc$	Other comprehensive income					(1,050,197)	(1,050,197)	(1,803,677)		7,650,734	(4,206)	(53,540)			5,789,311	•	4,739,114
$ \begin{array}{cccccccccccccccccccccccccccccccccccc$	Total comprehensive income					9,304,131	9,304,131	(1,803,677)		7,650,734	(4,206)	(53,540)			5,789,311	'	15,093,442
$ \begin{array}{ c c c c c c c c c c c c c c c c c c c$	Balance at December 31, 2017	95,000,000	80,453,043	39,246,685	29,383,528	15,881,896	84,512,109	(1,316,795)		30,435,010	3,991	(44,599)			29,077,607	•	289,042,759
$ \begin{array}{cccccccccccccccccccccccccccccccccccc$	Effects of retrospective application					(192,409)	(192,409)		38,683,823	(30, 435, 010)	(3,991)		3,991	18,874	8,267,687		8,075,278
$ \begin{array}{cccccccccccccccccccccccccccccccccccc$	Equity at beginning of period after adjustments	95,000,000	80,453,043	39,246,685	29,383,528	15,689,487	84,319,700	(1,316,795)	38,683,823			(44,599)	3,991	18,874	37,345,294		297,118,037
$ \begin{array}{cccccccccccccccccccccccccccccccccccc$	Appropriation and distribution of retained earnings:																
$ \begin{array}{cccccccccccccccccccccccccccccccccccc$	Legal reserve appropriated			2,791,239		(2,791,239)	,									,	
$ \begin{array}{cccccccccccccccccccccccccccccccccccc$	Special reserve appropriated				3,722,511	(3,722,511)	,									,	
$ \begin{array}{cccccccccccccccccccccccccccccccccccc$	Cash dividends of ordinary share					(000'009)	(000'009)									'	(000'009)
$ \begin{array}{cccccccccccccccccccccccccccccccccccc$	Reversal of special reserve				(2,041)	2,041	,									'	
$\frac{1}{10000000} = \frac{1}{1000000000} = \frac{1}{10000000000000000000000000000000000$	Net income for the period					10,368,175	10,368,175									'	10,368,175
$\frac{10000000}{1000000000000000000000000000$	Other comprehensive income					(1,208,115)	(1,208,115)	665,984	3,696,730			237,114	202	(26,113)	4,573,917	•	3,365,802
$ \begin{array}{c ccccccccccccccccccccccccccccccccccc$	Total comprehensive income					9,160,060	9,160,060	665,984	3,696,730			237,114	202	(26,113)	4,573,917		13,733,977
8 95,000,000 80,455,043 42,037,924 33,103,998 17,742,711 92,884,633 (650,811) 42,375,680 192,515 4,193 (7,239) 41,914,338 .	Disposal of investments in equity instruments designated at fai value through other comprehensive income					4.873	4.873	,	(4.873)	,		,			(4.873)		,
	Balance at December 31, 2018	S 95,000,000	80,453,043	42,037,924	33,103,998	17,742,711	92,884,633	(650,811)	42.375,680			192,515	4,193	(7.239)	41,914,338		310,252,014

# BANK OF TAIWAN Statements of Changes in Equity For the years ended December 31, 2018 and 2017 (Expressed in Thousands of New Taiwan Dollars)

Other equity interest

#### BANK OF TAIWAN

**Statements of Cash Flows** 

#### For the years ended December 31, 2018 and 2017 (Expressed in Thousands of New Taiwan Dollars)

	2018	2017
Cash flows from (used in) operating activities:	\$ 11,427,590	11 056 177
Profit (loss) before tax Adjustments:	\$ 11,427,590	11,256,177
Adjustments to reconcile profit (loss):		
Depreciation expense	754,764	779,809
Amortization expense	280,768	366,975
Provision (reversal of provision) for bad debt expense	7,302,488	1,685,005
Interest expense	38,258,657	33,583,762
Interest income	(63,883,640)	(59,105,478)
Dividend income	(7,710,596)	(7,342,219)
Net change in other provisions	1,372,218	30,213,909
Loss (gain) on financial assets securitization	(59)	59
Share of loss (profit) of subsidiaries, associates and joint ventures accounted for using equity method	(2,995,129)	(2,805,867)
Loss (gain) on disposal of property and equipment	61,591	160,942
Reversal of impairment loss on financial assets	4,918	-
Impairment loss on non-financial assets	81,592	1,913
Total adjustments to reconcile profit (loss)	(26,472,428)	(2,461,190
Changes in operating assets and liabilities:		
Decrease (increase) in due from the central bank and call loans to banks	27,835,155	(32,592,172)
Decrease (increase) in financial assets at fair value through profit or loss	10,499,031	(15,213,726)
Decrease (increase) in financial assets at fair value through other comprehensive income	(52,424,789)	-
Decrease (increase) in investments in debt instruments measured at amortised cost	(8,585,790)	-
Decrease (increase) in financial assets for hedging	(18,934)	(1,538)
Decrease (increase) in receivables	7,282,936	7,950,664
Decrease (increase) in discounts and loans	(279,369,555)	(12,308,842)
Decrease (increase) in available-for-sale financial assets	-	(95,374,242)
Decrease (increase) in held-to-maturity financial assets	-	1,460,149
Decrease (increase) in other financial assets	6,338,650	(111,670)
Decrease (increase) in other assets	46,869	947,394
Increase (decrease) in deposits from the central bank and banks	2,734,755	(8,575,430)
Increase (decrease) in financial liabilities at fair value through profit or loss	15,523,882	28,321,372
Increase (decrease) in financial liabilities for hedging	(47,507)	(83,715)
Increase (decrease) in notes and bonds issued under repurchase agreement	(8,828,073)	22,568,206
Increase (decrease) in payables	1,774,498	(479,112)
Increase (decrease) in deposits and remittances	84,671,911	67,071,210
Increase (decrease) in provisions for employee benefits	(1,078,720)	965,211
Increase (decrease) in other liabilities	233,544	(471,702)
Total adjustments	(219,884,565)	(38,389,133)
Cash inflow (outflow) generated from operations Interest received	(208,456,975)	(27,132,956)
	61,468,447	59,704,895
Dividends received	4,067,987	4,704,534
Interest paid	(36,511,501) (1,518,139)	(32,351,364) (1,255,336)
Income taxes refund (paid) Net Cash flows from (used in) operating activities	(180,950,181)	3,669,773
Cash flows from (used in) investing activities:	(180,950,181)	5,009,775
Acquisition of property and equipment	(776,099)	(604,018)
Increase in refundable deposits	(868,549)	(373,488)
Acquisition of intangible assets	(336,916)	(272,555)
Increase in other financial assets	(550,710)	1,086,967
Net cash flows from (used in) investing activities	(1,981,564)	(163,094)
Cash flows from (used in) financing activities:	(1,901,901)	(105,071)
Increase in guarantee deposits received	_	2,053,258
Decrease in guarantee deposits received	(988,360)	-
Increase in other financial liabilities	(588,500)	93,967
Decrease in other financial liabilities	(163,979)	-
Cash dividends paid	(600,000)	(500,000)
Net cash flows from (used in) financing activities	(1,752,339)	1,647,225
Effect of exchange rate changes on cash and cash equivalents	575,258	(1,792,104)
Net increase (decrease) in cash and cash equivalents	(184,108,826)	3,361,800
Cash and cash equivalents at beginning of period	1,085,575,011	1,082,227,792
Cash and cash equivalents at end of period	<u>\$ 901,466,185</u>	1,085,589,592
Composition of cash and cash equivalents:	¢ <u></u>	1,000,007,072
composition of their way way and the second	\$ 165,864,930	158,343,054
Cash and cash equivalents reported in the statement of financial position		
Cash and cash equivalents reported in the statement of financial position Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7		274.645.417
Cash and cash equivalents reported in the statement of financial position Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7 Securities purchased under resell agreements qualifying for cash and cash equivalents under the definition of IAS 7	162,126,076 573,475,179	274,645,417 652,601,121

