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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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Letter to Shareholders

A Brief Introduction of the Bank



Joseph Jye-Cherng Lyu

Letter to Shareholders

Due to the impact of the U.S.-China trade war, global economic growth in 2019 declined to its lowest rate in 10 years. Economic performance in the United States was weaker than the previous year due to the U.S.-China trade conflict and the gradually waning effect of expansionary U.S. fiscal policies. China, meanwhile, posted its lowest economic growth rate since 1991 because of trade friction with the United States and weakening domestic demand. In the Eurozone as well, global trade disputes, Brexit, and an economic slowdown within many European Union member nations put a damper on economic growth. In Japan, a number of positive factors (the impact of an economic stimulus package, decelerated implementation of a planned sales tax hike, and increased expenditures for new plant and equipment) counteracted the impact of weak export performance and supported moderate economic growth. At home, Taiwan's economy grew by 2.71% in 2019. The U.S.-China trade conflict put a drag on exports, but at the same time it prompted offshore Taiwanese businesses to return to Taiwan, which provided a stimulus to private investment and increased domestic production capacity, while domestic consumption posted stable growth.

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, syndicated loans, total assets, and shareholders' equity. Pre-tax earnings for 2019 amounted to NT\$13.2 billion, an outstanding performance that far exceeded the annual target, while the average NPL ratio was 0.18% and the average NPL coverage ratio stood at 912.81%. These ever best figures reconfirm the management's resolution to maintain sound asset quality and resilient risk-bearing capacity. As for measures to bolster capital, the Taiwan Financial Holding Company and the BOT have carried out a NT\$42 billion capital increase backed by the land currently leased to Taipei American School. The private placement was completed ahead of schedule in September 2019, and raised BOT's capital adequacy ratio by 1.79 percentage points. In addition, paid-in capital has increased from NT\$95 billion to NT\$109 billion (with a net equity increase of NT\$42 billion), significantly strengthening BOT's risk-bearing capacity and enhancing its business development capabilities.

The Bank has rolled out new initiatives. To strengthen its ability to quickly resolve and report cyber security incidents, BOT on 1 November 2019 established a Computer Security Incident Response Team (CSIRT), and was the first state-owned bank in Taiwan to do so. Also, the Bank established an InnoLab on 19 November 2019 to integrate innovative forces currently scattered among various units throughout the BOT while simultaneously introducing innovative technologies and engaging in cooperation designed to further innovation. Under this new initiative, the InnoLab may promote innovation of new financial products, services, and business models more effectively.



President

Ye-Chin Chiou

In the area of human resource development, BOT continues to carry out its Young Management Development (YMD) Program. The second round of the Program was completed in November 2019, and a third round is scheduled to commence in the second half of 2020. Through an ongoing effort to develop the talents of up-and-coming generation, BOT intends to lay a solid foundation for its long-term development. Also, in anticipation of the post-war baby boomers retiring with each passing year, the two rounds of the Excellence Management Program in 2019 focused on the latest management philosophies and strategies while presenting practical case studies. The objective of this carefully engineered Program is to build a next-generation leadership team whose members possess cool mind and warm heart while demonstrating keen insight, strong team spirit and drive for innovation.

In the area of digital financial services, the BOT continues to encourage employees to engage in innovative research and development. In 2019, the Bank obtained 17 invention patents and 75 utility models. It launched cloud-based banking services that enable customers to go online to fill out forms in advance, open digital deposit accounts, and apply for loans and credit cards. In addition, BOT demonstrated two new payment vehicles using optical codes and license plates in November at FinTech Taipei 2019. The goal is to accelerate the Bank's progress along the path to its digital transformation.

As for security safeguards, BOT was designated in March 2019 by the Executive Yuan as a participant in the 2019 National Critical Infrastructure Protection (CIP) Exercise. This was the first time the banking industry had ever participated in a CIP Exercise taking an all-hazards approach. The BOT established a special team to improve the Bank's security maintenance plan and its interdisciplinary joint defense arrangements, and employees at the head office carried out a half-year of intense preparations. The team completed the Exercise on 18 September, and all 15 assessors gave the Bank their highest marks. BOT was awarded a rating of "Excellent" from the Executive Yuan.

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 elected 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 Cheers magazine's 2019 list of the "Most Attractive Employers for the Younger Generation"; won the Joint Credit Information Center's "Golden Security Award" and "Golden Quality Award"; and received a Gold Award at the Ministry of Culture's 14th Arts & Business Awards ceremony.



In the areas of sustainable development and corporate social responsibility, the Bank actively implemented corporate governance and established a chief corporate governance officer to take charge of related undertakings and assist the Board of Directors in the fulfillment of its functions.

BOT has long promoted the public interest and resolutely upheld its core value of building a company and a society that work for the common good. 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. As examples, the BOT rendered donations to weak children group living in remote areas, as well as care facilities throughout Taiwan for children, the elderly, and persons with disabilities; organized blood drives; held a fair to promote concern for the blind and sponsor the incubation of guide dogs; and organized sports events and call for charity.

Since 2017, BOT has raised the level of its corporate social responsibility activities to the realm of culture and the arts, and has also incorporated them into the field of financial and economic research. For three years in a row, the Bank has held the Bank of Taiwan Arts Festival (including painting for youth, photography, and music festivals) and the Bank of Taiwan Awards for Economic and Financial Research. All of these activities have earned enthusiastic praise from the Ministry of Culture and the art and culture community.

In addition, to build cordial labor relations and create harmonious workplace environments, the Bank and its company union on 18 November 2019 signed a collective bargaining agreement that has created a win-win-win situation for shareholders, the company, and employees. For these honors, I want to express our deepest gratitude to all of our friends and customers.

Our operating results for 2019, business plans for 2020 and strategies for the Bank's future development are briefly described below.

I. Operating Results for 2019

1. Organizational Change

- (1) 2 April, 2019: Established the TY Inno Branch by relocating the Taosing Branch and changing its name.
- (2) 19 November, 2019: Established the InnoLab under the Department of Planning to: (a) promote the innovation of new types of financial products and services, and new kinds of business models; and (b) integrate innovative forces currently scattered among various units throughout the BOT organization while simultaneously introducing innovative technologies and engaging in cooperation designed to further innovation.

- (3) Overseas Expansion from 2019 to March 2020
 - A. 31 January, 2019: The Manila Representative Office officially opened.
 - B. 14 August, 2019: The Ho Chi Minh City Representative Office officially opened.
 - C. 23 September, 2019: The Jakarta Representative Office officially opened.
 - D. 20 February, 2020: The Kuala Lumpur 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 strategies, accelerated the pace of efforts to develop Asian markets, and sought a balanced development of ties with Asia and the West. The Bank now has business locations in the five continents of Europe, North America, Asia, Australia, and Africa, and with BOT's international business network continually growing, the Bank will be able in the future to strengthen cooperation with leading multinational banks offshore to pursue the benefits of complementarity and build up its international banking capability. 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 further enhancing a partnership with an international bank in providing cross-border services. In addition, the BOT has led peers from Taiwan's banking industry to arrange overseas syndicated loans.



BOT celebrated the opening of its Ho Chi Minh City representative office on 14 August, 2019. BOT Chairman Joseph Jye-Cherng Lyu gave a speech at the opening ceremony.



(2) Results of Implementation of Operating Strategy

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

Year Major Operation Category	2019	2018	2019 Growth Rate
Deposits	3,991.4	4,012.7	(0.53)
Loans	2,731.6	2,386.0	14.49
Guarantees	85.1	85.9	(0.91)
Foreign Exchange (US\$)	373.3	359.6	3.81
Procurement	102.2	62.4	63.62
Precious Metals	139.4	127.2	9.63
Government Employees Insurance	23.5	24.9	(5.43)
Agency (Insurance Brokerage)	54.4	49.4	10.06

3. Budget Implementation

The volume of deposits during the year aggregated to NT\$3.99 trillion, giving a target achievement rate of 113.59%. Loans amounted to NT\$2.73 trillion, for a target achievement rate of 117.59%. Foreign exchange operations undertaken in 2019 totaled US\$373.29 billion, amounting to 113.34% of the target figure, and income after tax reached NT\$11,158 million, achieving 148.73% of the target.

4. Revenues, Expenditures and Profits

- (1) Net interest income for 2019 amounted to NT\$26,679 million; non-interest income (net) totaled NT\$15,492 million; bad debt expenses and reserve for guarantees amounted to NT\$7,345 million; and operating expenses totaled NT\$21,615 million. Income before tax reached NT\$13,211 million; and income tax amounted to NT\$2,053 million, leaving a net income after tax of NT\$11,158 million. (Preferential-rate deposits for pensions and veteran benefits to support the government's personnel policy reduced the Bank's earnings by NT\$7,089 million. When the impact of these preferential-rate deposits is factored out, income before tax would amount to NT\$20,300 million.)
- (2) The year's NT\$11,158 million income after tax was NT\$3,656 million more than the budgeted income of NT\$7,502 million, an increase of 48.73%.
- (3) Pre-tax Return on Assets (ROA) for 2019 was 0.26%.
 (When the impact of preferential-rate deposits for pensions and veteran benefits is factored out, pre-tax ROA would amount to 0.42%.)

- (4) Pre-tax Return on Risk Weighted Assets (RORWA) for 2019 was 0.64%.
 (When the impact of preferential-rate deposits for pensions and veteran benefits is factored out, pre-tax RORWA would amount to 0.96%.)
- (5) Pre-tax Return on Equity (ROE) for 2019 was 3.84%.
 (When the impact of preferential-rate deposits for pensions and veteran benefits is factored out, pre-tax ROE would amount to 5.69%.)

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 actively 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 development of major 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 where necessary as reference in expanding the Bank's business.

II. Business Plans for 2020

1. Business Strategy and Major Operating Policies

BOT continues acting in accordance with its 5P business operating policy (People-centered, Portfoliosound, Performance-driven, Prospection-oriented, and Principle-based) as well as its 5S corporate culture (Simple organization, Simple goals, Simple decision making process, Simple strategy, and Simple intra-group relationship) to improve operating efficiency and enhance corporate culture. Also, taking an "honest, pragmatic, and down to earth" attitude, BOT has joined hands with the industrial community to create economic and social value for Taiwan, and has adopted the following operating policies with a view to achieving sustainable development and maintaining stable business operations:

- (1) 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.
- (2) Continue to expand credit business, enhance profitability, and increase housing and business lending (especially small and medium businesses) in order to improve interest spread and the loans to deposits ratio.
- (3) 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.
- (4) Expand the Bank's "intelligent customer service system" functionality to provide a 24-hour smart voice menu system and launch online-to-offline cloud-based banking services.



- (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 the implementation of AML/CFT operations.
- (6) Build up the cyber security environment, continue implementing the cyber security management system, train cyber security professionals, improve cyber defense policies and measures, and provide customers a safe financial transactions environment.
- (7) Strengthen risk controls, leverage the benefits of recent capital increases, expand the Bank's business, boost operating revenues, appropriately manage asset structure and the growth of risk assets, and strengthen the operational practices.
- (8) Coordinate with business strategies by actively cultivating personnel with inter-disciplinary expertise in such fields as business management, international finance, digital finance, legal compliance, information, credit, foreign exchange, trusts, wealth management, and risk management.
- (9) Continue to strengthen internal audits and internal controls to better implement corporate governance in accordance with "BOT Corporate Governance Best-Practice Principles."
- (10) Establish a "Task Force for Fair Treatment of Consumers" to push for proper implementation of the Principles for Fair Treatment of Consumers, and also set up a "Task Force for Settlement of Consumer Disputes" to provide for a unified, more efficient, and better handling of consumer disputes.

2. Business Targets

The following BOT business targets for 2020 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\$3.53 trillion

(2) Loans: NT\$2.36 trillion

(3) Foreign Exchange: US\$319.8 billion

(4) Income Before Tax: NT\$8.7 billion

III. Development Strategies

- Boost lending to small and medium enterprises and support their transformation and development to coordinate with the government's "Small and Medium-sized Enterprises Accelerated Investment Action Plan" and the Small and Medium Enterprise Credit Guarantee Fund's action plan for SME financing.
- 2. Support government policy by providing project financing to fund investments in Taiwan, act in line with the provisions of the "Management, Utilization, and Taxation of Repatriated Offshore Funds Act" to tap business opportunities by the return to Taiwan of offshore Taiwanese businesses, and provide quality financial services.

- 3. Continue encouraging employees to conduct innovative research and development, stock up on FinTech patents, promote financial innovation, develop smart financial services, and create opportunities for digital transformation.
- 4. Leverage the Bank's brand power and rationalize business locations, seize upon overseas business opportunities, enhance competitive edge in overseas markets, provide a diverse range of financial services, and boost overseas profits.
- 5. Formulate a five-year information systems development blueprint in order to further enhance and strengthen the momentum of business development.
- 6. Establish a system under which the head office's business oversight unit pays inspection visits to business units, and establish sound business management by strengthening the first line of "the three lines of defense" in effective risk management and control.
- 7. Build an integrated cyber security system that includes such features as defense through diversity and defense in depth, use defense-in-depth techniques to thwart different types of attacks, implement cyber security management, and strengthen the Bank's cyber security protection capabilities.
- 8. Fulfill the Bank's corporate social responsibilities by complying with the Corporate Governance Best-Practice Principles for Banks, implementing corporate governance, exercising sound internal audits, conducting ethics oversight, and showing concern for society.

IV. Impact of Market Competition, the Legal Environment, and the Overall Business Environment

1. Impact of Market Competition

- (1) With large number of domestic banks, competition has long been intense, making it difficult to widen interest margins. The galloping progress of financial technology and the opening of three internet-only banks in 2020 will definitely further exacerbate competition among financial service providers, which would respond by beefing up their capacity to provide digital financial services. In the face of this market competition, BOT will continue to strengthen its overall competitiveness by deepening innovative research and development, stocking up on FinTech patents, developing smart financial services, and accelerating its digital transformation.
- (2) The signing of an initial U.S.-China trade deal has resulted in a temporary cessation of the trade dispute between the two major economies, however we must monitor whether the situation will morph into a long-term standoff. In addition, expansion of the trade dispute would force a reshuffling of global industrial supply chains and affect regional economic development. The resulting impact on Taiwan's financial sector needs to be closely watched.

2. Impact of the Legal Environment

- (1) To help Taiwan's financial service providers understand the state of their implementation of the "Principles for Fair Treatment of Consumers," the Financial Supervisory Commission (FSC) established a system for assessment of implementation by financial institutions of the Principles for Fair Treatment of Consumers in 2019. Financial service providers are now required to use this system as the basis for annual assessments of their implementation of the Principles during the preceding fiscal year, and to file a self-assessment report with the FSC each year. Implementation of this system will serve to bridge the gap between financial service providers and financial consumers, and active promotion by the Board of Directors will internalize the Principles and make them a core element of the Bank's corporate culture.
- (2) The "Management, Utilization, and Taxation of Repatriated Offshore Funds Act" entered into force on 15 August 2019. The legislation was enacted to respond to recent changes in global economic conditions, and to actively assist the efforts of offshore Taiwanese businesses to restructure their global operations. The Act, while ensuring compliance with international anti-money laundering and counter financing of terrorism (AML/CFT) regulations, provides appropriate tax breaks to encourage individuals and profit-seeking enterprises to redirect funds toward real economic investments in Taiwan.
- (3) The FSC approved the establishment of three internet-only banks in July 2019. Looking to the future, such matters as how to fight money laundering and the financing of terrorism, and how to build a fully fleshed-out e-KYC system, are going to be important issues. In addition, in the Mutual Evaluation Report issued by the Asia/Pacific Group on Money Laundering (APG) in August 2019, Taiwan was promoted to the APG's most favorable "regular follow-up" list. Taiwan has thus been recognized for its strong AML/CFT compliance, and is in a good position to pursue economic and trade development.

3. Impact of the Overall Business Environment

- (1) The spread of COVID-19 has had a grave impact on global trade, tourism, and industrial supply chains, and has triggered severe volatility in financial markets.
- (2) Looking ahead to 2020, the possible global economic impact of a number of continued uncertainties merits ongoing attention. Examples include the U.S.-China trade dispute, rising economic and financial risks in mainland China, and geopolitical risks. However, the government continues to encourage offshore Taiwanese businesses to return to invest in Taiwan while steadily implementing the Forward-looking Infrastructure Plan. This two-pronged approach has prompted banks to maintain a positive outlook toward the future.

V. Credit Ratings

Items	Poting Data	Assigne	d Rating	Outlook
Rating Agency	Rating Date	Long-term	Short-term	Outlook
Standard & Poor's	Nov. 2019	A+	A-1	Stable
Moody's Investors Service	Dec. 2019	Aa3	P-1	Stable
Taiwan Ratings Corp.	Nov. 2019	twAAA	twA-1+	Stable

The year 2019 on the one hand brought tremendous economic and financial upheaval across the globe, but on the other hand BOT employees, acting under the leadership of management team at all levels, again performed outstandingly. Earnings reached another all-time high, while asset quality and risk-bearing capacity further improved. In 2020, it will be necessary to pay close attention to the impact of the COVID-19 pandemic on the global economy.

In addition, the future course of the U.S.-China trade dispute, the monetary policy of the U.S. Federal Reserve, China's economic slowdown and debt risks, and geopolitical factors all pose global economic risks that merit attention. BOT, in addition to continued support for the government's economic development policies, will also continue to exercise its financial professionalism to keep close tabs on the economy and actively take on all manner of challenges.

Maintaining a spirit of unity and a serious work ethic, the Bank will achieve superior operating performance and lay the foundation for sustainable business growth that will keep BOT excelling for a second 120 years.

Chairman

President

Joseph Lyu

Yeshin Chion



Front Row (left to right):

Senior Executive Vice President & General Auditor | Lee, Li · Senior Executive Vice President | Lin, Li-Ling Chairman | Joseph Jye-Cherng Lyu · President | Chiou, Ye-Chin Senior Executive Vice President & Chief Compliance Officer | Lin, Su-Lan

Back Row (left to right):

Senior Executive Vice President | Pan, Rong-Yaw · Senior Executive Vice President | Hsu, Chih-Wen Senior Executive Vice President | Kang, Fan · Senior Executive Vice President | Ju, Yeung-Rong

A Brief Introduction of the Bank

I. Date of Establishment: May 20, 1946

II. Brief History

The Bank of Taiwan Kabushiki-gaisha, the predecessor of Bank of Taiwan, was established in 1899 as Taiwan's Central Bank during Japanese ruling period. It issued local currency and provided financial resource to enterprises. The Bank of Taiwan (BOT) was established on May 20, 1946 as the first government-owned bank following the island's restoration to the Republic of China in 1945. During much of its operating history, it has been under the administration of the Taiwan Provincial Government. Following the phase out of the Taiwan Provincial Government on Dec. 21, 1998, the Bank was subsequently taken over by the central government of the Republic of China and placed under the administration of the Ministry of Finance, in accordance with the regulations on government-owned financial institutions. BOT has been judicial person under Banking Act since 1985. Effective July 1, 2003, BOT became a corporate organization under Company Act. In accordance with the regulations on financial holding companies, on January 1, 2008, Taiwan Financial Holdings was established on the basis of the share transfer. Meanwhile the Bank has become a subsidiary of Taiwan Financial Holdings. On January 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.

During its formative years, the BOT managed the business of the public treasury, issued currency in the Taiwan area, and carried out many of the functions of a central bank. In the early years following the central government's move to Taiwan in 1949, it acted as agent in carrying out most of the functions of the Central Bank of China (CBC), thus giving it a dual character; that of a central bank, as well as a general commercial bank. Following restoration of the CBC in Taiwan in July 1961, however, the BOT switched its primary emphasis to general banking. After the passage of the Local Autonomy Law in July 1994, provincial, county, and city governments were given the right to choose the banks in which to deposit their funds. Faced with competition from other banks, the BOT has been able to rely on its outstanding image and efficiency, which it built up through decades of effort. It has steadfastly adhered to sound operating principles. It is also responsible for the operation of businesses related to the issuance of New Taiwan Dollar currency, the handling of deposits of military and civil servants' retirement funds at preferential interest rates, student loans and other policy-related operations. Meanwhile, BOT has facilitated financial service to critical infrastructure and various industrial innovation and economic revitalization projects to support economic growth and industrial development of Taiwan. The Bank strongly supports Taiwan's economic development with sufficient financial function and plays a leading position of financial systems in Taiwan.

Recently, the Bank's new corporate vision has been defined as: "A leading bank with global presence". This vision encompasses a strategy whereby BOT strongly supports the country in moving steadfastly toward a strong and stable economy in providing enterprises with robust and comprehensive financial services. BOT has continued to pursue innovations in FinTech to enhance and improve its financial services capabilities. In an effort to speed up its global reach, BOT has collaborated with leading international banks and expanded its overseas networks to five major continents, thereby affirming BOT's leading position among all the Taiwanese banks.

BOT is strongly committed to its CSR (Corporate Social Responsibility), and has promoted its affinity credit card program including "Guide Dog Affinity Card" which is co-branded with Taiwan Guide Dog Association. It has also organized "Bank of Taiwan Arts Festival," "Bank of Taiwan Awards for Economic and Financial Research" and various social welfare campaigns to underprivileged groups. Furthermore, BOT has upgraded its CSR to include art and culture.

BOT has existed under the "Bank of Taiwan" brand now for over 120 years, and is instantly recognizable as a symbol of financial strength and stability which portrays its core values. It is committed to supporting sustainable economic growth. BOT always aims to identify and offer the best possible financial solutions to government and industry, and to support Taiwan in maintaining a robust economy, which thrives on creativity, innovation and technology.

At the end of 2019, the capital of the BOT was NT\$109 billion and its assets amounted to over NT\$5.0 trillion. Its deposits and loans accounted for 9.82% and 9.17%, respectively, of the total figure for domestic banks. According to The Banker magazine's Top 1000 World Banks 2019, as published in its July 2019 issue, the BOT ranked 124th in total assets and ranked 200th in terms of Tier 1 capital in the global banking industry.



BOT held an awards ceremony for the Painting Division of the 2019 Bank of Taiwan Arts Festival on June 25, 2019. Posing here for a photo with the award winners were BOT Chairman Joseph Jye-Cherng Lyu (4th from the right, back row), BOT President Ye-Chin Chiou (Leftmost, back row), and the jurors.



Corporate Governance Report

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II. Directors, Supervisors, Top Management, and Advisers

III. Implementation of Corporate Governance

53 IV. CPA Information

V. Number of Shares in the Same Reinvested Enterprises Held by the Bank 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

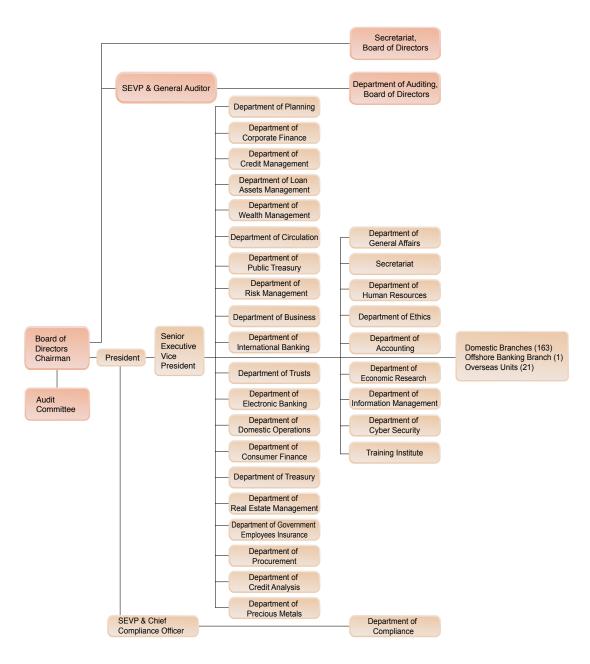


Corporate Governance Report

I. Organization

At the end of March 2020, the Bank'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 21 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, Manila Representative Office, Ho Chi Minh City Representative Office, Jakarta Representative Office and Kuala Lumpur 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, legal affairs, and FinTech innovations.
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, examination, 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, and the 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, research and development, 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 related to 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 teachers.
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, and development and establishment of information systems.
Department of Compliance	Handles the planning, management, and execution of the regulatory compliance system, antimoney laundering, and countering terrorism.
Department of Cyber Security	Responsible for the formulation, planning and implementation of cyber security systems.
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

(1) Information on Directors and Supervisors

Mar. 31, 2020

Title	Name	Gender	Date Elected	Date First Elected	Education and Career	Positions Currently Held in the Bank and Other Companies
Chairman	JOSEPH JYE-CHERNG LYU	Male	Aug. 3, 2018	Aug. 31, 2016	Master of Management, Kellogg School, Northwestern University, U.S.A. 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 Board Director, Taiwan Stock Exchange Corporation Board Director, Taiwan Futures Exchange Corporation Board Director, Joint Credit Information Center Board Director & Vice President, Chunghwa Telecom Co., Ltd. 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 Futures Exchange Corporation Supervisor, Taiwan External Trade Development Council Board Director, Joint Credit Information Center Board Director, Taiwan Academy of Banking and Finance Distinguished Chair Professor, School of Management, National Sun Yat-Sen University Adjunct Professor, School of Technology Management, National Tsing Hua University Board Director, National Culture and Arts Foundation
Managing Director	CHIOU, YE-CHIN	Female	Aug. 20, 2018	Aug. 20, 2018	B.A. of Dept. of Economics, National Taiwan University Senior Executive Vice President, Bank of Taiwan Director, Mega Financial Holding Co., Ltd. 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, Taiwan Financial Holding Co., Ltd. Director, Taipei Forex Inc. Director, Taiwan Small & Medium Enterprise Counseling Foundation Director, The Bankers Association of the Republic of China Director, Taipei Interbank Money Center, The Bankers Association of the Republic of China Chairman of the Board, The Bankers Association of Taiwan Adviser, The Bankers Association of Taipei
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, Grand Cathay Venture Capital Co., Ltd.

Title	Name	Gender	Date Elected	Date First Elected	Education and Career	Positions Currently Held in the Bank and Other Companies
Managing Director	JUAN, CHING-HWA	Male Aug. 3, 2018 Aug. 3, 2018 Aug. 4ug. 3, 2018 Aug. 3, 2018 B.A. of Dept. of Law, National Taiwan University B.A. 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	3		Research Fellow, 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	CHANG, CHUNG-YUEH	Male	Nov. 28, 2019	Nov. 28, 2019	Ph.D. in Accounting, University of Houston, U.S.A. Committee Member, Securities Listing Review Committee, Taiwan Stock Exchange Corporation (TWSE) Non-Member Supervisor, Securities Investment Trust and Consulting Association (SITCA) of the R.O.C.	Professor, Dept. of Accounting, National Taipei University Member, Audit Committee, Bank of Taiwan Director, Taipei Exchange (TPEx) Supervisor, Legal Aid Foundation
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 R.O.C, Central American Bank for Economic Integration Alternate Governor for the R.O.C, Asian Development Bank



Title	Name	Gender	Date Elected	Date First Elected	Education and Career	Positions Currently Held in the Bank and Other Companies
Director	HUANG, SHU-JUAN	Female	Feb. 20, 2020	Feb. 20, 2020	M.A. in Graduate Institute of National Development, National Taiwan University Chief Secretary, Directorate-General of Budget, Accounting and Statistics, Executive Yuan, R.O.C. (Taiwan) Director, Department of Planning, Directorate- General of Budget, Accounting and Statistics, Executive Yuan, R.O.C. (Taiwan) Supervisor, Taiwan Tobacco and Liquor Corporation	Director, Department of Special Fund Budget, Directorate-General of Budget, Accounting and Statistics, Executive Yuan, R.O.C. (Taiwan) Supervisor, Small and Medium Enterprise Credit Guarantee Fund of Taiwan
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 Commissioner, Central Election Commission
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

Note: 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 (10.9 billion shares). The Ministry of Finance holds 100% of shares of the Taiwan Financial Holding Co., Ltd. (10.3125 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 position of chairperson, president, or another equivalent position (highest managerial position) is neither held by the same person nor by spouses or relatives within the first degree of kinship.
- 5. The terms of all directors will expire on August 2, 2021.
- 6. All directors are of R.O.C. nationality.

(2) Major Shareholders of the Institutional Shareholders

Mar. 31, 2020

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

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

Mar. 31, 2020

Criteria		ing Professional Qualification tt Least Five Years Work Expe					Ind	ерє	nde	enc	e Cı	iter	ia (I	Note	s)	
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	1	2	3	4	5	6	7	8	9	10	11	12	Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
JOSEPH JYE- CHERNG LYU	V		V	٧		٧	٧		V	٧	٧	٧	٧	٧		0
CHIOU, YE-CHIN			V	٧		٧	٧		٧	٧	٧	٧	٧	٧		0
TSAI, MING-FANG	V			٧	V	V	V	V	V	V	V	٧	V	V	Taiwan Financial	2 (Taiwan Financial Holding Co., Ltd.& United Renewable Energy Co., Ltd.)
JUAN, CHING-HWA			V	٧	٧	٧	٧		٧	٧	٧	٧	٧	٧	Holding	0
CHANG, JUIN-JEN	V			٧	٧	٧	٧	٧	٧	٧	٧	٧	٧	٧	Co., Ltd.	0
CHEN, MING-CHIN	V	V	V	٧	V	V	V	V	V	V	V	V	V	V	holds 100% of shares of the Bank and	2 (TaiMed Biologics Inc. & Ruentex Materials Co., Ltd.)
CHANG, CHUNG- YUEH	V			٧	٧	٧	٧	٧	٧	٧	٧	٧	٧	٧	assigned all	0
CHEN, NAN-KUANG	V			٧		٧					٧	٧	٧	٧	directors.	0
HUANG, SHU-JUAN			V	٧				٧			٧	٧	٧	٧		0
HO, YI-CHENG	V			٧	_	٧		٧			٧	٧	٧	٧		0
HSU, HUI-FENG	V	V		٧	٧	٧	٧	٧	٧	٧	٧	٧	٧	٧		0
WU, TE-JEN			V		٧	٧	٧	V	٧	٧	٧	٧	٧	٧		0
LIN, CHENG-TAN			V		٧	٧	٧	V	٧	٧	٧	٧	٧	٧		0

Note: 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. Is not a director or supervisor of the Bank or any of its affiliates. (However, this provision shall not apply to any person who serves concurrently as an independent director [appointed in accordance with the provisions of the Securities and Exchange Act or the legislation of a foreign host jurisdiction] at the Bank and its parent company, a subsidiary of the Bank, or a subsidiary of the Bank's parent company.)
- 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. Is not a manager as set out in point 1 above, and is not a spouse, a relative within the second degree of kinship, or lineal relative within the third degree of kinship as set out in points 2 and 3 above.
- 5. Is not a director, supervisor, or employee of a juristic person shareholder that: (a) either directly holds 5 percent or more of the total outstanding shares of the Bank, or (b) is one of the top five juristic person shareholders of the Bank. Also, is not a director, supervisor, or employee of a juristic person shareholder that has appointed a representative to serve as a director or supervisor at the Bank pursuant to Article 27, paragraph 1 or 2 of the Company Act. (However, these provisions shall not apply to any person who serves concurrently as an independent director [appointed in accordance with the provisions of the Securities and Exchange Act or the legislation of a foreign host jurisdiction] at the Bank or its parent company, a subsidiary of the Bank, or a subsidiary of the Bank's parent company.)
- 6. Is not a director, supervisor, or employee of another company that is controlled by the same party that controls more than half of the Bank's director seats or holds more than half of the Bank's voting shares. (However, this provision shall not apply to any person who serves concurrently as an independent director [appointed in accordance with the provisions of the Securities and Exchange Act or the legislation of a foreign host jurisdiction] at the Bank or its parent company, a subsidiary of the Bank, or a subsidiary of the Bank's parent company.)
- 7. Is not a director, supervisor, or employee of another company where the position of chairman, president, or another equivalent position is concurrently held at the Bank by the same person or by his/her spouse. (However, this provision shall not apply to any person who serves concurrently as an independent director [appointed in accordance with the provisions of the Securities and Exchange Act or the legislation of a foreign host jurisdiction] at the Bank or its parent company, a subsidiary of the Bank, or a subsidiary of the Bank's parent company.)
- 8. 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. (However, this provision shall not apply to any specified company or institution that holds 20% to 50% of the Bank's issued and outstanding shares, and serves concurrently as an independent director [appointed in accordance with the provisions of the Securities and Exchange Act or the legislation of a foreign host jurisdiction] at the Bank and its parent company, a subsidiary of the Bank, or a subsidiary of the Bank's parent company.)
- 9. Is not a professional individual (or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution) that provides auditing services to the Bank or any affiliate of the Bank, or that provides commercial, legal, financial, accounting, or related services to the Bank or any affiliate of the Bank for which the provider in the past two years has received cumulative compensation not exceeding NT\$500,000, or a spouse thereof; provided, however, that this restriction does not apply to a member of the remuneration committee, public tender offer review committee, or special committee for merger/consolidation and acquisition, who exercises powers pursuant to the Securities and Exchange Act or to the Business Mergers and Acquisitions Act or related laws or regulations.
- 10. Not having a marital relationship, or a relative within the second degree of kinship, to any other director of the Bank.
- 11. Not a person of any condition defined in Article 30 of the Company Act.
- 12. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Act.

2. Top Management

Mar. 31, 2020

Title	Name	Gender	Date Effective	Education	Other Position					
President	CHIOU, YE-CHIN	Female	Aug. 20, 2018	Dept. of Economics, National Taiwan University	Director, Taiwan Financial Holding Co., Ltd. Director, Taipei Forex Inc. Director, Taiwan Small & Medium Enterprise Counseling Foundation Director, The Bankers Association of the Republic of China Director, Taipei Interbank Money Center, The Bankers Association of the Republic of China Chairman of the Board, The Bankers Association of Taiwan Adviser, The Bankers Association of Taipei					
Senior Executive Vice President	HSU, CHIH-WEN	Male	Apr. 23, 2018	Dept. of Economics, Soochow University	Director, Hua Nan Commercial Bank, Ltd. Supervisor, Taiwan Small & Medium Enterprise Counseling Foundation					
Senior Executive Vice President	KANG, FAN	Female	July 20, 2018	Master of Economics, Indiana State University	Director, First Financial Holding Co., Ltd. Director, Tea Industry Co., Ltd. joint venture in China Director, Trust Association of R.O.C. Director, Administration and Training Committee, Trust Association of R.O.C. Director, Financial Planning Association of Taiwan					
Senior Executive Vice President	LIN, LI-LING	Female	Nov. 30, 2018	Dept. of Banking, National Chengchi University	Director, Taiwan Business Bank					
Senior Executive Vice President & Chief Corporate Governance Officer	dent & porate PAN, RONG-YAW		July 5, 2019	Master of Public Finance, National Chengchi University	Director, BankTaiwan Securities Co., Ltd. Executive Secretary, Taipei Interbank Money Center, The Bankers Association of the Republic of China					
Senior Executive Vice President	JU, YEUNG-RONG	Male	July 5, 2019	Master of Computer Science, Asian Institute of Technology	Chief Information Officer of Taiwan Financial Holding Co., Ltd. Director, Financial eSolution Co., Ltd. Chairman, Banking Automation Committee, The Bankers Association of the Republic of China Member, Certificate Policy Management Committee, The Bankers Association of the Republic of China Member, Financial Information Systems Interbank Business to Participate in the Statute of the Executive Committee, Financial Information Service Co., Ltd.					
Senior Executive Vice President & Chief Compliance Officer	LIN, SU-LAN	·		Master of Laws, The University of New South Wales	Chief Compliance Officer of Taiwan Financial Holding Co., Ltd. Member, Financial Regulations and Disciplinary Committee, The Bankers Association of the Republic of China					
Senior Executive Vice President & General Auditor	LEE, LI	Female	Apr. 16, 2019	Master of International Trade, National Chengchi University	Director, Taiwan Financial Asset Service Corporation Member, Internal Audit Committee, The Bankers Association of the Republic of China					

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

- 2. None of the top management is the spouse of, or related within the second degree of kinship to, any head of department.
- 3. The Bank's president or a person holding an equivalent post (i.e. the highest executive officer) and its chairperson are not the same person, spouses, or relatives within the first degree of kinship.
- 4. All the senior officials are of R.O.C. nationality.