See accompanying notes to parent company only financial statements.



### **Review of Financial Conditions, Operating Results, and Risk Management**

- 273 I. Analysis of Financial Status
- 273 II. Financial Performance
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- 275 IV. Investment Policy of Last Year, Main Reasons for the Profits/Losses Generated thereby, Plan for Improving Profitability, and Investment Plan for the Coming Year
- 276 V. Risk Management
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# Review of Financial Conditions, Operating Results, and Risk Management

#### I. Analysis of Financial Status

				Unit: NT\$1,000
Year	Dec. 31, 2018	Dec. 31, 2017	Cha	inge
Items	Dec. 31, 2016	Dec. 31, 2017	Amount	%
Total Assets	5,046,114,516	4,928,212,790	117,901,726	2.39
Total Liabilities	4,735,862,502	4,639,170,031	96,692,471	2.08
Total Equity	310,252,014	289,042,759	21,209,255	7.34

Note: Consolidated financial reports serve as the accounting basis.

Analysis of changes in increase/decrease ratios:

Total Assets in 2018 increased from the previous year, mainly because increased funds in the deposits and remittances and financial liabilities measured at fair value through profit or loss of the liability account caused the discounts and loans of the asset account to increase from 2017. Total equity in 2018 was up from 2017, due mainly to the increases in the retained earnings and other equity.

#### **II. Financial Performance**

				Unit: NT\$1,000
Year	2018	2017	Cha	inge
Items	2010	2017	Amount	%
Net interest income	25,625,359	25,522,073	103,286	0.40
Non-interest income, net	13,823,128	7,563,752	6,259,376	82.75
Net revenue	39,448,487	33,085,825	6,362,662	19.23
Bad debt expense and reserve for guarantees	7,302,488	1,685,005	5,617,483	333.38
Operating expenses	20,669,664	20,104,743	564,921	2.81
Net income before tax	11,476,335	11,296,077	180,258	1.60
Income tax expenses	1,108,160	941,749	166,411	17.67
Net income after tax	10,368,175	10,354,328	13,847	0.13

Note: Consolidated financial reports serve as the accounting basis.

Analysis of changes in increase/decrease ratios:

- 1. The increase in net income before tax in 2018 compared with 2017 was due mainly to an increase in the share of profit (loss) of associates and joint ventures accounted for using equity method.
- 2. The increase in net interest income in 2018 compared with 2017 was due to the fact that the increase in interest income was larger than the increase in interest expense.
- 3. The increase in non-interest net income in 2018 compared with 2017 was due to the increase in foreign exchange gain (loss).
- 4. The increase in bad debt expense and reserve for guarantees in 2018 compared with 2017 was caused mainly by an increase in allowance for doubtful accounts.
- 5. Income tax expenses for 2018 were up than in 2017, mainly due to an increase in the net income before tax.

#### **III. Analysis of Cash Flow**

#### 1. Liquidity Analysis for the Past Year

(1) Cash Flow Analysis

Unit: NT\$1,000

. . .. . . . . . . . . .

Year	2018	2017	Cha	nge
Item	2010	2017	Amount	%
Net cash inflow (outflow)	(184,108,826)	3,361,800	(187,470,626)	(5,576.50)

The main reasons for the net change were as follows:

	Unit: NT\$1,000
Items	Amount
Decrease in net cash outflow from placement with Central Bank and call loans to banks	60,427,327
Decrease in net cash outflow from financial assets measured at fair value through profit or loss	25,712,757
Increase in net cash outflow from financial assets measured at fair value through other comprehensive income	(52,675,392)
Increase in net cash outflow from debt investments measured at amortized cost	(8,585,790)
Increase in net cash outflow from hedging financial assets	(17,396)
Decrease in net cash inflow from receivables	(666,591)
Increase in net cash outflow from loans and discounts	(267,060,713)
Decrease in net cash outflow from available-for-sale financial assets	95,374,243
Decrease in net cash inflow from held-to-maturity financial assets	(1,460,149)
Decrease in net cash outflow from other financial assets	6,450,320
Decrease in net cash inflow from other assets	(900,588)
Decrease in net cash outflow from deposits of Central Bank and other banks	11,310,185
Decrease in net cash inflow from financial liabilities measured at fair value through profit or loss	(12,797,490)
Decrease in net cash outflow from hedging financial liabilities	36,208
Decrease in net cash outflow from bills and bonds purchased under resell agreements	(31,396,279)
Decrease in net cash outflow from payables	2,254,703
Increase in net cash inflow from deposits and remittances	17,457,770
Decrease in net cash inflow from employee benefit obligations	(2,041,008)
Decrease in net cash outflow from other liabilities	705,482
Decrease in net cash inflow from other operating activities	(26,838,752)
Increase in net cash outflow from investing activities	(1,819,016)
Decrease in net cash inflow from financing activities	(3,399,652)
Others	2,459,195
Total	(187,470,626)

Note: Consolidated financial reports serve as the accounting basis.

(2) Remedy for Estimated Shortage of Liquidity: Not applicable.

					Unit: NT\$1,000
Beginning Cash	Annual Net Cash	Annual Net Cash Flow from Other	Cash Balance	Remedy for Estima	ted Cash Shortage
Balance (a)	Flow from Operating Activities (b)	Activities (c)	(Shortage) (a)+(b)+(c)	Investment Plan	Financial Management Plan
901,466,215	8,254,486	(3,750,565)	905,970,136	-	-

#### 2. Liquidity Analysis for the Coming Year

Note: Consolidated financial reports serve as the accounting basis.

#### (1) Cash Flow Analysis

- a. Operating activities: Due primarily to a net cash inflow produced by the increase of interest income from loans.
- b. Investing activities: Mainly due to a net cash outflow produced by investment increase.
- c. Financing activities: Primarily due to a net cash outflow produced by cash dividends paid.

(2) Remedial action to make up for cash inadequacy, and liquidity analysis: Not applicable.

#### IV. Investment Policy of Last Year, Main Reasons for the Profits/Losses Generated thereby, Plan for Improving Profitability, and Investment Plan for the Coming Year

To assure the quality of investment and to heighten return on investment, the Bank plans for the disposal of reinvested enterprises that are performing poorly; sends letters asking for the formulation of improvement measures to reinvested enterprises whose operations resulted in losses on a regular basis in the hope of improving their operations, upgrading their operating performance, creating profits, and protecting investment costs; and participates in meetings of the boards of directors and supervisors of invested enterprises so as to remain aware of their business conditions and take necessary improvement measures in time.

When stock dividends received and gain on disposal are added, investment income as recognized under the equity method during 2018 amounted to approximately NT\$5.626 billion (including BankTaiwan Insurance Brokers Co., Ltd.), reflecting a good investment performance.

The Bank earmarked funds in its 2014 budget to invest in a wholly-owned Bank of Taiwan (China) Limited, with capitalization provisionally set at RMB 2 billion.

#### V. Risk Management

#### 1. Qualitative & Quantitative Information on Different Types of Risk

#### (1) Credit Risk Management System and Accrued Capital

A. Credit Risk Management System

#### Year 2018

Items	Contents
Credit Risk Strategies, Goals, Policies, and Procedures	<ol> <li>Credit Risk Strategies, Goals, and Policies         <ol> <li>In accordance with the loan, investment strategies and operating directions approved by the Board of Directors, and in compliance with the New Basel Capital Accord and the regulatory provisions of the competent authority, the Bank readjusts its credit risk management strategies whenever necessary, and in response to changes in the macroeconomic market, loan portfolio risk, asset quality, and government policy.</li> <li>The Bank will establish and effectively implement a healthy credit risk management mechanism to lower credit risk, and achieve operating and management targets.</li> <li>When the Bank engages in business and management procedures related to credit risk, it evaluates the probability and severity of losses from the investment or loan and adopts appropriate credit risk management countermeasures in consideration of the Bank's risk appetite and cost effectiveness. Risk management countermeasures include risk hedging, risk transfer or mitigation, risk control, and assumption of risk.</li> <li>Credit Risk Management Procedures</li> <li>Credit risk assessment and monitoring are carried out in accordance with the relevant regulations of the competent authority and the BOT, and reports are submitted to the BOT's Board of Directors and Risk Management Committee.</li> <li>Risk quotas and early-warning indexes are established by industry, country, conglomerate, and trading partner in order to control the concentration of risk and large exposure, and monitoring and reporting are carried out.</li> <li>To effectively measure the quality of loan assets, the Bank has established pre-loan investigation and screening rules and procedures. It has also strengthened post-loan management, and has adopted the following control and measurement mechanism; a loan review and follow-up evaluation system, and loan early-warning mechanism; monitoring of asset quality; ful</li></ol></li></ol>
Organization and Framework of Credit Risk Management	The BOT's organizational framework of credit risk management includes the Board of Directors, Risk Management Committee, Department of Risk Management, units in charge of business, and other business units. The Board of Directors is the Bank's supreme policymaking, management and supervision unit and has final responsibility for the Bank's overall credit risk management. The Risk Management Committee is responsible for the Bank's risk management policy, system, rules, organization, and overall risk assessment, and for supervising and examining revision affairs.
Scope and Characteristics of the Credit Risk Reporting and Measuring System	<ol> <li>Credit Risk Reporting         <ol> <li>Including the standard system-produced credit risk reports that are submitted to the competent authority, and monthly credit risk monitoring reports.</li> <li>The Bank's Department of Risk Management produces credit risk monitoring reports and submits them to the chief executive on a monthly basis, and also makes regular reports to the Board of Directors and Risk Management Committee. The contents of these reports include risk-control conditions such as the status of bank-wide exposure to credit risk, the status of utilization of total amounts and quota limits, analysis of the management of credit risk concentration, analysis of overseas branch (including the OBU) loan asset portfolios, and asset quality and off-book items. Dynamic monitoring of credit risk is also carried out as necessary, and if major changes are found, they are reported to the chief executive in order to control credit risk effectively.</li> </ol></li></ol>