3. Remuneration of Directors, Supervisors, President, and Senior Executive Vice Presidents for 2019

(1) Remuneration of Directors

Unit: NT\$1,000

			Remuneration							Ratio (of Total	Relev		nuneratio o are Als		ved by Di byees	rectors	Ratio	of Total	Rei
		Compe	ase ensation A)			Bonus to Allowan Directors (D) (C) (Note		D)	Remuneration (A+B+C+D) to Net Income After Tax (%)		Boni ai Allow	and P		rance ay F)	Employee Bonus (G)		Compensation (A+B+C+D+E+F+G) to Net Income After Tax (%)		nvested Enterprise	
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 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	Reinvested Enterprises other than the Bank's Subsidiary or the Parent Company
			ents		ents		ents		ents		ents	ents	ents		ents	Stock Cash	Stock Cash		ents	npany
Chairman	JOSEPH JYE-CHERNG LYU																			
Managing Director	CHIOU, YE-CHIN																			
Managing Director	JUAN, CHING-HWA																			
Managing Director	CHANG, JUIN-JEN																			
Director	CHEN, NAN-KUANG	3,780	3,780	No	one	No	ne	1,920	1,920	0.05%	0.05%	6,940	6,940	350	350	No	ne	0.12%	0.12%	636
Director	LU, CHIOU-SHIANG																			
Director	CHEN, CHUAN-HSI																			
Director	HO, YI-CHENG																			
Director	HSU, HUI-FENG																			
Director	LIN, CHENG-TAN																			
Director	WU, TE-JEN																			
Independent Managing Director	TSAI, MING-FANG																			
Independent Director	CHEN, MING-CHIN	None	None	No	one	No	one	633	633	0.006%	0.006%	None	None	None	None	No	one	0.006%	0.006%	360
Independent Director	WANG, YANZHI		e None None								None		None		ne None					
Independent Director	CHANG, CHUNG-YUEH																			

Please describe policies, standards, and packages for payment of remuneration to independent directors, and describe how the duties, risks, and time spent on the job by each such director are correlated with the amount of remuneration: BOT is a 100% government-owned bank. As such, the standards governing remuneration of its independent directors are adopted in accordance with the rules issued by the Ministry of Finance, and the independent directors exercise their powers in accordance with the provisions of the "Audit Committee Charter of the Bank of Taiwan" and the "Bank of Taiwan Rules Governing the Scope of Powers of Independent Directors."

Note:1. Chairman Joseph Jye-Cherng Lyu was not provided with an official residence; the monthly expense for the chauffeur was NT\$42,379.

^{2.} In view of the fact that President Chiou, Ye-Chin was not provided with an official residence, a supplemental home rental stipend of NT\$60,000 was provided in 2019; the gasoline fee was NT\$67,532; 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\$42,379.

		Name of	Directors	
Bracket	Total of (A	\+B+C+D)	Total of (A+B+	+C+D+E+F+G)
Bradio.	The Bank	Companies in the Consolidated Financial Statements	The Bank	The Parent Company and Reinvested Enterprises
Under NT\$1,000,000	CHIOU, YE-CHIN JUAN, CHING-HWA CHANG, JUIN-JEN TSAI, MING-FANG CHEN, MING-CHIN WANG, YANZHI CHANG, CHUNG-YUEH LU, CHIOU-SHIANG HSU, HUI-FENG HO, YI-CHENG CHEN, CHUAN-HSI CHEN, NAN-KUANG LIN, CHENG-TAN WU, TE-JEN	CHIOU, YE-CHIN JUAN, CHING-HWA CHANG, JUIN-JEN TSAI, MING-FANG CHEN, MING-CHIN WANG, YANZHI CHANG, CHUNG-YUEH LU, CHIOU-SHIANG HSU, HUI-FENG HO, YI-CHENG CHEN, CHUAN-HSI CHEN, NAN-KUANG LIN, CHENG-TAN WU, TE-JEN	JUAN, CHING-HWA CHANG, JUIN-JEN TSAI, MING-FANG CHEN, MING-CHIN WANG, YANZHI CHANG, CHUNG-YUEH LU, CHIOU-SHIANG HSU, HUI-FENG HO, YI-CHENG CHEN, CHUAN-HSI CHEN, NAN-KUANG	JUAN, CHING-HWA CHANG, JUIN-JEN TSAI, MING-FANG CHEN, MING-CHIN WANG, YANZHI CHANG, CHUNG-YUEH LU, CHIOU-SHIANG HSU, HUI-FENG HO, YI-CHENG CHEN, CHUAN-HSI CHEN, NAN-KUANG
NT\$1,000,000 ~ NT\$2,000,000			LIN, CHENG-TAN WU, TE-JEN	LIN, CHENG-TAN WU, TE-JEN
NT\$2,000,000 ~ NT\$3,500,000				
NT\$3,500,000 ~ NT\$5,000,000	JOSEPH JYE- CHERNG LYU	JOSEPH JYE- CHERNG LYU	JOSEPH JYE- CHERNG LYU CHIOU, YE-CHIN	JOSEPH JYE- CHERNG LYU CHIOU, YE-CHIN
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)	6,333	6,333	13,623	14,619

(2) Compensation of President and Senior Executive Vice Presidents

Unit: NT\$1,000

		Sal (/	lary A)		rance ′(B)	Allow	es and ances C)		Вс	oloye onus D)	e	Compe (A+B- to Net	of Total nsation +C+D) Income (ax (%)	Re
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	The Bank	Companies in the Consolidated Financial Statements	Reinvested Enterprises other than the Bank's Subsidiary or the Parent Company
								Cash	Stock	Cash	Stock			
President	CHIOU, YE-CHIN													
Senior Executive Vice President	HSIEH, CHUAN- CHUAN	-												
Senior Executive Vice President	HUANG, JUI-MU													
Senior Executive Vice President	LIN, CHUN-LIANG													
Senior Executive Vice President	HSU, CHIH-WEN													
Senior Executive Vice President	KANG, FAN													
Senior Executive Vice President	LIN, LI-LING	14,802	14,802	1,184	1,184	9,224	9,224		N	one		0.23%	0.23%	1,538
Senior Executive Vice President	JU,YEUNG-RONG													
Senior Executive Vice President	PAN, RONG-YAW													
SEVP & Chief Compliance Officer	LIN, SU-LAN													
SEVP & General Auditor	CHEN, YING-KUEI													
Substitute SEVP & General Auditor	LU, CHUN-CHEN													
SEVP & General Auditor	LEE, LI													

	Name of President and Senior Executive Vice Presidents				
Bracket	The Bank	The Parent Company and Reinvested Enterprises			
Under NT\$1,000,000	HSIEH, CHUAN-CHUAN HUANG, JUI-MU CHEN, YING-KUEI LU, CHUN-CHEN	HSIEH, CHUAN-CHUAN HUANG, JUI-MU CHEN, YING-KUEI LU, CHUN-CHEN			
NT\$1,000,000 ~ NT\$2,000,000	JU,YEUNG-RONG PAN, RONG-YAW LEE, LI	JU,YEUNG-RONG PAN, RONG-YAW			
NT\$2,000,000 ~ NT\$3,500,000	LIN, CHUN-LIANG HSU, CHIH-WEN KANG, FAN LIN, LI-LING LIN, SU-LAN	LIN, CHUN-LIANG HSU, CHIH-WEN KANG, FAN LIN, LI-LING LIN, SU-LAN LEE, LI			
NT\$3,500,000 ~ NT\$5,000,000	CHIOU, YE-CHIN	CHIOU, YE-CHIN			
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)	25,210	26,748			

III. Implementation of Corporate Governance

1. Board of Directors

A total of 14 meetings (A) of the Board of Directors were held in 2019. 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	14	0	100	
Managing Director	CHIOU, YE-CHIN	14	0	100	
Independent Managing Director	TSAI, MING-FANG	13	1	93	
Managing Director	JUAN, CHING-HWA	11	3	79	
Managing Director	CHANG, JUIN-JEN	13	1	93	
Independent Director	CHEN, MING-CHIN	13	1	93	
Independent Director	CHANG, CHUNG-YUEH	0	0	-	Assumed on Nov. 28, 2019
Independent Director	WANG, YANZHI	8	3	73	Relieved on Sep. 1, 2019
Director	CHEN, NAN-KUANG	12	2	86	
Director	LU, CHIOU-SHIANG	11	3	79	
Director	CHEN, CHUAN-HSI	11	3	79	
Director	HO, YI-CHENG	12	2	86	
Director	HSU, HUI-FENG	11	3	79	
Labor Director	WU, TE-JEN	13	1	93	
Labor Director	LIN, CHENG-TAN	14	0	100	

Other mentionable items:

- 1. 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:

 At the 10th meeting of the 6th Board of Directors on May 10, 2019, an approval of the loan to BankTaiwan Securities Co., Ltd.: All Directors in attendance agreed to pass the proposal except for Director Ho, Yi-Cheng, who exercised recusal because she was considered interested person in this matter.
- 3.TWSE/TPEx-listed companies are required to disclose the cycles, periods, scope, methods, and content of self-assessments (or peer-to-peer assessments) carried out by their board members, and the state of their implementation: The Bank is not listed on the TWSE or the TPEx, so this item is not applicable.
- 4. 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, the Bank 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 10 Audit Committee meetings (A) were held in 2019. 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	TSAI, MING-FANG	9	1	90	
Independent Director	CHEN, MING-CHIN	10	0	100	
Independent Director	WANG, YANZHI	7	3	70	Relieved on Sep. 1, 2019
Independent Director	CHANG, CHUNG-YUEH	0	0	-	Assumed on Nov. 28, 2019

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) The Bank 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 43 to 45 of the Chinese annual report.
- (2) A. At the 13th meeting of the 6th Board of Directors on Sep. 27, 2019
 - a. The Board discussed a plan for the Bank to sell on the secondary market claims of its overseas branches against overdue accounts.
 - b. The Board discussed two loans to interested parties of the Bank
 - B. At the 14th meeting of the 6th Board of Directors on Nov. 8, 2019
 - a. Approved the Bank's financial reports for 2019 Q3, audited by a CPA.
 - b. The Bank's 2019 Q3 risk monitoring report.
 - c. Discussed the "2019 Risk Assessment Report for Audited Units" and the "2020 Audit Plan."
 - d. Discussed the Bank's 2020 internal audit work inspection plan (securities firm business).
 - e. Approved the Bank's annual Legal Compliance Report and AML/CFT report for the 2020.
 - f. Discussed the Bank's handling of its 2019 land-backed capital increase
 - g. Discussed a plan for the Bank to sell claims of its overseas branches against overdue accounts
 - h. Discussed continued provision of "outsourced information system services" in 2020 to the following interested parties of the Bank: Taiwan Financial Holding Co., BankTaiwan Life Insurance Co., BankTaiwan Securities Co., and BankTaiwan Insurance Brokers Co.
 - i. Discussed one loan to an interested party of the Bank.
- 2. 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 2018; (b) Internal Control Statement in 2018; (c) a report on auditing work for the first half of 2019; and (d) auditing work plan for 2020.
- (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 2018; (b) financial reports of 2018; (c) the financial report for the first quarter of 2019; (d) the financial report for the second quarter of 2019; and (e) the financial report for the third quarter of 2019.
- (3) In order to reinforce corporate governance and business operations, seminars were held on an irregular basis to discuss the specific topics with business units. Relevant executives were invited to the Audit Committee's office on an irregular basis, and talks were held via telephone, to discuss important issues.
- (4) A total of 10 Audit Committee meetings were called, 3 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 Banks"

	Implementation Status				
Matters Evaluated	Υ	N	Summary Description		
Shareholding Structure and Shareholders' Rights (1) 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?	V		(1) The Bank has been declared by the competent authority to be a public company limited by shares, but it has not yet carried out a public offering of shares. 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.		
(2) Does the Bank know the identities of the main controlling shareholders, and of the ultimate controlling shareholder?(3) Has the Bank established a risk management mechanism and "firewall" between the Bank and its affiliates? Is it implementing them?			 (2) The Bank is a subsidiary of the state-owned Taiwan Financial Holding Co., Ltd. (whose sole owner is the Ministry of Finance). (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. Disposals of real estate have all been conducted in accordance with the Banking Act, regulations issued by the competent authority, and the Bank's own internal control rules. 		
 2. Composition and Responsibilities of the Board of Directors (1) In addition to the Remuneration Committee and the Audit Committee, is the Bank willing to establish other function-specific committees? (2) Does a TWSE/TPEx listed company adopt board performance evaluation rules, set out requirements on the evaluation method, conduct annual performance evaluations, report the performance evaluation results to the Board of Directors, and use the results as reference when setting the remuneration of individual directors and nominating them for extension of appointment? (3) Does the Bank carry out regular evaluations of CPA independence? 	V	v	 (1) 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 Bank 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. (2) The Bank is not a TWSE/TPEx listed company. (3) The Bank is not a TWSE/TPEx listed company. (4) The Bank is not a TWSE/TPEx listed company. (5) The Bank is not a TWSE/TPEx listed company. (6) The Bank is not a TWSE/TPEx listed company. (7) The Bank is not a TWSE/TPEx listed company. (8) The Bank is not a TWSE/TPEx listed company. (9) The Bank is not a TWSE/TPEx listed company. (10) The Bank is not a TWSE/TPEx listed company. (11) The Bank is not a TWSE/TPEx listed company. (12) The Bank is not a TWSE/TPEx listed company. (13) The Bank is not an affiliated enterprise of the Bank. 		

			Implementation Status
Matters Evaluated	Υ	N	Summary Description
Does the Bank have an adequate number of corporate governance personnel with appropriate qualifications and appoint a chief corporate governance officer as the most senior officer to be in charge of corporate governance affairs?	V		In response to an amendment to the "Corporate Governance Best-Practice Principles for Banks," the Bank's Board of Directors on May 10, 2019 adopted a resolution declaring that the position of chief corporate governance officer would be held concurrently by Chen, Han-Kuo, the head of the Department of Planning's Legal Affairs Center. Then on January 10, 2020 the Board of Directors adopted a resolution appointing a new chief corporate governance officer, with the position to be held concurrently by Pan, Rong-Yaw, who concurrently holds the positions of Senior Executive Vice President and Secretary General of the Board of Directors.
4. Has the Bank established a communication channel with interested parties? Does it provide a designated section for stakeholders on the company website, and respond appropriately when stakeholders raise concerns about important issues relating to corporate social responsibility?	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 Chairman's Mailbox, President's Interchange, and employees' discussion area as channels for employee suggestions. The Bank's website has designated sections for corporate governance, corporate social responsibility, and stakeholders. These website sections can be used to provide contact information for the company spokesperson, serve as a contact window for customers, and be used by the spokesperson for external communications. This enables the Bank to respond appropriately when stakeholders raise concerns about important issues relating to corporate social responsibility.
5. Information Disclosure (1) Has a corporate website been established to disclose information regarding the Bank's financial, business, and corporate governance estatus?	٧		(1) The Bank's website (https://www.bot.com.tw) regularly discloses information on finance, business, and corporate governance.
status? (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.
(3) Does the Bank, acting within the prescribed period of time after the end of each fiscal year, comply with the applicable provisions of the Banking Act and the Securities and Exchange Act by announcing and filing an annual financial report? And does it publish and report its financial reports for the first, second and third quarters as well as its operating status for each month before the specified deadline?	V		(3) As a publicly held bank, BOT announces and files its financial reports in accordance with the provisions of the "Regulations Governing the Applicable Scope of Special Circumstances for the Public Announcement and Filing of Financial Reports and Operational Status Reports by Public Companies." These Regulations were adopted pursuant to Article 36, paragraph 2 of the Securities and Exchange Act and issued on October 2, 2012.

			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)?			 The Bank 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. 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. 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." The Bank appointed a chief corporate governance officer on May 10, 2019 and modified "BOT Corporate Governance Best-Practice Principles" on July 5, 2019. 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 Banks." Implementation of Risk Management Policy and Risk Measurement Standards: 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. In compliance with FSC rules, the Bank has implemented Pillars 1, 2, and 3 of Basel Accord. The Bank has worked out a risk management policy, regulations for the establishment of a Risk Management Committee, internal criteria for operationa		

		Implementation Status				
Matters Evaluated	Υ	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		 (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 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." (5) To govern the handling of exercise by customers of rights set out in the "Personal Data Protection Act," the Bank has adopted a set of "Operational Guidelines Regarding Exercise by Customers of Rights Under the Personal Data Protection Act." 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 and Supervisors: The Bank has not purchased liability insurance for its Directors. The Bank has not purchased liability insurance for its Directors. The Bank has not purchased liability			

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

The Bank has not established a Remuneration Committee.

5. Social Responsibility Execution Status and Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies"

Matters Evaluated		Implementation Status				
		N	Summary Description			
Does the Bank conduct risk assessments and risk management policies or strategies related to environmental, social, and corporate governance issues in accordance with the materiality principle? Has it adopted related risk assessments and risk management policies or strategies?			The Bank identifies and analyzes material issues based on the principles of stakeholder inclusiveness, sustainability context, materiality, and completeness. The Bank also collects information on issues of concern to peer institutions and various types of stakeholders, and after comprehensive review of this information the Bank identifies operating performance and other material issues of concern, which various units at the head office evaluate in order to set an order of priority. On the basis thereof, units at the head office and at branches adopt management strategies for maintaining good communications, then they review how implementation of the strategies has benefited the Bank.			
2. 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	The Bank 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.			
3. Environmental Issue						
(1) Has the Bank established an appropriate environmental management system that is suited to the characteristics of the banking industry?			(1) The Bank has established an Environmental Management System for the environmental beautification and maintenance of cleanliness.			
(2) Does the Bank make efforts to enhance the efficiency of resource utilization, and use recyclable materials with a low environmental burden?	V		(2) 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, 91.06% were obtained in line with green purchasing principles in 2019.			
(3) Does the Bank evaluate the impact of climate change upon its current and future potential risks and opportunities? Has it adopted climate change response measures?			(3) To better promote environmental protection, ethical business practices, and corporate social responsibility, when the Bank adopted a set of rules governing enterprise credit ratings in December 2010, it had already incorporated concepts from the Equator Principles into its scoring form, which includes "Implementation of Corporate Social Responsibility" as a scoring criterion. The Bank assesses CSR performance on the basis of the following three principles: "Implementation of Corporate Governance," "Environmental Sustainability," and "Preservation of the Public Good." Based on the resulting scores, the Bank prepares credit ratings that serve as reference for credit investigation and review work as well as interest rate pricing.			
(4) Does the Bank compile statistics on greenhouse gas emissions, water consumption, and total weight of waste over the past two years? Has it adopted policies on energy conservation and carbon reduction, reduction of greenhouse gas emissions, reduction of water consumption, and management of other types of waste?			(4) The Bank continued implementing the government's policy of energy conservation and carbon reduction. The reductions during the year 2019 amounted to 6.83% for electricity and 1.32% for fuel consumption.			

Matters Evaluated			Implementation Status	
ivialiers Evalualeu	Υ	N	Summary Description	
4. Community Issue (1) Has the Bank adopted policies and procedures in accordance with applicable legislation and international human rights conventions?	V		 In order to safeguard the rights and interests of management and labor, the Bank has adopted work rule compliance with the Labor Standards Act and other legisl governing civil servants. 	es in
(2) Has the Bank adopted and implemented reasonable employee benefit measures (including salary and compensation, leave, and other benefits)? Does it appropriately reflect operating performance or results in employees' salary and compensation?	V		2) The Bank handles employee interests in compliance with Labor Standards Act, other labor legislation, and applic regulations issued by the competent authorities. It has a systems for administering such matters (e.g. promot and transfers; performance evaluations; employee ben retirement benefits), and is able to implement those sys properly. The Bank's employee salaries are handle accordance with the "Directions for Management of Person Expenditures and Salaries at Enterprises and Institutes by the Ministry of Finance" and the "Rules Governing Sadjustments for Employees of Banks Owned by the Min of Finance." In addition, the Bank has adopted rules gover the issuance of performance bonuses, which ensure operating results will be appropriately reflected in employ salary and compensation.	cable good tions efits; tems ed in onnel Run alary nistry rning that
(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 environs for employees. The Bank also offers employees regular s and health education: Newly hired employees attend t hours of ordinary safety and health education and train existing employees attend at least three hours of on-the safety and health education and training once every tyears; first-aid personnel attend at least three hours of the-job safety and health education and training once ethree years; occupational safety and health officers atter least six hours of on-the-job safety and health education training once every two years; and occupational safety health administrators attend at least 12 hours of on-the safety and health education and training once every two years; and occupational safety health administrators attend at least 12 hours of on-the safety and health education and training once every two years.	afety three ning; e-job three of on- every nd at a and a and e-job
(4) Has the Bank established a career skills development program for its employees?	V		The Bank adopts an employee training program each which includes courses and lectures focusing on var professional and managerial topics. In addition, the Bank dispatches employees to attend external professional training.	rious also
(5) In its marketing and labeling of products and services, does the Bank comply with applicable legislation and international standards regarding customer health, safety, and privacy? Has the Bank adopted policies regarding the protection of consumer interests? Has it established complaint procedures?	V		A. In order to build and implement a corporate culture values customer safeguards, the Bank has adopted of "Policies and Strategies Regarding the Principle Fair Treatment of Consumers" in line with the Fina Supervisory Commission's "Principles for Fair Treatment Consumers by Financial Services Enterprises." The last also taken various measures to safeguard custor interests, including the following: adopting strate for implementation of the principles for fair treatment consumers in the conduct of different business; "Customate Rights Statement for Use in the Sale of Financial Product and "Customer Rights Statement for Use in the Conduct Wealth Management Business." B. In order to effectively safeguard the rights of customates set out in the Personal Data Protection Act, the I has adopted a set of "Operational Guidelines Regares Exercise by Customers of Rights Under the Personal Protection Act," which governs the procedures to followed by the various BOT business units when customs.	a set as for ancial ent of Bank comer egies ent of comer aucts"; auct of mers Bank rding sonal to be mers
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Mallaco Fredricked		Implementation Status				
Matters Evaluated	Υ	N	Summary Description			
(5) In its marketing and labeling of products and services, does the Bank comply with applicable legislation and international standards regarding customer health, safety, and privacy? Has the Bank adopted policies regarding the protection of consumer interests? Has it established	V		C.Before designing, updating, and marketing its products, and before adopting standard form contracts, the Bank first arranges for its Department of Compliance to conduct a compliance review and a consumer protection self-evaluation to ensure compliance with the applicable provisions of the Consumer Protection Act.			
complaint procedures?			D. When there is a customer complaint or a consumer financial dispute, the Bank handles the matter appropriately in accordance with the Bank's "Operational Guidelines for the Handling of Customer Complaints and Disputes." For wealth management business, in addition to the above-mentioned 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."			
(6) Has the Bank adopted supplier management policies that require suppliers to comply with legal requirements governing such matters as environmental protection, occupational safety and health, and labor rights? What is the state of implementation of these policies?	V		(6) The Bank manages its suppliers in accordance with standard form procurement contracts issued by the Public Construction Commission. The Bank's procurement contracts expressly provide that "if the supplier violates legal requirements governing environmental protection or occupational health and safety," the Bank has the right to terminate or rescind the contract. The procurement contracts also include "Protection of Labor Rights" provisions that require suppliers to perform their duty to safeguard labor rights in accordance with contractual stipulations.			
5. Does the Bank follow internationally recognized standards or guidelines when preparing and publishing reports (such as its corporate social responsibility report) that disclose non-financial information of the company? Does the Bank obtain a third-party verification institution's confirmation or guarantee for such reports?	V		1. In order to fulfill its corporate social responsibility, the Bank since 2012 has prepared annual corporate social responsibility reports to periodically disclose its non-financial performance. These reports are prepared in accordance with the "GRI Sustainability Reporting Standards." In addition, the reports are prepared in accordance with the "GRI Standards: Core option" and include a GRI content index.			
			Financial data disclosed in CSR reports come from consolidated financial reports that have been audited and attested by KPMG Certified Public Accountants in accordance with the International Financial Reporting Standards (IFRS). However, the Bank does not obtain a third-party verification institution's confirmation or guarantee of the financial data in such reports. Compared Social Responsibility rules in accordance with the "Corporate Social Responsibility rules in accordance with t			

- 6. 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 Bank is not a TWSE/GTSM listed company, and has not compiled its own corporate social responsibility rules.
- 7. 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 Bank carried out the following social benefit activities in 2019:
 - A. The Bank held three blood drives in 2019 on January 30, May 24, and November 14. During each blood drive, both senior management and rank-and-file employees were encouraged to give blood, thus helping to ensure plentiful blood reserves for those in need. By setting a positive example, the Bank aimed to elicit blood donations from the general public.
 - B. March 9, 2019: The Bank 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\$1,450,000, all of which was donated to the Taiwan Guide Dog Association.

Matters Evaluated		Implementation Status				
	Υ	N	Summary Description			

- C. March 28, March 30, and April 5, 2019: The Bank of Taiwan's professional basketball team held "Home Field Celebrations" at Banqiao Stadium in New Taipei City. These three games were attended by almost 10,000 cheering fans and supporters, and the Bank used the occasions to fulfill its corporate social responsibility.
- D. April 1- May 20, 2019: The Bank again organized the "Youth Painting Division of the 2019 Bank of Taiwan Arts Festival" to solicit paintings. An awards ceremony was carried out on June 25, and the Bank organized a nationwide traveling exhibit for the winning entries.
- E. April 9- August 15, 2019: The Bank once again organized the "Photography Division of the 2019 Bank of Taiwan Arts Festival," the awards ceremony was carried out on November 1.
- F. May 16, 2019: The Bank carried out a ceremony to present the "2018 Bank of Taiwan Awards for Economic and Financial Research" and announced commencement of the solicitation of papers for the "2019 Bank of Taiwan Awards for Economic and Financial Research." By soliciting papers, the Bank is seeking to spur increased research activity among an up-and-coming generation of young scholars, and to propel financial and economic research in Taiwan to a higher level. At the same time, the Bank is helping to build up a deeper pool of research talent in Taiwan so that everyone can work together to establish a shared body of financial and economic knowledge. This is just one more way in which the Bank is seeking to fulfill its corporate social responsibility.
- G. May 18, 2019: The Bank held an environmental protection-themed hike on a walking trail at White Egret Mountain in Taipei City's Neihu District, with participants picking up trash along the trail. The event was an excellent opportunity for the Bank to signal its commitment to preserving the environment and protecting the Earth.
- H. May 22, 2019: The Bank and Franklin Templeton Investments jointly organized an event with a dual focus on community service and personal financial planning. The event featured musical performances by TF Band (a group formed by the Taiwan Foundation for the Blind) and noted blind pianist Yu-Siang Huang. Via this event, the Bank took concrete action to show concern for disadvantaged groups, thus fulfilling its corporate social responsibility and improving its image.
- I. July 3, 2019: Co-workers from the Bank and BankTaiwan Life Insurance held a charitable event at the Hung-Chia Sanctuary Center for the Handicapped, where they made a donation to help the Sanctuary Center replace old ceiling fans and provide a more comfortable environment for children living at the Center.
- J. July 28, 2019: The Bank organized a charity event at the CPBL All-Star game for the 9th straight year, donating a fixed amount of gold to charity for each homer hit during the Home Run Derby. By taking part in the charity event, the athletes and the Bank showed their concern for society. The popularity of the star athletes afforded the event a much higher profile and attracted extra media attention.
- K. August 20, 2019: The Bank and Franklin Templeton Investments jointly organized a community service event that familiarized children with financial planning concepts while simultaneously providing entertainment that communicated the message that "If you believe in yourself and don't give up, all challenges can be overcome." World Vision Taiwan invited 120 children to attend the event along with the Bank's wealth management VIP customers and their children. In inviting the BOT contingent, World Vision Taiwan was expressing its gratitude to the Bank for its long-standing support, and was also recognizing the Bank's serious commitment to fulfilling its corporate social responsibility.
- L. September 19, 2019: The Bank and Taiwan Financial Holding Co., in order to fulfill their corporate social responsibility and provide help to underprivileged groups, visited the Ai-Wei Mercy Home for the Disabled as a show of compassion and concern. While there, they provided a financial donation to fund repairs and maintenance, and to help the Home purchase items such as bathing beds, TVs, and refrigerators, thereby improving the environment and raising the quality of care there.
- M. October 26, 2019: The Music Division of the 2019 Bank of Taiwan Arts Festival organized a performance at the amphitheater in 228 Peace Memorial Park in Taipei, inviting the Herman Band (Taiwan's first band of all blind performers) and the blind pianist Hsu, Che-Cheng to come and perform. At the same time, the Bank joined hands with Syin-Lu Social Welfare Foundation, the Children Are Us Foundation, and the Gofe Sheltered Workshop to produce the "Bank of Taiwan Gift Boxes," which contained delicious hand-made confections. Persons attending the musical performance were encouraged to play quiz games that tested their knowledge of personal financial planning, and those who scored well received a Bank of Taiwan Gift Box.
- N. December 11, 2019: The Bank took part in a charity drive organized by the Chinese Christian Relief Association by supporting the delivery of Christmas gifts to children living in remote areas, and by sending employees on visits to the Taiwan St. Paul Quaker Church to take part in the church's after-school study program. While at the church the BOT visitors distributed Christmas gifts and celebrated the Christmas holiday in advance with the children there. This visit showed the children that someone cares.

6. Status of the Bank's Ethical Management and Deviations from "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies"

Matters Evaluated		Implementation Status	
ivialite is Evaluated	Υ	N	Summary Description
Establishment of Ethical Management Policies and Programs (1) Does the Bank have a Board-approved ethical	V		(1) The Bank holds to an attitude of sincerity in guaranteeing
management policy? Is an ethical management policy clearly expressed in the Bank's charter and public documents? Are its Board of Directors and top management committed to vigorous implementation of that policy?			the principle of putting customer rights first and providing professional services that meet the needs of its customers, and puts "Integrity" at the head of the list of its operating principles.
(2) Does the Bank have a mechanism for assessing the risk of unethical behavior? Does the Bank periodically analyze and assess business activities that pose a relatively high risk of unethical behavior? Has it adopted a program for the prevention of unethical behavior, and does the program include the preventive measures set out in Article 7, paragraph 2 of the "Ethical Corporate Management Best Practice Principles	V		(2) A. The Bank conducts all matters in compliance with the "Civil Servant Work 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. B. Acting in accordance with the "Ethics Guidelines for Civil Congreta" and the "Directions for the Registration of Uncleanted.
for TWSE/GTSM Listed Companies"?			Servants" and the "Directions for the Registration of Incidents Involving Lobbying of the Ministry of Finance or its Agencies or Institutions," The Bank sets out prescribed procedures that employees must observe when they experience an incident with ethical implications—e.g. when someone approaches them with a request, seeks to influence them, gives a gift, or treats them to a meal or drinks.
(3) Has the Bank adopted a program for the prevention of unethical behavior? Does the program expressly set out operating procedures and a code of conduct, provide for punishment of unethical behavior, and establish a system for lodging complaints? Is the program being properly implemented?	V		(3) 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.
Implementation of Ethical Management (1) 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
(2) Does the Bank have a dedicated unit that reports to the Board of Directors and is responsible for promoting ethical business practices? If so, does this unit report periodically (at least once per year) to the Board of Directors on the status of its work to oversee implementation of the ethical management policy and the program for the prevention of unethical behavior?		V	provide compensation if it acts in breach of contract. (2) The Bank has not yet established a dedicated unit that reports to the Board of Directors and is responsible for promoting ethical business practices. The Bank 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.

Matters Evaluated			Implementation Status
Matters Evaluated	Υ	N	Summary Description
(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 Bank'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? Has its internal audit unit, based on the results of its assessment of the risk of unethical behavior, adopted a related audit plan? Based on such audit plan, does the Bank audit its compliance with the program for the prevention of unethical behavior, or retain a certified public accountant to carry out audits?	V		 (4) A. The Bank has adopted an accounting system in accordance with legal requirements and reported it to the Ministry of Finance for forwarding to the Executive Yuan for approval. The Bank has also contracted with KPMG Certified Public Accountants to audit its 2019 financial report and its internal control systems. B. In order to establish a fully adequate internal audit system, the Bank adopts an annual audit plan that complies with the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries" and is based on the risk assessment results generated by the Bank's risk-based internal audit system.
(5) Does the Bank periodically hold in-house or out- of-house education and training sessions that focus on business ethics?	V		 (5) A. In 2019, the Bank held in-house training courses for Ethics Guidelines and discipline rules with a total of 778 trainees participating. B. The Bank held two "Ethics Workshops" in 2019 (on March 25 and October 2). The workshops were attended by a total of 52 participants.
3. The Operation of Whistleblower System (1) 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		 (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. B. In May 2018, the Bank adopted a set of "Internal Whistleblower Program Rules," and in order to further improve its whistleblower system the Bank amended the Rules in January 2020. In addition to expanding the range of whistleblower tips that will be accepted for investigation (including complaints by both insiders and outsiders against BOT personnel), the amended provisions set out procedures for the proper handling of whistleblower complaints depending on the duties and rank of the person against whom a complaint has been lodged. For the sake of logical consistency, the name of the Rules was changed to "Whistleblower Program Rules." These Rules require that whistleblower tips be received and handled by the Department of Compliance.

Matters Fusiveted		Implementation Status				
Matters Evaluated		N	Summary Description			
(2) Has the Bank adopted a standard operating procedure for investigations launched in response to whistleblower complaints? For completed investigations, has the Bank prescribed required follow-up measures and a confidentiality regime?			 (2) A. The Bank's ethics unit processes whistleblower complaint in accordance with the "Procedures for Handlin Whistleblower Complaints and Providing Whistleblower Incentives and Protections (Including Confidentiality issued by the Ministry of Justice. B. In March 2020, the Bank modified and renamed it "Whistleblower System Standard Operating Procedures" accordance with the amendment of "Internal Whistleblower Program Rules." Articles 7, 10, and 11 of the "Whistleblower Program Rules." require that, after an investigation has bee completed, the Bank's President must convene a committee meeting to review the whistleblower complaint and, if the complaint is found to have merit, the President must instruct the proper unit to review related internal control system and operating procedures, propose corrective measures and refer the person(s) named in the complaint to the head office's Human Resources Evaluation Committee for deliberations. These procedures require both the investigation unit and persons called in for questioning to maintain the confidentiality of the investigation, and further require the Bank to keep secret the identity of whistleblowers. 			
(3) Has the Bank adopted measures to protect whistleblowers from retaliation?	V		 (3) A. The Bank is subject to the provisions of the Labor Standard 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 report to the authorities. B. Article 13 of the BOT "Whistleblower Program Rules provides that the Bank shall not, on account of whistleblower case, fire or demote a whistleblower, reducing his/her pay, harm the interests to which he/she is entitled be law, contract, or custom, or take any action that is otherwise prejudicial to the whistleblower. 			
. 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?			The Bank discloses the state of its business ethics work on it website, the Market Observation Post System (MOPS) website and its annual reports.			

- 5. Please describe any differences in operations and rules of ethical management regulations that the Bank has established in accordance with the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies":
 - The Bank is not a TWSE/GTSM listed company, so this item is not applicable.
- 6. Other important information that would aid in understanding the Bank's ethical management operations (such as the Bank's review and revision of ethical management regulations):

The Bank's ethical management operations have met with approval through the following:

- (1) The winner of Gold Award in the Reader's Digest Trusted Brands survey in the Banking category.
- (2) The number one financial holding company or bank on Cheers magazine's 2019 list of the "Most Attractive Employers for the Younger Generation."
- (3) The Joint Credit Information Center's "Golden Security Award" and "Golden Quality Award."
- (4) Recognized by the Financial Supervisory Commission as a "Top Bank Provider of Property Trusts for Senior Citizens and Persons with Mental and Physical Disabilities."
- (5) Received a Gold Award at the Ministry of Culture's 14th Arts & Business Awards ceremony.
- (6) Named by the Ministry of Education as a Gold Winner of the "Sports Administration's Sports Activist Awards."
- (7) The Bank's Jenai Branch took part in the 2nd Government Quality Service Awards program and won the excellence award in the Overall Service Quality category.



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 54 and 55 of the Chinese annual report.

(2) Independent Auditors' Report

Please refer to page 56 of the Chinese annual report.

9. Major Resolutions of Board Meetings

- (1) Passed by the 5th meeting of the 6th Board of Directors on Jan. 11, 2019: The Bank's 2020 Business Plan (including the subsidiary).
- (2) Reported by the 24th meeting of the 6th Board of Managing Directors on Jan. 11, 2019: "2018 Table of Funding (Donations) from the Bank of Taiwan to Private Organizations and How the Funds Have Been Used."
- (3) Reported by the 6th meeting of the 6th Board of Directors on Jan. 25, 2019: TFH forwarded a letter from the Ministry of Finance approving the temporary appointment of Lu, Chun-Chen (director of the Department of Auditing of the BOT Board of Directors) to serve for three months as acting General Auditor in place of BOT General Auditor Chen, Ying-Kuei following the retirement of the latter on Jan. 16, 2019.
- (4) Passed by the 2nd interim meeting of the 6th Board of Directors on Feb. 1, 2019: Plans by the Japanese Association in Taiwan to (a) lease 22 plots of land in Taipei City's Tienmu area and build a school for Japanese expat children there; (b) apply for a land use permit; and (c) apply for a construction permit.
- (5) Reported by the 28th meeting of the 6th Board of Managing Directors on Feb. 15, 2019: "2018 Table of Funding (Donations) from the Bank of Taiwan to Private Organizations Related to the Loan Business and How the Funds Have Been Used."
- (6) Reported by the 7th meeting of the 6th Board of Directors on Feb. 22, 2019:
 - A. Bank of Taiwan 2018 business report, income statement, statement on appropriation of profit or coverage of loss, balance sheet, and cash flow statement.
 - B. Implementation of regular evaluations of CPA independence and suitability.

- (7) 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 Compliance.
 - C. The Bank established the TY Inno Branch by relocating the Taosing Branch and changing its name.
- (8) 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.
- (9) Reported by the 8th meeting of the 6th Board of Directors on Mar. 27, 2019: Independent Assessment Report on the 2018 Test of the Bank of Taiwan AML/CFT System.
- (10) 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 Data Protection Regime (CPA Assurance Report).
- (11) Passed by the 4th interim meeting of the 6th Board of Directors on Apr. 3, 2019: TFH General Auditor Lee, Li was transferred to the position of General Auditor at the Bank's headquarters.
- (12) Passed by the 9th meeting of the 6th Board of Directors on Apr. 12, 2019:
 - A. Proposal to bolster the Bank's regulatory capital as soon as possible by asking TFH to file a plan (for an early release of NT\$10 billion in funds earmarked for a land-backed capital increase) with the Ministry of Finance, which would then forward the plan to the Executive Yuan for approval.
 - B. Proposal to carry out a NT\$42 billion land-backed capital increase through private placement of common shares.
- (13) Passed by the 34th meeting of the 6th Board of Managing Directors on Apr. 12, 2019: BOT Senior Executive Vice President Hsieh, Chuan-Chuan applied to retire on Apr. 8, 2019.

- (14) Passed by the 35th meeting of the 6th Board of Managing Directors on Apr. 19, 2019:
 - A. BOT Senior Executive Vice President Huang, Jui-Mu applied to retire on Apr. 12, 2019.
 - B. Proposal to comply with the provisions of the UK's "Modern Slavery Act 2015" by instructing the Bank's London Branch to issue a Slavery and Human Trafficking Statement for year ended Dec. 31, 2018. This Statement would confirm that the London Branch and its supply chain had not been involved in any cases of human trafficking or slavery in 2018.
- (15) Reported by the 36th meeting of the 6th Board of Managing Directors on Apr. 26, 2019: "BOT 2018 Audit Report on Remote Backup Training for the Information Systems Data of Overseas Branches."
- (16) Reported by the 10th meeting of the 6th Board of Directors on May 10, 2019:
 - A. "Bank of Taiwan 2018 Bank-wide ML/FT Risk Assessment" and "Bank of Taiwan 2019 AML/CFT Regime Improvement Plan."
 - B. "BOT 2019 Internal Self-Assessment Report on Internal Audit Quality" and "Corrective Action Plan Based on BOT 2019 Internal Self-Assessment of Internal Audit Quality."
- (17) Passed by the 10th meeting of the 6th Board of Directors on May 10, 2019:
 - A. "Matters to be Reported Concerning Compliance by the Bank of Taiwan with Supervisory Review Principles," for filing with the Financial Supervisory Commission.
 - B. Proposal for position of BOT Chief Corporate Governance Officer to be assumed concurrently by Chen, Han-Kuo, Vice President and Division Manager of Legal Affairs Center, Dept. of Planning.
- (18) Passed by the 43rd meeting of the 6th Board of Managing Directors on Jun. 11, 2019: Proposal for coexistence of the BOT trademark and the new TFH trademark.
- (19) Passed by the 11th meeting of the 6th Board of Directors on Jul. 5, 2019: BOT Executive Vice President & Secretary General of Secretariat, Board of Directors Pan, Rong-Yaw and Executive Vice President & General Manager Ju, Yeung-Rong were promoted to the position of Senior Executive Vice President of the Bank.
- (20) Reported by the 11th meeting of the 6th Board of Directors on Jul. 5, 2019: Corrective action plan adopted in response to the "2018 Supervisory Report on the BOT Shanghai Branch" issued by the Shanghai Office of the China Banking and Insurance Regulatory Commission.

- (21) Reported by the 53rd meeting of the 6th Board of Managing Directors on Aug. 23, 2019: Mr. Wang, Yanzhi was relieved of his position as the Independent Director on the Board effective Sept. 1, 2019.
- (22) Passed by the 5th interim meeting of the 6th Board of Directors on Sept. 17, 2019: 2019 land-backed capital increase plan; pricing of common shares to be privately placed; date of record for the capital increase; etc.
- (23) Passed by the 13th meeting of the 6th Board of Directors on Sept. 27, 2019:
 - A. For the purpose of 2020 BOT employee salary adjustments, it was proposed that the Bank adjust salaries by 2.87% in accordance with the "Basic Principles for Delegated Setting of Employee Compensation at Government-Owned Enterprises" as issued by the Ministry of Finance on Jul. 18, 2018.
 - B. Proposal for the Bank of Taiwan Museum and the BOT Department of Economic Research to move to the "Freedom House" and "Datong House."
- (24) Reported by the 58th meeting of the 6th Board of Managing Directors on Sept. 27, 2019: "Guidelines for Establishment of the Computer Security Incident Response Team (CSIRT)."
- (25) Passed by the 60th meeting of the 6th Board of Managing Directors on Oct. 18, 2019: Proposal for the Bank to subscribe for NT\$76,462,000 worth of shares to be issued in connection with a cash capital increase by Cathay Financial Holding Co., a BOT investee enterprise, and to carry out a supplementary budget allocation in 2021.
- (26) Passed by the 61st meeting of the 6th Board of Managing Directors on Oct. 25, 2019: "Principles for Valuations of Credit Assets and the Provisioning of Loss Reserves by the Bank of Taiwan."
- (27) Reported by the 14th meeting of the 6th Board of Directors on Nov. 8, 2019: "Plan for Establishment of a Task Force for Fair Treatment of Consumers."
- (28) Passed by the 14th meeting of the 6th Board of Directors on Nov. 8, 2019:
 - A. "2019 Report on Risk Assessment Results for Audited Units" and "The Audit Plan of 2020 by the Department of Auditing, Board of Directors."
 - B. The Bank's 2020 internal audit work inspection plan (securities firm business).
 - C. "Bank of Taiwan 2020 Compliance/Anti-Money Laundering and Combating the Financing Terrorism Plan."

- (29) Reported by the 64th meeting of the 6th Board of Managing Directors on Nov. 15, 2019: Report on the proposed use of BOT-owned land (total area: 9,760 square meters) in Taipei City's Datong District for an urban renewal project on the west side of the Yuanshan MRT Station.
- (30) Passed by the 66th meeting of the 6th Board of Managing Directors on Nov. 28, 2019: "2019 UK Tax Strategy Declaration" (note: The BOT London Branch is required by Her Majesty's Revenue and Customs (the tax authority of the UK government) to file this declaration.)
- (31) Passed by the 67th meeting of the 6th Board of Managing Directors on Dec. 6, 2019: Retirement on Jan. 16, 2020 of BOT Senior Executive Vice President Lin, Chun-Liang.
- (32) Reported by the 67th meeting of the 6th Board of Managing Directors on Dec. 6, 2019: Taiwan Financial Holding Co., Ltd. appointed Chang, Chung-Yueh, Professor of National Taipei University, as an Independent Director on the Bank's 6th Board of Directors serving from Nov. 28, 2019 to Aug. 2, 2021.
- (33) Passed by the 15th meeting of the 6th Board of Directors on Jan. 10, 2020:
 - A. The Bank's 2021 Business Plan (including the subsidiary).
 - B. Proposal for the position of BOT Chief Corporate Governance Officer (currently assumed concurrently by Chen, Han-Kuo, Vice President and Division Manager of Legal Affairs Center, Dept. of Planning) to be assumed in a concurrent capacity by BOT Senior Executive Vice President Pan, Rong-Yaw.
- (34) Reported by the 73rd meeting of the 6th Board of Managing Directors on Jan. 16, 2020: "2019 Table of Funding (Donations) from the Bank of Taiwan to Private Organizations and How the Funds Have Been Used."
- (35) Reported by the 74th meeting of the 6th Board of Managing Directors on Jan. 31, 2020:
 - A. Mr. Chen, Chuan-Hsi stepped down from his position as a BOT Director on Jan. 16, 2020.
 - B. "Bank of Taiwan 2020–2024 Information Operations Development Blueprint."
 - C. Report on: (a) The Bank's donation of NT\$178,328,865 in 2019 to the "Small and Medium Enterprise Credit Guarantee Fund of Taiwan;" and (b) the benefits yielded by the donation.

- (36) Reported by the 16th meeting of the 6th Board of Directors on Feb. 21, 2020: Ms. Lu, Chiou-Shiang was relieved of her position on the Board effective Feb. 20, 2020, and was replaced by Huang, Shu-Juan, Director of Department of Special Fund Budget, Directorate-General of Budget, Accounting and Statistics, Executive Yuan, who would serve from Feb. 20, 2020 to August 2, 2021.
- (37) Passed by the 16th meeting of the 6th Board of Directors on Feb. 21, 2020:
 - A. Bank of Taiwan 2019 Statement on Internal Control.
 - B. Bank of Taiwan 2019 Statement on Internal Controls for AML/CFT Compliance.
 - C. "Bank of Taiwan 4-Year Plan for Internal Capital Adequacy Assessments and Risk Asset Controls."
- (38) Reported by the 17th meeting of the 6th Board of Directors on Mar. 20, 2020: Independent Assessment Report on the 2019 Test of the Bank of Taiwan AML/CFT System.
- (39) Passed by the 17th meeting of the 6th Board of Directors on Mar. 20, 2020:
 - A. Audited 2019 Individual and Consolidated Statements, Business Report, Statement of Earnings Appropriation, and List of Major Properties.
 - B. Audited 2019 Internal Control System Recommendations.
 - C. BOT "Form for Assessment of Implementation by Financial Institution of the 'Principles for Fair Treatment of Consumers' in 2019."
 - D. Bank of Taiwan Information Security Statement for 2019.
- (40) Reported by the 82nd meeting of the 6th Board of Managing Directors on Mar. 27, 2020: "2019 Special Audit Report on the Bank of Taiwan's Personal Data Protection Regime (CPA Assurance Report)."
- 10. 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

Mar. 31, 2020

Title	Name	Date of Appointment	Date of Termination	Reasons for Resignation or Dismissal
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	Personnel Changes (Being promoted to the position of SEVP of BankTaiwan Securities)
Senior Executive Vice President	HSIEH, CHUAN-CHUAN	Aug. 6, 2014	Apr. 8, 2019	Applying for Retirement
Senior Executive Vice President	HUANG, JUI-MU	Jun. 9, 2017	Apr. 12, 2019	Applying for Retirement
Senior Vice President, Department of Auditing, Board of Directors (Substitute Senior Executive Vice President & General Auditor)	LU, CHUN-CHEN	Jan. 16, 2019	Apr. 16, 2019	Personnel Changes (No need to continue in substitute position)
Vice President & Deputy General Manager, Department of Treasury (Substitute Senior Vice President & General Manager)	TAO, KE-JOU	Apr. 1, 2019	Apr. 16, 2019	Personnel Changes (No need to continue in substitute position)
Vice President & Deputy General Manager, Department of Planning & Vice President and Division Manager, Legal Affairs Center, Department of Planning & Chief Corporate Governance Officer	CHEN, HAN-KUO	May 10, 2019	Jan. 9, 2020	Personnel Changes (No need to act concurrently as Chief Corporate Governance Officer)
Senior Executive Vice President	LIN, CHUN-LIANG	Nov. 17, 2017	Jan. 16, 2020	Retirement
Senior Vice President & General Manager, Department of Treasury	YANG, KUEI-YONG	Apr. 16, 2019	Jan. 16, 2020	Retirement
Assistant Vice President & Deputy General Manager, Department of Treasury (Substitute Senior Vice President & General Manager)	WU, YU-HUI	Jan. 16, 2020	Feb. 3, 2020	Personnel Changes (No need to continue in substitute position)

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

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, 2019 ~ Dec. 31, 2019	

Amount	Auditing Fees	Non-Auditing Fees	Total
Under NT\$ 2,000,000			
NT\$2,000,000 ~ NT\$4,000,000	3,623,000		3,623,000
NT\$4,000,000 ~ NT\$6,000,000			
NT\$6,000,000 ~ NT\$8,000,000		6,601,000	6,601,000
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 Bank 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, 2019

Unit: Share; %

						Offit. Offato, 70
Reinvested Enterprise (Note)	Investment by the Bank		Investment by Directors, Supervisors, President, Senior Executive Vice Presidents, Heads of Departments and Branches, and Enterprises Directly or Indirectly Controlled by the Bank		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.	929,016,982	7.45	352,642,954	2.83	1,281,659,936	10.28
Taiwan Business Bank	1,156,355,774	16.21	91,966	0.00	1,156,447,740	16.21
Cathay Financial Holding Co., Ltd.	65,706,166	0.45	60,832,521	0.41	126,538,687	0.86
Mega Financial Holding Co.	334,951,379	2.46	48,832,355	0.36	383,783,734	2.82
Taiwan Fire & Marine Insurance Co., Ltd.	64,608,278	17.84	55,000	0.02	64,663,278	17.86
China Development Financial Holding Corporation	238,729,496	1.60	1,531,922	0.01	240,261,418	1.61
Yuanta Financial Holding Co., Ltd.	242,813,206	2.08	101,890	0.00	242,915,096	2.08
CTBC Financial Holding Co., Ltd.	299,632,426	1.50	69,884,209	0.35	369,516,635	1.85
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	72,929,518	10.01	21,853,316	3.00	94,782,834	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

Reinvested Enterprise (Note)	Investment by the Bank		Investment by Directors, Supervisors, President, Senior Executive Vice Presidents, Heads of Departments and Branches, and Enterprises Directly or Indirectly Controlled by the Bank		Consolidated Investment	
	No. of Shares	Ratio of Shareholding	No. of Shares	Ratio of Shareholding	No. of Shares	Ratio of Shareholding
Taipei Forex Inc.	1,400,000	7.06	700,000	3.53	2,100,000	10.59
Taiwan Futures Exchange Corporation	17,175,630	4.85	6,965,854	1.97	24,141,484	6.82
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.	2,584,425,042	21.23	469,170,225	3.85	3,053,595,267	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

57 I. Capital and Shares

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II. Issuance of Financial Bonds

III. Comments on Implementation of Capital Allocation Plan

Capital Overview

I. Capital and Shares

1. Source of Capital

Month/	Par	Authorized Capital		Paid-in Capital		Remark	
Year	Value	Shares	Amount	Shares	Amount	Sources of Capital	Others
Mar. 2020	NT\$10	10.9 billion	NT\$109 billion	10.9 billion	NT\$109 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. In 2019, the Bank again carried out a capital increase via private placement of NT\$42 billion worth of common shares, using real estate as its capital contribution.	a capital increase via private placement of NT\$42 billion worth of common shares, using real estate as its capital contribution (i.e. a land-backed capital increase). Each share was issued at a premium price of NT\$30 per share, resulting in an NT\$42 billion private placement, of which NT\$14 billion was booked to share

2. Net Worth, Earnings, and Dividends Per Share

Unit: NT\$; Share

Items	Year	2019	2018
Net Worth Per Share	Before Appropriation	34.70	32.65
Net Worth Per Share	After Appropriation	34.63	32.56
Fornings Day Chara	Weighted Average Issued Shares	9,875,890,411	9,500,000,000
Earnings Per Share	Earnings Per Share (After Tax)	1.13	1.08
Dividends Per Share	Cash Dividends	0.07	0.08

Note: Figures for 2018 are approved by the National Audit Office; figures for 2019 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. Make 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 the 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 2019, the Bank decided to distribute cash dividends totaling NT\$0.8 billion, or NT\$0.07 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 2019 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	 A Issue: Bonds issued on June 25, 2014 B Issue: Bonds issued on June 27, 2014 C Issue: Bonds issued on June 27, 2014
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.	 A Issue: The annual interest rate is a simple floating rate equal to the benchmark rate plus 0.3%. B Issue: Annual interest rate-Fixed 1.70% simple rate. C Issue: The annual interest rate is a simple floating rate equal to the benchmark rate plus 0.15%.
Term	10-year term Maturity date: Dec. 2, 2023	1. 10-year term 2. A Issue: Bonds to mature on June 25, 2024 B Issue: Bonds to mature on June 27, 2024 C Issue: Bonds to mature on June 27, 2024
Mortgage Priority	Subordinate to all BOT depositors and other ordinary creditors	Subordinate to all BOT depositors and other ordinary creditors
Guarantor	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
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	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
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 Authority	Aug. 23, 2016 Letter No. (FSC) Gin-Guan-Ying Kong 10500198980	Aug. 23, 2016 Letter No. (FSC) Gin-Guan-Ying Kong 10500198980 Nov. 21, 2017 Letter No. (FSC) Gin-Guan-Ying Kong 10600272640
Issue Date	A Issue: Bonds issued on April 7, 2017 B Issue: Bonds issued on April 7, 2017	1. A Issue: Bonds issued on Feb. 26, 2018 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
Interest Rate	interest rate of 4.20% per annum	A Issue: Coupon rate of 0%, with an implicit interest rate of 4.15% per annum B Issue: Coupon rate of 0%, with an implicit interest rate of 4.07% per annum
Term	30-year term A Issue: Bonds to mature on April 7, 2047 B Issue: Bonds to mature on April 7, 2047	30-year term A Issue: Bonds to mature on Feb. 26, 2048 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
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

Types of Financial Bonds	Bank of Taiwan 106-1 Unsecured USD Callable Bonds	Bank of Taiwan 107-1 Unsecured USD Callable Bonds
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
Conditions and Terms for Redemption or Early Settlement	1. 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.) 2. 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 month.)	1. 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.) 2. 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.)
Conversion and Exchange Terms	None	None
Restriction Terms	None	None
Capital Investment Plans	 Provide for the medium- and long-term funding needs of the Bank's overseas branches. Fund the medium- and long-term corporate loans (both domestic and overseas syndicated loans). Replace some of the Bank's borrowings made through the money market and through bond repo transactions. 	 Provide for the medium- and long-term funding needs of the Bank's overseas branches. Fund the medium- and long-term corporate loans (both domestic and overseas syndicated loans). Replace some of the Bank's borrowings made through the money market and through bond repo transactions.
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	2016	2017	2019
Description of Plan	In order to provide for its mediumand long-term credit capital needs and funding needs of its overseas branches, the Bank filed a debt issue plan with the competent authority, which approved the plan on August 23, 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 filled a debt issue plan with the competent authority, which approved the plan on November 21, 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.	Under the Bank's 2019 land-backed capital increase plan, the Ministry of Finance (acting in accordance with Article 12-1 of the "Act of Taiwan Financial Holding Co., Ltd.") will first use 56 parcels of national land that it owns to back a cash capital increase for Taiwan Financial Holding Co., and then Taiwan Financial Holding Co. will use that same land to back a cash capital increase for BOT. On July 17, 2019, the Financial Supervisory Commission (FSC) issued a response letter (Ref: No. (FSC) Gin-Guan-Ying Kong 10801305311) in which it agreed to allow the Bank to carry out a land-backed capital increase via private placement of NT\$42 billion worth of common shares. A total of 1.4 billion shares, having a par value of NT\$10 per share, will be issued at a premium price of NT\$30 per share, thus yielding total proceeds of NT\$42 billion.
Status of Implementation	1. On April 7, 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. 2. On April 7, 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. 3. On February 26, 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 Aug. 23, 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.	1. On February 26, 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 Nov. 21, 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. 2. On February 26, 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.	1. The Bank registered transfer of ownership of the land on September 25, 2019, which is the date of record for the capital increase. 2. On November 22, 2019, the 1.4 billion privately placed shares of common stock were delivered by the Bank to Taiwan Financial Holding Co., Ltd.

Year	2016	2017	2019
Date of Announcement on Market Observation Post System	March 29, 2017: Posted bond issue data for Bank of Taiwan's 106-1 Unsecured USD Callable Bonds. February 26, 2018: Posted bond issue data for Bank of Taiwan's 107-1 Unsecured USD Callable Bonds.	February 26, 2018: Posted bond issue data for Bank of Taiwan's 107-1 Unsecured USD Callable Bonds.	 April 12, 2019: Posted plans to carry out a capital increase via private placement of NT\$42 billion worth of common shares, and announced that the Board of Directors (fulfilling the function of a shareholders meeting) had reviewed and approved the acquisition of the land backing the capital increase. October 3, 2019: Posted the types of information that must be reported, such as the date of payment in full of share price or subscription price. November 25, 2019: Posted an amended delivery date for the privately placed securities.
Effect of Implementation	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. 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.	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.	As a result of the 2019 land-backed NT\$42 billion capital increase, the Bank's capital adequacy ratio increased by 1.79 percentage points from 12.54% in August 2019 to 14.33% in September 2019. The capital increase has thus improved BOT's capital structure and strengthened its risk-bearing capacity.

Note: In order to provide for its medium- and long-term funding needs, the Bank filed a debt issue plan with the competent authority, which approved the plan on September 6, 2018 (Ref: No. (FSC) Gin-Guan-Ying Kong 10701155740). Under the plan, BOT is approved to conduct rolling issuance of debt in the amount of US\$500 million (or the equivalent in New Taiwan Dollars or other foreign currencies).



Operational Highlights

- 65 I. Business Activities
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Operational Highlights

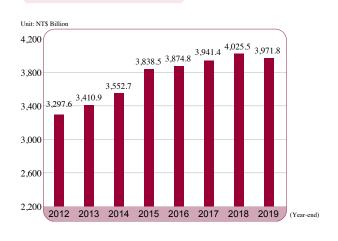
I. Business Activities

1. Main Areas of Business Operations

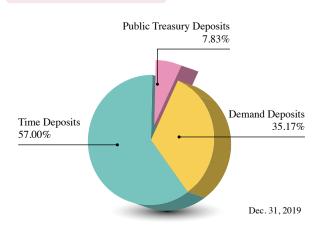
(1) Deposits

Total deposits in the Bank at the end of December 2019 amounted to NT\$3,971.8 billion, equal to 77.50% of the NT\$5,125.0 billion in the Bank's total assets and representing a decrease of 1.33% over the previous year. Demand deposits and time deposits in 2019 decreased by 1.49% and 2.59%, respectively, while public treasury deposits increased by 9.78% over the year before.

Balance of Deposits



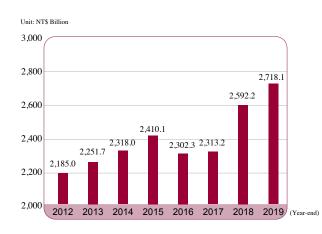
Structure of Deposits



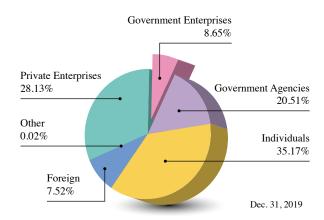
(2) Loans

The amount of the Bank's total loans outstanding at the end of December 2019 (including general loans as well as import and export negotiations) stood at NT\$2,718.1 billion, equal to 53.04% of the Bank's total assets and reflecting an increase of 4.86% over a year earlier.

Balance of Loans



Structure of Loans



A. Corporate Banking

Corporate loans outstanding at the end of 2019 (including loans to government agencies and government-owned enterprises) amounted to NT\$1,761.6 billion, accounting for 34.37% of the Bank's total assets and representing an increase of 2.18% from the previous year. The amount of government enterprises and agencies loans outstanding at the end of 2019 reflected an increase of 1.67% from a year earlier, and that of large enterprises and SMEs indicated an increase of 4.53% and 3.78%, respectively, from a year earlier. According to statistics from Refinitiv, the Bank of Taiwan is the number one mandated arranger and bookrunner for syndicated loans in Taiwan.

B. Consumer Banking

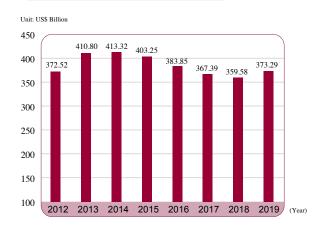
In order to better serve consumers, improve standards of living, and spur economic development, the Bank worked in line with market development trends, launching different types of preferential loans for different customers and areas in an active effort to solicit the business of high-quality buyers 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 2019 amounted to NT\$912.0 billion, NT\$87.9 billion more than a year earlier for a growth of 10.67%.

(3) Foreign Exchange and International Banking

The amount of foreign exchange transactions undertaken during the year reached US\$373.29 billion. A total of 158 branches were designated to handle foreign exchange services and 432 foreign-currency exchange bureaus at the end of 2019. The Bank has established correspondent banking relationships with 2,011 financial institutions in a web that covers major cities throughout the world.



Foreign Exchange Operations



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. To enhance the depth and breadth of electronic financial services, the Bank launched a new generation of online banking services and used Responsive Web Design (RWD) techniques to rebuild and operate webpages and processes to ensure that customers can have an enjoyable experience with BOT online banking services regardless of the kind of mobile device they may own. In addition, the Bank has launched a variety of new services, including: gold passbook account transfers; change of deposit account for proceeds from gold passbook purchases/redemptions; instant withdrawals for systematic investment plans; bond purchases/redemptions; and change of beneficiary account for bond transaction returns. In addition, the Bank also expanded its e-Bill National Payment Network to facilitate the payment of credit card debts to provide customers with greater convenience. A number of new functions were added to the Super E-Billing segregated accounts management system to meet the needs of corporate customers, including: management by account segment; one-time password verification; a responsive web



BOT participated in FinTech Taipei 2019 on November 29, 2019. BOT Chairman Joseph Jye-Cherng Lyu posed for a group photo with the InnoLab crews.

design interface; and support for multi-browser interfaces. The Bank continued to conduct its electronic payments business, and expanded the range of the functions and payment types offered at Smart Fee Payment Machines; expanded its ATM deposit/withdrawal types; and worked on plans to add a QR Code swipe function to the Taiwan Pay mobile payments app. Also, to coordinate with the Nationwide Bill/Tax Payment System's launch of new functions to enable payment of "Funds Owed to the National Treasury" and "Electricity Fees Owed by a Public Utility," the Bank introduced a QR Code common payments service. The Bank also established an "Intelligent Customer Service System" to provide customers with 24-hour service, and expanded its big data database semantic layer and its customer behavior data mining model in order to better understand customer behavior and step up preparations for marketing.

B. At the end of 2019, the accumulated number of internet banking transfer accounts stood at 3.72 million. The total number of transfers carried out during the year stood at 13.72 million. The number of internet foreign exchange transactions amounted to 1.88 million, and the number of online purchase requests for funds amounted to 1.75 million. Gold Passbook internet transactions numbered 0.48 million. The number of Corporate e-Banking Site accounts stood at 81 thousand. Transfer transactions undertaken via the Bank's Corporate e-Banking site in 2019 numbered 6.61 million, up 2.80% from 2018, while the number of corporate online foreign exchange transactions came to 231 thousand (up 1.76% from 2018). The total value of all transactions for the year came to NT\$941.2 billion. As of year-end 2019, there were 6,401 accounts using the Bank's electronic collection services, and some 13.93 million transactions had been processed.

(5) Trust Business

Global economic conditions remained unstable in 2019, so investors were cautious. As a result, the average principal of trust property amounted to NT\$431.61 billion, down 0.49% from the previous year. At the end of December 2019, the amount of assets under custodianship by the Bank totaled NT\$2,256.05 billion, for an increase of 22.64% over the year earlier. Of this total, discretionary investment assets amounted to NT\$505.6 billion, and boosted the Bank to first place in market share in the fourth quarter of 2019. In addition, 178,337 enterprise units opened worker retirement fund accounts with total deposits of NT\$2,008.6 billion, retirement payments amounting to NT\$1,162.6 billion, and trust funds outstanding of NT\$846.0 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 2019 totaled NT\$9,562.7 billion, a decrease of NT\$5,010.3

billion over a year earlier. The outstanding amount of bills dealing at the end of the year stood at NT\$748.3 billion, of which Central Bank negotiable certificates of deposit (NCD) accounted for NT\$718.8 billion. Due to inward remittances by foreign investors, market liquidity was ample, money market interest rates down, bills finance business volume was down from the previous year, and profits for the year on bills transactions came to NT\$4.648 billion, a year-on-year decrease of NT\$873 million. The certification and underwriting of short-term bills by the Bank in 2019 totaled NT\$166.6 billion, a growth of NT\$49.1 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\$48.91 billion in 2019, of which government bonds purchased amounted to NT\$29.12 billion and government bonds sold totaled NT\$19.80 billion. Repurchase agreements amounted to NT\$129.22 billion.

b. Bond Underwriting

The Bank in 2019 underwrote the issuance of international bonds and NT Dollardenominated bonds by fifteen well-known domestic and international companies and banks. These underwriting activities diversified the Bank's financial products and increase revenues.

c. Bond Investments

The Bank expanded its foreign currency bond positions in 2019 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 2019, the Bank had investments in 32 enterprises with the book value of the investments totaling NT\$72.03 billion, an increase of 5.75% 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\$6.30 billion in 2019, derived mainly from stock dividends and the benefit from booking by the equity method.

D. Short-term Investment (in Stocks and Funds)

At the end of 2019, the position of the Bank's investment in stocks were NT\$1.46 billion less than the previous year, and the total return on investment (including unrealized gains or losses) was 18.53%. NTD-denominated equity fund beneficial certificates were all liquidated, yielding a return on investment (ROI) of 33.32%. As for foreign-denominated

equity fund beneficial certificates, overseas ETFs, and mainland China QFIIs, the Bank intends to adjust regional allocations and diversify its investments in order to spread its risks. Any measures on this front will be taken with an eye on the latest developments in international financial markets, and on international funds flows.

(7) Business Derived from the Issuance of NT Dollar Currency for the Central Bank

As mandated by the Central Bank, the Bank 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 2019 was NT\$2,337.7 billion, an increase of 7.93% over the previous year. The currency issued peaked at NT\$2,617.5 billion, also an increase of 5.79% over the 2018 peak. The amount in circulation at the end of the year was NT\$2,447.2 billion, 11.38% more than year-end 2018.

(8) Government Employees Insurance

At the end of 2019, there were 7,398 insured units and 591,918 insured persons, income on insurance premiums in 2019 amounted to NT\$23.51 billion, and 45,354 claims totaling NT\$24.66 billion were paid that year. For 2019, the balance of civil servants' and teachers' insurance was NT\$45.36 billion, and the balance of retirement insurance was NT\$1.05 million, the full amount of which was allocated to reserves.

(9) Procurement Business

The primary mission of the Bank'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 2019 amounted to NT\$102.15 billion, up 63.61% over the previous year. The increase came because the Bank administered a purchase by the Taiwan Railways Administration of a purchase by the Taiwan Railways Administration of intercity trainsets and 102 locomotives.

(10) Wealth Management Service

The commission income of the wealth management business in 2019 amounted to NT\$1.44 billion. At the end of 2019, a total of 144 business branches were handling wealth management, ten of which were flagship branches, and 233 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 2019 was NT\$139.42 billion, up by 9.63% year-on-year. Fee income from the handling of tariff-rate quotas and outsourced business services came to NT\$46 million, down by 6.23% year-on-year.

2. Operating Plans for 2020

(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. The Bank will continue to actively 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.

(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; and actively participate in the Project for Provision of Special Loans and Credit Guarantees to assist in the innovation and development of small and medium enterprises; In support of the government's "5+2 Industrial Innovation Program," the Bank 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, the Bank 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.

B. Consumer Banking

The Bank will continue to promote high-quality loans for owner-occupied homes; continue to implement the "Low-Interest Nest-building Loan Program for Civil Servants and Teachers" in an effort to expand its home loan business; actively undertake "Young Entrepreneur and Start-up Loans" and "Micro-business Start-up Phoenix Loans"; familiarize the public with the Bank's Guide Dog Affinity Card and The Lord is My Shepherd Affinity Card to carry out business promotion and brand image; continue to support the government's Integrated Platform for FinTech R&D Breakthroughs by Government-Invested Enterprises, which was primarily established in order to adopt a QR Code common standard for Taiwan Pay, the country's main mobile payment operator; plan out and take part in Taiwan Pay marketing activities; and act in 2020 to make credit card products more competitive by raising the limit on credit card cash back rates for both domestic and overseas purchases, as well as expanding the range of permissible



credit card reward channels. By taking these measures, the Bank will meet the full range of its customers' needs, issue more cards, and increase the aggregate dollar amount of card transactions.

(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. The Bank 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 (RWD) to provide customers a user interface that is more individualized across a variety of different platforms, browsers, and devices; add a segregated accounts management system, a one-time password verification method, a responsive web design interface, and support for multi-browser interfaces to 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, 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 risk-control 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 holding Government Employees Insurance seminars; continue to write new insurance business and pay out cash benefits, and support business development by adopting various improvement measures designed to enhance operating efficiency and service quality; develop e-banking operations, strengthen cyber security management, improve personal information safeguards, and lay the foundation for Civil Servants and Teachers Insurance digitized services; carry out actuarial estimates of premiums for Civil Servants and Teachers Insurance and provide the estimates for the competent authority for its rate-making reference, so as to ensure the financial security and sustainability of Civil Servants and Teachers Insurance; and optimize returns by improving the diversity and risk management of reserve fund investments, drafting a carefully considered investment policy, and actively planning out asset allocations.

(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 Bank 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 2020, the Bank's business units included 163 domestic branches and one Offshore Banking Branch, and 21 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, Manila Representative Office, Ho Chi Minh City Representative Office, Jakarta Representative Office, and Kuala Lumpur Representative Office).

(2) Future Market Supply and Demand as well as Growth Prospects

Since 2019, trade disputes have roiled the global economy and exacerbated financial market volatility. Moving forward, the Bank will need to closely monitor factors that could adversely affect the global economy, including the COVID-19 situation, the US-China trade dispute, mainland China's growing economic and financial risks, and geopolitical risks. Per Taiwan's Directorate-General of Budget, Accounting and Statistics (DGBAS) forecast, Taiwan is expected to achieve an economic growth rate of 2.37% in 2020. In the future, uncertainty surrounding the US-China trade dispute will continue to be an important factor affecting the global economy. However, the government continues to encourage offshore Taiwanese businesses to return to invest in Taiwan while steadily implementing the Forward Looking Infrastructure Plan. This two-pronged approach has prompted banks to maintain an optimistic outlook toward the future.

(3) Competitive Niches

- A. As the oldest bank in Taiwan, the Bank 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 Bank 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 Bank 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 Bank serves as the cover bank for RMB cash in Taiwan and the settlement bank for the NT dollar in mainland China. This advantage facilitates the development of RMBrelated businesses.

B. Unfavorable factors

- a. As a bank that is 100% owned by the government, the Bank 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 Bank, 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 2019, the Financial Supervisory Commission (FSC) has allowed applications for the establishment of internet-only banks. This change has cleared the way for competition between traditional and internet banks.

C. Countermeasures

a. The Bank will gradually adjust the ratio of NT Dollar time deposits as a share of total deposits and optimize deposit structure to lower the cost of funds, 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. The Bank 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 84 to 86 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. Optimize the Bank's deposit and loan structure, achieve more reasonable allocations and efficient management of funds.
 - C. Strengthen marketing capabilities, expand lending.
 - D. Strengthen foreign exchange and international banking business.
 - E. Step up efforts to merge business locations, enhance business performance.
 - F. Build up comprehensive digital financial services.
 - G. Monitor innovation trends, develop convenient new services.
 - H. Increase financial management and marketing capabilities, generate increased fee income.
 - I. Strengthen credit card business, improve operating performance.
 - J. Upgrade information system, improve information quality and cyber security management.
 - K. Achieve sound legal compliance, improve AML/CFT/CPF mechanisms.
 - L. Create well-designed training systems, cultivate professionals with multidisciplinary skillsets.

(2) Long-term Development Plan

The Bank has succeeded in building a new corporate culture defined by its "5P business operating policy" and "5S corporate culture", 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. To coordinate with the government's various economic stimulus policies, the Bank will optimize its policies on care for the disadvantaged and the elderly, plan and operate many different lines of business, expand the scope of its financial services, and improve overall business performance.

II. Human Resources

Employee Statistics

Items	Year	2018	2019	As of Mar. 31, 2020
	Staff	7,380	7,383	7,335
Number of Francisco	Guards	161	165	165
Number of Employees	Janitors	654	643	628
	Total	8,195	8,191	8,128
Average Age	Average Age		45.66	45.65
Average Years of Service		18.04	18.20	18.20
	Ph.D.	0.07	0.05	0.05
	Master's Degree	19.91	20.69	20.77
Education (%)	Bachelor's Degree	71.83	71.44	71.48
	Senior High School	7.26	6.97	6.88
	Below Senior High School	0.93	0.85	0.82

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

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 by holding the "Bank of Taiwan Arts Festival" (including painting, photography, and music festivals) and the "Bank of Taiwan Awards for Economic and Financial Research" to solicit academic papers.



BOT held an awards ceremony for the 2019 Bank of Taiwan Awards for Economic and Financial Research on May 16, 2019. Posing here for a photo with the award winners were BOT Chairman Joseph Jye-Cherng Lyu (8th from the right, front row), the chief juror (and Senior Advisor to the President) Chen, Po-Chih (9th from the right, front row), the jurors, and members of the top management of Taiwan Financial Holdings.

IV. Number of Full-Time Non-Supervisory Employees, Average and Median Salary of Full-Time Non-Supervisory Employees, and How These Differ from the Preceding Year's Figures

Unit: Person; NTD\$1,000/ Person

Year Full-Time Non-Supervisory Employees	2019	2018	+/-
Number	8,107	8,017	90
Average Salary	1,359	1,319	40
Median Salary	1,054	1,028	26

Note: To calculate the median figure above, the first step was to count the number of employees at end-December of the current year and note their occupational grades and ranks, and use the table of employee salaries to calculate the median salary, then on the basis of this number a median salary that includes bonuses and overtime pay is estimated.