Items	Contents
Scope and Characteristics of the Credit Risk Reporting and Measuring System	<ol> <li>Credit Risk Measuring System         <ol> <li>The Bank currently uses the standardized credit risk approach to calculate capital allocation. The Risk Management Information System automatically produces various reports each month, including reports to the competent authority, management-related reports, and information-disclosure reports. These reports are used to compile monitoring reports for ranking executives, the Risk Management Committee, and the Board of Directors.</li> <li>The Bank has established the credit risk systems with a foundation internal ratings-based approach in consideration of credit characteristics, changes in the economic environment, and collateral or guarantees so as to enhance the Bank's credit risk management capability.</li> </ol> </li> </ol>
Credit Risk Hedging or Mitigation Policy, and Strategies and Procedures for Monitoring the Continuing Effectiveness of Hedging and Mitigation Instruments	<ol> <li>Credit Risk Hedging and Mitigation Policy         <ol> <li>The Bank has established quotas for the concentration of credit risk—by industry, conglomerate, and country, among others.</li> <li>The Bank has established a loan review and follow-up auditing system to strengthen post-loan management, and continuous monitoring of the condition of borrowers. Loan review is carried out within the term of loans in accordance with the review rating, and follow-up auditing is carried out within the term of loans in accordance with the review rating, and follow-up auditing is carried out or important loan cases.</li> <li>The Bank operates in accordance with its loan policy and rules for the handling of collateral to seek the provision of collateral or guarantees to augment the creditworthiness of borrowers and lower credit risk.</li> <li>Credit risk mitigation methods (such as netting, eligible collateral, and guarantees) are included in related information systems in accordance with the rules of the New Basel Capital Accord and the competent authority in order to calculate the results of the Bank's risk mitigation accurately.</li> </ol> </li> <li>Strategies and Procedures for Monitoring the Continuing Effectiveness of Hedging and Mitigation Instruments         <ol> <li>The Bank monitors the status of and changes in credit risk concentration quotas, distribution of risk exposure, asset quality, and types of collateral exposure on a scheduled basis; reviews trigger ratios and limit ratios whenever necessary; and assures the integrity and effectiveness of collateral and guarantees. Scheduled reports are submitted to the Risk Management Committee for use in compiling statements on effective strategies and procedures, and in studying countermeasures.</li> </ol> </li> <li>The Bank has set up a collateral management system that can effectively handle its collateral. Analysis and policy readjustments are carried ou when necessa</li></ol>
Method of Legal Capital Allocation	Standardized Approach

#### B. Exposure and Accrued Capital Following Risk Mitigation Using the Standardized Credit Risk Approach

#### Dec. 31, 2018

		Unit: NT\$1,000
Type of Exposure	Exposure Following Risk Mitigation	Accrued Capital
Sovereign Nations	1,659,770,346	204,463
Non-Central Government Public Sector	768,862,235	23,614,304
Banks (Including Multilateral Development Banks)	347,796,083	12,844,695
Enterprises (Including Securities and Insurance Firms)	925,644,595	82,023,269
Retail Loans	385,821,876	21,921,218
Residential Real Estate	582,079,971	26,278,936
Equity Investment	7,845,349	774,728
Other Assets	165,045,760	11,871,761
Total	4,842,866,215	179,533,374

#### (2) Securitization Risk Management System, Exposure, and Accrued Capital

#### A. Securitization Risk Management System

#### Year 2018

Items	Contents
Securitization Management Strategies and Procedures	<ol> <li>The BOT has not acted as the originator of securitized products, but only as investor.</li> <li>The BOT's management strategies and procedures for investment in securitized products are handled in accordance with the rules contained in the Bank's "Investment Policy," "Rules for Trading and Management of NT Dollar Funds," and "Operating Rules for Engaging in the Offshore Banking Business."</li> </ol>
Organization and Framework of Securitization Management	The BOT has not played the role of originator bank, and the risks potentially associated with its investment in securitized products (including credit risk, market risk, liquidity risk, interest rate risk, and operational risk) are controlled in accordance with the organizations and frameworks related to the different categories of risk as well as with the BOT's risk management system and reporting mechanism.
Scope and Characteristics of the Securitization Risk Reporting and Measuring System	The BOT carries out prior evaluation of the risks and benefits associated with investment in securitized products in accordance with the relevant investment rules; evaluates profit and loss on a monthly basis; submits risk reports to the unit in charge, Department of Risk Management, ranking executives, and Investment Commission; and reports regularly to the Risk Management Committee and the Board of Directors.
Method of Legal Capital Allocation	Standardized Approach

#### B. Status of Securitization

None

#### C. Securitization Risk Exposure and Accrued Capital (According to the Type of Transactions)

											1	Unit: NT\$1,000
Type of Exposure			Traditional					Synthetic		Total		
		Asset	Risk Exposure					Risk Exposure				Accrued
Bank	Book	Class	Retention or Purchasing	The provision of liquidity facilities	The provision of credit enhancement	Subtotal (1)	Accrued Capital (2)		Capital	Risk Exposure (5)=(1)+(3)	Accrued Capital (6)=(2)+(4)	Capital Before Securitization
	Banking	CDO	500,291	0	0	500,291	24,702	0	0	500,291	24,702	
Non-	Book Non-	MBS	941,495	0	0	941,495	18,595	0	0	941,495	18,595	
Originating Bank	Trading Book											
	Subtotal		1,441,786	0	0	1,441,786	43,297	0	0	1,441,786	43,297	
	Banking Book											
Originating Bank	Trading Book											
	Subtotal											
Total			1,441,786	0	0	1,441,786	43,297	0	0	1,441,786	43,297	

#### Dec. 31, 2018

D. Securitized Product Information

#### a. Summarization of information about investment in securitization products

#### Dec. 31, 2018

					Unit: NT\$1,000
Item	Account	Original Cost	Accumulated Value Income	Accumulated Impairment	Book Value
Mortgage-Backed Securities (MBS)	130222 Financial assets measured at fair value through other comprehensive income -noncurrent	923,546	17,949	0	941,495
Asset-Backed Securities (ABS)	130222 Financial assets measured at fair value through other comprehensive income -noncurrent	500,000	291	-262	500,029
Real Estate Investment Trusts (REITs)	110401 Financial assets measured at fair value through profit or loss -current-closed end fund	36,580	2,593	0	39,173

Note: This table includes beneficial interest securities or asset-backed securities held by the bank as an originator.

### BANK @F TAIWAN 2018 ANNUAL REPORT

b. Summarization of the information about original cost of single transaction for investment in securitization products amounting to more than NT\$300 million

													U	Init: NT\$1,000
Securities	Account	Currency	Issuer & Place	Trade Date	Maturity Date	Interest Rate	Credit Rating	Repayment	Original Cost	Accumulated Value Income	Accumulated Impairment	Book Value	Attachment Point	Asset Pool
The Land Bank of Taiwan was appointed as trustee of the Class A senior notes of the Chailease 2016 Securitization Special Purpose Trust	130222 Financial assets measured at fair value through other comprehensive income -noncurrent	TWD	The originator, Chailease Finance Co., transferred the property trust to the Land Bank of Taiwan, which was appointed as trustee of the trust asset account for the Chailease 2016 Securitization Special Purpose Trust	24 Aug. 2016	24 Aug. 2021	1.9%	twAAA Taiwan Ratings	Interest paid monthly; Class A notes scheduled for completion of redemption between 24 Aug. 2019 and 24 Aug. 2021	500,000	291	-262	500,029	24.60%	<ol> <li>137 finance leases, NT\$711.92 million</li> <li>982 installment sales, NT\$ 3,766.59 million</li> <li>161 conditional sales, NT\$ 495.13 million</li> </ol>
GNR 2018- 120 JP MTGE (US38380YVQ50)	130222 Financial assets measured at fair value through other comprehensive income -noncurrent	USD	GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (US)	6 Sep. 2018	20 Sep. 2048	4%	NIL/ AA+/ AAA	Interest and principal paid monthly	462,241	6,433	0	468,674	N.A.	First-Lien Mortgage Loans
GNR 2018- 154 TP MTGE (US38381AVP82)	130222 Financial assets measured at fair value through other comprehensive income -noncurrent	USD	GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (US)	2 Nov. 2018	20 Nov. 2048	4%	NIL/ AA+/ AAA	Interest and principal paid monthly	461,305	11,516	0	472,821	N.A.	First-Lien Mortgage Loans

#### Dec. 31, 2018

Note: This table includes both domestic and overseas securitization products.

#### (3) Operational Risk Management System and Accrued Capital

#### A. Operational Risk Management System

#### Year 2018

Items	Contents
Operational Risk Management Strategies and Procedures	The Bank has established multi-level authorization rules and reporting procedures in its business rules and operating manuals, in regard to bank customers, products and business activities, business sources, sales channels, and transaction complexity and volume, and in consideration of potential risk. In its SOP, the Bank also stipulates that in their review work officers should pay attention to risk control, strengthen identification, emphasize potential risk, formulate evaluation procedures, and establish a frequency of risk monitoring on a regular basis.
	1. The Board of Directors is the Bank's operational risk management supreme policymaking unit, which approves the Bank's operation management policies and makes sure that the Bank effectively carries out the operational risk management mechanism.
Organization and Framework of Operational Risk Management	2. The Risk Management Committee implements operational risk management policies approved by the Board of Directors, establishes and maintains operational risk management mechanism, and coordinates interdepartmental operational risk management matters.
	3. The Department of Auditing (Board of Directors) is the Bank's independent auditing unit, and evaluates the effectiveness, design and implementation of operational risk management.

Items	Contents
Organization and Framework of	<ol> <li>The Department of Risk Management is responsible for establishing systematic criteria to identify, measure, evaluate and monitor operational risk management, and submits reports to the Risk Management Committee on bank-wide operation risk information.</li> <li>The units in charge of different areas of business have established business rules and</li> </ol>
Organization and Framework of Operational Risk Management	<ul> <li>operating manuals in order to distinguish operational risk.</li> <li>The different units bank-wide carry out their various businesses in accordance with</li> </ul>
	business rules, operating manuals, and standard operating procedures.
	1. The Bank's operational risk monitoring and control measures focus on such matters as the following: collection and analysis of loss events at each unit; maintenance, tracking, and inspection of standard operating procedures (SOP); implementation of key risk indicators (KRIs); and risk concept reports. With KRI monitoring, for example, the units in charge of business periodically report the key risk indicators to the Department of Risk Management, and if any indicators surpass alert levels or thresholds, then the appropriate unit in charge of business must provide explanations or corrective action plans, which the Department of Risk Management must then report up the line.
Scope and Characteristics of the Operational Risk Reporting and Measuring System	2. The Department of Risk Management prepares monthly operational risk monitoring reports and submits them to top management, and on a quarterly basis it submits the reports to the Risk Management Committee, the Audit Committee, and the Board of Directors. The reports contain information on: bank-wide operational risk exposures; collection and analysis of loss events; implementation of KRIs; maintenance, tracking, and inspection of standard operating procedures (SOP); causes of customer complaints, and related corrective action measures; ongoing monitoring of corrective actions to mitigate material operational risks; and establishment of a risk management culture.
	3. The BOT currently uses the standardized operational risk approach to calculate capital charges for operational risk, has established a standardized operational risk capital system (an MIS sub-system), and produces various monthly reports, which it uses to prepare monitoring reports to be submitted to senior management, the Risk Management Committee, and the Board of Directors. The Bank has set up the Loss Data Collection (LDC) system, Operational Risk Control Self-Assessment (RCSA), and Key Risk Indicators (KRI) as tools for measuring operational risk.
	1. To reduce operational risk, the Bank has established regulations and manuals to serve as a basis for undertaking relevant business operations.
Operational Risk Hedging or Mitigation Policy, and Strategies and Procedures for Monitoring the Continuing Effectiveness of Hedging and Mitigation Instruments	2. In accordance with its accumulated experience and operating procedures, as well as in consideration of various types of business cost/effectiveness analysis, the Bank uses insurance (such as employee fidelity insurance, cash insurance, building insurance and miscellaneous equipment insurance) and remote backup to offset operational risk losses caused by operational negligence, personnel, assets, or systems. The outsourcing of operations is handled in accordance with the Bank's "Regulations Governing Internal Operating Systems and Procedures for the Outsourcing of Operations" in order to prevent operational risk from outsourced operations.
Method of Legal Capital Allocation	Standardized Approach

#### B. Operational Risk Accrued Capital

#### Dec. 31, 2018

		Unit: NT\$1,000
Year	Gross Income	Accrued Capital
2016	41,431,531	
2017	29,863,587	
2018	34,910,823	
Total	106,205,941	5,146,669