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, gold, accounting, 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 2019 included the following:

- (1) The Bank won the Joint Credit Information Center's "Golden Security Award" and "Golden Quality Award" for six consecutive years from 2014 to 2019.
- (2) In order to raise the quality of government data and to reap the benefits of value-added access to that data, the National Development Council has issued the "Open Government Data Seal of Quality and Measures to Encourage Enhanced Access." To coordinate with the policy of the Ministry of Finance (MOF), the Bank took part in the "Executive Yuan 2019 Open Government Data Campaign" and on behalf of the MOF won first prize at the Open Data Gold Awards ceremony.

- (3) The Bank's Department of Cyber Security and Department of Information Management jointly participated in the "2019 Workshop on Perpetuation of Digital Evidence at the Ministry of Finance and its Subordinate Agencies and Institutions." There they took part in numerous drills and simulations, and received full marks for their outstanding performance.
- (4) The Bank 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).
- (5) To comply with MOF regulatory requirements, the Bank established a "Common Standard on Reporting and Due Diligence for Financial Account Information (CRS)" system that integrates the Bank's business information customer information files, accounts, trusts, credit cards, and overseas branches to streamline procedures that a bank employee must go through to record the creation of files and to obtain customer data, and to provide related data to customers who have tax residency in a signatory country.
- (6) In response to the entry into force on July 1, 2018 of the "Program for Reform of Preferential-Rate Deposits for Employees of Banks Owned by the Ministry of Finance," the Bank completed modifications to system functions related to the "Reform and Adjustment of Preferential-Rate Deposits for Retired Employees."
- (7) In coordination with three-phase testing by the Financial Information Service Co. of an open API system (the three phases involve testing of access to open data, consumer data, and transaction data, respectively), the Bank collaborated with Moneybook to complete stageone testing and provide access to open data.
- (8) In response to automation by Financial Information Service Co. of its "blockchain fiscal audit" service platform, the Bank in March 2019 launched a "Blockchain API System for Automated Handling of Confirmation Requests" and received financial support via the "Subsidy Program for the Development of Blockchain Fiscal Audit Services" to fund the Bank's development of an API interface system.
- (9) In response to the arrival of the internet age, the Bank has developed internet banking with mobile multi-screen and personalized operating environments. To achieve this, the Bank used responsive web design (RWD) technology to enable users to enjoy the best possible visual browsing and operating experiences regardless whether they use smart phones, tablet computers, notebook computers, or desktop computers.
- (10) The Bank built a new type of cloud banking service that can provide 24-hour access to online applications for foreign currency digital deposit accounts, the use of pre-filled forms, online applications for Bank 3.0 transactions, and other services involving pre-processing on the branch's end.

(11) The Bank and iPass Corporation collaborated in payments via agreed linked deposit account which extend to BOT digital accounts. This system makes it easier for the Bank's customers to use mobile devices. In addition, the Bank issued iPass Co-branded cards and expanded their e-payment functions by expanding the range of payments that can be made using BOT credit cards.

2. Future Development or Procurement Plans

- (1) To support the efforts of the Ministry of the Interior to build a friendly environment for foreign nationals in Taiwan, the Bank will make additions and revisions to its core accounting server aggregation system and related operating systems, thereby enabling customers who hold an alien ID number to apply for various services.
- (2) In response to Microsoft's discontinuation of support for the Windows 7 operating system from January 14, 2020, the Bank will launch a special project to update its ATMs to run on Windows 10. Software and hardware upgrades will be made in order to enhance ATM transaction cyber security. Completion of the upgrades will enable the Bank to keep its ATMs in compliance with international EMV regulations and prevent the use of fake cards for ATM transactions.
- (3) The Bank will install currency exchange ATMs at its Taoyuan Airport Branch to meet the currency exchange needs of arriving and departing travelers. These machines will ease the Bank's operating workload, reduce customer waiting time, and provide customers with quicker and more convenient services.
- (4) In order to replace the Bank's core accounting server aggregation system, and to estimate needs for the next five years, the Bank will purchase related hardware and software to upgrade system operations, keep the computer system running stably, and ensure that the online operation system's key operations are kept running continuously.
- (5) The Bank plans to launch the My Data Gateway platform connected with the National Development Council, which will initially be used by cloud-based banks to process credit card applications; and use the My Data approach (which ensures that "ordinary folks can control their own data and easily obtain others' data") to provide personal household registration records, proof of kinship, labor insurance enrollment data, and proof of property ownership, thus making it easier for bank employees to quickly process many different types of customer applications.
- (6) The Bank plans to launch a "Program to Establish a Customer Information Instrument Panel Service and Integrate it Into Branch Terminal Systems" so that, when bank employees serve walk-in customers, they can quickly gain a comprehensive understanding of customers' banking activities and their customer attributes, while the head office can identify target customer groups to enable branches to conduct well-targeted marketing activities.



(7) The Bank will improve operating efficiency by introducing robotic process automation (RPA) in the Bank's various business units, then use the installation of RPA software and training of employees to optimize internal operations (e.g. production of management reports, automation of operating procedures, and collection of external data), and reduce the internal repetitive operations error rate, thereby improving the quality and productivity of manual operations.

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 2019, 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 "Internal Information Network Architecture and Equipment," an "Information Center SSL VPN Network Encryption Gateway," an "IP Workstation Maximum Authorization Management System," an "Email Sensitive-Information Detection and Protection System," a "Data Endpoint Protection System" and 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 Bank 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.



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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

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Year Items		2019	2018	2017	2016	2015
Cash, cash equivalents, pank and call loans to bank		704,899,680	700,995,809	833,847,494	809,634,632	721,386,220
Financial assets measure profit or loss	ed at fair value through	244,193,929	236,408,718	236,519,757	212,560,998	173,005,205
Financial assets measure other comprehensive incon	_	1,013,078,126	1,117,727,277	-	-	-
Debt investments measure	ed at amortized cost	177,206,775	167,824,692	-	-	-
Available-for-sale financial	assets	-	-	1,135,942,401	1,037,841,339	1,053,598,710
Derivative financial assets	for hedging	1,071	41,693	22,759	21,221	15,970
Bills and bonds purchased	under resell agreements	-	-	-	-	50,040
Receivables, net		58,510,274	59,274,333	59,257,009	63,311,112	72,072,783
Current income tax assets		993,628	1,113,134	1,082,264	785,838	1,343,509
Assets held for sale, net		-	-	-	-	-
Loans and discounts, net		2,676,141,224	2,557,027,294	2,285,039,243	2,274,236,504	2,386,598,795
Held-to-maturity financial a	ssets	-	-	144,060,765	138,812,328	113,786,391
Investments under equity n	nethod, net	41,109,560	38,007,840	36,203,500	35,055,524	35,855,822
Restricted assets		-	-	-	-	-
Other financial assets, net		40,158,445	46,040,182	75,603,497	76,578,793	68,891,471
Property and equipment, no	et	138,128,918	96,226,027	96,344,383	96,695,326	96,733,221
Right-of-use asset, net		1,603,487	-	-	-	-
Investment property, net		15,238,207	15,238,207	15,238,207	15,238,207	-
Intangible assets, net		873,797	764,936	708,732	803,225	853,946
Deferred tax assets, net		875,458	312,291	170,841	297,880	476,040
Other assets		11,556,583	8,989,113	8,171,939	8,745,962	7,820,323
	efore distribution	5,124,569,162	5,045,991,546	4,928,212,791	4,770,618,889	4,732,488,446
Total assets Af	fter distribution	5,124,569,162	5,045,991,546	4,928,212,791	4,770,618,889	4,732,488,446
Deposits of Central Bank a	and other banks	229,253,533	221,756,139	219,021,384	227,596,814	225,425,517

Items	2019	2018	2017	2016	2015	
Financing from Central Bank and banks		-	-	-	-	-
Financial liabilities mea	sured at fair value through	60,283,847	50,554,317	35,030,435	6,709,063	39,224,475
Derivative financial liabi	lities for hedging	25,537	12,973	60,480	144,195	243,967
Bills and bonds sold und	der repurchase agreements	21,564,871	25,078,047	33,906,120	11,337,914	16,336,619
Payables		43,850,744	45,790,114	42,267,063	41,513,445	42,217,119
Current income tax liabi	lities	1,360,931	291,444	488,722	673,312	395,504
Liabilities related to ass	ets held for sale	-	-	-	-	-
Deposits and remittance	es	3,971,785,851	4,025,739,102	3,941,132,048	3,873,982,764	3,837,520,416
Bonds payable		24,998,820	24,998,566	24,998,316	24,998,082	24,997,826
Preferred stock liabilities	s	-	-	-	-	-
Other financial liabilities	:	962,539	678,843	842,822	748,855	1,785,430
Provision	Provision		315,020,626	314,774,236	283,367,966	264,199,252
Lease liabilities		1,479,132	-	-	-	-
Deferred tax liabilities		18,235,065	18,191,904	18,143,074	18,173,159	18,340,284
Other liabilities		10,694,256	7,750,426	8,505,331	6,924,012	6,954,757
-	Before distribution	4,746,316,725	4,735,862,501	4,639,170,031	4,496,169,581	4,477,641,166
Total liabilities	After distribution	4,747,116,725	4,736,662,501	4,639,770,031	4,496,669,581	4,478,041,166
Equity attributable to	Before distribution	378,252,437	310,129,045	289,042,760	274,449,308	254,847,280
owners of the parent	After distribution	377,452,437	309,329,045	288,442,760	273,949,308	254,447,280
0	Before distribution	109,000,000	95,000,000	95,000,000	95,000,000	95,000,000
Capital stock	After distribution	109,000,000	95,000,000	95,000,000	95,000,000	95,000,000
Capital surplus		108,453,043	80,453,043	80,453,043	80,453,034	80,453,034
	Before distribution	101,473,645	92,761,664	84,512,110	75,707,978	59,290,245
Retained earnings	After distribution	100,673,645	91,961,664	83,912,110	75,207,978	58,890,245
Other equity		59,325,749	41,914,338	29,077,607	23,288,296	20,104,001
Treasury stock		-	-	-	-	-
Non-controlling interests	S	-	-	-	-	-
-	Before distribution	378,252,437	310,129,045	289,042,760	274,449,308	254,847,280
Total equity	After distribution	377,452,437	309,329,045	288,442,760	273,949,308	254,447,280

Note: Figures for 2015 to 2018 are approved by the National Audit Office; figures for 2019 are CPA approved.

Condensed Consolidated Statements of Comprehensive Income

Unit: NT\$1,000

				OIIII. N 1 \$ 1,000	
Year Items	2019	2018	2017	2016	2015
Interest income	66,034,226	63,883,640	59,105,478	59,402,785	64,758,332
Less: Interest expense	39,355,028	38,258,281	33,583,405	33,367,303	36,352,155
Net interest income	26,679,198	25,625,359	25,522,073	26,035,482	28,406,177
Non-interest income, net	15,491,719	13,823,128	7,563,752	18,658,370	6,807,204
Net Revenue	42,170,917	39,448,487	33,085,825	44,693,852	35,213,381
Bad debt expense and reserve for guarantees	7,345,228	7,302,488	1,685,005	5,183,736	4,404,468
Operating expenses	21,614,459	20,669,664	20,104,743	20,075,500	20,207,363
Income before tax from continuing operations	13,211,230	11,476,335	11,296,077	19,434,616	10,601,550
Income tax (expenses) revenues	(2,053,544)	(1,231,129)	(941,749)	(1,780,559)	(1,730,852)
Net income from continuing operations	11,157,686	10,245,206	10,354,328	17,654,057	8,870,698
Gain (Loss) from discontinued operations	-	-	-	-	-
Net income	11,157,686	10,245,206	10,354,328	17,654,057	8,870,698
Other comprehensive income	15,765,706	3,365,802	4,739,114	2,347,971	- 4,235,860
Total comprehensive income	26,923,392	13,611,008	15,093,442	20,002,028	4,634,838
Net income attributable to owners of the parent company	11,157,686	10,245,206	10,354,328	17,654,057	8,870,698
Net income attributable to non-controlling interests	-	-	-	-	-
Total comprehensive income attributable to owners of the parent company	26,923,392	13,611,008	15,093,442	20,002,028	4,634,838
Total comprehensive income attributable to non-controlling interests	-	-	-	-	-
Earnings per share (NT\$)	1.13	1.08	1.09	1.86	0.93

Note: Figures for 2015 to 2018 are approved by the National Audit Office; figures for 2019 are CPA approved.



Condensed Individual Balance Sheets

Unit: NT\$1,000

						Unit: N I \$1,000
Items	Year	2019	2018	2017	2016	2015
Cash, cash equivalents, placement with Central Bank and call loans to banks		704,899,650	700,995,779	833,847,464	809,634,602	721,386,190
Financial assets me through profit or loss	easured at fair value	244,193,929	236,408,718	236,519,757	212,560,998	173,005,205
Financial assets me through other compre	easured at fair value chensive income	1,013,078,126	1,117,727,277	-	-	-
Debt investments me cost	easured at amortized	177,206,775	167,824,692	-	-	-
Available-for-sale fina	ancial assets	-	-	1,135,942,401	1,037,841,339	1,053,598,710
Derivative financial as	ssets for hedging	1,071	41,693	22,759	21,221	15,970
Bills and bonds pur agreements	chased under resell	-	-	-	-	50,040
Receivables, net		58,497,703	59,258,329	59,237,166	63,288,567	72,046,562
Current income tax a	ssets	993,628	1,113,134	1,082,264	761,713	1,343,508
Assets held for sale,	net	-	-	-	-	-
Loans and discounts,	net	2,676,141,224	2,557,027,294	2,285,039,243	2,274,236,504	2,386,598,795
Held-to-maturity finar	ncial assets	-	-	144,060,765	138,812,328	113,786,391
Investments under ed	quity method, net	41,546,961	38,434,590	36,594,041	35,497,450	36,178,241
Restricted assets		-	-	-	-	-
Other financial assets	s, net	40,158,445	46,040,182	75,603,497	76,578,794	68,891,471
Property and equipme	ent, net	138,125,216	96,222,499	96,340,880	96,691,099	96,728,064
Right-of-use asset, no	et	1,603,487	-	-	-	-
Investment property,	net	15,238,207	15,238,207	15,238,207	15,238,207	-
Intangible assets, net	1	873,217	764,829	708,629	802,989	853,571
Deferred tax assets,	net	870,221	308,336	166,887	293,925	472,085
Other assets		11,553,574	8,986,040	8,168,927	8,742,952	7,817,258
Tatal assets	Before distribution	5,124,981,434	5,046,391,599	4,928,572,887	4,771,002,688	4,732,772,061
Total assets	After distribution	5,124,981,434	5,046,391,599	4,928,572,887	4,771,002,688	4,732,772,061
Deposits of Central B	ank and other banks	229,253,533	221,756,139	219,021,384	227,596,814	225,425,517
Financing from Centr	al Bank and banks	-	-	-	-	-
Financial liabilities m through profit or loss	easured at fair value	60,283,847	50,554,317	35,030,435	6,709,063	39,224,475

Year		2019	2018	2017	2016	2015
Derivative financial lia	abilities for hedging	25,537	12,973	60,480	144,195	243,967
Bills and bonds sol agreements	d under repurchase	21,564,871	25,078,047	33,906,120	11,337,914	16,336,619
Payables		43,827,118	45,769,665	42,248,261	41,495,209	42,195,648
Current income tax li	abilities	1,343,857	262,675	480,372	610,261	368,527
Liabilities related to a	ssets held for sale	-	-	-	-	-
Deposits and remitta	nces	3,972,246,112	4,026,190,539	3,941,518,628	3,874,447,418	3,837,851,868
Bonds payable		24,998,820	24,998,566	24,998,316	24,998,082	24,997,826
Preferred stock liabili	ties	-	-	-	-	-
Other financial liabilit	ies	962,539	678,843	842,821	748,855	1,785,430
Provision		361,813,702	315,017,702	314,774,236	283,367,966	264,199,252
Lease liabilities	Lease liabilities		-	-	-	-
Deferred tax liabilities	Deferred tax liabilities		18,191,904	18,143,074	18,173,159	18,340,284
Other liabilities		10,694,864	7,751,184	8,506,000	6,924,444	6,955,368
	Before distribution	4,746,728,997	4,736,262,554	4,639,530,127	4,496,553,380	4,477,924,781
Total liabilities	After distribution	4,747,528,997	4,737,062,554	4,640,130,127	4,497,053,380	4,478,324,781
Equity attributable to	Before distribution	378,252,437	310,129,045	289,042,760	274,449,308	254,847,280
owners of the parent	After distribution	377,452,437	309,329,045	288,442,760	273,949,308	254,447,280
	Before distribution	109,000,000	95,000,000	95,000,000	95,000,000	95,000,000
Capital stock	After distribution	109,000,000	95,000,000	95,000,000	95,000,000	95,000,000
Capital surplus		108,453,043	80,453,043	80,453,043	80,453,034	80,453,034
	Before distribution	101,473,645	92,761,664	84,512,110	75,707,978	59,290,245
Retained earnings	After distribution	100,673,645	91,961,664	83,912,110	75,207,978	58,890,245
Other equity		59,325,749	41,914,338	29,077,607	23,288,296	20,104,001
Treasury stock		-	-	-	-	-
Non-controlling interes	ests	-	-	-	-	-
	Before distribution	378,252,437	310,129,045	289,042,760	274,449,308	254,847,280
Total equity	After distribution	377,452,437	309,329,045	288,442,760	273,949,308	254,447,280

Note: Figures for 2015 to 2018 are approved by the National Audit Office; figures for 2019 are CPA approved.



Condensed Individual Statements of Comprehensive Income

Unit: NT\$1,000

			OIII. N 1 \$ 1,00			
Year Items	2019	2018	2017	2016	2015	
Interest income	66,034,226	63,883,640	59,105,478	59,402,785	64,758,332	
Less: Interest expense	39,355,438	38,258,657	33,583,762	33,367,745	36,352,682	
Net interest income	26,678,788	25,624,983	25,521,716	26,035,040	28,405,650	
Non-interest income, net	15,345,231	13,668,495	7,417,544	18,478,694	6,650,585	
Net Revenue	42,024,019	39,293,478	32,939,260	44,513,734	35,056,235	
Bad debt expense and reserve for guarantees	7,345,228	7,302,488	1,685,005	5,183,736	4,404,468	
Operating expenses	21,507,754	20,563,400	19,998,078	19,958,435	20,098,410	
Income before tax from continuing operations	13,171,037	11,427,590	11,256,177	19,371,563	10,553,357	
Income tax (expenses) revenues	(2,013,351)	(1,182,384)	(901,849)	(1,717,506)	(1,682,659)	
Net income from continuing operations	11,157,686	10,245,206	10,354,328	17,654,057	8,870,698	
Gain (Loss) from discontinued operations	-	-	-	-	-	
Net income	11,157,686	10,245,206	10,354,328	17,654,057	8,870,698	
Other comprehensive income	15,765,706	3,365,802	4,739,114	2,347,971	- 4,235,860	
Total comprehensive income	26,923,392	13,611,008	15,093,442	20,002,028	4,634,838	
Net income attributable to owners of the parent company	11,157,686	10,245,206	10,354,328	17,654,057	8,870,698	
Net income attributable to non-controlling interests	-	-	-	-	-	
Total comprehensive income attributable to owners of the parent company	26,923,392	13,611,008	15,093,442	20,002,028	4,634,838	
Total comprehensive income attributable to non-controlling interests	-	-	-	-	-	
Earnings per share (NT\$)	1.13	1.08	1.09	1.86	0.93	

Note: Figures for 2015 to 2018 are approved by the National Audit Office; figures for 2019 are CPA approved.

2. CPA-Auditor of Financial Report

Year	Name of Accounting Firm	Name of CPA	Audit 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
2019	KPMG Certified Public Accountants	Feng-Hui Lee, Lin Wu	Unqualified Opinion

II. Five-Year Financial Analysis

Consolidated Financial Analysis

Unit: NT\$1,000; %

				Ont. 141-0100			
Items	Year	2019	2018	2017	2016	2015	
	Ratio of Loans to Deposits	68.42	64.39	58.82	59.42	62.79	
	Non-Performing Loan Ratio	0.18	0.21	0.29	0.26	0.23	
	Ratio of Interest Cost to Annual Average Deposits	1.07	1.10	1.07	1.09	1.23	
Operating Ability	Ratio of Interest Income to Annual Average Loans Outstanding	1.60	1.68	1.66	1.69	1.88	
	Total Assets Turnover (Times)	0.83	0.79	0.68	0.94	0.77	
	Average Revenue per Employee	5,064	4,729	4,007	5,517	4,343	
	Average Profit per Employee	1,340	1,228	1,254	2,179	1,094	
	Return on Tier 1 Capital	6.39	5.62	5.63	10.41	6.06	
	Return on Assets	0.22	0.21	0.21	0.37	0.19	
Profitability	Return on Equity	3.24	3.42	3.68	6.67	3.49	
	Net Income Ratio	26.46	25.97	31.30	39.50	25.19	
	Earnings per Share (NT\$)	1.13	1.08	1.09	1.86	0.93	
- ,	Ratio of Liabilities to Assets	92.60	93.84	94.11	94.22	94.59	
Financial Structure	Ratio of Property and Equipment to Equity	36.94	31.03	33.33	35.23	37.96	
Outstand Date	Rate of Asset Growth (Note 4)	1.56	2.39	3.30	0.81	7.50	
Growth Rate	Rate of Profit Growth (Note 4)	15.12	1.60	-41.88	83.32	12.22	
	Cash Flow Ratio	7.05	0.00	1.36	81.26	2.47	
Cash Flow	Cash Flow Adequacy Ratio	547.91	581.82	1,580.25	1,745.34	683.66	
	Cash Flow Satisfied Ratio (Note 4)	2,112.95	0.00	2,207.03	1,611.02	244.81	
Liquidity Rese	erve Ratio	37.41	44.82	49.64	47.90	44.97	
Loans to Part the Bank	ies with Material Relationship with	26,622,691	25,393,089	23,136,658	42,815,251	38,403,189	
Ratio of Loans to Parties with Material Relationship with the Bank to Total Loans		0.94	0.94	0.96	1.79	1.53	
	Market Share of Assets	8.98	9.22	9.40	9.50	9.68	
Operating	Market Share of Net Worth	9.05	8.01	7.96	7.87	7.72	
Scale	Market Share of Deposits	9.36	10.04	10.12	10.36	10.72	
	Market Share of Loans	8.57	8.52	8.05	8.29	8.90	

Note:1. Figures for 2015 to 2018 are approved by the National Audit Office; figures for 2019 are CPA approved.

- 2. The BOT capital increase was approved by the Financial Supervisory Commission on July 17, 2019 (Ref: Letter No. (FSC) Gin-Guan-Yin Kong 10801305311) and by the Ministry of Economic Affairs on October 31, 2019 (Ref: Letter No. (MOEA) Jing-Shou-Shang 10801140660). The date of record for the capital increase is September 25, 2019.
- 3. To reasonably express average interest rate, excess interest paid on preferential-rate deposits was added back into total interest expenditures for 2019, 2018, 2017, 2016 and 2015 in the amounts of NT\$8,781,651,000, NT\$9,584,098,000, NT\$11,005,803,000, NT\$10,777,111,000, and NT\$11,006,752,000, respectively.
- 4. Reasons why the ratio changed during the previous two years by 20% or more:
 - (1) The 2019 loans to deposits ratio increased because the Bank's active pursuit of business development caused its loan business to grow.
 - (2) The increase in the growth rate of profit was due mainly to active pursuit of business development and a resulting increase in loan interest, as well as increased returns from money market operations and investments.
 - (3) Cash flow satisfied ratio increased because the net cash outflow from the investing activities declined.
- 5. Formulae used in calculations:
 - (1) Operating Ability
 - a. Ratio of loans to deposits = Total loans / Total 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 / 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 or loss 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 = Total deposits / Total deposits of the major financial institutions
 - d. Market share of loans = Total loans / Total loans of the major financial institutions
 - (8) Othe
 - a. The total amount of liabilities is net of reserve for guarantees and contingency funds.
 - b. The term "revenues" means the sum total of interest income and non-interest income.
 - c. Cash dividends include cash dividends on common and preferred shares.

Individual Financial Analysis

Unit: NT\$1,000; %

		Offic. NT Q					
Items	Year	2019	2018	2017	2016	2015	
	Ratio of Loans to Deposits	68.41	64.38	58.82	59.42	62.79	
	Non-Performing Loan Ratio	0.18	0.21	0.29	0.26	0.23	
	Ratio of Interest Cost to Annual Average Deposits	1.07	1.10	1.07	1.09	1.23	
Operating Ability	Ratio of Interest Income to Annual Average Loans Outstanding	1.60	1.68	1.66	1.69	1.88	
	Total Assets Turnover (Times)	0.83	0.79	0.68	0.94	0.77	
	Average Revenue per Employee	5,046	4,711	3,989	5,519	4,342	
	Average Profit per Employee	1,340	1,228	1,254	2,189	1,099	
	Return on Tier 1 Capital	6.37	5.59	5.61	10.38	6.03	
	Return on Assets	0.22	0.21	0.21	0.37	0.19	
Profitability	Return on Equity	3.24	3.42	3.68	6.67	3.49	
	Net Income Ratio	26.55	26.07	31.30	39.66	25.30	
	Earnings per Share (NT\$)	1.13	1.08	1.09	1.86	0.93	
	Ratio of Liabilities to Assets	92.60	93.83	94.11	94.23	94.59	
Financial Structure	Ratio of Property and Equipment to Equity	36.94	31.01	33.33	35.23	37.96	
Growth	Rate of Asset Growth (Note 4)	1.55	2.39	3.30	0.81	7.50	
Rate	Rate of Profit Growth (Note 4)	15.26	1.52	-41.89	83.56	12.21	
	Cash Flow Ratio	7.05	0.00	1.36	81.26	2.45	
Cash Flow	Cash Flow Adequacy Ratio	548.71	582.64	1,580.25	1,745.42	683.58	
	Cash Flow Satisfied Ratio (Note 4)	2,116.17	0.00	2,250.10	1,611.45	247.61	
Liquidity Re	serve Ratio	37.41	44.82	49.64	47.90	44.97	
Loans to Pa the Bank	rties with Material Relationship with	26,622,691	25,393,089	23,136,658	42,815,251	38,403,189	
	Ratio of Loans to Parties with Material Relationship with the Bank to Total Loans		0.94	0.96	1.79	1.53	
	Market Share of Assets	8.98	9.22	9.40	9.50	9.68	
Operating	Market Share of Net Worth	9.05	8.01	7.96	7.87	7.72	
Scale	Market Share of Deposits	9.36	10.04	10.12	10.37	10.72	
	Market Share of Loans	8.57	8.52	8.05	8.29	8.90	

Note:1. Figures for 2015 to 2018 are approved by the National Audit Office; figures for 2019 are CPA approved.

^{2.} The BOT capital increase was approved by the Financial Supervisory Commission on July 17, 2019 (Ref: Letter No. (FSC) Gin-Guan-Ying Kong 10801305311) and by the Ministry of Economic Affairs on October 31,2019 (Ref: Letter No. (MOEA) Jing-Shou-Shang 10801140660). The date of record for the capital increase is September 25, 2019.

- 3. To reasonably express average interest rate, excess interest paid on preferential-rate deposits was added back into total interest expenditures for 2019, 2018, 2017, 2016 and 2015 in the amounts of NT\$8,781,167,000, NT\$9,584,098,000, NT\$11,005,334,000, NT\$10,776,632,000, and NT\$11,006,282,000, respectively.
- 4. Reasons why the ratio changed during the previous two years by 20% or more:
 - (1) The 2019 loans to deposits ratio increased because the Bank's active pursuit of business development caused its loan business to grow.
 - (2) The increase in the growth rate of profit was due mainly to active pursuit of business development and a resulting increase in loan interest, as well as increased returns from money market operations and investments.
 - (3) Cash flow satisfied ratio increased because the net cash outflow from the investing activities declined.
- 5. Formulae used in calculations:
 - (1) Operating Ability
 - a. Ratio of loans to deposits = Total loans / Total 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 / 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 or loss 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 = Total deposits / Total deposits of the major financial institutions
 - d. Market share of loans = Total loans / Total loans of the major financial institutions
 - (8) Other
 - a. The total amount of liabilities is net of reserve for guarantees and contingency funds.
 - b. The term "revenues" means the sum total of interest income and non-interest income.
 - c. Cash dividends include cash dividends on common and preferred shares.

Adequacy of Capital

Unit: NT\$1,000

Items		Year	2019	2018	2017	2016	2015
	Common Stocks Ed	quity	260,398,368	209,451,511	204,281,845	196,707,640	176,651,076
Self-Owned	Other Total Tier 1 C Common Stocks Ed	•					
Capital	Tier 2 Capital		37,174,652	41,031,241	42,705,800	44,259,621	50,075,363
	Self-Owned Capita	l	297,573,020	250,482,752	246,987,645	240,967,261	226,726,439
		Standardized Approach	1,955,312,649	1,818,059,477	1,723,632,715	1,845,427,164	1,879,583,822
	Credit Risk	Internal Ratings-Based Approach					
		Securitization	291,897	438,445	249,668	248,551	
		Basic Indicator Approach					
Total Risk- Weighted Assets	Operational Risk	Standardized Approach/ Alternative Standardized Approach	63,628,550	64,333,363	61,430,838	64,622,213	56,853,725
		Advanced Measurement Approach					
	Market Risk	Standardized Approach	82,580,325	112,738,688	95,600,876	90,793,588	89,149,500
	Market Hisk	Internal Model Approach					
	Total Risk-Weighte	d Assets	2,101,813,421	1,995,569,973	1,880,914,097	2,001,091,516	2,025,587,047
Capital Adec	uacy Ratio (%)		14.16	12.55	13.13	12.04	11.19
Ratio of Tier	1 Capital to Risk As	sets (%)	12.39	10.50	10.86	9.83	8.72
Ratio of Com	nmon Stocks Equity t	to Risk Assets (%)	12.39	10.50	10.86	9.83	8.72
Leverage Ra	atio (%)		5.08	4.12	4.10	4.08	3.64

Note:1. Figures for 2015 to 2019 are CPA approved.

- 2. The definition of Self-owned capital, Total risk-weighted assets and Total risk exposure amount 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 capital 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 capital 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 / Total risk exposure amount

III. Statement by the Audit Committee

Please refer to page 105 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 subsidiary") and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, 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 subsidiary as at December 31, 2019 and 2018, 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("FSC").

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Certification of Financial Statements of Financial Institutions by Certified Public Accountants, Ruling No. 10802731571 issued by the FSC and the auditing standards generally accepted in Republic of China in 2019 and 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 in 2018. 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 subsidiary are required to be audited by the Ministry of Audit (the "MoA"). The financial statement for the financial year ended December 31, 2018 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). Our opinion is not modified in respect of this matter.

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 subsidiary amounting to NT\$40,082,243 thousand and NT\$36,994,293 thousand as of December 31, 2019 and 2018, respectively, constituting 0.78% and 0.73% of the related consolidated total assets; nor the related shares of investment profit in associates accounted for using equity method of NT\$3,391,501 thousand and NT\$3,108,235 thousand for the years then ended, respectively, constituting 8.04% and 7.88% of the related consolidated net revenue. 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 2019 and 2018, 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, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

1. The assessment of impairment of financial assets

Please refer to Note 4(l) "Impairment of assets" for related accounting policy, Note 5(b) "The evaluation of financial asset impairments" for the uncertainty of accounting assumptions and estimations, and Note 8 "Financial risk management" for the details of the evaluation of financial asset 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 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. Eventually, the assumptions used may also affect the estimated amount significantly. Furthermore, the amount of financial assets which required impairment tests is material to the Bank and subsidiary. 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 of credit and investment business, 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 fair value valuation of non-active market or non-quoted 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 the details of valuation of financial instruments.

Description of key audit matters

The Bank and 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 subsidiary hold as of December 31, 2019 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 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 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, 2019 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 20, 2020

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and 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.

BANK OF TAIWAN AND SUBSIDIARY Consolidated Balance Sheets December 31, 2019 and 2018 (Expressed in Thousands of New Taiwan Dollars)

		December 31, 2019		December 31, 2018	81			December 31, 2019 December 31, 2018
11000	Assets Cash and Cash Equivalents (note 6(a), (h), 7, 8 and 10)	Amount \$ 144,312,808		Amount 165,864,960	° %		Liabilities and Equity	Amount % Amount %
11500	Placement with Central Bank and Call Loans to Banks (note 6(b), (h), 7, 8,	560,586,872	11 5	535,130,849	Ξ	21000	Deposits of Central Bank and other banks (note 6(r), 7 and 10)	\$ 229,253,533 5 221,756,139 4
	10 and 11)					22000	Financial Liabilities Measured at Fair Value through Profit or Loss (note	60,283,847 1 50,554,317 1
12000	Financial Assets Measured at Fair Value through Profit or Loss (note 6(c), 7,	7, 244,193,929	5 2	236,408,718	5		6(s), 7, and 10)	
	8 and 10)					22300	Hedging Derivative Financial Liabilities, net (note 6(e) and 7)	25,537 - 12,973 -
12100	Financial Assets Measured at Fair Value through Other Comprehensive	1,013,078,126	20 1,1	1,117,727,277	22	22500	Bills and Bonds Sold under Repurchase Agreements (note 6(f) and 7)	21,564,871 - 25,078,047 -
	Income (note 6(d), (q), 7, 8 and 11)					23000	Payables (note 6(t), 7 and 10)	43,850,744 1 45,790,114 1
12200	Debt Investments Measured at Amortized Cost(note 6(i), (q), 7, 8 and 11)	177,206,775	3 1	167,824,692	3	23200	Current Income Tax Liabilities	1,360,931 - 291,444 -
12300	Hedging Derivative Financial Assets, net (note 6(e), 7 and 8)	1,071	ì	41,693	,	23500	Deposits and Remittances (note 6(u), 7 and 10)	3,971,785,851 78 4,025,739,102 81
13000	Receivables, net (note 6(g), 7, 8 and 10)	58,510,274	_	59,274,333	_	24000	Financial Bonds Payable (note 6(v) and 7)	24,998,820 - 24,998,566 -
13200	Current Income Tax Assets	993,628	,	1,113,134	,	25500	Other Financial Liabilities (note 6(w) and 7)	962,539 - 678,843 -
13500	Loans and Discounts, net (note 6(h), 7, 8 and 10)	2,676,141,224	52 2,5	2,557,027,294	51	25600	Provision (note $6(x)$ and (y))	361,821,599 8 315,020,626 6
15000	Investments under Equity Method, net (note 6(j))	41,109,560	_	38,007,840	_	26000	Lease Liabilities (note 6(z))	1,479,132
15500	Other Financial Assets, net (note 6(g), (k), (q), 7, 8 and 10)	40,158,445	_	46,040,182	_	29300	Deferred Tax Liabilities (note 6(ac))	18,235,065 - 18,191,904 -
18500	Property and Equipment, net (note 6(l) and (q))	138,128,918	3	96,226,027	2	29500	Other Liabilities (note 6(ab) and 10)	10,694,256 - 7,750,426 -
18600	Right-of-Use Assets, net (note 6(m))	1,603,487	,	,	,		Total liabilities	<u>4,746,316,725</u> <u>93</u> <u>4,735,862,501</u> <u>93</u>
18700	Investment Property (note 6(n))	15,238,207	,	15,238,207	,	E	Equity attributable to owners of parent(note 6(ad)):	
19000	Intangible Assets, net(note 6(0))	873,797	,	764,936	,	31101	Capital stock	109,000,000 2 95,000,000 2
19300	Deferred Tax Assets(note 6(ac))	875,458	,	312,291	,	31500	Capital surplus	108,453,043 2 80,453,043 2
19500	Other Assets, net(note 6(p) and 10)	11,556,583	,	8,989,113	,	~	Retained earnings:	
						32001	Legal reserve	44,692,790 1 42,037,924 1
						32003	Special reserve	36,640,733 1 33,103,998 1
						32005	Unappropriated retained earnings	20,140,122 - 17,619,742 -
								101,473,645 2 92,761,664 2
						32500	Other equity	59,325,749 1 41,914,338 1
					ı		Total equity	378,252,437 7 310,129,045 7
	Total assets	\$ 5,124,569,162 1	100 50	5,045,991,546 100	의	I	Total liabilities and equity	\$ 5,124,569,162 100 5,045,991,546 100

See accompanying notes to consolidated financial statements.



Consolidated Statements of Comprehensive Income For the years ended December 31, 2019 and 2018

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

		2019		2018		Change
		Amount	%	Amount	%	%
	Revenue and income:				_	
41000	Interest income (note 6(ae) and 10)	\$ 66,034,226	157	63,883,640	162	3
51000	Less:Interest expense (note 6(ae) and 10)	(39,355,028)	(93)	(38,258,281)	(97)	3
	Net interest income (note 6(ae))	26,679,198	64	25,625,359	65	4
	Non-interest income, net					
49100	Service fees ,net (note 6(af) and 10)	5,174,087	12	5,299,378	13	(2)
49200	Gain (loss) on financial assets or liabilities measured at fair value through profit or loss (note 6(ag) and 10)	48,786,406	116	(4,510,425)	(11)	1,182
49310	Realized gains from financial assets measured at fair value through other comprehensive income (note 6(ah))	3,580,638	8	2,925,419	7	22
49600	Foreign exchange gain (loss) (note 6(ai) and 10)	(203,841)	-	5,712,951	14	(104)
49700	Provision of impairment loss on assets (note 6(1) and (q))	(1,350)	-	(86,510)	-	98
49750	Share of profit (loss) of associates and joint ventures accounted for using equity method (note 6(j))	3,394,697	8	2,800,149	7	21
49837	Premiums (loss) gain (note 6(aj))	(1,160,160)	(3)	1,620,567	4	(172)
49843	Sales income (note 6(p) and (aj))	500,387	1	366,662	1	36
48054	Subsidized income from government (note 6(ai) and 16(c))	8,774,387	21	8,892,009	23	(1)
49898	Excess preferential interest expenses (note 6(g) and (aj))	(8,781,651)	(21)	(9,584,580)	(24)	8
49871	Provisions for policyholders' reserve premium (note 6(aj))	(45,358,797)		(1,371,850)	(3)	(3,206)
49899	Excess interest expenses(note 6(aj) and 10)	786,916	2	1,759,358	4	(55)
	Net Revenue	42,170,917	100	39,448,487	100	7
58200	Bad debt expense and reserve for guarantees (note 6(h))	(7,345,228)	(17)	(7,302,488)	(19)	1
	Expenses: (note 16(a))					
58500	Employee benefits expenses (note 6(y), (ak) and 10)	(13,144,881)	(31)	(12,579,869)	(32)	4
59000	Depreciation and amortization expenses (note 6(al))	(1,638,135)	(4)	(987,343)	(3)	66
59500	Other general and administrative expenses (note 6(am) and 10)	(6,831,443)	(16)	(7,102,452)	(18)	(4)
	Total Expenses	(21,614,459)	(51)	(20,669,664)	(53)	5
	Profit from continuing operations before tax	13,211,230	32	11,476,335	28	15
61003	Less: Income tax expenses (note 6(ac))	2,053,544	5	1,231,129	3	67
01005	Net profit	11,157,686	27	10,245,206	25	9
65000	Other comprehensive income:					
65200	Components of other comprehensive income that will not be reclassified to profit or loss					
65201	Losses on remeasurements of defined benefit plans	(1,568,890)	(4)	(1,085,289)	(3)	(45)
65205	Change in fair value of financial liability attributable to change in credit risk of liability	(299,554)	(1)	239,502	1	(225)
65204	Unrealized gains from investments in equity instruments measured at fair value through other comprehensive income		39	4,416,925	11	268
65206		832,580	2	(114,943)	-	824
63206	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss	832,380	2	(114,943)	-	824
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	15,206,258	36	3,456,195	9	822
65300	Components of other comprehensive income (loss) that will be reclassified to profit or loss					
65301	Exchange differences on translation of foreign financial statements	(445,785)	(1)	574,152	1	(178)
65308	Unrealized gains (losses) from investments in debt instruments measured at fair value through other comprehensive income	821,721	2	(569,070)	(1)	244
65306	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	213,814	1	(176,704)	-	221
65320	Components of other comprehensive income that will be reclassified to profit or loss(note 6(ac))	30,302		(81,229)		137
	Components of other comprehensive income that will be reclassified to profit or loss	559,448	2	(90,393)		719
65000	Other comprehensive income	15,765,706	38	3,365,802	9	368
	Total comprehensive income	\$ <u>26,923,392</u>	65	13,611,008	34	98
	Basic earnings per share(In dollars)(note 6(an))	s	1.13		1.08	

Consolidated Statements of Changes in Equity For the years ended December 31, 2019 and 2018 (Expressed in Thousands of New Taiwan Dollars)

						17	equity attributable to owilers of parent	JAMES OF BALCIE							
						•				Other equity interest	ty interest				
								sets Bairs	Unrealized gains (Josses) on	Gains (losses) on	Change in fair value of financial liability	Gains (losses) on	Other comprehensive income		
	Share capital Ordinary shares	Canital surnlus	Legalreserve	Retained earnings Undist	unings Undistributed earnings	Total	foreign financial statements	other comprehensive income	available-for- sale financial	effective portion of cash flow hedges	attributable to change in credit risk of liability	financial instruments for hedeine	reclassified by applying overlay approach	Total	Total county
Balance at January 1, 2018	\$ 95,000,000	80,453,043		29,383,528	15,881,896	84,512,109	(1,316,795)		30,435,010	3,991	(44,599)	4	-	29,077,607	289,042,759
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
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
Appropriation and distribution of retained earnings:															
Legal reserve appropriated		,	2,791,239		(2,791,239)	,		,	,				,		
Special reserve appropriated		,		3,722,511	(3,722,511)					,					
Cash dividends of ordinary share		,			(000,009)	(000,000)				,					(000,000)
Reversal of special reserve		,		(2,041)	2,041					,					
Net income for the period		,			10,245,206	10,245,206				,					10,245,206
Other comprehensive income					(1,146,774)	(1,146,774)	665,984	3,635,389	,		237,114	202	(26,113)	4,512,576	3,365,802
Total comprehensive income					9,098,432	9,098,432	665,984	3,635,389			237,114	202	(26,113)	4,512,576	13,611,008
Disposal of investments in equity instruments designated at fair value through other															
comprehensive income		j	İ		(56,468)	(56,468)		56,468						56,468	
Balance at December 31, 2018	95,000,000	80,453,043	42,037,924	33,103,998	17,619,742	92,761,664	(650,811)	42,375,680	,	,	192,515	4,193	(7,239)	41,914,338	310,129,045
Appropriation and distribution of retained earnings:															
Legal reserve appropriated		,	2,654,866		(2,654,866)	,	,	,	,	,	,	,	,	,	,
Special reserve appropriated		,	,	3,539,881	(3,539,881)	,	,	,	,	,	,	,	,	,	,
Cash dividends of ordinary share		,	,		(800,000)	(800,000)	,	,	,	,	,	,	,	,	(800,000)
Reversal of special reserve				(3,146)	3,146										
Net income for the period		,			11,157,686	11,157,686				,					11,157,686
Other comprehensive income					(1,639,655)	(1,639,655)	(699,412)	18,370,191	,		(301,751)	(238)	36,571	17,405,361	15,765,706
Total comprehensive income					9,518,031	9,518,031	(699,412)	18,370,191	,		(301,751)	(238)	36,571	17,405,361	26,923,392
Capital increase based on land pricing	14,000,000	28,000,000													42,000,000
Disposal of investments in equity instruments designated at fair value through other															
comprehensive income		İ			(6,050)	(6,050)		6,050	,					6,050	
Balance at December 31, 2019	S 109,000,000	108,453,043	44,692,790	36,640,733	20,140,122	101,473,645	(1,350,223)	60,751,921			(109,236)	3,955	29,332	59,325,749	378,252,437

See accompanying notes to consolidated financial statements.



Consolidated Statements of Cash Flows

For the years ended December 31, 2019 and 2018 (Expressed in Thousands of New Taiwan Dollars)

Decrease in receivables 2,494,367 4,445,804 Increase in discounts and loans (126,391,577) (279,369,555) Decrease in other financial assets 5,881,738 6,388,650 (Increase) decrease in other assets (2,913,765) 49,805 Increase in deposits from the central bank and banks 7,497,394 2,734,755 Increase in financial liabilities measured at fair value through profit or loss 7,295,33,822 16,729,730 15,253,882 Increase (decrease) in financial liabilities measured at fair value through profit or loss 3,513,176 (47,507) Decrease in ontes and bonds issued under repurchase agreement 3,513,176 (47,507) (Decrease) increase in provisions for emptyseles 3,393,251 84,607,034 (Decrease) increase in provisions for employee benefits 1,387,543 1,075,797 (Decrease) increase in other liabilities 2,242,133 24,413,695 222,833,484 Case outflow generated from operations (13,232,465) 221,337,149 Interest received 5,734,668 6,908,98 Interest received 6,943,695 4,646,670 Dividends received 7,734,668			2019	2018
Adjustments reconcile profits 1,373,167 75,575,500 Depreciation expense 1,373,162 75,575,500 Amortization expense 1,373,262 73,002,888 Interest reconse 3,303,252 3,203,283 Interest reconse (66,004,252) 63,005,000 Interest reconse (66,004,252) 63,005,000 Not change in other princisions 3,304 (200,000) Share of profit seascetas and significant vateurs accounted for tuning equity method 3,384 (200,000) Share of profit a seascetas and significant vateurs accounted for tuning equity method 3,381 (200,000) Share of profit a seascetas and significant season 4,000 2,000 Impairment soon of insucial season 4,000 2,000 Impairment soon of insucial season 4,000 2,000 Impairment soon of insucial season 4,000 2,000 Impairment soon of insucial season 4,000 2,000 Impairment soon of insucial season 4,000 2,000 Impairment soon of insucial season 4,000 2,000 Impairment soon of insucial season		•	13 211 230	11 476 335
Pages Page		Ψ	13,211,230	11,470,555
Autoritation cuponed 131.88 208.938 126.928 12	·			
Expected coefficients	Depreciation expense		1,373,149	755,550
Interest expense 39,35,08 38,35,38,18 Interest temones 66,68,126 68,683,40 10,683,40 1	Amortization expense			
Personal process of the control of				
Notine finemer School Sc	•			
Any Catange in other provisions 1,373,271,97 Gia from prife recovery of inventory 2,000,000 Lass of upfulf of associates and joint ventures accounted for using equity method 5,781 6,126 Lass of upfulf of associates and joint ventures accounted for using equity method 2,000,000 6,126 Reversal or impuriment loss on financial assets 0,000 2,000 6,20 Reversal or impuriment loss on financial assets 0,000 6,20 2,000 6,000 The primer loss on non-financial assets 0,000 1,000 2,000 1,000				
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Page	•		-	4,918
Total adjistments to reconsile profit (a.7.2	•			-
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Decrease (increase) in financial assets for hedging	· · · · · · · · · · · · · · · · · · ·			
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Cases in discounts and loans	Decrease (increase) in financial assets for hedging		40,622	(18,934)
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See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements For the years ended December 31, 2019 and 2018 (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 managing business operations associated with the issuance of 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; \$95 billion in October 2014 and \$109 billion in September 2019.

(Continued)



BANK OF TAIWAN AND SUBSIDIARY Notes to the Consolidated Financial Statements

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, 2019, 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 General Affairs, Secretariat, Department of Human Resources, Department of Ethics, 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 and Training Institute. There were 163 domestic branches, 1 offshore banking unit, 11 overseas branches, 1 subbranch (in Shanghai Jiading), 8 representative offices (in Mumbai, Yangon and Silicon Valley, Bangkok, Frankfurt, Manila, Ho Chi Minh City and Djakarta) and 1 preparatory offices (in 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, 2019 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 13, 2020 and were authorized for issue by the Board of Directors on March 20, 2020.

(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, 2019.

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
	(Continued)

	Effective date
New, Revised or Amended Standards and Interpretations	per IASB
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 believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

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.

The Bank and subsidiary applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings on January 1, 2019. The details of the changes in accounting policies are disclosed below,

(i) Definition of a lease

Previously, the Bank and subsidiary determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Bank and subsidiary assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4(i).

On transition to IFRS 16, the Bank and subsidiary elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Bank and subsidiary applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

(ii) As a lessee

As a lessee, the Bank and subsidiary previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Bank and subsidiary. Under IFRS 16, the Bank and subsidiary recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

Except real estate and dedicated line, the Bank and subsidiary decided to apply recognition exemptions to short-term leases of all other objects.

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank and subsidiary's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments — the Bank and subsidiary applied this approach to all other lease.



In addition, the Bank and subsidiary used the following practical expedients when applying IFRS 16 to leases.

- 1) Applied a single discount rate to a portfolio of leases with similar characteristics.
- 2) Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- 3) Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(iii) As a lessor

The Bank and subsidiary is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Bank and subsidiary accounted for its leases in accordance with IFRS 16 from the date of initial application.

(iv) Impacts on financial statements

On transition to IFRS 16, the Bank and subsidiary recognized additional \$1,634,839 thousand of lease liabilities, \$128,628 thousand of prepaid rents, and \$1,763,467 thousand of right-of-use assets with no difference in retained earnings. When measuring lease liabilities, the Bank and subsidiary discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 1.165%.

The explanation of differences between operating lease commitments disclosed at the end of the annual reporting period immediately preceding the date of initial application, and lease liabilities recognized in the statement of financial position at the date of initial application disclosed as follows:

	Jan	uary 1, 2019_
Operating lease commitment at December 31, 2018 as disclosed in the Bank and subsidiary's consolidated financial statements	\$	1,046,479
Recognition exemption for:		
short-term leases		(874)
Leases of low-value assets		(1,560)
Extension and termination options reasonably certain to be exercised		241,978
Variable lease payment based on an index or a rate		412,799
	\$	1,698,822
Discounted using the incremental borrowing rate at January 1, 2019	\$	1,634,839
Finance lease liabilities recognized as at December 31, 2018		
Lease liabilities recognized at January 1, 2019	\$	1,634,839

(Continued)

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(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, 2020 in accordance with Ruling No. 1080323028 issued by the FSC on July 29, 2019:

New, Revised or Amended Standards and Interpretations	per IASB
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 9, IAS39 and IFRS7 "Interest Rate Benchmark Reform"	January 1, 2020
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

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

(i) Amendments to IFRS 9, IAS39 and IFRS7 "Interest Rate Benchmark Reform"

The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform. They are mandatory and apply to all hedging relationships directly affected by uncertainties related to IBOR reform. For example, the entities are required to assume that the interest rate benchmark on which hedged cash flows are based is not altered as a result of IBOR reform when assessing whether the future cash flows are highly probable.

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

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

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 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 "Classification of Liabilities as Current or Non-current"	January 1, 2022



Those which may be relevant to the Bank and subsidiary are set out below:

Issuance / Release	Standards or	
Dates	Interpretations	Content of amendment
September 11, 2014	Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture.
		The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.
May 18, 2017	IFRS 17 "Insurance Contracts"	The new standard of accounting for insurance contracts contain recognition, measurement, presentation and disclosure of insurance contracts issued, and the main amendments are as follows:
		• Recognition: the beginning of the coverage period of the group of contracts, the date when the first payment from a policyholder in the group becomes due and when the group becomes onerous shall recognize a group of insurance contracts it issues from the earliest.
		• Measurement: on initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. For subsequent measurement, the entity shall estimate the cash flows, discount rates and the adjustment for non-financial risk.
		• Presentation and disclosure: the presentation of insurance revenue is based on the provision of service pattern and investment components excluded from

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

insurance revenue.

BANK OF TAIWAN AND SUBSIDIARY

Notes to the Consolidated Financial Statements

(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 of 2018 was certified by the MoA, and the opening balances of retained earnings of 2019 are the same as those certified in the closing balances of 2018. Please refer to 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

			Snaren	oldings		
			December	December		
Name of Investor	Name of Subsidiary	Principal activities	31, 2019	31, 2018	Note	
Bank of Taiwan	BankTaiwan Insurance Brokers	Life and Property	100.00 %	100.00 %		
	("BTIB")	insurance broker				

(c) Basis of preparation

(i) Basis of measurement

The consolidated financial statements are prepared on a historical cost basis, except for the following items.

- 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;
- 3) Derivative financial instruments designated as hedges which are measured at fair value;

4) 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 represented in New Taiwan Dollars has been rounded to the nearest thousand..

(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 beginning 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.

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

- 1) equity instruments measured at fair value through other comprehensive income;
- 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 which are in accordance with the definition of cash and cash equivalents in the International Accounting Standards 7 accepted by the FSC.

(f) Financial instruments

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Bank and subsidiary become a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(i) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

On initial recognition, a 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.

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, 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.

BANK OF TAIWAN AND SUBSIDIARY

Notes to the Consolidated Financial Statements

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.

Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Equity investments at FVOCI are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income and are never reclassified to profit or loss.

Dividend income is recognized in profit or loss on the date on which the Bank and subsidiary's right to receive payment is established.

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.

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

4) 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.

5) 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)

BANK OF TAIWAN AND SUBSIDIARY

Notes to the Consolidated Financial Statements

6) 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.

The Bank and subsidiary enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

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

2) Equity instrument

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

3) Compound financial instruments

Compound financial instruments issued by the Bank and subsidiary comprise convertible bonds denominated in NTD that can be converted to ordinary shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of compound financial instruments is initially recognized at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

Interest related to the financial liability is recognized in profit or loss. On conversion at maturity, the financial liability is reclassified to equity and no gain or loss is recognized.

4) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

5) Derecognition of financial liabilities

The Bank and subsidiary derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Bank and subsidiary also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

6) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Bank and subsidiary currently have a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

7) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL and do not arise from a transfer of an asset, are measured subsequently at the higher of: (a) the amount of the loss allowance determined in accordance with IFRS 9; and (b) the amount recognized initially less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out below.

(iii) Derivative financial instruments and hedge accounting

The Bank and subsidiary hold derivative financial instruments to hedge its foreign currency and interest rate exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

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

The Bank and subsidiary designates certain hedging instruments as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At initial designated hedging relationships, the Bank and subsidiary document the risk management objectives and strategy for undertaking the hedge. The Bank and subsidiary also document the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged items and hedging instrument are expected to offset each other.

Where hedging gains or losses are recognized in profit or loss, they are recognized in the same line as the hedged item.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. The discontinuation is accounted for prospectively. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

(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 and subsidiary 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 and subsidiary 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.

Gains and losses resulting from transactions between the Bank and subsidiary and an associate are recognized only to the extent of unrelated Bank and subsidiary's interests in the associate.

When the Bank and subsidiary'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 and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is recognized in profit or loss.

(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 if it is probable that the future economic benefits associated with the expenditure will flow to the Bank and subsidiary.

(iv) Depreciation

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

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 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

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(i) Lease

Applicable from January 1, 2019

(i) Identifying a lease

At inception of a contract, the Bank and subsidiary assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank and subsidiary assesses whether:

- 1) the contract involves the use of an identified asset this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- 2) the Bank and subsidiary have the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- 3) the Bank and subsidiary have the right to direct the use of the asset throughout the period of use only if either:
 - the Bank and subsidiary have the right to direct how and for what purpose the asset is used throughout the period of use; or
 - the relevant decisions about how and for what purpose the asset is used are predetermined and:
 - the Bank and subsidiary have the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
 - the Bank and subsidiary designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

At inception or on reassessment of a contract that contains a lease component, the Bank and subsidiary allocate the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

(ii) As a leasee

The Bank and subsidiary recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Bank and subsidiary's incremental borrowing rate. Generally, the Bank and subsidiary uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- payments for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- there is a change in future lease payments arising from the change in an index or rate; or
- there is a change in the Bank and subsidiary's estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change in the lease term resulting from a change of its assessment on whether it will exercise an option to purchase the underlying asset, or
- there is a change of its assessment on whether it will exercise a purchase, extension or termination option; or
- there is any lease modifications

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Bank and subsidiary accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Bank and subsidiary presents right-of-use assets that do not meet the definition of investment and lease liabilities as a separate line item respectively in the statement of financial position.

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Notes to the Consolidated Financial Statements

The Bank and subsidiary have elected not to recognize right-of-use assets and lease liabilities for short-term leases. The Bank and subsidiary recognize the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(iii) As a leasor

When the Bank and subsidiary acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Bank and subsidiary makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then the lease is an operating lease. As part of this assessment, the Bank and subsidiary considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, the Bank and subsidiary choose not to allocate the consideration in the contract.

Applicable before January 1, 2019

(i) Lessor

A finance lease asset is recognized on a net basis as lease receivable. Initial direct costs incurred in negotiating and arranging an operating lease are added to the net investment in the leased asset. The finance income is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the receivable.

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

Contingent rents are recognized as income in the period when the lease adjustments are confirmed.

(ii) Lessee

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

Minimum lease payments made under finance leases are apportioned between the finance cost and the reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and are not recognized in the Company and subsidiaries' s balance sheets.



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

Contingent rent is recognized as expense in the period in which it is incurred.

(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.

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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.

(1) Impairment of Assets

(i) Impairment of financial assets

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, loans, margins or security deposits, and other financial assets) and debt investments measured at fair value through other comprehensive income.

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 Bank and subsidiary 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 Bank and subsidiary 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.

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 and subsidiary' procedures for recovery of amounts due.

(ii) Impairment loss of non financial assets

At each reporting date, the Bank and subsidiary reviews the carrying amounts of its non-financial assets (other than inventories, contract assets, deferred tax assets and investment properties and biological assets, measured at fair value, less costs) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(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.

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(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

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.

- (i) 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.
- (ii) 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:
 - 1) the seller has transferred to the buyer the significant risks and rewards of ownership.
 - 2) it is probable that the economic benefits associated with the transaction will flow to the seller
 - 3) the costs incurred or to be incurred in respect of the transaction can be measured reliably,
 - a) the seller retains neither continuing managerial involvement to degree usually associated with ownership nor effective control over the goods sold, and
 - 4) the amount of revenue can be measured reliably.
 - 5) 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.

(iii) Service fee income and expense

1) 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.

- 2) 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.
- (iv) Dividend revenue: it shall be recognized if and only if the Bank and subsidiary have right to receive the dividend revenue.
- (v) 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.
- (vi) 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.

(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 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.

- For the definite benefit plan, the independent actuary of the Bank and subsidiary use 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. Remeasurements of the net defined benefit liability (asset) include (a) actuarial gains or losses, (b) return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset), and (c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset). The amounts recognized in other comprehensive income will not be reclassified subsequently to profit or loss. The Bank and subsidiary could transfer the amounts recognized in other comprehensive income to equity. The Bank and subsidiary decided to recognize remeasurements of the defined benefit plan to retained earnings; actuarial gains or losses for practical experience or actuarial assumptions changes recognize to other comprehensive income immediately. Prior period servicing costs should recognize in profit or loss immediately. Defined benefit plan pension for period adopts pension cost rate determined by actuarial assumptions at prior reporting date and is calculated based on fiscal year. The pension also makes the adjustments to reflect significant market volatility, significant curtailment and settlement, or other significant nonrecurring matter after reporting date.
- 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 comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

(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 fair value valuation of non-active market or non-quoted 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

The financial asset impairments of the Bank and subsidiary (including gaurantees and loan commitments 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.

(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 rely 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.

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 and subsidiaries 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 should be inconsistent with the currency used for retirement benefit payments, (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:

Cash and Cash Equivalents

	D	ecember 31, 2019	December 31, 2018
Cash on hand	\$	12,143,159	12,838,199
Foreign currency on hand		13,515,714	12,744,005
Notes and checks for clearing		4,456,443	9,914,126
Placement with banks		114,038,219	130,389,598
Cash in transit		178,426	-
Less: Allowance for bad debts – placement with banks	_	(19,153)	(20,968)
Total	\$	144,312,808	165,864,960

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

	D	ecember 31, 2019	December 31, 2018
Cash and cash equivalents in consolidated balance sheets	\$	144,312,808	165,864,960
Placement with the Central Bank of R.O.C. and other banks that meet the definition of cash and cash equivalents in IAS 7		186,167,478	162,126,076
Securities purchased under agreements to resell that meet the definition of cash and cash equivalents in IAS 7		592,051,204	573,475,179
Total	\$	922,531,490	901,466,215

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.

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

	D	ecember 31, 2019	December 31, 2018
Call loans to banks	\$	164,756,870	130,191,705
Less: allowance for doubtful accounts—call loans to banks		88,767	55,833
Deposit reserve – account A and account B		97,220,751	108,000,510
Deposit reserve - foreign - currency deposits		696,546	720,060
Deposits in Central Bank – oversea branches		4,513,352	2,779,045
Deposits in Central Bank		293,488,120	293,495,362
Total	\$	560,586,872	535,130,849

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, 2019 and 2018, 60% of the reserve deposits collected on behalf of a government institution amounting to \$4,288,120 thousand and \$4,295,362 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:

	D	December 31, 2019	December 31, 2018
Financial assets designated at fair value through profit or loss	\$	18,906,332	15,556,919
Add: Valuation adjustment	_	455,136	(91,199)
Subtotal	_	19,361,468	15,465,720
Financial assets mandatorily measured at fair value through profit or loss		170,511,365	203,210,301
Add: Valuation adjustment	_	54,321,096	17,732,697
Subtotal	_	224,832,461	220,942,998
Total	\$_	244,193,929	236,408,718

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

	Do	ecember 31, 2019	December 31, 2018
Foreign government bonds, corporate bonds, financial bonds and others	\$	18,906,332	15,556,919
Add: Valuation adjustment	_	455,136	(91,199)
	\$	19,361,468	15,465,720

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

	December 31, 2019	December 31, 2018
Commercial papers	\$ 29,557,348	38,969,252
Foreign government bonds	89,235	59,999
Corporate bonds	715,023	517,928
Convertible bonds	2,152,504	3,969,775
Negotiable certificates of deposits	-	15,502,549
Stocks and beneficiary certificates	137,937,498	144,121,620
Foreign exchange call options	3,063	1,843
Bonds futures guarante deposits	-	-
Currency futures	5,154	5,611
Commodity futures	51,540	61,724
Add: Valuation adjustment—Non derivative financial instruments	43,681,091	11,397,106
Valuation adjustment—Foreign exchange call options	3,790	537
Valuation adjustment—Cross currency swaps	29,767	-
Valuation adjustment — Swaps	9,204,550	5,866,915
Valuation adjustment - Asset swaps	1,240,176	25,483
Valuation adjustment - Interest rate swaps	51,026	384,341
Valuation adjustment—Forward foreign exchange	113,844	58,387
Valuation adjustment — filxed-rate commerical papers	(3,148)	-
Valuation adjustment - Commodity futures		(72)
	\$ <u>224,832,461</u>	220,942,998

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

	December 31, 2019		December 31, 2018	
Foreign exchange call options	\$	980,913	378,906	
Swaps		479,981,365	638,874,880	
Interest rate swaps		15,173,142	19,032,894	
Forward foreign exchange		12,064,801	7,230,247	
Fixed-rate commercial papers		200,000	-	
Cross currency swaps		43,366,828	4,702,455	
Commodity futures		1,086,400	-	
			4,207	
	\$	552,853,449	670,223,589	

- (v) 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".
- (vi) Profit and loss on investments, please refer to note 6(ag).
- (vii) As of December 31, 2019, 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

	December 31, 2019		December 31, 2018	
Debt instruments measured at fair value through other comprehensive income:				
Negotiable certificates deposits	\$	718,770,000	852,920,000	
Government bonds		54,402,969	57,276,878	
Foreign government bonds, corporate bonds, financial bonds, and NCDs		79,659,961	80,041,386	
Financial bonds		17,718,644	8,705,001	
Corporate bonds		45,389,607	40,835,988	
Financial asset securitization beneficiary certificates		250,716	500,000	
Add: Valuation adjustment		1,602,351	731,461	
Subtotal		917,794,248	1,041,010,714	
Equity instruments measured at fair value through other comprehensive income:				
Stocks		38,479,456	36,064,117	
Add: Valuation adjustment		56,804,422	40,652,446	
Subtotal		95,283,878	76,716,563	
Total	\$	1,013,078,126	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) During the years ended December 31, 2019 and 2018, the dividends of \$3,184,773 thousand and \$2,928,331 thousand, respectively, related to equity investments at fair value through other comprehensive income held on the years then ended December 31, 2019 and 2018, were recognized; the dividend of \$109,193 thousand and \$5,253 thousand related to the investments derecognized during the years ended December 31, 2019 and 2018, respectively, were recognized.
- 2) As of December 31, 2019 and 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 \$2,756,836 thousand and \$124,655 thousand the Bank and subsidiary realized a gain of \$90,146 thousand and \$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, 2019, 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:

	D	December 31, 2019		December 31, 2018	
Fair value hedges:					
Interest rate swap	\$		1,071	41,693	
The details of hedging derivatives financial lia	bilities were as follo	ows:			
	D	ecembe 2019	,	December 31, 2018	
Fair value hedges:					
Interest rate swap	\$		25,537	12,973	

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 Va			
Hedged Item	Designated Hedging Instruments		December 31, 2019	December 31, 2018	
USD financial bonds	Interest rate swap	\$	(22,055)	32,993	
USD corporate debts	"		(2,849)	3,954	
USD government debts	"		438	(8,227)	



The net gain(loss) of hedging instruments for the years ended December 31, 2019 and 2018 amounted to (58,149) thousand and 29,480 thousand, respectively. The net losses of hedged items embedded in hedging instrument for the years ended December 31, 2019 and 2018 amounted to 53,890 thousand and (67,296) thousand, respectively.

(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,

			2019	2018
	Bills and bonds sold under repurchase agreements:			
	Commercial papers	\$	29,973	29,975
	Government bonds		19,744,196	6,607,072
	Corporate bonds		-	2,200,333
	Financial bonds		1,790,702	15,615,526
	Foreign government bonds		-	333,911
	Supranational bonds			291,230
	Total	\$	21,564,871	25,078,047
(g)	Receivables, Net			
		De	ecember 31, 2019	December 31, 2018
	Notes receivable	\$	4,722	4,165
	Accounts receivable		1,100,258	1,296,947
	Long-term receivables — payment on behalf of the government		16,350,219	16,097,415
	Accrued revenues		1,121,473	857,093
	Interests receivable		14,613,667	14,554,314
	Premiums receivable		139,660	138,389
	Acceptance notes receivable		1,188,566	2,908,367
	Accounts receivable factoring without recourse		12,132,076	13,232,575
	Others – replenishment of national treasury		7,362,748	6,299,347
	Others—undelivered spot exchanges		585	44
	Other – ATM temporary receipts, payments and interbank differences		2,291,552	1,739,188
	Others—FX Swaps		1,709,202	406,437
	Others—pending settlement		414	1,306,065
	Others—others		625,849	583,545
	Subtotal		58,640,991	59,423,891
	Less: allowance for doubtful accounts		130,717	149,558
	Total	\$	58,510,274	59,274,333

BANK OF TAIWAN AND SUBSIDIARY

Notes to the Consolidated Financial Statements

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 \$6,375,883 thousand and \$7,265,162 thousand, respectively, due to executing the government premium savings policy.

As of the year ended December 31, 2019 and 2018, the Bank had paid the following premium savings interest expenses on behalf of the government:

	Do	ecember 31, 2019	December 31, 2018
Long-term receivables	\$	16,350,219	16,097,415
Short-term advances (booked under other financial assets, net)		37,867,323	43,617,208
Total	\$	54,217,542	59,714,623

(h) Loans and Discounts, Net

	D	December 31,	
		2019	2018
Discounts and export / import negotiations	\$	2,044,282	3,576,638
Overdrafts		16,254,366	13,541,985
Secured overdrafts		492,292	1,258,259
Short-term loans		642,288,572	695,119,592
Short-term secured loans		97,906,746	97,778,149
Accounts receivable financing		128,708	241,732
Accounts receivable secured financing		5,138	8,757
Medium-term loans		551,295,477	490,677,869
Medium-term secured loans		256,957,025	235,517,119
Long-term loans		155,857,007	158,795,092
Long-term secured loans		994,900,665	895,678,323
Non-performing loans		3,154,429	4,221,263
Subtotal		2,721,284,707	2,596,414,778
Less: allowance for doubtful accounts	_	45,143,483	39,387,484
Total	\$_	2,676,141,224	2,557,027,294

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

	2019	2018	
Bad debts	\$ 7,289,887	7,329,670	
Provisions for guarantee liabilities	59,273	(6,854)	
Provision for loan commitment liabilities	4,075	5,182	
Provision for other liabilities	 (8,007)	(25,510)	
Total	\$ 7,345,228	7,302,488	

As of December 31, 2019 and 2018, the amounts of loans and receivables on which the interests stopped to accrue were \$3,158,657 thousand and \$4,226,046 thousand, respectively, which were booked under loans and discounts—non-performing loans and other financial assets-overdue receivables. As of December 31, 2019 and 2018, the non accrued interests were \$210,538 thousand and \$248,693 thousand, respectively.

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

(i) Financial Assets Measured at Amortized Cost

	D	ecember 31, 2019	December 31, 2018
Negotiable certificates deposits	\$	1,305,899	1,202,690
Commercial papers		36,894,248	30,205,065
Government bonds		76,136,339	71,584,984
Foreign government bonds, corporate bonds, financial bonds, and NCDs		6,345,059	11,486,097
Financial bonds		15,061,457	16,414,377
Corporate bonds		41,506,880	36,981,015
		177,249,882	167,874,228
Less: accumulated impairment		(43,107)	(49,536)
	\$	177,206,775	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.

- (i) During 2019, the Bank and subsidiary haven't deposed financial assets measured at amortized cost.
- (ii) As of December 31, 2019, the Bank's and subsidiary's financial assets measured at amortized cost were not used as collateral, please refer to 11.

(j) Investments Accounted for Using Equity Method, net

		December	31, 2019	December	31, 2018
			Percentage of		Percentage of
Associates		Amount	Ownership (%)	Amount	Ownership (%)
Hua Nan Financial Holdings Co., Ltd.	\$	40,060,767	21.23	36,973,209	21.23
Tang Eng Iron Works Co., Ltd.		1,027,317	21.37	1,013,547	21.37
Tai Yi Real Estate Management Co., Ltd.	_	21,476	30.00	21,084	30.00
	<u>\$</u>	41,109,560		38,007,840	

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

		2018	
Hua Nan Financial Holdings Co., Ltd.	\$	1,035,818	(296,925)
Tang Eng Iron Works Co., Ltd.		10,576	5,278
Total	\$	1,046,394	(291,647)

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

	2019	2018
Hua Nan Financial Holdings Co., Ltd.	\$ 3,387,456	3,104,176
Tang Eng Iron Works Co., Ltd.	3,196	(308,086)
Tai Yi Real Estate Co., Ltd.	 4,045	4,059
Total	\$ 3,394,697	2,800,149

(iii) Individually significant associate(s)

income:

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:

			The perc shareholdin and voti	U
Associate(s)	The relationship with the Bank	Principal operating place/registration country	December 31, 2019	December 31, 2018
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:

	December 31, 2019	December 31, 2018
Hua Nan Financial Holdings Co., Ltd.	\$ 56,857,351	42,889,937
1) Summarized Financial Information		
	December 31, 2019	December 31, 2018
Total Assets	\$ 2,731,828,227	2,684,206,863
Total Liabilities	(2,543,127,222)	(2,510,049,280)
Net Assets	\$ <u>188,701,005</u>	174,157,583
Attributable to the Bank	\$ 40,060,767	36,973,209
		(Continued)



	2019		2018	
Net income	\$	15,955,716	14,621,435	
Other comprehensive income		4,879,056	(1,398,581)	
Total comprehensive income	\$	20,834,772	13,222,854	
Attributable to the Bank				
Investment income	\$	3,387,456	3,104,176	
Other comprehensive income		1,035,818	(296,925)	

- 2) 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 \$3,387,456 thousand and \$3,104,176 thousand for the years ended December 31, 2019 and 2018, respectively.
- (iv) All other non-individually-significant associates
 - 1) Summarized Financial Information- Attributable to the Bank

	December 31, 2019		December 31, 2018	
Investment in non-individually-significant associates in aggregate	\$1,048,793		1,034,631	
		2019	2018	
Investment income	\$	7,241	(304,027)	
Other comprehensive income		10,576	5,278	

(v) Collateral

No investment in associates was used as collateral of December 31, 2019.

(k) Other Financial Assets, net

	D	ecember 31, 2019	December 31, 2018
Short-term advances	\$	40,091,153	45,937,904
Less: allowance for doubtful accounts — short-term advances		(44,363)	(26,843)
Remittances purchased		2,316	1,485
Less: allowance for doubtful accounts — remittances purchased		(23)	(15)
Overdue receivables		4,228	4,783
Less: allowance for doubtful accounts - overdue receivables		(4,199)	(4,156)
Others		109,349	127,043
Less: allowance for doubtful accounts - others		(6)	(8)
Less: accumulated impairment—others	_	(10)	(11)
Total	\$ <u></u>	40,158,445	46,040,182

Concerning for the payment of excess preferential interest on behalf of the government, booked under "short-term advances" for December 31, 2019 and 2018, please refer to note 6(g) for further information.