#### (4) Market Risk Management System and Accrued Capital

#### A. Market Risk Management System

#### Year 2018

Items	Contents
Market Risk Management Strategies and Procedures	In accordance with the risk management strategies and operating directions approved by the Board of Directors, and in compliance with the New Basel Capital Accord and the regulatory provisions of the competent authority, the Bank has established a market risk management system and policy. To effectively identify, assess, measure and monitor the risk associated with different investment business, the Bank sets up different investment quotas and stop-loss limits and reports are submitted to the Board of Directors, Risk Management Committee, and ranking executives.
	1. The BOT's organizational framework of market risk management includes the Board of Directors, Risk Management Committee, Department of Risk Management, units in charge of business, trading units and their traders, risk control personnel, and back-office personnel.
	2. The Board of Directors is the Bank's supreme market risk management and monitoring unit, which is responsible for the risk policies and the Bank's quota limits approval.
	<ol> <li>The Risk Management Committee is responsible for the Bank's risk management policy, rules, organization, overall risk assessment, supervision, and examining revision affairs.</li> </ol>
Organization and Framework of Market Risk Management	<ol> <li>The Department of Risk Management is responsible for the planning and revision of risk management, handles formulation and integration of risk management regulations.</li> </ol>
	5. Acting in accordance with the Bank of Taiwan Market Risk Management Rules and related risk management rules, units in charge of business identify, assess, measure, and manage market risks in their areas of jurisdiction, adopt bylaws and operating procedures, monitor and manage the implementation of risk management at the various trading units, and work with the Department of Risk Management to control bank-wide risks.
	6. BOT trading units are required to comply with the Bank's various market risk management rules, manage positions, control position limits, and furnish required reports to units in charge of business or the Department of Risk Management.
	<ol> <li>The Bank's market risk monitoring encompasses all trading units and overall and individual trading procedures for different financial products, and includes changes in position, changes in profit and loss, trading models, and trading targets, all of which should be carried out in accordance with the Bank's quota limits, stop-loss, and over limit disposition rules, and within authorization limits.</li> </ol>
Scope and Characteristics of Market Risk Reporting and	2. The Bank's Department of Risk Management produces market risk monitoring reports and submits them to the chief executive on a monthly basis, and also makes regular reports to the Board of Directors and Risk Management Committee. The contents of these reports include risk-control conditions such as the status of bank-wide exposure to market risk, capital requirement, financial instruments quotas and limit exceeding, analysis of the management of risk concentration, and securities that have been targeted for special monitoring, among others.
Measuring System	3. The Bank currently uses the standardized market risk approach to calculate capital allocation. The Risk Management Information System automatically produces various reports each month, including reports to the competent authority, management-related reports, and information- disclosure reports. These reports are used to compile monitoring reports for ranking executives, the Risk Management Committee, and the Board of Directors.
	4. In order to introduce the IMA for market risk into day-to-day risk management processes, the Bank has conducted VaR limits for the trading book and various products of the trading book, which are monitored daily and reported monthly.
Market Risk Hedging or Mitigation	1. The BOT's "Operating Rules for Engaging in the Offshore Banking Business" clearly specify the range of trading in the offshore banking business and establish trading limits according to the credit rating and world ranking of counterparties, issuing institutions, and guarantor institutions. The Rules also have strict specifications regarding categories of securities, with trading quotas and stop-loss limits being established for the trading book positions of different units.
Policy, and Strategies and Procedures for Monitoring the Continuing Effectiveness of Hedging and Mitigation Instruments	2. In accordance with the "Operating Criteria for Derivatives Products, and Internal Control Operating Methods," the Bank uses the following risk-hedging principles to trade in derivative financial products by trading units: (1) Principal and loss quotas are reviewed on a regular basis. (2) Reverse-squaring trading for derivatives positions has been provided for, and can be used for the mutual offsetting of positions, which are listed as net amounts. (3) The market risk of structured derivative financial products is calculated under the principle of decomposition. For products that do not admit of decomposition, positions should be covered in round lots, with no retained positions allowed.
Method of Legal Capital Allocation	Standardized Approach

Linit: NT\$1 000

#### B. Market Risk Accrued Capital

#### Dec. 31, 2018

	UIII. N1\$1,000			
Risk Category	Accrued Capital			
Interest rate risk	4,147,452			
Equity security risk	1,869,992			
Foreign exchange risk	3,001,651			
Option risk	0			
Commodity risk	0			
Total	9,019,095			

#### (5) Liquidity Risk

The Bank uses two methods to manage liquidity risk: total amount management, and flow management. Total amount management is carried out according to the Central Bank's "Liquidity Reserve Checking Guidelines for Financial Institutions," and liquidity reserves are allocated in reference to fluctuations in the Bank's flow of funds. The implementation of flow management depends on the time of inflow and outflow of funds and is divided into real-time management and medium and long-term management. When the flow of funds reaches a set limit, business units are required to submit a report immediately so as to maintain a grasp of the status of capital and provide for the adoption of advance countermeasures. In addition, a monthly analytic report on the Bank's New Taiwan Dollar and Foreign Currencies funds liquidity risk and interest rate risk is compiled and submitted to the Assets and Liabilities Management Committee.

#### A. New Taiwan Dollar-Denominated Maturity Date Structure

#### Dec. 31, 2018

							Unit: NT\$1,000		
Items		Amounts by Time Remaining before Maturity							
	Total	0-10 days	11-30 days	31-90 days	91-180 days	181 days- one year	Over one year		
Major inflows of matured funds	4,861,568,297	613,718,976	557,273,005	630,746,847	563,089,488	733,089,648	1,763,650,333		
Major outflows of matured funds	6,311,668,465	261,875,331	383,891,278	674,095,844	768,662,889	1,335,534,217	2,887,608,906		
Period gap	-1,450,100,168	351,843,645	173,381,727	-43,348,997	-205,573,401	-602,444,569	-1,123,958,573		

Note: The table includes New Taiwan Dollar Amounts held in the head office, the domestic and overseas branches, and Offshore Banking Branch.

#### B. U.S. Dollar-Denominated Maturity Date Structure

#### Dec. 31, 2018

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						Unit: NT\$1,000			
		Amounts by Time Remaining before Maturity							
Items	Items Total	0-30 days	31-90 days	91-180 days	181 days- one year	Over one year			
Major inflows of matured funds	42,913,220	11,437,325	8,937,250	8,225,195	4,594,660	9,718,790			
Major outflows of matured funds	43,859,052	12,811,425	11,210,718	7,712,262	4,458,445	7,666,202			
Period gap	-945,832	-1,374,100	-2,273,468	512,933	136,215	2,052,588			

Note: The table includes USD Amounts held in the head office, the domestic and overseas branches, and Offshore Banking Branch.

# 2. Impact of Changes in Major Domestic and Overseas Policies and Laws on the Bank's Financial Operations, and Countermeasures

The Bank will remain attentive to the influence of major government financial and economic policies, and will provide appropriate responses in a timely fashion so as to lower the impact on its financial operations. In addition, the BOT Department of Compliance will collect information on legal provisions related to the Bank's businesses and forward it in a timely manner to the related business units with instructions to comply with legislative amendments and to act as quickly as possible to develop response plans or suggest revisions to the Bank's operating rules and bylaws so as to abide by the law, ensure legal compliance, and reduce operational risk.

# 3. Impact of Technological and Industrial Changes on the Bank's Financial Operations, and Countermeasures

- (1) In response to domestic deregulation and Fintech innovation, BOT continued promoting digitalized financial services.
  - A. BOT continued drawing up plans to launch personalized online banking. The plans entail the use of responsive web technology and personalized services in combination with Big Data CRM to provide optimum web pages.
  - B. The hand gesture passwords and biometrics supported by smart mobile devices make identity verification and rapid logon to mobile banking apps possible.
  - C. BOT will continue working with the Financial Information Service Co. and Taiwan Mobile Payments Co. to jointly promote the Taiwan mobile payments app.

- D. The Bank established a Big Data database and a customer behavior data mining model and, relying on a CRM system database, used business intelligence analysis and other such tools to develop various lines of business.
- E. The Bank is drawing up plans for an online calculator function for unsecured loan amounts and interest rates. This simplifies the loan application process for customers, improves the efficiency of services and marketing management, and increases customer satisfaction
- F. The Bank has launched a 24-hour smart fee payment machine. A customer with a printed bill in hand can swipe the barcode or input the account number, then use a bank card or cash to pay the fee amount.
- G. To support the e-confirmation blockchain developed by the Financial Information Service Company, BOT is developing an automated system that financial institutions can use to check on requests for confirmation of balances. This blockchain service ensures the privacy and undeniability of digital certificates and digital signatures, and establishes a single format for all confirmation forms.
- H. The BOT and iPASS Corporation entered into a cooperation agreement providing the latter access to BOT depositor accounts so that depositors can use their mobile phones to pay for consumer purchases, top up their iPASS accounts, and pay bills. The cooperation agreement entered into force on Oct. 3, 2018.
- I. In response to the rise of the social media age, BOT is developing an intelligent customer service system that enables customers to use three different channels—an interactive Web-based chat site, LINE, or Facebook Messenger—to interact via voice with a consultation system that employs artificial intelligence to process and respond to naturally spoken language.

- (2) In response to changes in industry, and paying due attention to the need for both lending growth and risk control, the Bank has taken the following measures:
  - A. Control of the Bank's exposure to any single industry

The Bank has responded to changes in industry by establishing limits on loans to different industries, and has annually adjusted limits on lending to particular industries.

B. Enhanced ability to track industrial development trends

Each month, the Bank collects information on conditions in 13 different sectors (DRAM chips; display panels; solar power; LED; desktop and notebook computers; semiconductors; marine transportation; printed circuit boards; communications equipment; Apple and mobile phone supply chains; telecoms operators; the Internet of Things; and cultural and creative industries), and provides the information to units throughout the bank for their reference. In addition, the Bank also provides colleagues in the company with information on production and sales in 9 different sectors (electronics and semiconductors; information; green industry; etc.), the status of individual manufacturers, future prospects, and important breaking news.

C. Enhancement of credit examiner professionalism

The Bank regularly invites experts from industry, government, academia, and research institutes to share their insights on the latest trends in key industries. Meanwhile, the Bank has purchased training videos from the Industrial Technology Research Institute, the Institute for Information Industry, and other research organizations. Employees can view these videos to learn about current conditions in industry. In addition, the BOT from time to time dispatches employees to take part in industrial seminars held by research institutions in order to stay abreast of the latest trends in industry.

#### 4. Impact of Changes on the Bank's Image, and Countermeasures

The Bank makes efforts to expand its businesses and achieve the budget targets. In addition, the Bank treats customers with sincerity, always puts the customer's interests first, and provides unmatched safeguards for customers' wealth. The Bank works actively to enhance its service quality by simplifying operating procedures and participates actively in numerous public-benefit activities. This earned several awards for the Bank, including: recognized by the Financial Supervisory Commission as a "Top Bank Provider of Property Trusts for Senior Citizens and Persons with Mental and Physical Disabilities"; the winner of the Gold Award in the Reader's Digest Trusted Brands survey in the Banking category; the number one financial holding company or bank on 2018 Cheers magazine's list of the "Most Attractive Employer for Young Generation"; "Golden Quality Award," "Golden Security Award," and "Special Contribution Award" by the Joint Credit Information Center; named by the Ministry of

Education as a Gold Winner at the "Sports Administration's Sports Activist Awards" ceremony, and was granted a "2018 Sports Enterprise Certification"; The Bank's Jenai Branch took part in the 2nd Government Quality Awards program and won the excellence award in the Overall Service Quality category.

5. Expected Benefits from, Risks Relating to and Response to Merger and Acquisition Plans

None

#### 6. Expected Benefits from, Risks Relating to and Response to Operating Channel Expansion Plans

Since the addition of more business locations can expand the deposit, loan, remittance, and wealth management businesses while increasing stable customer sources, the Bank will continuously evaluate the feasibility of setting up new business locations, in light of economic conditions and the development of commerce and industry in different areas, and will provide customers with diversified services to establish a stronger competitive niche and tap into synergies.

BOT has been taking proactive steps in recent years to expand its overseas presence and accelerate its development of markets throughout Asia. The Bank is very carefully planning its expansion strategy and choosing appropriate lines of business in its overseas operations. With this in mind, it holds periodic business update meetings to keep abreast of progress in efforts to train employees for international business operations, market its multinational businesses, establish compliance systems, and deploy information systems. Measures are taken as necessary to prepare for potential operational risks.

#### 7. Risks Arising from the Concentration of Business, and Countermeasures

The Bank's main source of income is from interest income, and changes in interest rates have a relatively large influence on the Bank's income. To reduce the risk caused by interest-rate fluctuations, the Bank will monitor changes in interest rates continuously, closely adjust the structure of its assets and liabilities, and increase the ratio of fee and commission income.

Some insurance companies that have been selling single-premium products via the BOT are planning to discontinue the sale of such products in 2019. Such products have accounted for more than half of the Bank's insurance product sales, so the discontinuation will have a big impact. The Bank will take the following two response measures: (1) Contact the life insurers in question to arrange for the sale of other types of insurance products. (2) Adopt incentive measures and marketing campaigns to promote sales.

#### **VI. Crisis Management Mechanism**

In order to establish a proper crisis response mechanism, the Bank has adopted the "BOT Crisis Reporting Rules" in line with the provisions of the Financial Supervisory Commission. The Bank's various units are required to deal properly with crises in accordance with the "BOT Crisis Reporting Rules" so that those units can quickly discover and respond to crises.