(l) Property and Equipment, net

Changes in the cost, depreciation, and impairment of the properties and equipments of the Bank and subsidiary for the years ended December 31, 2019 and 2018 were as follows:

Cost:	in	Land and Land nprovements	Buildings	Machineries and equipments	Transport equipments	Miscellaneous equipments	Leasehold improvements	in progress and prepayments for equipments	Total
Balance at January 1, 2019	\$	86,136,374	14,802,184	5,840,176	1,085,817	959,457	820,099	735,744	110,379,851
Additions		42,000,000	8,610	490,380	80,897	24,870	20,790	168,421	42,793,968
Disposals		(27,747)	(118,764)	(376,306)	(67,971)	(39,563)	(18,839)	-	(649,190)
Reclassification		-	306,493	101,637	11,537	12,772	31,111	(508,806)	(45,256)
Effect of change in exchange rates	_		-	(2,038)	(500)	(561)	(2,844)		(5,943)
Balance at December 31, 2019	\$_	128,108,627	14,998,523	6,053,849	1,109,780	956,975	850,317	395,359	152,473,430
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	s _	86,136,374	14,802,184	5,840,176	1,085,817	959,457	820,099	735,744	110,379,851



Accumulated depreciation:		and and Land provements	Buildings	Machineries and equipments	Transport equipments	Miscellaneous equipments	Leasehold improvements	Constructions in progress and prepayments for equipments	Total
*	s	14.966	7,219,833	4,429,699	840,946	789,984	733,527		14,028,955
Depreciation	Ψ	14,700	290,294	388,861	44.210	28,669	33,413		785,447
Disposal		-	(118,604)	(351,624)	(66,684)	(35,481)	(18,839)	- -	(591,232)
Effect of change in exchange rates		-	(110,004)	(1,348)	(343)	(527)	(2,524)	- -	(4,742)
Balance at December 31, 2019	<u> </u>	14,966	7,391,523	4,465,588	818,129	782,645	745,577		14,218,428
Balance at January 1, 2018	s=	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	s	14,966	7,219,833	4,429,699	840,946	789,984	733,527	_	14,028,955
Accumulated impairment:	_								
Balance at January 1, 2019	\$	124,869	-	-	-	-	-	-	124,869
Reversal of impairment loss	_	1,215	-						1,215
Balance at December 31, 2019	s	126,084	-						126,084
Balance at January 1, 2018	s -	47,850	-	-		-		-	47,850
Reversal of impairment loss	_	77,019	-						77,019
Balance at December 31, 2019	s	124,869	-						124,869
Carrying amounts:	_								
December 31, 2019	s	127,967,577	7,607,000	1,588,261	291,651	174,330	104,740	395,359	138,128,918
January 1, 2018	s	86,093,334	7,697,351	1,390,249	187,410	168,841	86,600	720,598	96,344,383
December 31, 2018	s_	85,996,539	7,582,351	1,410,477	244,871	169,473	86,572	735,744	96,226,027

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, 2019 and 2018, the total revaluation increments for land were \$81,563,186 thousand and \$81,590,877 thousand, respectively. The total revaluation increments for Buildings were \$34,307 thousand, both.

Based on the assessment in December, 2019, the carrying amount of the lands which have indicators of impairment was determined to be \$171,067 thousand higher than its recoverable amount of \$169,852 thousand, wherein an impairment loss of \$1,215 thousand was recognized. In 2018, the carrying amount of the lands which have an indicator of impairment was determined to be \$247,713 thousand lower than its recoverable amount of \$170,694 thousand. Therefore, the amount of \$77,019 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, 2019 and 2018, the Bank's and subsidiary's properties and equipments neither served as guarantees or collaterals, nor they were pledged.

(m) Right-of-use assets

The Bank and subsidiary lease many assets including land and buildings, vehicles, machinery and IT equipment. Information about leases for which the Bank and subsidiary as a lessee is presented below:

		Land	Buildings	Machineries and equipment	Transportation equipment	Miscellaneous equipment	Total
Cost:							
Balance at January 1, 2019	\$	-	-	-	-	-	-
Effects of retrospective application		11,283	1,690,061	22,219	39,852	52	1,763,467
Balance at January 1, 2019		11,283	1,690,061	22,219	39,852	52	1,763,467
Additions		9,477	342,975	9,122	60,437	-	422,011
Lease modification		189	3,478	(39)	703	-	4,331
Lease expired	_	(460)	(32,740)	(73)	(3,842)	(52)	(37,167)
Balance at December 31, 2019	\$	20,489	2,003,774	31,229	97,150		2,152,642
Accumulated depreciation and impairment losses:	_						
Balance at January 1, 2019	\$	-	-	-	-	-	-
Depreciation		4,941	539,950	6,420	36,339	52	587,702
Lease expired		(451)	(32,740)	(73)	(3,842)	(52)	(37,158)
Lease modification		-	(86)	-	-	-	(86)
Effect of changes in exchange rates	_	4	(1,300)	(7)			(1,303)
Balance at December 31, 2019	\$	4,494	505,824	6,340	32,497		549,155
Carrying value:	_						
December 31, 2019	s _	15,995	1,497,950	24,889	64,653	<u> </u>	1,603,487

(n) Investment property

(i) Changes in the investment properties of the Bank and subsidiary for the year ended 2019 were as follows:

		Land
Cost:		
Balance at December 31, 2019 (same as beginning balance)	\$ <u></u>	15,238,207
Balance at December 31, 2018 (same as beginning balance)	\$	15,238,207
Carrying amounts:		
December 31, 2019	\$	15,238,207
January 1, 2018	\$	15,238,207
December 31, 2018	\$	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,
	2019	2018
The fair value of investment property	\$15,219,050	15,092,366

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	Significant unobservable inputs	key unobservable inputs and fair value measurement
The management evaluate and measure the effect of	 The rate of return Overall capital interest	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	 the rate of return were lower (higher); or the overall capital interest rate were lower (higher).

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, 2019 the Bank did not provide any investment accounted for using equity method as collaterals for its loans.

(o) Intangible Assets

Changes in costs, amortization, and impairment loss of the intangible assets of the Bank and subsidiary for the year ended 2019 and 2018 were as follows:

	software
Costs:	
Balance at January 1, 2019	\$ 3,834,808
Additions	 422,202
Balance at December 31, 2019	\$ 4,257,010
Balance at January 1, 2018	\$ 3,497,828
Additions	 336,980
Balance at December 31, 2018	\$ 3,834,808

				Computer software	
	Amo	ortization:		sort ware	
	Ва	ılance at January 1, 2019	\$	3,069,872	
		nortization for the year		313,341	
		alance at December 31, 2019	\$	3,383,213	
	Ва	ılance at January 1, 2018	\$	2,789,096	
		nortization for the year		280,776	
		alance at December 31, 2018	\$	3,069,872	
	Carr	ying amounts:			
		ecember 31, 2019	\$	873,797	
		nuary 1, 2018	\$ =	708,732	
		ecember 31, 2018	\$	764,936	
(p)	Othe	er Assets			
			De	cember 31, 2019	December 31, 2018
	Fore	eclosed collaterals and residuals taken over, net	\$	1,079,309	1,080,460
	Adv	ance payments		7,711,657	4,790,148
	Ope	rating guarantee deposits and settlement funds		10,000	10,000
	Refi	andable deposits		1,464,889	1,701,602
	Tem	porary Payments and Suspense Accounts		573,883	704,744
	Inve	entories		716,557	701,832
	Othe	ers		288	327
	Tota	ıl	\$	11,556,583	8,989,113
	(i)	Foreclosed collaterals and residuals taken over, net			
			De	ecember 31, 2019	December 31, 2018
		Foreclosed collaterals and residuals taken over	\$	1,079,309	1,080,460
	(ii)	Advance payments			
				cember 31, 2019	December 31, 2018
		Prepaid expenses	\$	260,863	416,919
		Prepaid interests		9,968	12,745
		Business tax carry forward		810	686
		Other prepayment — Interbank Fund Transfer Special Accounts		7,380,247	4,300,622
		Other prepayments		59,769	59,176
		Total	\$	7,711,657	4,790,148



	T
(iii)	Inventories

(q)

		=017	
Inventories	\$	716,557	701,832
The effects on the cost of goods sold derived from the year ended 2019 and 2018 were as follows:	ne inve	ntory write-off	or reversal for the
		2019	2018
Reversal of write-down (Write-down of inventories)	\$	-	59
Impairment			
•	1	4.4 (
For the year ended 2019 and 2018, the movements of the acc	cumuia	ted impairment	were as follows:
		2019	2018
Beginning balance	\$	261,916	62,850
Adjustment for retrospective application due to IFRS 9		-	112,651
Impairment loss recognized for the current period		1,350	86,510
Effect of change in exchange rates and other movements		724	(95)
Ending balance	\$ <u></u>	263,990	<u>261,916</u>
Details of accumulated impairment were as follows:			
	Do	ecember 31, 2019	December 31, 2018
Financial assets at fair value through other comprehensive income	\$	89,278	82,945
Financial assets measured at amortized cost		43,107	49,536

December 31,

2019

10

126,084

263,990

5,511

December 31,

2018

(r) Deposits of Central Bank and other banks

Other financial assets
Property and equipment

Other assets

Ending balance

	D	ecember 31, 2019	December 31, 2018
Deposits from Central Bank	\$	11,296,302	11,798,337
Deposits from banks – others		50,127,068	48,026,208
Postal deposits transferred		77,090	77,090
Bank overdrafts		2,062,798	1,559,942
Call loans from bank	_	165,690,275	160,294,562
Total	\$	229,253,533	221,756,139

(Continued)

11

124,869

261,916

4,555

- (s) 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:

	Do	ecember 31, 2019	December 31, 2018
Financial liabilities held for trading	\$	4,148	2,893
Add: valuation adjustment		14,080,348	4,696,114
Subtotal		14,084,496	4,699,007
Financial liabilities designated as fair value through profit or loss		44,985,000	46,102,500
Add: valuation adjustment		1,214,351	(247,190)
Subtotal		46,199,351	45,855,310
Total	\$	60,283,847	50,554,317

- (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, 2019	December 31, 2018
Foreign exchange options premium	\$	4,148	2,893
Add: valuation adjustment			
Foreign exchange options premium		2,702	(508)
Swaps		13,008,631	3,907,380
Interest rate swaps		429,439	295,412
Forward foreign exchanges		94,477	118,922
Asset swaps		515,732	374,908
Cross currency swaps		29,367	
Total	\$	14,084,496	4,699,007

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

	December 31,		December 31,
		2019	2018
Financial bonds	\$	44,985,000	46,102,500
Add: valuation adjustment	_	1,214,351	(247,190)
Total	\$	46,199,351	45,855,310

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 2019.



The details of the financial bonds were as follow:

		Co	nditions				Bond	
Name of bond	Beginning date	Maturity date	Coupon rate	Face value	Туре		Ame	ount
						D	ecember 31, 2019	December 31, 2018
2017-1 Senior unsecured financial bonds-A	2017/04/07	2147/04/07	0 %	USD \$500 million	Senior unsecured financial bond	\$	14,995,000	15,367,500
2017-1 Senior unsecured financial bonds-B	2017/04/07	2147/04/07	0 %	USD \$380 million	Senior unsecured financial bond		11,396,200	11,679,300
2018-1 Senior unsecured financial bonds-A	2018/02/26	2148/02/26	0 %	USD \$150 million	Senior unsecured financial bond		4,498,500	4,610,250
2018-1 Senior unsecured financial bonds-B	2018/02/26	2148/02/26	0 %	USD \$470 million	Senior unsecured financial bond		14,095,300	14,445,450
				Valuation adjustmen	t	_	1,214,351	(247,190)
						\$_	46,199,351	45,855,310

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)

	D	ecember 31, 2019	December 31, 2018
Foreign exchange options premium	\$	1,001,177	371,765
Swaps		731,913,091	559,887,222
Interest rate swaps		21,898,329	15,310,983
Forward foreign exchanges		10,609,694	11,423,307
Asset swaps		6,784,488	46,498,490
Cross currency swaps		1,086,400	
Total	\$	773,293,179	633,491,767

(t) Payables

	Dec	cember 31, 2019	December 31, 2018
Accounts payables	\$	5,561,791	10,571,420
Receipts under custody		1,562,797	1,003,553
Accrued expenses		2,818,928	2,660,956
Other tax payables		484,268	464,593
Interests payables		15,386,026	14,426,723
Banker's acceptances payables		1,194,544	2,918,255
Payables to representative organizations		829,639	586,198
Construction payables		946	3,004
Accounts payables – non-recourse factoring		375,438	565,938
Other payables — undelivered spot exchange		3	834
Other payables — collection bills		2,337,855	977,184
Other payables – payments awaiting transfer		9,003,123	7,806,182
Other payables –ATM temporary receipts, payments and inter branch differences		2,590,082	2,220,329
Other payables - foreign exchange awaiting transfer		740,078	721,384
Other payables – amounts awaiting settlement		314,769	108,336
Other payables — overdue accounts		199,043	191,135
Other payables — checking accounts		119,600	103,026
Other payables — collection		19,571	11,986
Other payables — others		312,243	449,078
Total	\$	43,850,744	45,790,114

(u) Deposits and Remittances

	Decembe	r 31,	December 31,
	2019		2018
Cheques deposits	\$ 39,4	28,865	35,354,006
Government deposits	310,9	80,305	283,267,747
Demand deposits	402,2	24,212	373,958,430
Time deposits	683,5	96,685	746,883,592
Remittances	5	54,595	736,124
Savings account deposits:			
Demand savings deposits	939,3	45,417	983,561,781
Staff accounts	15,2	84,296	24,562,808
Club saving deposits	6	08,632	690,497
Non-drawing time savings deposits	417,7	58,369	402,536,104
Interest withdrawal on principal deposited	795,2	91,873	808,083,173
Staff time deposits	9,1	74,191	-
Preferential Interest deposits	357,5	38,411	366,104,840
Total	\$ <u>3,971,7</u>	<u>85,851</u>	4,025,739,102



(v) Financial Bonds Payable

		D		dition	B	ond	
	Name of bond	Beginning date	Maturity date	Interest rate	Type	Amo	unt
						December	December
	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	31, 2019 \$ 16,000,000	31, 2018 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, 0.15% unamortized discount amount	Subordinated unsecured financial bond	1,500,000 (1,180)	1,500,000 (1,434)
	Total			amount		\$ <u>24,998,820</u>	24,998,566
(w)	Other Financial Liabil	ities					
					December 31, 2019		iber 31,)18
	Appropriated loan fun	ds			\$ 16,47		26,825
	Principal from structu		ets		946,06		652,018
	-	•			\$ 962,53	9	678,843
(x)	Provision						
					December 31, 2019		iber 31,)18
	Employee benefit obli	gations			\$ 18,732,28	8 17	,344,746
	Guarantee reserve				953,50	5	894,392
	Reserve for governme	nt employ	ees insura	ance	341,738,58	9 296	5,379,792
	Loan commitments re-	serve			19,22	4	15,612
	Others				377,99	3	386,084
	Total				\$ 361,821,59	9 315	5,020,626
(y)	Provisions – Employe	e benefits					
					December 31, 2019		nber 31, 018
	Recognized in Consol		ance She	et:	Φ 10.545.04		110 605
	Defined benefit plan				\$ 12,545,04		,119,607
	Employees preferent		t		6,181,93		5,220,165
	Three Chinese festive	al bonus			5,31		4,974
	Total				\$ <u>18,732,28</u>	<u>8</u> <u>17</u>	<u>,344,746</u>

BANK OF TAIWAN AND SUBSIDIARY

Notes to the Consolidated Financial Statements

(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 \$2,870 thousand and \$2,465 thousand for the years ended December 31, 2019 and 2018, respectively.

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.

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 \$1,284,129 thousand and \$1,225,373 thousand as of December 31, 2019 and 2018, respectively. Bank and subsidiary expect to contribute \$923,133 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:

	De	ecember 31, 2019	December 31, 2018	
Present value of the defined benefit obligations	\$	20,731,922	18,988,352	
Less: fair value of the plan assets		(8,189,461)	(7,866,695)	
Recognized liabilities for the defined benefit obligations	\$	12,542,461	11,121,657	

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

		2019	2018
Defined benefit obligation at January 1	\$	18,988,352	17,745,198
Current service costs		771,916	696,074
Interest expense		208,872	195,197
Remeasurements of the defined benefit plans of other Comprehensive Income			
 Changes in actuarial gains and losses in financial assumptions 		790,963	905,873
-Experience adjustments		836,215	217,645
Past service cost		565	-
Benefit payments	_	(864,961)	(771,635)
Defined benefit obligation at December 31	\$	20,731,922	18,988,352

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

			2019	2018
	Fair value of plan assets at January 1	\$	7,866,695	7,494,413
	Interest revenue		86,534	82,438
	remeasurements of defined benefit plans of other comprehensive income			
	-Return on plan assets		61,259	41,152
	Contribution made by the Bank		957,093	923,853
	Benefit payments		(782,120)	(675,161)
	Fair value of plan assets at December 31	\$	8,189,461	7,866,695
d)	Expense recognized in profit or loss			
			2019	2018
	Current service cost	\$	771,916	696,074
	Net interest of defined benefit obligations		122,338	112,759
	Total	\$	894,254	808,833

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, 2019 and 2018, was as follows:

		2019	2018
Accumulated amount at January 1	\$	(4,596,149)	(3,513,783)
Recognized during the period		(1,565,918)	(1,082,366)
Accumulated amount at December 31	\$	(6,162,067)	<u>(4,596,149</u>)
Portfolio analysis of plan asset			

	2019	2018
Bonds instruments	\$ 2,800,867	2,473,339
Others	5,388,594	5,393,356

f)

Total

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.

\$

8,189,461

(Continued)

7,866,695

g) Actuarial assumptions

	December 31, 2019	December 31, 2018
Discount rate	0.75 %	1.10 %
Assets expected rate of return	0.75 %	1.10 %
Future of salary increases	2.00 %	2.00 %

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, 2019 and 2018 if the actuarial assumptions had changed:

Impacts on the present value of the

defined benefit obligation **Actuarial Actuarial** Actuarial assumption assumption assumption changes(%) increase decrease December 31, 2019 Discount rate \$ (20,096,990)Defined benefit plans 0.25% 21,323,896 0.25% (5,264)

Employee care bonus 5,373 during the three Chinese festivals Salary increase rate 0.50% (19,735,333)21,800,791 December 31, 2018 Discount rate Defined benefit plans 0.25% (18,418,362)19,528,475 0.25% Employee care bonus (4,922)5,026 during the three Chinese festivals Salary increase rate 0.50% (19,964,163)18,077,506

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.

BANK OF TAIWAN AND SUBSIDIARY

Notes to the Consolidated Financial Statements

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

3) Employee preferential interest plan

According to the ruling Tai Tsai Ku No.09601013320 that issued by the Ministry of Finance on December 11, 2007, the Bank is obligated to pay the preferential interests generated from a fixed amount of deposit to each retired and in-service employee.

As from July 1, 2018, the Bank terminate the preferential interest deposits for retired employees in accordance with the rule Tai Tsai Ku No.10700624450 issued by the Ministry of Finance.

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

Fair value of the Employees preferential interest plan		2019	December 31, 2018	
		6,181,930	6,220,165	
Limit of assets adjustment				
Recognized liabilities for the defined benefit obligations	\$	6,181,930	6,220,165	

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

	2019	2018
Present value of employees preferential interest plan at January 1	\$ 6,220,165	8,169,758
Interest expense	248,807	293,042
Prior service cost and settlement of losses	1,650,337	1,448,429
Benefit paid by the plan	 (1,937,379)	(3,691,064)
Present value of employees preferential interest plan at December 31	\$ 6,181,930	6,220,165

c) Expense recognized in profit or loss

Net interest of employees preferential deposit		2019	2018 293,042	
		248,807		
Prior service costs and settlement of losses		1,650,337	1,448,429	
Total (booked under employee benefits expense, note 6(ah))	\$	1,899,144	1,741,471	

d) Actuarial assumptions

	2019	2018
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, 2019 and 2018 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, 2019				_	
Discount rate	0.25%	\$	(6,074,285)	6,293,283	
December 31, 2018					
Discount rate	0.25%		(6,111,549)	6,332,547	

The aforementioned sensitivitiy 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 sensitivitiy 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 \$1,841,314 thousand to the plan.

BANK OF TAIWAN AND SUBSIDIARY

Notes to the Consolidated Financial Statements

(ii) The subsidiary, BTIB

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

BTIB the reconcilian of present value of the defined benefit obligations and fair value of the plan assets are as follows:

	Dec	ember 31, 2019	December 31, 2018
Present value of the defined benefit obligations	\$	58,452	50,448
Fair value of the plan assets		(50,555)	(47,524)
Net liabilities (assets) of the defined benefit obligations	\$	7,897	2,924

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 $4\%\sim8.5\%$ 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 \$50,555 thousand 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, 2019 and 2018, was as follows:

		2019	2018
Defined benefit obligation at January 1	\$	50,448	43,219
Current service costs and interest		5,032	4,651
Remeasurements of the defined benefit plans in other comprehensive income			
 Actuarial gains and losses in demographic changes in assumptions 		2,972	3,485
Benefits paid by the plan			(907)
Defined benefit obligation at December 31	\$	58,452	50,448

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, 2019 and 2018, was as follows:

	2019	2018
Fair value of plan assets at January 1	\$ 47,525	45,495
Remeasurements of defined benefit plans in other comprehensive income		
 Return on plan assets(not including current interest) 	-	(113)
Contribution made by the Bank	2,392	2,309
Interest revenue	638	740
Benefit payments	 	(907)
Fair value of plan assets at December 31	\$ 50,555	47,524

d) Expense recognized in profit or loss

BTIB expense recognized in profit or loss at December 31, 2019 and 2018, was as follows:

Current service cost		2018	
	\$	4,371	3,964
Net interest of the defined benefit obligations(assets)		23	(53)
	\$	4,394	3,911

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, 2019 and 2018, was as follows:

	 <u> 2019 </u>	2018	
Accumulated amount at January 1	\$ 2,924	-	
Recognized during the period	 2,971	2,924	
Accumulated amount at December 31	\$ 5,895	2,924	

f) Actuarial assumptions

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

	December 31, 2019	December 31, 2018	
Discount rate	1.08 %	1.31 %	
Future of salary increases	3.00 %	3.00 %	

BANK OF TAIWAN AND SUBSIDIARY

Notes to the Consolidated Financial Statements

The expected payment made by BTIB to the defined benefit plans within one year after the reporting date is \$2,392 thousand \circ

Weighted average duration of the defined contribution plan is 15.81 year.

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, 2019 and 2018 if the actuarial assumptions change as follows:

	-	Impacts on the defined benefit obligation		
	Increase 0.5%	Decrease 0.5%		
December 31, 2019				
Discount rate	54,900	62,413		
Future of salary increases	61,447	55,691		
December 31, 2018				
Discount rate	47,456	53,662		
Future of salary increases	52,874	48,103		

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 2018 and 2019.

2) Employee preferential interest plan

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

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.

(z) Lease liabilities

Bank and subsidiary's lease liabilities were as follow:

	Decembe	er 31,
	2019)
Current	<u>\$</u>	179,132

For the maturity analysis, please refer to note 8(d).

The amounts recognized in profit or loss were as follows:

	2019
Interest on lease liabilities	\$ 19,459
Variable lease payments not included in the measurement of lease liabilities	\$ 2,333
Expenses relating to short-term leases	\$ 2,993
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	\$ 1,231

The amounts recognized in the statement of cash flows for Bank and subsidiary was as follows:

	2019
Total cash outflow for leases	\$ 608,815

(i) Real estate leases

As of December 31, 2019, the Bank and subsidiary leased buildings for its office space. The leases of office space typically run for a period of 5 years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the contract-term.

Some leases provide for additional rent payments that are based on changes in local price indices.

(ii) Other leases

The Bank and subsidiary leased miscellaneous equipment and parking space with contract terms of one years. These leases are short-term and leases of low-value items. The Bank and subsidiary have elected not to recognize right-of-use assets and lease liabilities for these leases.

(aa) Operating lease

(i) Leases as lessee

Please refer to note 8(d) sets out information about the operating leases of significant real estate of the Bank and subsidiary as of December 31, 2018.

(ii) Leases as lessor

The Bank and subsidiary leased out its investment property and some machinery. The Bank and subsidiary have classified these leases as operating leases, because it does not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

A maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date are as follows:

	Dec	ember 31, 2019
Less than one year	\$	151,451
One to two years		115,015
Two to three years		54,715
Three to four years		10,183
Four to five years		1,682
Total undiscounted lease payments	\$	333,046

The future minimum lease payments under non-cancellable leases are as follows:

	mber 31, 2018
Less than one year	\$ 144,332
Between one and five years	 256,379
	\$ 400,711

(ab) Other Liabilities

	De	ecember 31, 2019	December 31, 2018
Advance collections	\$	2,246,494	2,509,422
Guarantee deposits received		7,051,156	3,930,398
Temporary receipt and suspense accounts		123,548	37,532
Other liabilities to be settled		8,239	8,239
Compensation arising from land revaluation		1,264,803	1,264,803
Defered revenue		16	32
Total	\$	10,694,256	7,750,426

(ac) Income Tax Expenses

(i) Income Tax expenses (benefits)

The income tax expenses for December 31, 2019 and 2018 were as follow:

	 2019	2018
Current income tax expense	\$ 2,602,570	1,242,520
Deferred tax expense (benefit)	 (549,026)	(11,391)
Income tax expenses	\$ 2,053,544	1,231,129

Income tax (expenses) benefits recognized directly in other comprehensive income for 2019 and 2018 were as follows:

	2019	2018
Gains (losses) on debt instruments measured at fair	\$ 30,302	(81,229)
value through other comprehensive income	 	

The amount of expense (income) tax recognized in other comprehensive income for in 2019 and 2018 were as follows:

	2019	2018
Profit before tax	\$ <u>13,211,230</u>	11,476,335
Income tax using the company's domestic tax rate(20%)	2,642,246	2,295,267
Income tax expenses of overseas branches	561,565	493,404
Net movements of deferred tax assets	(549,026)	(11,391)
Tax-exempt effects and others	(601,241)	(1,546,151)
Total	\$ <u>2,053,544</u>	1,231,129

1) Unrecognized Deferred Tax Assets

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

	December 31,		December 31,	
		2019	2018	
Deductible Temporary Differences	\$	6,268,724	5,819,532	

2) Recognised Deferred Tax Assets and Liabilities

Changes in the amount of deferred tax assets and liabilities for December 31, 2019 and 2018 are as follows:

Deferred Tax Assets:

	F	air Value		
		Gains	Others	Total
Balance at January 1, 2019	\$	281,703	30,588	312,291
Recognized in profit or loss		16,166	527,271	543,437
Recognized in other comprehensive income	_	19,954	(224)	19,730
Balance at December 31, 2019	\$_	317,823	557,635	875,458
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

Deferred Tax Liabilities:

	Land Value Increment Tax	Fair Value Gains	Others	Total
Balance at January 1, 2019	\$ 18,077,672	113,354	878	18,191,904
Recognized in profit or loss	(5,589)	-	-	(5,589)
Recognized in other comprehensive income	-	50,256	(1,506)	48,750
Balance at December 31, 2019	\$ <u>18,072,083</u>	<u>163,610</u>	(628)	18,235,065
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	<u>878</u>	18,191,904

⁽ii) The Bank's and subsidiary's income tax returns have been audited by the MoA up until 2018 and examined by the National Tax Administration up until 2016.



(ad) Equity

(i) Capital stock

A resolution was passed during the meetings of the Company's board of directors, acting on behalf of the board of shareholders, on April 12, 2019 for the issuance of ordinary shares paid in land under private placement, with selling price of \$30 per share and September 25, 2019 as the date of capital increase. The total amount of the capital injection was \$42 billion. The issuance was approved by the FSC (Ruling No. 10801305311) and the Ministry of Economic Affairs (Ruling No. 10801140660) on July 17 and October 31, 2019, respectively. The relevant statutory registration procedures have been completed.

The aforementioned private placement of ordinary shares and the transfer of any subsequently obtained bonus shares will be subject to the Article 43-8 under the Securities and Exchange Act. The Bank can only apply for these shares to be traded on the Taiwan Stock Exchange after a three-year period has elapsed from the delivery date of the private placement securities, and after applying for a public offering with the FSC.

As of December 31, 2019 and 2018, the Bank's authorized and issued shares of common stocks were 10,900,000 thousand (9,500,000 thousand was under public offering and 1,400,000 thousand was under private placement) and 9,500,000 thousand, respectively. The par value of the issued common stocks is \$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.

In accordance with the regulations regarding government-run businesses and the Bank's articles of incorporation, however, the policy for the resources that can be used to distribute cash dividend only includes current year earnings, accumulated earnings, legal reserve allowed to be used to distribute cash dividend, under the instruction of the Ministry of Finance. Capital surplus is not included.

(iii) Legal reserve

According to the ROC Company Act, when the Company does not have any deficit, and only the portion of legal reserve which exceeds 25 percent of the paid-in capital can be distributed.

(iv) Other equity

		D 48	Unrealized gains (losses) on financial assets measured at fair	Change in fair value of financial		Other Comprehensive	
	Exchange differences on translation of foreign operations		value through other comprehensive income	liability attributable to change in credit risk of liability	Gains (losses) on financial Instruments for hedging	income reclassified by applying overlay approach	Total
Balance at January 1, 2019	\$ (650,811)		42,375,680	192,515	4,193	(7,239)	41,914,338
Exchange differences on translation of foreign operations	(669)	(699,412)	ı	ı			(699,412)
Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	1		18,370,191	ı			18,370,191
Disposal of investments in equity instruments measured at fair value through other comprehensive income			6,050	1	ı		6,050
Gains (losses) of associates and joint ventures accounted for using equity method on financial Instruments for hedging	1		1	ı	(238)		(238)
Change in fair value of financial liability attributable to change in credit risk of liability	ı		ı	(301,751)		1	(301,751)
Other Comprehensive income reclassified by applying overlay approach	'		'	,		36,571	36,571
Balance at December 31, 2019	\$ (1,350,223)	= (<u>£223</u>	60,751,921	(109,236)	3,955	29,332	59,325,749

			Unrealized							
			gains (losses) on financial			Change in fair value of		Other		
	Ex diffe	Exchange differences on	measured at fair value	Unrealized gains (losses)	Gains (losses)	liability attributable to	Gains (losses)	income reclassified by		
	trans fc ope	translation of foreign operations	through other comprehensive income	on available for sale financial assets	on effective portion of cash flow hedges	change in credit risk of liability	on financial Instruments for hedging	applying overlay approach	Total	
Balance at January 1, 2018	s	(1,316,795)		30,435,010	3,991	(44,599)		 	29,077,607	
Effects of retrospective application			38,683,823	(30,435,010)	(3,991)	1	3,991	18,874	8,267,687	
Equity at beginning of period after adjustments		(1,316,795)	38,683,823	1	ı	(44,599)	3,991	18,874	37,345,294	
Exchange differences on translation of foreign operations		665,984	1	1	1				665,984	
Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income		ı	3,635,389	1	1		1	ı	3,635,389	
Disposal of investments in equity instruments measured at fair value through other comprehensive income		ı	56,468	1	1		1	ı	56,468	
Gains (losses) of associates and joint ventures accounted for using equity method on financial Instruments for hedging			•	ı	•		202	ı	202	
Change in fair value of financial liability attributable to change in credit risk of liability		ı	1	1	1	237,114	1	ı	237,114	
Other Comprehensive income reclassified by applying overlay approach		-	,	,	,		-	(26,113)	(26,113)	
Balance at December 31, 2018	<u>چ</u>	(650,811)	42,375,680	,	'	192,515	4,193	(7,239)	41,914,338	

(v) Appropriation of earnings

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

- 1) to settle all outstanding tax payable;bFSC. As
- 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 elect to transfer to retained earnings by application of the exemption under IFRSs No. 1, the Bank shall set aside an equal amount of special reserve. When the Bank 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 2018.

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



(ae) Net interest income

			2019	2018
	Interest income:			
	Loans and discounts	\$	43,561,302	40,270,142
	Placement with Central Bank and call loans to banks		9,331,949	10,093,672
	Securities investment		12,200,314	12,390,502
	Credit cards		25,118	25,191
	Others		915,543	1,104,133
			66,034,226	63,883,640
	Interest expense:			
	Deposits from customers		33,398,484	33,862,058
	Deposits of Central Banks and other banks		5,433,135	3,758,265
	Bonds sold under repurchased agreements		109,746	278,451
	Financial bonds		304,830	304,470
	Structured deposits		30,952	22,686
	Others		77,881	32,351
			39,355,028	38,258,281
	Total	\$	26,679,198	25,625,359
(af)	Service fees, net			
			2019	2018
	Service fees revenue:			
	Trust services	\$	869,191	912,556
	Custody services		136,752	135,509
	Foreign exchange business		263,940	290,027
	Credit business		519,021	579,748
	Credit card services		150,827	132,651
	Deposit, remittance and other services		3,926,866	3,908,205
	Subtotal		5,866,597	5,958,696
	Service fees expense:			
	Trust services		81,675	91,322
	Custody services		19,718	13,418
	Credit card services		148,305	123,154
	Deposit, remittance and other services		442,812	431,424
	Subtotal	_	692,510	659,318
	Total	\$	5,174,087	5,299,378

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

			2019	2018
	Gain on financial assets or liabilities measured at fair value through profit or loss:			
	Dividend income	\$	4,862,624	4,782,264
	Net interest loss	Ψ	(1,205,202)	(923,860)
	Net gain on disposal		14,865,580	10,026,826
	Subtotal		18,523,002	13,885,230
	Gain on financial assets or liabilities measured at fair value through profit or loss—evaluation:		, ,	, ,
	Net (loss) gain on valuation	_	30,263,404	(18,395,655)
	Total	\$_	48,786,406	(4,510,425)
(ah)	Realized gains (losses) on financial assets measured at fair vaincome	lue t	hrough other con	nprehensive
			2019	2018
	Dividend income	\$	3,184,773	2,928,331
	Gain (loss) on disposal	_	395,865	(2,912)
	Total	\$ _	3,580,638	2,925,419
(ai)	Foreign exchange gain or loss			
			2019	2018
	Foreign exchange gains	\$	8,431,197	11,767,888
	Foreign exchange losses	_	(8,635,038)	(6,054,937)
	Foreign exchange gains or losses	\$ _	(203,841)	5,712,951
(aj)	Other non-interest income (expense)			
			2019	2018
	Premiums income	\$	23,511,625	24,863,334
	Sales revenue		139,418,849	127,169,376
	Subsidized income from government		8,774,387	8,892,009
	Benefits and claims		(24,671,785)	(23,242,767)
	Cost of goods sold		(138,918,462)	(126,802,714)
	Provisions for policy holders' reserve premium		(45,358,797)	(1,371,850)
	Excess preferential interest expenses		(8,781,651)	(9,584,580)
	Others	_	786,916	1,759,358
	Total	\$ _	(45,238,918)	1,682,166



(ak) Employee benefits expenses

	2	2019	2018
Salaries	\$	11,419,798	10,959,527
Labor and health insurances		527,904	520,763
Pensions		925,957	838,371
Remuneration of directors		2,553	2,344
Others		268,669	258,864
Total	\$	13,144,881	12,579,869

(al) Depreciation and amortization expenses

		2019		
Depreciation expenses	\$	1,324,747	706,513	
Amortization expenses	_	313,388	280,830	
Total	\$	1,638,135	987,343	

(am) Other general and administrative expenses

	 2019	2018
Taxes	\$ 3,173,028	3,091,823
Rental expenses	6,557	831,866
Insurance expenses	989,540	969,002
Postage and phone / fax expenses	219,611	242,342
Utilities	187,604	193,187
Supplies expenses	172,257	168,937
Repair and maintenance expenses	407,422	415,096
Marketing expenses	331,649	317,709
Professional service fees	770,677	420,225
Cashes transferring expenses	220,581	123,782
Others	 352,517	328,483
Total	\$ 6,831,443	7,102,452

(an) Earnings per Share

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

Unit: thousand dollars / thousand shares

	2019			2018		
	Before-Tax		After-Tax	Before-Tax	After-Tax	
Consolidated net income	\$_	13,211,230	11,157,686	11,476,335	10,245,206	
Weighted average outstanding shares	_	9,875,890	9,875,890	9,500,000	9,500,000	
Basic earnings per share (In dollars)	\$_	1.34	1.13	1.21	1.08	

(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

The fair value of financial instruments is measured on a recurring basis. The fair value hierarchy of financial instruments as of December 31, 2019 and 2018 are as follows:

	December 31, 2019				
Financial instruments 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		233,494,167	211,102,426	22,196,291	195,450
Financial assets designated as fair value through profit or loss		19,361,468	-	19,361,468	-
Investment in bonds		19,361,468	-	19,361,468	-
Financial assets mandatorily as fair value through profit or loss		214,132,699	211,102,426	2,834,823	195,450
Investments in stocks		91,208,229	91,012,779	-	195,450
Investment in bonds		3,525,504	690,681	2,834,823	-
Others		119,398,966	119,398,966	-	-
Financial assets at fair value through other comprehensive income		1,013,078,126	798,960,636	191,017,604	23,099,886
Investments in bonds		917,794,248	726,776,644	191,017,604	-
Investment in stocks		95,283,878	72,183,992	-	23,099,886
Liabilities:					
Financial liabilities designated at fair value through profit or loss	\$	46,199,351	-	46,199,351	-
Derivative financial instruments					
Assets:					
Financial assets measured at fair value through profit or loss		10,699,762	56,694	10,643,068	-
Hedging derivatives financial assets		1,071	-	1,071	-
Liabilities:					
Financial liabilities measured at fair value through profit or loss		14,084,496	-	14,084,496	-
Hedging derivatives financial liabilities		25,537	-	25,537	-

	December 31, 2018			
Financial instruments 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	230,003,94	19 155,634,700	74,158,049	211,200
Financial assets designated as fair value through profit or loss	15,465,72	-	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	29 155,634,700	58,692,329	211,200
Investments in stocks	85,526,65	85,315,459	-	211,200
Investment in bonds	59,151,69	93 459,364	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 bonds	1,041,010,71	4 860,089,520	180,921,194	-
Investment in stocks	76,716,56	60,080,953	-	16,635,610
Liabilities:				
Financial liabilities designated at fair value through profit or loss	\$ 45,855,31	-	45,855,310	-
Derivative financial instruments				
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	-	41,693	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	4,699,00	-	4,699,007	-
Hedging derivatives financial liabilities	12,97		12,973	-

(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.

BANK OF TAIWAN AND SUBSIDIARY

Notes to the Consolidated Financial Statements

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:

Reconciliation for fair value measurements categorized in level 3 as of December 31, 2019 and 2018 were as follows:

	Fair value through profit or loss Non derivative mandatorily measured at fair value through profit or loss (Unquoted equity instruments)		Fair value through other comprehensive income	
			Unquoted equity instruments	Total
Opening balance, January 1, 2019	\$	211,200	16,635,610	16,846,810
Total gains and losses recognized:				
In profit or loss		(15,750)	-	(15,750)
In other comprehensive income		-	5,631,721	5,631,721
Purchased			832,555	832,555
Ending Balance, December 31, 2019	\$	195,450	23,099,886	23,295,336
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.

Inter-relationship

BANK OF TAIWAN AND SUBSIDIARY Notes to the Consolidated Financial Statements

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, 2019 and 2018. 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".

Quantified information of significant unobservable inputs was as follows:

	Valuation technique	Significant _unobservable inputs	between significant unobservable inputs and fair value measurement
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)	 P/E ratio P/B ratio EV/Operating revenue EV/EBITDA EV/Total assets Liquidity discount rate 	 The estimated fair value would increase (decrease) if: the P/E ratio, P/B ratio, EV/Operating revenue, EV/EBITDA and EV/Total assets were higher (lower); the liquidity discount rate were lower (higher).

(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	Book value	Fair value
December 31, 2019		_
Financial Assets		
Financial Assets measured at amortized cost	177,206,775	179,067,171
		(Continued)



(ii)

BANK OF TAIWAN AND SUBSIDIARY Notes to the Consolidated Financial Statements

Item	Book	Book value			
December 31, 2018				_	
Financial Assets					
Financial Assets measured at an	nortized cost	167	,824,692	168,444,682	
Fair value hierarchy					
		December	r 31, 2019		
Assets and liabilities item	Total	Quoted prices in active markets for identical asset (Level1)	Significant other observable inputs (Level2)	Significant unobservable inputs (Level3)	
Financial Assets:					
Financial Assets measured at amortized cost	\$ 179,067,171	95,636,179	83,430,992	-	
		December 31, 2018			
		Quoted	-		
		prices in active markets for identical	Significant other observable inputs	Significant unobservable inputs	
Assets and liabilities item	Total	asset (Level1)	(Level2)	(Level3)	
Financial Assets:					
Financial Assets measured at amortized cost	\$ 168,444,682	85,189,779	83,254,903	-	

- (iii) 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.

Notes to the Consolidated Financial Statements

3) Financial assets measured at amortized cost

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) 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.
- 5) 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.

(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 it 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 borrower 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.
- 2) 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, a downgrade of credit rating or a breach of contract.

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.

Notes to the Consolidated Financial Statements

(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 identify that the credit risk of all the transactions and business related to the assets, liabilities and off-balance sheet items. Before executing present or new business, the Bank and subsidiary shall identify the credit risk, understand the degree of risk exposure through appropriate evaluation and assess the possibilities of default.

If there are no specific requirements from the local authorities, the overseas branches of BOT shall assess asset quality and loss provision in accordance with the Operational Manual of Evaluating the Impairment of Loans and Receivables. The information about how Bank and subsidiary classifies assets, manages post-loan and grant internal rating is as follows:

1) Credit business(including loan commitments and financial 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 normal credit assets that are classified at the first category, the other abnormal 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", as well as the "Warning Mechanism Provision", and evaluate and monitor the quality of credit assets regularly. Also, to enhance the management of abnormal credit and to attain the goals of warning and interim monitoring, the Bank and subsidiary review their credit cases by sampling cases based on their ratings and check significant credit cases periodically.

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. The Bank improve market competitiveness of products, strive for customer identification, broaden business, and balance credit risk and profits target simultaneously. 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 Bank 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 their scorecards, the large-scale enterprise and the medium-scale enterprise. Then they measure their scale, financial and business status, business management and industry characteristic. There are 13 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 would reject those below the lowest scores; others would be 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 potential estimated loss to the Bank and subsidiary has reached the standard of impairment.

Notes to the Consolidated Financial Statements

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.

a) Credit business (including loan commitments and financial deposit)

The Bank's and subsidiary's credit business scoring model and risk degree are 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
İ	4	1	
	5	4	3
İ	6	5	4
Moderate	7		5
	8	6	
	9		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 determine 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 a 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 determine 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, the borrower has used revolving credit facility without overdue, the loans has overdue but 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	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.

Notes to the Consolidated Financial Statements

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.

Notes to the Consolidated Financial Statements

- 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.

Notes to the Consolidated Financial Statements

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 rerecognition of the financial assets at fair value, in accordance with the Bank's and subsidiary's policy (Please see note 4(e)).

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 assess 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 identify credit risks and factors of expected credit loss (i.e. GDP, economic growth rate, price index, interest rate, and unemployment rate) based on historical data. Simultaneously, the Bank and subsidiary connnect these factors or monitoring indicators with each loan product in order to adjust PD in the coming year and make expected credit loss reflect forward looking information.

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
 - 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.

Notes to the Consolidated Financial Statements

- 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 and transaction assets (i.e. due and call loans, investment securities, derivatives, and foreign exchanges).

(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, or stocks), 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, 2019 and 2018, the amounts of maximum credit risk exposure to the credit risk displayed by credit rating are as follows:

	_			viscounts and loans December 31, 2019		
	_1	2 month ECLs	Lifetime ECLs —not impaired	Lifetime ECLs — impaired	Credit impairments of originated or purchased new financial assets — impaired	Total
Credit rating						
Low	\$	930,791,741	17,869	155,942	-	930,965,552
Medium		960,430,171	54,963,853	2,371,916	-	1,017,765,940
High		26,639,778	29,449,744	5,749,253	-	61,838,775
Others	-	693,302,928	592,129	16,819,383		710,714,440
Gross carrying amount		2,611,164,618	85,023,595	25,096,494	-	2,721,284,707
Allowance for bad debts		(21,113,435)	(1,606,276)	(7,150,936)	-	(29,870,647)
Impairment recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans						(15,272,836)
Total	\$ _	2,590,051,183	83,417,319	17,945,558		2,676,141,224
	-			iscounts and loans		
	_			December 31, 2018		
	_1	2 month ECLs	Lifetime ECLs —not impaired	Lifetime ECLs —impaired	Credit impairments of originated or purchased new financial assets — impaired	Total
Credit rating Low	\$	052 042 775	12 (04	172 277		952 020 946
Medium	3	852,843,775	13,694	172,377	-	853,029,846
High		908,380,450	32,983,797	2,178,188	-	943,542,435
Others		34,148,546	23,860,376	2,377,382	-	60,386,304
Gross carrying amount	-	720,769,597	566,568	<u>18,120,028</u> 22,847,975		739,456,193
Allowance for bad debts		2,516,142,368	57,424,435		-	2,596,414,778
Impairment recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans		(20,114,026)	(1,805,624)	(4,887,531)	-	(26,807,181) (12,580,303)
Total	\$ _	2,496,028,342	55,618,811	17,960,444	-	2,557,027,294
	_					

	Debt instru	ments measured at	fair value through	other comprehensive	e income					
		I	December 31, 2019	Credit impairments of						
Credit rating	12 month ECLs	Lifetime ECLs — not impaired	Lifetime ECLs —impaired	originated or purchased new financial assets — impaired	Total					
Aaa~Baa3	\$ 913,067,917	-	_	-	913,067,917					
Ba1~Ba3	2,821,595	302,385	_	-	3,123,980					
Gross carrying amount	915,889,512	302,385			916,191,897					
Allowance for impairment	(80,477)	(8,801)	-	-	(89,278)					
Valuation adjustment					1,602,351					
Total	\$ 915,809,035	293,584			917,704,970					
	Debt instru	ments measured at	fair value through	other comprehensive	e income					
	Dest instru		December 31, 2018		meome					
	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	f 1.027.507.700				1.026.597.700					
Aaa~Baa3 Ba1~Ba3	\$ 1,036,587,799	1,002,209	-	-	1,036,587,799					
Gross carrying amount	2,599,246 1,039,187,045	1,092,208 1,092,208			3,691,454 1,040,279,253					
Allowance for impairment	(76,773)	(6,172)	-	-	(82,945)					
Valuation adjustment	731,461	(0,172)	-	-	731,461					
Total	\$ 1,039,841,733	1,086,036			1,040,927,769					
	1,000,011,700	1,000,000			1,010,527,705					
	Debt instruments measured at amortized cost December 31, 2019									
	12 month ECLs	Lifetime ECLs —not impaired	Lifetime ECLs —impaired	Credit impairments of originated or purchased new financial assets —impaired	Total					
Credit rating	12 month ECES	постиранец	mpanea	шринец	10111					
Aaa~Baa3	\$ 159,586,690	-	-	-	159,586,690					
Ba1~Ba3	17,663,192				17,663,192					
Gross carrying amount	177,249,882	-	-	-	177,249,882					
Accumulated impairment	(43,107)				(43,107)					
Total	\$ 177,206,775			:	177,206,775					
			ents measured at an							
		De	cember 31, 201	Credit						
	12 month ECLs	Lifetime ECLs _not impaired	Lifetime ECLs —impaired	impairments of originated or purchased new financial assets —impaired	Total					
Credit rating										
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	(49,536)				(49,536)					
Total	\$ 167,824,692				167,824,692					



		Lette	r of Credit Receival			bles
	12	month ECLs	Lifetime ECLsnot impaired	cember 31, 201 Lifetime ECLs —impaired	Credit impairments of originated or purchased new financial assets — impaired	Total
Credit rating						
Low	\$	56,314,438	2,345	-	-	56,316,783
Medium		59,114,017	2,592,907	650,649	-	62,357,573
High Others		91,214	136,774	5,800	-	233,788
Gross carrying amount		6,178,217 121,697,886	350,944	29,352 685,801		6,558,513 125,466,657
Allowance for bad debts(Guarantee reserve and other reserve)		(358,951)	(11,252)	(99,529)	-	(469,732)
Impairment recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans						(861,766)
Total	\$	121,338,935	3,071,718	586,272		124,135,159
	_	Letter	r of Credit Receival	oles and Guarantee cember 31, 201		bles
					Credit impairments of originated or purchased new	
	12	month ECLs	Lifetime ECLs — not impaired	Lifetime ECLs —impaired	financial assets —impaired	Total
Credit rating						
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	2,027,575	29,599		5,011,710
Gross carrying amount Allowance for bad debts(Guarantee reserve and other reserve)		111,293,200 (375,494)	2,027,575 (33,540)	456,746 (153,403)	-	113,777,521 (562,437)
Impairment recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans	_					(718,039
Total	\$	110,917,706	1,994,035	303,343		112,497,045
	_			oan Commitments	0	
			De	<u>cember 31, 201</u>	Credit impairments of originated or purchased new	
Cardia and a	12	month ECLs	Lifetime ECLs —not impaired	Lifetime ECLs —impaired	financial assets —impaired	Total
Credit rating Low	\$	2 574 360				2 574 260
Others	Þ	2,574,360 420,467,884	227,556	482	-	2,574,360 420,695,922
Gross carrying amount	_	423,042,244	227,556	482		423,270,282
Allowance for bad debts (Loan commitments reserve)		(17,118)	(1,817)	(289)	-	(19,224)
Total	\$	423,025,126	225,739	193		423,251,058

			L	oan Commitments						
				cember 31, 201	8					
	12	month ECLs	Lifetime ECLs —not impaired	Lifetime ECLs —impaired	Credit impairments of originated or purchased new financial assets — impaired	Total				
Credit rating	ф	2 20 5 000	00.762	(2		2 202 022				
Low Medium	\$	2,205,098	98,762	63	-	2,303,923				
		-	140,328	371	-	140,699				
High		53,145	-	-	-	53,145				
Others		412,585,699	-			412,585,699				
Gross carrying amount Allowance for bad debts (Loan commitments reserve)		414,843,942 (13,309)	239,090 (2,067)	434 (236)	-	415,083,466 (15,612)				
Total	\$	414,830,633	237,023	198		415,067,854				
		Accounts Receivable(including other financial assets) December 31, 2019								
	12	month ECLs	Lifetime ECLs —not impaired	Lifetime ECLs —impaired	Credit impairments of originated or purchased new financial assets — impaired	Total				
Credit rating		montu ECEs	not impaneu	mpaneu	шранса	1000				
Aaa~Baa3	\$	7,946,716	-	-	-	7,946,716				
Ba1~Caa1		117,303	4,857	91	-	122,251				
Others		82,457,816	395,308	170,063		83,023,187				
Gross carrying amount (Note 1)		90,521,835	400,165	170,154	-	91,092,154				
Allowance for bad debts (Note 2)		(33,806)	(9,177)	(79,941)	-	(122,924)				
Impairment recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans						(56,358)				
Total	\$	90,488,029	390,988	90,213		90,912,872				

Note 1: The gross carrying amount of the table was not included the Bank's restrictive deposit \$19,380 thousand and Department of Government Employees' Insurance's accounts receivable \$7,736,495 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 \$10 thousand and Department of Government Employees' Insurance's allowance for impairment \$13 thousand evaluated by simplification method.

	Accounts Receivable(including other financial assets) December 31, 2018						
		month ECLs	Lifetime ECLs —not impaired	Lifetime ECLs — impaired	Credit impairments of originated or purchased new financial assets — impaired	Total	
Credit rating							
Aaa~Baa3	\$	8,827,396	-	-	-	8,827,396	
Ba1~Caa1		94,231	15,890	-	-	110,121	
Others		88,321,178	823,467	109,727		89,254,372	
Gross carrying amount (Note 1)		97,242,805	839,357	109,727	-	98,191,889	
Allowance for bad debts (Note 2)		(69,619)	(12,152)	(49,008)	-	(130,779)	
Impairment recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans						(48,779)	
Total	\$	97,173,186	827,205	60,719		98,012,331	

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.

2) 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 General agreement of **Enhancement** net amount of other December 31, 2019 Collateral settlement credits **Total** In balance sheet: Receivables Others \$ 1,195 171 3,945 5,311 Loans and discounts 1,450,838 1,270,447 2,721,285 Financial assets measured at fair value through profit or loss Others 3,328 3,328 Off-balance sheet Irrevocable loan commitments 262 423,008 423,270 Standby letters of credit 1,754 37,826 39,580 Financial guarantees 7,640 78,247 85,887 Total 171 ,465,017 1,813,473 3,278,661

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.

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		1,342,677	-	1,253,738	2,596,415
Financial assets measured at fair value through profit or loss					
Others		112	-	-	112
Off-balance sheet					
Irrevocable loan commitments		-	-	415,083	415,083
Standby letters of credit		1,650	-	25,026	26,676
Financial guarantees	_	7,581		79,520	87,101
Total	\$_	1,353,304	379	1,776,132	3,129,815

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.

3) 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, 2019						
	G	ross carrying amount	Allowance for impairment	Exposure amount (Amortized cost)	Fair value of collateral		
Impaired financial assets:							
Receivables							
Credit card business	\$	5,999	4,787	1,212	-		
Others		164,155	75,154	89,001	9,699		
Loans and discounts	_	25,096,494	7,150,936	17,945,558	9,214,772		
Total amount of impaired financial assets	\$ _	25,266,648	7,230,877	18,035,771	9,224,471		
			December	31, 2018			
	G	ross carrying amount	Allowance for impairment	Exposure amount (Amortized cost)	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	9,291,496		
Total amount of impaired financial assets	\$ _	22,957,702	4,936,539	<u>18,021,163</u>	9,291,496		

4) Financial assets not applicable for rules of impairment:

	D	ecember 31, 2019	December 31, 2018
Financial assets measured at fair value through profit or loss			
Debt instruments	\$	142,285,938	144,477,290
Derivative		10,699,762	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

Unit: In million of TWD; %

		December 3	1, 2019	December	31, 2018
Industry type	В	ook Value (Note 1)	%	Book Value (Note 2)	%
Finance and insurance	\$	1,274,240	30.83 %		33.84 %
Individuals		957,805	23.17 %	6 869,958	21.08 %
Manufacturing		389,801	9.43 %	6 391,096	9.48 %
Government Agencies		699,735	16.93 %	6 710,576	17.22 %
Shipping, warehousing and communications		167,643	4.06 %	6 151,845	3.68 %
Electricity and gas supply		124,155	3.00 %	6 107,084	2.59 %
Others		519,823	12.58	⁶ 499,570	12.11 %
Total	\$	4,133,202	100.00 %	6 <u>4,126,817</u>	<u>100.00</u> %

Note 1: December 31, 2019

- (1) The carrying amounts include loans (\$2,721,285 million), call loans to banks, overdraft of banks and placement with banks (\$220,647 million), security investments (\$1,191,270 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 (\$3,154 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.

Notes to the Consolidated Financial Statements

Note 2: 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.

2) Region

Unit: In million of TWD; %

		December 31	, 2019	December 31	1, 2018
		Book		Book	
Areas type	Va	lue(Note 1)	%	Value(Note 2)	%
Domestic	\$	3,648,596	88.28 %	3,681,225	89.20 %
Foreign		484,606	11.72 %	445,592	10.80 %
Total	\$	4,133,202	100.00 %	4,126,817	100.00 %

Note 1: December 31, 2019

- (1) The carrying amounts include loans (\$2,721,285 million), call loans to banks, overdraft of banks and placement with banks (\$220,647 million), security investments (\$1,191,270 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 (\$3,154 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, 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.

3) Collateral

Unit: In million of TWD; %

		December 31	1, 2019	December 31	, 2018
	В	ook Value		Book Value	
Type of collateral		(Note 1)	%	(Note 1)	%
Non-secured	\$	1,270,447	46.69 %	1,253,738	48.29 %
Secured		1,450,838	53.31 %	1,342,677	51.71 %
Guarantee		140,240	5.15 %	141,408	5.44 %
Securities		74,881	2.75 %	80,505	3.10 %
Real estate		1,156,442	42.50 %	1,045,746	40.28 %
Chattel		79,163	2.91 %	74,905	2.88 %
Valuables	_	112	- %	113	0.01 %
Total	\$	2,721,285	100.00 %	2,596,415	100.00 %

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 (\$3,154 million at December 31, 2019; \$4,221 million at December 31, 2018).

Note 2: This table excludes the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

(viii) Changes in loss allowance

- 1) Changes in loss allowance of discounts and loans
- As of December 31, 2019 and 2018, the reconciliations of the beginning and ending balances for loss allowance of discounts and loans were as follows: a

				2019			
	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 IFRS 9	Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming/Nona cerual Loans	Total
Beginning balance	\$ 20,114,026	1,805,624	4,887,531		26,807,181	12,580,303	39,387,484
Changes due to financial instruments recognized as at beginning:							
- Transfer to lifetime expected credit losses	(161,720)	250,587	(88,867)	,	,		
- Transfer to lifetime ECL not credit impaired	(2,264,248)	(158,573)	2,422,821				
- Transfer to 12month expected credit losses	437,825	(334,322)	(103,503)	,			
- Financial assets that have been derecognized during the period	(3,986,558)	(66,070)	1,406,052	,	(2,646,576)		(2,646,576)
Originated or purchased new financial assets	3,250,613	91,334	499,441		3,841,388		3,841,388
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans		•		•	•	2,692,533	2,692,533
Bad debts written off			(3,315,238)		(3,315,238)		(3,315,238)
The recovery of bad debts written off	,		1,797,595		1,797,595		1,797,595
Foreign exchange and other movements	3,723,497	17,696	(354,896)		3,386,297		3,386,297
Ending balance	\$ 21,113,435	1,606,276	7,150,936	1	29,870,647	15,272,836	45,143,483

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BANK OF TAIWAN AND SUBSIDIARY Notes to the Consolidated Financial Statements

	12 month ECLs	Lifetime ECLs (collected) 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 IFRS 9	Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming/Nona cerual Loans	Total
Beginning balance	\$ 17,285,609		3,728,448		24,351,584	8,664,330	33,015,914
Changes due to financial instruments recognized as at beginning:							
- Transfer to lifetime expected credit losses	(160,911)	344,957	(184,046)	•	,		
- Transfer to lifetime ECL not credit impaired	(21,777)	(74,769)	96,546	•			
- Transfer to 12month expected credit losses	2,529,490	(2,452,291)	(77,199)	•	,		
- Financial assets that have been derecognized during the period	(207,323)	(2,498)	(3,693,297)	•	(3,903,118)		(3,903,118)
Originated or purchased new financial assets	3,115,270	459,339	2,109,276	•	5,683,885		5,683,885
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans						3,915,973	3,915,973
Bad debts written off	(454,830)	- ((1,661,290)	1	(2,116,120)		(2,116,120)
The recovery of bad debts written off			994,434	•	994,434		994,434
Foreign exchange and other movements	(1,971,502)	(193,359	3,574,659	٠	1,796,516		1,796,516
Ending balance	\$ 20,114,026	1,805,624	4,887,531		26,807,181	12,580,303	39,387,484

Notes to the Consolidated Financial Statements

As of December 31, 2019 and 2018, the carrying amounts of discounts and loans were as follows: **p**

			2019		
			Lifetime ECLs	Lifetime ECLs	
			(not purchased	(purchased or	
		Lifetime ECLs	or originated	originated credit	
		(collectively	credit impaired	impaired	
	12 month ECLs	assessed)	financial assets)	financial assets)	Total
Beginning balance	\$ 2,516,142,368	57,424,435	22,847,975	•	2,596,414,778
 Transfer to lifetime expected credit losses 	(65,836,891)	66,464,854	(627,963)	ı	ı
- Transfer to lifetime ECL not credit impaired	(5,657,657)	(1,667,838)	7,325,495	1	1
- Transfer to 12month expected credit losses	15,091,157	(14,458,971)	(632,186)	1	ī
-Financial assets that have been derecognized during the period	(1,174,441,382)	(28,878,840)	(6,669,174)	ı	(1,209,989,396)
Originated or purchased new discounts and loans	1,333,185,519	6,113,559	1,010,192	ı	1,340,309,270
Bad debts written off	•	1	(3,315,238)		(3,315,238)
Changes form the amendments not leading to de recognition	•	1	(3,823)		(3,823)
Other movements	(7,318,496)	26,396	5,161,216	1	(2,130,884)
Ending balance	\$ 2,611,164,618	85,023,595	25,096,494	-	2,721,284,707

			2018		
			Lifetime ECLs (not purchased	Lifetime ECLs (purchased or	
		Lifetime ECLs (collectively	or originated credit impaired	originated credit impaired	
	12 month ECLs	assessed)	financial assets)	financial assets)	Total
Beginning balance	\$ 2,109,996,917	190,591,002	17,493,186		2,318,081,105
 Transfer to lifetime expected credit losses 	(34,597,724)	35,375,630	(777,906)	1	1
- Transfer to lifetime ECL not credit impaired	(2,753,701)	(2,585,704)	5,339,405	1	
— Transfer to 12month expected credit losses	144,420,034	(143,849,225)	(570,809)	1	
-Financial assets that have been derecognized during the period	(884,034,036)	(31,130,544)	(8,093,468)	1	(923,258,048)
Originated or purchased new discounts and loans	1,190,921,679	9,421,456	4,935,710	1	1,205,278,845
Bad debts written off	(21,385)		(2,094,735)	1	(2,116,120)
Changes form the amendments not leading to de recognition			109	1	109
Other movements	(7,789,416)	(398,180)	6,616,483		(1,571,113)
Ending balance	\$ 2,516,142,368	57,424,435	22,847,975	-	2,596,414,778

Notes to the Consolidated Financial Statements

- Changes in loss allowance of debt instruments measured at fair value through other comprehensive income 5
- As of December 31, 2019 and 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)

				2019	61		
	_	12 month FCI s	Lifetime FCI &	Lifetime ECLs (not purchased or originated credit impaired financial	Lifetime ECLs (purchased or originated credit impaired financial	The loss allowances measured in accordance	Total
Beginning balance	€	76,773	6,172		(cases)	82,945	82,945
Changes due to financial instruments recognized as at beginning:							
 Transfer to lifetime expected credit losses 		(602)	602	1	ı	1	ı
-Financial assets that have been derecognized during the period		(19,716)	(6,172)	1	ı	(25,888)	(25,888)
Originated or purchased new financial assets		26,905	1	1	1	26,905	26,905
Foreign exchange and other movements		(2,883)	8,199		1	5,316	5,316
Ending balance	∞	80,477	8,801			89,278	89,278

				2018	8		
		12 month ECLs	Lifetime ECLs	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 IFRS 9	Total
Beginning balance	S	78,918	ı	1	ı	78,918	78,918
Changes due to financial instruments recognized as at beginning:							
— Transfer to lifetime expected credit losses		(5,858)	5,858	ı	ı	1	,
-Financial assets that have been derecognized during the period		(15,785)		ı	ı	(15,785)	(15,785)
Originated or purchased new financial assets		20,599	ı	ı	ı	20,599	20,599
Foreign exchange and other movements	ı	(1,101)	314	ı	1	(787)	(787)
Ending balance	∞	76,773	6,172	1		82,945	82,945

Notes to the Consolidated Financial Statements

As of December 31, 2019 and 2018, the carrying amounts of debt instruments measured at fair value through other comprehensive income were as follows: **p**

			2019		
			Lifetime ECLs	Lifetime ECLs	
			(not purchased	(purchased or	
			or originated	originated credit	
	12 month ECLs	Lifetime ECLs	financial assets)	financial assets)	Total
Beginning balance	\$ 1,039,187,045	1,092,208	-	-	1,040,279,253
 Transfer to lifetime expected credit losses 	(307,664)	307,664	1	ı	1
-Financial assets that have been derecognized during the period	(873,875,408)	(1,092,208)			(874,967,616)
Originated or purchased new financial assets	752,464,617		1	ı	752,464,617
Other movements	(1,579,078)	(5,279)	1		(1,584,357)
Ending balance	\$ 915,889,512	302,385	1	'	916,191,897
			2018		
			Lifetime ECLs (not purchased or originated credit impaired	Lifetime ECLs (purchased or originated credit impaired	
	12 month ECLs	Lifetime ECLs	financial assets)	financial assets)	Total
Beginning balance	\$ 1,086,229,259	•		•	1,086,229,259
- Transfer to lifetime expected credit losses	(1,036,692)	1,036,692	ı	ı	
-Financial assets that have been derecognized during the period	(920,991,519)	ı	1	1	(920,991,519)
Originated or purchased new financial assets	875,749,012	1		1	875,749,012
Other movements	(763,015)	55,516	1	1	(707,499)
Ending balance	\$ 1,039,187,045	1,092,208	·		1,040,279,253

3) Changes in loss allowance of debt instruments measured at amortized cost

As of December 31, 2019 and 2018, the reconciliations of the beginning and ending balances for loss allowance of debt instruments measured at amortized cost were as follows: a

				2019	6]		
				Lifetime ECLs (not	Lifetime ECLs		
				purchased or originated credit impaired	(purchased or originated credit impaired	The loss allowances measured in	
		12 month	Lifetime	financial	financial	accordance	Ē
		ECLS	ECLS	assets)	assets)	٠,	Lotal
Beginning balance	S	49,536	1	1	1		49,536
-Financial assets that have been derecognized during the period		(23,299)	1	1		(23,299)	(23,299)
Originated or purchased new financial assets		20,203	ı	ı	ı	20,203	20,203
Foreign exchange and other movements	ı	(3,333)	1	1	1	(3,333)	(3,333)
Ending balance	≈	43,107			'	43,107	43,107

			2018	<u>8</u> 1		
	12 month ECLs	Lifetime ECLs	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	Total
Beginning balance	\$ 48,723			ı	48,723	48,723
-Financial assets that have been derecognized during the period	(13,706)	- (90		ı	(13,706)	(13,706)
Originated or purchased new financial assets	17,247	21		•	17,247	17,247
Foreign exchange and other movements	(2,728)	- (82			(2,728)	(2,728)
Ending balance	\$ 49,536	<u>-</u> <u>9</u>		-	49,536	49,536

As of December 31, 2019 and 2018, the carrying amounts of debt instruments measured at amortized cost were as follows: **p**

		Total	167,874,228	(57,820,925)	67,967,048	(770,469)	177,249,882
	Lifetime ECLs (purchased or originated credit impaired	financial assets)	ı	ı	ı	1	
2019	Lifetime ECLs (not purchased or originated credit impaired	financial assets)	1	ı	1	1	1
	,	Lifetime ECLs	ı	ı	1	1	
		12 month ECLs	3 167,874,228	(57,820,925)	67,967,048	(770,469)	177,249,882
			Beginning balance	-Financial assets that have been derecognized during the period	Originated or purchased new financial assets	Other movements	Ending balance

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BANK OF TAIWAN AND SUBSIDIARY Notes to the Consolidated Financial Statements

				2018		
	2	month FCI s	Lifetime FCLs	Lifetime ECLs (not purchased or originated credit impaired financial asserts)	Lifetime ECLs Lifetime ECLs (not purchased (purchased or or originated originated credit impaired inancial assets)	Total
Beginning balance	∞	147,836,435		-	62268	147,836,435
Financial assets that have been derecognized during the		(31,546,259)		ı	•	(31,546,259)
Portog Originated or purchased new financial assets		51,409,494				51,409,494
Other movements	١	174,558		'		174,558
Ending balance	∞	167,874,228	•			167,874,228

Notes to the Consolidated Financial Statements

- 4) Changes in guarantee reserve and other reserve
- As of December 31, 2019 and 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)

					2019			
	12 m	12 month ECLs	Lifetime ECLs	Lifetime ECLs (not purchased or orginated credit impaired assets)	Lifetime ECLs (purchased or originated credit impaired financial assets)	The loss allowances measured in accordance with IFRS 9	Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming/Nona cerual Loans	Total
Beginning balance	\$	375,494	33,540	153,403		562,437	718,039	1,280,476
Changes due to financial instruments recognized as at beginning:								
 Transfer to lifetime expected credit losses 		(73)	73	,	,	•		
- Transfer to 12month expected credit losses		15,457	(15,408)	(49)	,	•		
- Financial assets that have been derecognized during the period		(213,801)	(7,863)	(133,860)		(355,524)		(355,524)
Originated or purchased new financial assets		188,100	2,869	11,551	,	202,520		202,520
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming Nonaccrual Loans							143,727	143,727
Foreign exchange and other movements		(6,226)	(1,959)	68,484	,	60,299		60,299
Ending balance	s	358,951	11,252	99,529		469,732	861,766	1,331,498

2018

BANK OF TAIWAN AND SUBSIDIARY Notes to the Consolidated Financial Statements

Total 1,312,483 154,272 (487,283)381,882 (80,878)1,280,476 718,039 Impairment difference recognized in accordance with 336,157 381,882 Procedures for Institutions to Evaluate Assets and Deal with Nonperforming/Nona ccrual Loans Governing the "Regulations (80,878)allowances measured in accordance with IFRS 9 (487,283)154,272 562,437 The loss Lifetime ECLs (purchased or originated credit impaired financial assets) or originated credit impaired financial (52,985)5,162 4,823 153,403 196,387 Lifetime ECLs (not purchased assets) (62,325) (12,380)6,574 Lifetime ECLs 73,177 33,540 7,332 21,162 (4,823)375,494 62,325 142,536 (102,056)(421,918) 12 month ECLs \$ 706,762 -Financial assets that have been derecognized during the period Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Changes due to financial instruments recognized as at beginning: - Transfer to lifetime ECL not credit impaired - Transfer to 12month expected credit losses Deal with Nonperforming /Nonaccrual Loans -Transfer to lifetime expected credit losses Originated or purchased new financial assets Foreign exchange and other movements Beginning balance Ending balance

Notes to the Consolidated Financial Statements

As of December 31, 2019 and 2018, the carrying amounts of letter of credit receivables and guarantee for trade receivables were as follows: **p**

				2019		
				Lifetime ECLs (not purchased or originated credit impaired	Lifetime ECLs (purchased or originated credit impaired	
	17	12 month ECLs	Lifetime ECLs	financial assets)	financial assets)	Total
Beginning balance	S	111,293,200	2,027,575	456,746		113,777,521
 Transfer to lifetime expected credit losses 		(2,523,186)	2,523,186	1	1	ı
- Transfer to lifetime ECL not credit impaired		(105,318)	1	105,318	1	ı
—Transfer to 12month expected credit losses		761,697	(754,183)	(7,514)	1	ı
-Financial assets that have been derecognized during the period		(58,724,990)	(570,954)	(371,794)		(59,667,738)
Originated or purchased new discounts and loans		71,005,404	210,990	503,045	1	71,719,439
Other movements	I	(8,921)	(353,644)			(362,565)
Ending balance	∞	121,697,886	3,082,970	685,801	·	125,466,657

				2018		
				Lifetime ECLs (not purchased or originated credit impaired	Lifetime ECLs (purchased or originated credit impaired	
	12 mc	12 month ECLs	Lifetime ECLs	financial assets)	financial assets)	Total
Beginning balance	S	102,108,066	8,095,456	254,064		110,457,586
 Transfer to lifetime expected credit losses 		(1,156,684)	1,156,684			1
- Transfer to lifetime ECL not credit impaired		(100,104)	(51,433)	151,537		1
— Transfer to 12month expected credit losses		6,520,097	(6,520,097)	1		
-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		55,656,556
Other movements		(806,800)	848,416	1	-	41,616
Ending balance	\$	111,293,200	2,027,575	456,746		113,777,521

BANK OF TAIWAN AND SUBSIDIARY

Notes to the Consolidated Financial Statements

5) Changes in loan commitments reserve

As of December 31, 2019 and 2018, the reconciliations of the beginning and ending balances for loss allowance of loan commitments reserve) were as follows: a)

				2019	61		
		12 month ECLs	Lifetime ECLs	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	Total
Beginning balance	S	13,309	2,067	236		15,612	15,612
Changes due to financial instruments recognized as at beginning:							
 Transfer to lifetime expected credit losses 		(145)	145	ı	ı	ı	ı
-Transfer to lifetime ECL not credit impaired		ı	(10)	10	ı	1	1
- Transfer to 12month expected credit losses		2,525	(2,525)	ı	ı	1	1
-Financial assets that have been derecognized during the period		(1,385)	(1,333)	(734)	ı	(3,452)	(3,452)
Originated or purchased new financial assets		14,546	1,251	379	1	16,176	16,176
Foreign exchange and other movements		(11,732)	2,222	398	1	(9,112)	(9,112)
Ending balance	∞	17,118	= 1,817	289		19,224	19,224

				2018	8		
	.	12 month ECLs	Lifetime ECLs	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 IFRS 9	Total
Beginning balance	S	8,106	2,284	31		10,421	$10,42\overline{1}$
Changes due to financial instruments recognized as at beginning:							
- Transfer to lifetime expected credit losses		(223)	223	ı	ı	ı	ı
- Transfer to lifetime ECL not credit impaired		1	(20)	20	1	ı	1
-Transfer to 12month expected credit losses		2,910	(2,910)	1	1	ı	1
-Financial assets that have been derecognized during the period		(2,902)	(1,736)	(505)		(5,143)	(5,143)
Originated or purchased new financial assets		924	1,592	183	1	2,699	2,699
Foreign exchange and other movements		4,494	2,634	507	-	7,635	7,635
Ending balance	∞	13,309	2,067	236		15,612	15,612

b) As of December 31, 2019 and 2018, the carrying amounts of loan commitments were as follows:

			2019		
			Lifetime ECLs (not purchased	Lifetime ECLs (purchased or originated gredit	
	12 month ECLs	Lifetime ECLs	credit impaired financial assets)	impaired financial assets)	Total
Beginning balance	\$ 414,843,942	2 239,090	434		415,083,466
- Transfer to lifetime ECL not credit impaired	1	(1,530)	1,530	1	ı
-Financial assets that have been derecognized during the period	(411,783,942)	2) (638,463)	(2,430)	1	(412,424,835)
Originated or purchased new discounts and loans	419,982,244	4 628,459	948	-	420,611,651
Ending balance	\$ 423,042,244	4 227,556	482		423,270,282
			2018		
	12 month ECLs	Lifetime ECLs	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Lifetime ECLs (purchased or originated credit impaired financial assets)	Total
Beginning balance	\$ 431,118,289		81		431,388,831
- Transfer to lifetime ECL not credit impaired		(2,105)	2,105	ı	ı
-Financial assets that have been derecognized during the period	(29,551,908)	8) (746,137)	(2,338)	ı	(30,300,383)
Originated or purchased new discounts and loans	13,273,627	7 716,871	286	1	13,991,084
Other movements	3,934	4	•		3,934
Ending balance	\$ 414,843,942	<u>2</u> <u>239,090</u>	434		415,083,466

- 6) Changes in loss allowance of receivables(including other financial assets)
- As of December 31, 2019 and 2018, the reconciliations of the beginning and ending balances for loss allowance of receivables were as follows: a

				2019			
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (not purchased or orginated credit impaired finantial assets)	Lifetime ECLs (purchased or originated credit impaired financial assets)	The loss allowances measured in accordance with IFRS 9	Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming/Nona cerual Loans	Total
Beginning balance (Note 1)	\$ 69,619	12,152	49,008		130,779	48,779	179,558
Changes due to financial instruments recognized as at beginning:							
 Transfer to lifetime expected credit losses 	(915)	1,204	(289)		•		
 Transfer to lifetime ECL not credit impaired 	(232)	(439)	671	•	,		
- Transfer to 12month expected credit losses	1,483	(1,135)	(348)	•	•		,
-Financial assets that have been derecognized during the period	(48,230)	(7,284)	(23,025)		(78,539)		(78,539)
Originated or purchased new financial assets	14,893	4,669	50,010		69,572		69,572
Impainment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans				•	•	7,579	7,579
Bad debts written off	(16)	(1,155)	(11,218)		(12,389)		(12,389)
The recovery of bad debts written off		•	12,836		12,836		12,836
Foreign exchange and other movements	(2,796)	1,165	2,296		999		999
Ending balance (Note 2)	\$ 33,806	9,177	79,941		122,924	56,358	179,282

Note 1: 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.