In regard to latent or present crisis, the Bank has adopted a series of pre-event, mid-event, and postevent countermeasures. The crisis management mechanism that has been established by the Bank includes a "BOT Emergency Response Manual," a "BOT Operation Crisis Response Countermeasures," a "BOT Operations Non-Interruption Plan," a "BOT Crisis Reporting System," and an Emergency Reporting System for headquarters and branches.



# **Special Disclosure**

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I. Information on Affiliated Enterprises

# Special Disclosure

#### **I. Information on Affiliated Enterprises**

1. The Bank's Subsidiaries (Dec. 31, 2018)

Bank of Taiwan

Shareholding 100%

BankTaiwan Insurance Brokers Co., Ltd.

#### 2. Basic Data of the Bank's Subsidiaries

#### Dec. 31, 2018

Unit: NT\$1,000

Enterprise Name	Establishment Date	Address	Paid-in Capital	Major Operations	
BankTaiwan Insurance Brokers Co., Ltd.	Jan. 23, 2013	4F., No. 49, Sec. 1, Wuchang St., Zhongzheng Dist., Taipei City	20,000	Life Insurance Agency Property Insurance Agency	

#### 3. Information of Chairperson, Directors, Supervisors and President of the Bank's Subsidiaries

#### Dec. 31, 2018

	Position	Company Name and Depresentative	Shareholding		
Enterprise Name		Company Name and Representative	Shares	%	
BankTaiwan Insurance Brokers Co., Ltd.	Chairperson Director Director Supervisor President	Bank of Taiwan Legal Representative : Hsieh, Fu-Deng Legal Representative : Huang, Chen-Ying Legal Representative : Wang, Trai-Hsin Legal Representative : Hsiao, Chia-Chi Huang, Chen-Ying	2,000,000	100%	

#### 4. Operation Overview of the Bank's Subsidiaries

#### Dec. 31, 2018

								Unit: NT\$1,000
Enterprise Name	Capital	Total Assets	Total Liabilities	Equity	Operating Revenue	Operating Profits	Income (After Tax)	EPS in NT\$ (After Tax)
BankTaiwan Insurance Brokers Co., Ltd.	20,000	537,039	263,934	273,105	1,716,215	244,654	194,980	97.49



### **Directory of Head Office and Branches**

- 292 I. Domestic Business Units
- 292 II. Overseas Units

### BANK ®F TAIWAN 2018 ANNUAL REPORT

### **Directory of Head Office and Branches**

#### **I. Domestic Business Units**

Please refer to BOT website: https://www.bot.com.tw/English/BusinessUnits

#### **II.** Overseas Units



Branch	Address	Telephone	FAX	SWIFT
New York Branch	100 Wall Street, 11th Floor, New York, NY 10005 U.S.A.	1-212-968-8128	1-212-968-8370	BKTWUS33
Los Angeles Branch	601 S. Figueroa ST., Suite 4525 Los Angeles, CA 90017 U.S.A.	1-213-629-6600	1-213-629-6610	BKTWUS6L
Hong Kong Branch	23/F., Central Tower, 28 Queen's Road Central, Central, Hong Kong	852-2521-0567	852-2869-4957	BKTWHKHH
Tokyo Branch	7F, Fukoku Seimei Building, 2-2 Uchisaiwaicho 2-Chome Chiyoda-Ku, Tokyo 100-0011, Japan	813-3504-8881	813-3504-8880	BKTWJPJT
Singapore Branch	80 Raffles Place #28-20 UOB Plaza 2 Singapore 048624	65-6536-5536	65-6536-8203	BKTWSGSG
South Africa Branch	11, Cradock Ave. Rosebank 2196, Johannesburg, South Africa	27-11-880-8008	27-11-447-1868	BKTWZAJJ
London Branch	Level 17, 99 Bishopsgate, London, EC2M 3XD, UK	44-20-7382-4530	44-20-7374-8899	BKTWGB2L
Shanghai Branch	30F, No.1788, Nan-Jing West Rd., Jing-An District, Shanghai, China 200040	86-21-3256-9900	86-21-3256-9477	BKTWCNSH
Guangzhou Branch	Guangzhou International Finance Center, Unit 04-06, 24F, No 5, Zhujiang Xi Road, Zhujiang NewTown, Tian He District, Guangzhou, Guangdong Province, China	86-20-8367-3000	86-20-8883-1933	BKTWCN22
Fuzhou Branch	Suite 3908, 39F, Sheng Long Building, No.1, Guangming South Road, Taijiang District, Fuzhou City, Fujian Province, China	86-591-8361-3189	86-591-2830-1020	BKTWCNBF
Sydney Branch	Suite 10.02, Level 10, Chifley Tower, 2 Chifley Square, Sydney NSW 2000, Australia	61-2805-15300	61-2893-74530	BKTWAUS2
Shanghai JiaDing Sub-Branch	Room 203, 2F. No.1, Lane 819, Yin-Xiang Rd., Jia-Ding Dist., Shanghai, P.R.C. 201802	86-21-5910-5311	86-21-5910-5312	BKTWCNSH
Mumbai Representative Office	Regus Platina, 9th Floor, Platina, C-59, G Block, Bandra-Kurla Complex, Bandra (East), Mumbai 400051, India	91-2267000907	91-2267000600	—
Yangon Representative Office	Rose Garden Offices, Unit 1 & 2, 1st Floor, No.171, Upper Pansodan Road, Mingalar Taung Nyunt Township, Yangon, The Republic of the Union of Myanmar	95-1-371992	95-1-371993	-
Silicon Valley Representative Office	75E. Santa Clara St., Suite 1210, San Jose, CA 95113, USA	1-213-3523250	1-213-6296610	-
Bangkok Representative Office	Unit 3, 22nd Floor, AIA Sathorn Tower, 11/1 South Sathorn Road, Yannawa, Sathorn, Bangkok 10120, Thailand	66-2-0464926	66-2-0464924	-
Frankfurt Representative Office	4F, Bockenheimer Landstrasse 51-53, 60325 Frankfurt, Germany	49-699-77887600	49-699-77887601	_
Manila Representative Office	Unit 1404, Tower One & Exchange Plaza Ayala Triangle, Ayala Avenue 1226 Makati City Philippines	63-2310-1688	63-2310-1687	_



### **BANK OF TAIWAN**

Chairman

Joseph byu







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