Not included the Bank's accumulated impairment recognized in restrictive deposit \$10 thousand and Department of Government Employees' Insurance's allowance for impairment \$13 thousand evaluated by simplification method. Note 2:

Lifetime ECLs credit impaired (collectively financial assessed) assets)
\$ 50,863 12,145
(1,273) 1,648
(20) (630)
5,037 (4,728)
(43,063) (5,514)
57,300 8,168
(800) (924)
- 20
1,505
\$ 69,619

Note 1: Not included the Bank's accumulated impairment recognized in restrictive deposit \$10 thousand and Department of Government Employees' Insurance's allowance for impairment \$1,022 thousand evaluated by simplification method.

Note 2: 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.

b) As of December 31, 2019 and 2018, the carrying amounts of receivables were as follows:

Lifetime ECLs (collectively credit impaired assessed) 839,357 277,042 (1,907)	Lifetime E (not purch or origina credit imp financial a financial a 157
	12 month ECLs \$ 97,242,805 (275,135)

Note 1: 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.

Not included the Bank's gross carrying amount of restricted deposit \$19,380 thousand and Department of Government Employees' Insurance's accounts receivables \$7,736,495 thousand evaluated by simplification method. Note 2:

			2018		
			Lifetime ECLs	Lifetime ECLs	
			(not purchased	(purchased or	
		Lifetime ECLs	or originated	originated credit	
		(collectively	credit impaired	impaired	
	12 month ECLs	assessed)	financial assets)	financial assets)	Total
Beginning balance (Note 1)	\$ 98,555,440	819,759	274,468		99,649,667
 Transfer to lifetime expected credit losses 	(333,056)	335,528	(2,472)	1	1
- Transfer to lifetime ECL not credit impaired	(3,277)	(20,951)	24,228		1
- Transfer to 12month expected credit losses	250,596	(248,650)	(1,946)		1
-Financial assets that have been derecognized during the period	(33,675,724)	(600,581)	(137,734)	•	(34,414,039)
Originated or purchased new discounts and loans	32,451,447	538,775	49,599	ı	33,039,821
Bad debts written off	(800)	(924)	(9,767)	1	(11,491)
Other movements	(1,821)	16,401	(86,649)		(72,069)
Ending balance (Note 2)	\$ 97,242,805	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:

		D	ecember 31, 2019	
		ross amounts of account receivables	Weighted average expected loss rate	Allowance for expected credit loss for a life time
Non-overdue	\$	7,730,746	0%	-
Overdue less than 30 days		4,430	0%	-
Overdue 31~60 days		622	0%	-
Overdue 61~90days		-	0%	-
Overdue more than 91 days	_	697	65.85%	13
	\$	7,736,495		13
		D	ecember 31, 2018	
		ross amounts of account receivables	Weighted average expected loss rate	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	\$	1,022
Adjustment for retrospective application due to IFRS 9	_	-
Ending balance	\$	1,022
		2019
Beginning balance	\$	1,022
Impairment loss		13
Uncollectable amounts written-off	_	(1,022)
Ending balance	\$	13

BANK OF TAIWAN AND SUBSIDIARY

Notes to the Consolidated Financial Statements

- (ix) Disclosures required by the Regulations Governing the Preparation of Financial Reports by Public Banks
 - 1) Asset Quality of overdue loans and receivables

		De	cember 31, 2019			
Type / Ite	em	Amount of overdue loans (Note 1)	Total amount of loans	Ratio (%) (Note 2)	Allowance for doubtful debt	Coverage ratio(%) (Note 3)
Enterprise	Secured	1,577,012	574,952,892	0.27 %	11,346,887	719.52 %
	Non secured	434,118	1,237,329,936	0.04 %	22,380,197	5,155.33 %
	House mortgage (Note 4)	1,721,662	668,277,103	0.26 %	7,797,529	452.91 %
	Cash card	-	-	- %	-	- %
Consume	Micro credit (Note 5)	25,627	4,364,249	0.59 %	115,839	452.02 %
finance	Others Secured	1,030,119	207,608,452	0.50 %	3,013,007	292.49 %
	(Note 6) Non secured	157,037	28,752,075	0.55 %	490,024	312.04 %
Total		4,945,575	2,721,284,707	0.18 %	45,143,483	912.81 %
		Overdue receivables	Account receivable	Ratio (%)	Allowance for bad debt	Cover ratio
Credit car	rd business	2,075	889,817	0.23 %	10,639	512.72 %
Non-recou	urse factoring (Note 7)	-	12,132,076	- %	60,346	- %

		De	cember 31, 2018			
Type / Ite	em	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 %
	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 doubtful 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	- %

- 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 TWD

	Decembe	r 31, 2019	January	y 1, 2018
	Excluded NPL	Excluded overdue receivables	Excluded NPL	Excluded overdue receivables
As a result of debt consultation and loans agreement	218	-	306	-
As a result of debt solvency and restart plan	15,346	18,676	21,289	19,984
Total	15,564	18,676	21,595	19,984

3) Concentration of Credit Risk

Unit: In million of TWD; %

	December 31, 2019							
Rank	Group Name	Credit Extensions Balance	% of Net Asset Value					
1	A company – Transport via Railways	54,250	14.34 %					
2	B group — Air Transport	44,755	11.83 %					
3	C group—Ocean Transportation	31,868	8.43 %					
4	D group—Retail Sale in Nonspecialized Stores	19,270	5.09 %					
5	E group—Manufacture of Made-up Textile Articles	19,089	5.05 %					
6	F group—Smelting and Refining of Iron and steel	17,919	4.74 %					
7	G group—Cable Television	16,511	4.37 %					
8	H group—Real Estate Development Activities	13,948	3.69 %					
9	I group — Air Transport	13,915	3.68 %					
10	J group—Real Estate Development Activities	13,380	3.54 %					

	December 31, 2018							
Rank	Group Name	Credit Extensions Balance	% of Net Asset Value					
1	A company — Transport via Railways	54,026	17.42 %					
2	B group — Air Transport	42,855	13.82 %					
3	C group—Retail Sale in Nonspecialized Stores	21,901	7.06 %					
4	D group—Smelting and Refining of Iron and steel	21,532	6.94 %					
5	E group — Aluminum material Rolls over Extends and Crowding	21,265	6.86 %					
6	F group—Cable Television	16,381	5.28 %					
7	G group—Real Estate Development Activities	16,090	5.19 %					
8	H group — Air Transport	15,062	4.86 %					
9	I group—Real Estate Development Activities	12,777	4.12 %					
10	J group—Ocean Transportation	12,583	4.06 %					

4) Average balance and current average interest rates of interest-bearing assets and liabilities

			Unit: In milli	on of TWD; %	
	December	31, 2019	December 31, 2018		
	Average	Average interest rate (%)	Average	Average interest rate (%)	
Interest earnings assets		_			
Call loans and placement with banks	\$ 219,739,225	2.65	273,478,077	2.37	
Placement with Central Bank	418,045,686	0.70	439,388,837	0.69	
Financial assets	1,070,713,737	1.01	1,282,180,900	0.91	
Negotiation, discounts and total loans	2,733,570,115	1.60	2,389,866,529	1.69	
Interest bearing liabilities					
Deposit of Central Bank	14,603,311	-	15,077,628	-	
Deposits and call loans from banks	278,077,443	1.76	221,694,751	1.46	
Demand deposits	393,322,729	0.24	398,352,371	0.22	
Demand savings	1,002,993,486	0.47	947,078,863	0.48	
Time savings	1,578,862,716	1.48	1,630,869,080	1.52	
Time deposits	682,266,007	1.92	721,675,689	1.83	
Government deposits	299,605,555	0.18	280,344,637	0.18	
Structured products	1,109,138	2.79	908,476	2.50	
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

- 1) 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. The assets and Liabilities Management Committee conducts necessary monitoring procedures. The Risk Management Department prepares risk-monitoring reports periodically and reports to the Risk Management Committee and then the Board of Directors.

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%.

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Notes to the Consolidated Financial Statements

- 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)

Unit:	In	thousand	USD

December 31, 2019	1~30days	31~90days	91~180days	181day1year	Over one year	Total
Cash and placement with banks	424,667	33,000	44,550	60,550	2,588	565,355
Call loans to banks and overdrafts	1,750,000	1,173,300	520,000	825,000	-	4,268,300
Investment securities	13,816	32,681	88,451	159,661	2,183,064	2,477,673
Loans (including overdue loans)	421,617	479,641	328,785	399,399	3,958,715	5,588,157
Interest receivables and income receivables	16,926	18,672	10,580	5,026	55,496	106,700
Other expired items	8,187,451	10,561,402	7,337,513	3,333,077	1,767,376	31,186,819
Total major matured capital inflow	10,814,477	12,298,696	8,329,879	4,782,713	7,967,239	44,193,004

December 31, 2019	1~30days	31~90days	91~180days	181day1year	Over one year	Total
Deposits from banks, bank overdrafts, and call loans from bank	2,562,967	986,800	100,000	15,000	-	3,664,767
Demand deposits	871,366	971,635	1,457,453	-	876,909	4,177,363
Time deposits	3,010,347	2,645,530	2,179,185	3,100,459	375	10,935,896
Borrowings	-	-	-	-	1,500,000	1,500,000
Interest payables	30,661	32,485	21,679	10,830	120,029	215,684
Loan Commitments	221,593	67,786	168,377	549,202	704,179	1,711,137
Equities	-	-	-	-	(59,815)	(59,815)
Other expired items	2,822,298	6,258,951	4,495,587	2,333,639	7,119,681	23,030,156
Total major matured capital outflow	9,519,232	10,963,187	8,422,281	6,009,130	10,261,358	45,175,188



Maturity analysis of assets and liabilities (New Taiwan Dollars)

Jnit:	n thou	sand TV	VЮ

						iit: In thousand TWI
December 31, 2019	1~30days	31~90days	91~180days	181day1year	Over one year	Total
Cash and placement with banks	51,529,676	207,522,262	74,186,089	71,269,782	40,859,907	445,367,716
Call loans to banks and overdrafts	6,625,000	-	-	-	10,000	6,635,000
Investment securities	684,379,289	52,426,185	77,987,626	198,061,066	222,845,695	1,235,699,861
Loans (including overdue loans)	195,050,349	248,789,474	252,710,482	394,875,046	1,402,441,506	2,493,866,857
Interest receivables and income receivables	3,872,391	2,658,215	2,033,934	1,357,912	42,826	9,965,278
Other expired items	71,206,001	152,939,076	98,546,043	96,563,366	284,683,815	703,938,301
Total major matured capital inflow	1,012,662,706	664,335,212	505,464,174	762,127,172	1,950,883,749	4,895,473,013

December 31, 2019	1~30days	31~90days	91~180days	181day1year	Over one year	Total
Deposits from banks, bank overdrafts, and call loans from bank	59,343,738	6,126,358	8,092,401	13,532,890	7,262,774	94,358,161
Demand deposits	56,056,764	41,078,634	38,557,562	52,349,306	1,294,940,898	1,482,983,164
Time deposits	385,266,473	252,470,787	285,386,675	737,654,628	163,632,039	1,824,410,602
Bills and bonds sold under repurchase agreements	1,784,484	17,289,302	697,820	2,563	-	19,774,169
Borrowings	25	3,587	4,048	4,777	25,004,036	25,016,473
Interest payables	5,027,425	698,414	1,254,603	795,019	395,420	8,170,881
Loan Commitments	93,619,947	187,056,686	280,676,633	561,353,266	709,386,373	1,832,092,905
Equities	-	-	-	-	376,479,551	376,479,551
Other expired items	178,401,682	291,454,294	166,532,442	79,521,988	140,840,739	856,751,145
Total major matured capital outflow	779,500,538	796,178,062	781,202,184	1,445,214,437	2,717,941,830	6,520,037,051

Maturity analysis of assets and liabilities (United State Dollars)

Unit: 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	1	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)

nit:	n th	ousand	ΙĪ	ISD

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

(iv) Maturity analysis of derivatives

n thousand of TWD	Unit: In

December 31, 2019 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	9,840,477	9,448,269	2,071,580	766,000	201,192	-	22,327,518		
Foreign exchange inflow	10,023,135	9,498,981	2,139,416	790,015	201,192	-	22,652,739		
Financial assets and liabilities r	neasured at fair value	through profit or los	s, Derivative instrum	ents (Interest)					
Foreign exchange outflow	210,855,823	449,604,048	271,949,337	124,996,618	3,611,166	-	1,061,016,992		
Foreign exchange inflow	201,111,370	454,297,984	278,779,509	134,182,065	3,247,741	-	1,071,618,669		
Hedging derivative financial in	struments (Interest)								
Foreign exchange outflow	5,540	124,629	48,370	110,265	623,987	-	912,791		
Foreign exchange inflow	8,313	99,369	65,775	89,530	464,554	=	727,541		
Hedging derivative financial in:	struments (Foreign e	xchange)	-						
Foreign exchange outflow	471,695	-	-	-	-	-	471,695		
Foreign exchange inflow	461,259	-	-	-	-	-	461,259		

Unit: In thousand of	TWI	d

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	5.Overdue 1 to 5 years	6.Overdue more than 5 years	Total
Financial assets and liabilities r	neasured at fair value	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 r	neasured at fair value	through profit or los	ss, Derivative instrum	ents (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 in	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 r	neasured at fair value	through profit or los	s, Derivative instrum	ents (Commodity)			
Foreign exchange outflow	-	-	-	-	-	-	-
Foreign exchange inflow	-	(72)	-	-	-	-	(72)

(v) Maturity analysis of off-balance sheet items

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: In thousand of TWD

December 31, 2019	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year	Total
Irrevocable loan commitment	31,000,000	-	1,080,000	259,830,884	131,141,360	423,052,244
Irrevocable credit card commitment	5,153	1,155	4,495	25,744	191,492	228,039
Unused letter of credit	5,551,609	2,148,355	4,441,537	23,195,895	4,241,795	39,579,191
Guarantee receivables	51,895,541	3,199,187	8,629,817	7,130,792	15,032,129	85,887,466
Total	88,452,303	5,348,697	14,155,849	290,183,315	150,606,776	548,746,940

0-30 days 31-90 days 91-180 days 181 days-1 year Over 1 year Total 211,375,700 1.280.000 202,000,000 188.243 414.843.942 rrevocable credit card commits 239,524 239,524 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 11,885,401 11,882,902 87,101,335 4,151,114 65,535,105 215,628,036 9,594,365 221,746,799 16,356,680 528,860,985

(vi) Maturity analysis of lease agreements and capital expenditures

Maturity analysis of real estate lease agreements and capital expenditures were as follows:

December 31, 2019	Less than 1 year	1-5 years	Over 5 years	Total	
Lease agreements					
Lease liabilities	(455,304)	(980,241)	(43,587)	(1,479,132)	
Lease income	151,451	181,595	-	333,046	
Total	(303,853)	(798,646)	(43,587)	(1,146,086)	

December 31, 2018	Less than1 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)

- (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, 2019

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	\$ 4,895,473,013	556,635,559	456,027,147	664,335,212	505,464,174	762,127,172	1,950,883,749			
Major matured capital outflow	6,520,037,051	477,798,626	301,701,912	796,178,062	781,202,184	1,445,214,437	2,717,941,830			
Capital gap	(1,624,564,038)	78,836,933	154,325,235	(131,842,850)	(275,738,010)	(683,087,265)	(767,058,081)			

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)		

2) Maturity analysis of assets and liabilities (United State Dollars) (excluding BankTaiwan Insurance Brokers)

December 31, 2019

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	\$ 44,193,004	10,814,477	12,298,696	8,329,879	4,782,713	7,967,239			
Major matured capital outflow	45,175,188	9,519,232	10,963,187	8,422,281	6,009,130	10,261,358			
Capital gap	(982,184)	1,295,245	1,335,509	(92,402)	(1,226,417)	(2,294,119)			

December 31, 2018

Unit: In thousand of USI

	Т		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	\$	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		

(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. The Bank decide the quota of investments and stop-loss point for financial instruments by types and characteristics in order to identify, assess, measure and monitor various risks of investment.



(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 prices from TWSE, electronic screen or independent brokerage firms) 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 procedures for ordinary trading activities, prepares risk monitoring reports and reports it to the Risk Management Committee and the Board of Directors. The monitoring procedures includes the controls over market risk position, profit and loss, exposure, quota of investments, degree of concentration, sensitivity analysis and stress testing. The Bank also has communication mechanism. Each operating unit should provide transaction information to supervisors periodically to ensure the accuracy and effectiveness. While trading amounts are over the preset limit or in an abnormal condition, the related operating units should alert it in time.

(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 "Bank of Taiwan 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 prices from TWSE, electronic screen or independent brokerage firms) 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, future contracts, 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 to monitor the influence of interest risk.

(vi) 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.

(vii) 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.

(viii) 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 β 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, β 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.

(ix) 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, 2019 and 2018. Under this assumption, the income after tax will decrease \$56 million and \$53 million, respectively, and the other comprehensive income will decrease \$6,164 million and \$6,369 million, respectively. If the yield curve moves downward by 100 bps, the income after tax will increase \$55 million and \$57 million, respectively, and the other comprehensive income will increase \$6,583 million and \$6,659 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, 2019 and 2018. Under this assumption, the income after tax will increase \$796 million and \$1,410 million, respectively.

If the exchange rate depreciates by 3%, the income after tax will decrease \$796 million and \$1,410 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, 2019 and 2018. Under this assumption, the income after tax will increase \$6,524 million and \$6,482 million, respectively, and the other comprehensive income will increase \$14,293 million and \$11,507 million, respectively.

If the market prices decrease by 15 %, the income after tax will decrease \$6,524 million and \$6,482 million, respectively, and the other comprehensive income will decrease \$14,293 million and \$11,507 million, respectively.

4) Sensitivity analysis is as follows:

Unit: In million of TWD

December 31, 2019						
		Amount	Influence			
Main risk	Range of changes	Range of changes Equity Ga		Range of changes Equity Gain or		
Interest rate risk	Interest rate curve rise 100BPS	(6,164)	56			
Interest rate risk	Interest rate curve fall 100BPS	6,583	(55)			
Exchange rate risk	Other foreign currency/ TWD rise3%		796			
Exchange rate risk	Other foreign currency / TWD fall 3%		(796)			
Price of equity stock risk	Price of equity stock rise 15 %	14,293	6,524			
Price of equity stock risk	Price of equity stock fall 15 %	(14,293)	(6,524)			

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)	53				
Interest rate risk	Interest rate curve fall 100BPS	6,659	(57)				
Exchange rate risk	Other foreign currency/ TWD rise 3%		1,410				
Exchange rate risk	Other foreign currency / TWD fall 3%		(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)				

(x) Information of currency risk concentrate

Net position of major foreign currencies

Unit: In thousand of stated currencies

December 31, 2019					
Amount in original cur	Amount in New Taiwan Dollars				
USD	637,450	19,117,126			
CNY	1,201,376	5,159,910			
JPY	3,019,312	833,632			
GBP	18,372	723,489			
KRW	21,477,933	556,278			

Unit: In thousand of stated currencies

December 31, 2018						
Amount in origi	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				

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, 2019 and 2018, respectively.

Unit: In thousand of TWD

December 31, 2019							
Assets	т	ICD 40 TWD	Other currencies to TWD	Total TWD			
	USD to TWD			Total TWD			
Cash and cash equivalents	\$	40,602,495	49,070,591	89,673,086			
Placement with Central Bank and call loans to banks		95,523,436	67,808,331	163,331,767			
Financial assets measured at fair value through profit or loss		81,265,493	23,293,167	104,558,660			
Financial assets measured at fair value through other comprehensive income		25,979,446	68,738,961	94,718,407			
Debt investments measured at amortized cost		23,927,802	17,031,776	40,959,578			
Hedging derivative financial assets		-	1,071	1,071			
Receivables, net		11,226,412	1,734,035	12,960,447			
Current income tax assets		77,765	63,288	141,053			
Loans and Discounts, net		124,070,454	100,190,607	224,261,061			
Other financial assets, net		92,562	20,195	112,757			
Property and equipment, net		85,094	58,388	143,482			
Intangible assets, net		12,485	3,804	16,289			
Deferred income tax assets, net		126,667	66,699	193,366			
Other assets, net	_	38,944,892	(37,262,879)	1,682,013			
Total assets	\$ _	441,935,003	290,818,034	732,753,037			

December 31, 2019

	Dec	ciiibei 51, 2017		
			Other currencies to	
Liabilities	U	SD to TWD	TWD	Total TWD
Deposits of Central Bank and other banks	\$	64,126,309	70,769,063	134,895,372
Financial liabilities measured at fair value through profit or loss		45,722,494	152,587	45,875,081
Hedging derivatives financial liabilities		-	25,537	25,537
Bills and bonds sold under repurchase agreement		-	1,790,702	1,790,702
Payables		7,431,896	1,789,738	9,221,634
Current income tax liabilities		10,001	123,997	133,998
Deposits and remittances		423,630,859	241,217,178	664,848,037
Other financial liabilities		380,155	565,910	946,065
Provisions		4,854	17,982	22,836
Deferred income tax liabilities		-	19,312	19,312
Other liabilities		133,362,499	41,542,081	174,904,580
Total liabilities	\$_	674,669,067	358,014,087	1,032,683,154



Unit: In thousand of TWD

December 31, 2018

A4	TIC	ND 4- TWD	Other currencies to	T-A-L TWD	
Assets		SD to TWD	TWD (2.102.412	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	\$	387,916,224	297,456,663	685,372,887	

December 31, 2018

Liabilities	USD to TWD	Other currencies to TWD	Total TWD
Deposits of Central Bank and other banks	\$ 68,635,480	52,209,508	120,844,988
Financial liabilities measured at fair value through profit or loss	46,316,712	63,924	46,380,636
Hedging derivatives financial liabilities	-	12,973	12,973
Bills and bonds sold under repurchase agreement	18,441,000	-	18,441,000
Payables	7,612,984	2,264,724	9,877,708
Current income tax liabilities	42,749	6,888	49,637
Deposits and remittances	469,398,377	249,114,004	718,512,381
Other financial liabilities	385,459	266,559	652,018
Provisions	11,301	5,305	16,606
Deferred income tax liabilities	-	21,541	21,541
Other liabilities	112,470,812	33,217,502	145,688,314
Total liabilities	\$ 723,314,874	337,182,928	1,060,497,802

- (xi) 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)

Unit: In thousand of TWD

December 31, 2019							
Item	1~90 days	91~180 days	181 days to one year	Over one year	Total		
Interest rate sensitive assets	\$ 1,682,531,290	1,712,946,163	156,966,532	309,160,967	3,861,604,952		
Interest rate sensitive liabilities	457,257,294	2,933,664,471	246,325,207	87,470,984	3,724,717,956		
Interest rate sensitive gap	1,225,273,996	(1,220,718,308)	(89,358,675)	221,689,983	136,886,996		
Net worth							
Ratio of interest rate sensitive assets to liabilities (%)					103.68		
Ratio of interest rate sensitive gap	to net worth (%)				36.46		

Unit: In thousand of TWD

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		

- 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)

Unit: In thousand of USD

December 31, 2019						
Item	1~90 days	91~180 days	181 days to one year	Over one year	Total	
Interest rate sensitive assets	\$ 29,245,574	6,754,671	4,912,995	994,744	41,907,984	
Interest rate sensitive liabilities	19,341,698	10,012,659	5,449,048	1,541,441	36,344,846	
Interest rate sensitive gap	9,903,876	(3,257,988)	(536,053)	(546,697)	5,563,138	
Net worth						
Ratio of interest rate sensitive assets to liabilities (%)						
Ratio of interest rate sensitive gap	to net worth (%)				(9,365.39)	

Unit: In thousand of USD

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	to net worth (%)				(4,878.23)			

- 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).

(f) 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.

(i) 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.

(ii) 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.

(iii) 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.

(g) 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

To conduct the planning, management and execution of the Bank's legal compliance, the Department of Compliance has set up the Regulations and Guidelines of Legal Compliance, which clearly states the responsibility of the competent unit (Department of Compliance), the task force (each unit of the head office, Secretary Department of the Board of directors, Department of Internal Auditing of the Board of Directors), training unit (Training Institute), and the self-assessment unit (each operational unit, excluding Department of Internal Auditing Board of Directors). The Department of Compliance also holds the responsibility of planning, managing and executing the overall legal compliance of the Bank. For instance, the task force should look into potential risks of legal compliance and obtain the opinion and approval of the Department of Compliance before new services and products are introduced to the market or applications are submitted to the authorities for the approval of sales.

In response to continuous changes in external regulations, the Department of Compliance prepared the Legislation and Amendment of External Financial Regulations Checklist to let each operation unit recheck their internal guidelines and make necessary adjustments in time. The Department of Compliance passes the information to its employees about the changes in financial regulations related to the Bank's operations to lower the risk of legal compliance. If any operational loss events involving legal compliance occur and cause loss, they will be reported as part of operation risk to the appropriate management level.

The Bank's Declaration of Operation Risk Appetite stresses that the Bank should attach importance not only to the direct financial loss cause by operational loss events, but also the indirect loss which might damage its quality of service and reputation. In view of an internal fraud that may cause enormous loss and seriously jeopardize reputation, the Bank actively establishes the enterprise culture with risk awareness. In addition to enhancing its employees' concept of risk (e.g. collecting and compiling the information as a report about the concept of risk), and to firmly executing internal controls, the Bank also prevents internal fraud by emphasizing the importance of compliance with regulations and laws. Any events that may damage BOT's reputation will be reported as part of operation risk to the appropriate management level.

In the future, the Bank shall meet the requirements proposed by the authorities. Moreover, the Bank will keep collecting domestic and international information and refer them to other banks' practical operations to enhance the quantitative measurement and qualitative management on 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 17 members in the center.

2) Setting up AML/CFT Committee

The Bank sets up "Legal Compliance, Anti-Money Laundering and Combating Terrorism Financing Committee (AML/CFT Committee)" according to the "Regulations for Legal Compliance, 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 18 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 engaged independent third parties to exam the effectiveness of its AML/CFT managerial mechanism since 2017. The Bank would then engage another external consultants to assist the Bank for improvement if necessary. The external consultants should also participate and provide 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 the Regulations Governing Anti-Money Laundering Art. 9.1., financial institutions should gradually integrate customer information and transaction data into 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 over accounts and transactions by applying risk-based approach and the assistance of information systems. In order to verify the effectiveness of the systems, consultants were hired to conduct independent tests, provide recommendations for setting transaction monitoring thresholds, and continuously optimize the system.

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 engaged 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 required 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 required all its employees to read the Q&A thoroughly and finish the online exam so as to improve their knowledge on AML related regulations.
- 7) Reporting the properties (including its related interests and their locations) designated by the Counter-Terrorism Financing Act and suspicious transactions to Investigation Bureau, the Ministry of Justice.
- 8) Updating personal information of customers

In order to meet the related AML regulations and improve the customer database, BOT provided customers with various ways to update their personal information.

(h) Transfer of financial assets – transferred financial assets without overall derecognition

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 or equity securities under lending agreements. The right to receive cash flow is transferred and 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 risks and credit risks, transferred financial assets are not completely derecognized. Analysis of financial assets without overall derecognition and the associated liabilities are as follows:

		December 31, 2019						
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 Financial asset measured at fair value through other comprehensive income	\$ 29,964	29,973	29,964	29,973	(9)			
Under repurchase agreements	19,308,726	19,744,196	19,308,726	19,744,196	(435,470)			

		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	\$ 5,577,177	5,272,516	5,577,177	5,272,516	304,661
Financial asset measured at fair value through other comprehensive income					
Under repurchase agreements	21,193,500	19,805,531	21,193,500	19,805,531	1,387,969

(i) Offsetting of financial assets and financial liabilities

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.

The offsetting information of financial assets and financial liabilities is shown below:

	l	December 31, 2019			
Financial assets	under offsetting or gen	eral agreement of r	et amount settle	ement or similar n	orms
То		Net amount of financial assets	on the bala	ount not offset nce sheet (d)	
Financial assets Derivative financial assets Financial assets	al assets sheet	on the balance sheets (c)=(a)-(b) 10,589,277	Financial instrument (note) 994,022	Cash received as collaterals 2,462,130	Net amount (e)=(c)-(d) 7,133,125



liabilities

BANK OF TAIWAN AND SUBSIDIARY

Notes to the Consolidated Financial Statements

Financ	ial l	iabilities under		ecember 31, 2019 teral agreement of		lement or similar	norms
-			Total recognized	Net amount of			
		Total recognized	financial assets offsetting on	financial liabilities	Relevant amount not offset on the balance sheet (d)		
		financial	the balance	on the balance	Financial		
Financial		liabilities	sheet	sheets	instrument	Pledged cash	Net amount
liabilities		(a)	(b)	(c)=(a)-(b)	(note)	Collaterals	(e)=(c)-(d)
Derivative financial	\$	14,003,851		14,003,851	983,646	425,334	12,594,871

Note: Master netting arrangements and non-cash financial collaterals are included.

		Ι	December 31, 2018			
Financ	ial assets under o	ffsetting or gene	eral agreement of n	et amount settle	ement or similar n	orms
	T ()	Total recognized financial	N. A. C.	Delegant and	4 6C 4	
	Total	liabilities	Net amount of	Relevant amo		
	recognized financial	offsetting on the balance	financial assets on the balance	Financial	nce sheet (d)	
	assets	sheet	sheets	instrument	Cash received	Net amount
Financial assets	(a)	(b)	(c)=(a)-(b)	(note)	as collaterals	(e)=(c)-(d)
Derivative	\$ 6,298,504		6,298,504	1,735,071	38,214	4,525,219
financial assets		-	· 			

December 31, 2018							
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms							
			Total				
			recognized	Net amount of			
		Total	financial assets	financial	Relevant amo		
		recognized	offsetting on	liabilities	on the balance sheet (d)		
		financial	the balance	on the balance	Financial		
Financial		liabilities	sheet	sheets	instrument	Pledged cash	Net amount
liabilities		(a)	(b)	(c)=(a)-(b)	(note)	Collaterals	(e)=(c)-(d)
Derivative	\$_	4,646,438		4,646,438	1,735,071	387,813	2,523,554
financial	_						
liabilities							

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.

BANK OF TAIWAN AND SUBSIDIARY

Notes to the Consolidated Financial Statements

(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 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 IFRS 10. 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.
 - 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

- 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 Financial asset measured at fair value through other comprehensive income, 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.
- 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 and subsidiary use the Standardized Approach.

(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, 2019	December 31, 2018
Eligible	Common stock capital		260,398,368	209,451,511
	Other tier 1 capital		-	-
capital	Tier 2 capital		37,174,652	41,031,241
	Eligible capital		297,573,020	250,482,752
Risk assets	Credit	Standardized approach	1,955,604,546	1,818,497,922
weighted		Internal rating based approach	-	-
assets	risk	Securitization	-	-
	Operational	Basic indicator approach	-	-
		Standardized approach/Alternative standardized approach	63,628,550	64,333,363
	risk	Advance measurement approach	-	-
	Market	Standardized approach	82,580,325	112,738,688
	risk	Internal models approach	-	-
	Total risk weighted assets		2,101,813,421	1,995,569,973
Capital adequacy ratio			14.16 %	12.55 %
Common	stock based capital ratio		12.39 %	10.50 %
Tier 1 ris	k based capital ratio		12.39 %	10.50 %
Leverage	ratio		5.08 %	4.12 %

BANK OF TAIWAN AND SUBSIDIARY

Notes to the Consolidated Financial Statements

- 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
	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 (no longer a related party since September 2nd., 2019)
	The Export-Import Bank of the Republic of China	Related- Party
	Cathy United Bank	Related- Party

Name	Relationship
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 years ended December 31, 2019 and 2018 were as follows:

	2019		2018
Short-term employee benefits	\$_	16,237	16,524

(c) Other related-party transactions

(i) Call loans to bank

	December 31, 2019							
Hua Nan Financial Holdings Co., Ltd.	\$	Highest balance 18,372,412	Ending balance 2,023,490	Interest rate range (%) 0.17~3.25	Interest income 59,275			
			December 3	31, 2018				
	-			Interest				
		Highest balance	Ending balance	rate range (%)	Interest income			
Hua Nan Financial Holdings Co., Ltd.	\$	19,663,275	1,299,175	0.18~5.08	46,434			

(ii) Receivables

		December	31, 2019	December 31, 2018		
Name	A	mount	Percentage of account balance	Amount	Percentage of account balance	
Taiwan Financial Holding Co., Ltd.	\$	6,213	0.01	5,760	0.01	
BankTaiwan Life Insurance Co., Ltd.		36,809	0.06	46,420	0.08	
BankTaiwan Securities Co., Ltd.						
Total	\$	43,022	<u> </u>	52,180	0.09	

(iii) Other assets

	December 31, 2019			December 31, 2018		
			Percentage of account		Percentage of account	
Name	A	mount	balance	Amount	balance	
BankTaiwan Life Insurance Co., Ltd.	\$	5,887	0.05	5,891	0.07	
BankTaiwan Securities Co., Ltd.		14		14		
Total	\$	5,901	0.05	5,905	<u>0.07</u>	

(iv) Deposits of banks

		December	31, 2019	December 31, 2018	
			Percentage		Percentage
			of account		of account
Name		Amount	balance	Amount	balance
Hun Nan Financial Holdings Co., Ltd.	\$	291,259	0.58	228,890	0.48

(v) Call loans from banks (recognized as deposit of central bank and other bank)

	December 31, 2019					
	 Interest					
	Highest	Ending	rate range	Interest		
	balance	balance	(%)	expense		
Hua Nan Financial Holdings	\$ 20,909,960	-	$0.17 \sim 3.10$	22,093		
Co., Ltd.			=			

	December 31, 2018						
			Interest	_			
	Highest	Ending	rate range	Interest			
	balance	balance	(%)	expense			
Hua Nan Financial Holdings Co., Ltd.	\$ 10,670,305	245,880	0.09~4.40	8,693			

(vi) Deposits

	December 31, 2019			December 31, 2018		
N			Percentage of account		Percentage of account	
Name Name	_	Amount	balance	Amount	balance	
Taiwan Financial Holding Co., Ltd.	\$	198,724	0.01	291,908	0.01	
BankTaiwan Life Insurance Co., Ltd.	\$	6,335,035	0.16	2,485,748	0.06	
BankTaiwan Securities Co., Ltd.		252,990	0.01	263,988	0.01	
Hua Nan Financial Holdings Co., Ltd.		366,176	0.01	371,497	0.01	
Tang Eng Iron Works Co., Ltd.	_	674				
Total	\$ _	7,153,599	0.19	3,413,141	0.09	

(vii) Payables

		December	31, 2019	December 31, 2018	
Name		mount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holding Co., Ltd.	\$	5		7	-
BankTaiwan Life Insurance Co., Ltd.	\$	5,888	0.01	541	-
BankTaiwan Securities Co., Ltd.		51		61	
Total	\$	5,944	0.01	609	

(viii) Other liabilities

	December 31, 2019			December 31, 2018		
			Percentage of account		Percentage of account	
Name	A	mount	balance	Amount	balance	
Taiwan Financial Holding Co., Ltd.	\$	2,762	0.03	2,762	0.04	
BankTaiwan Securities Co., Ltd.	_	1,794	0.02	1,794	0.02	
Total	\$	4,556	0.05	4,556	0.06	

(ix) Interest income

		20	19	2018	
Name		Amount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holding Co., Ltd.	\$	207,025	0.31	170,324	0.27
BankTaiwan Securities Co., Ltd.	_	573		657	
Total	\$ _	207,598	<u>0.31</u>	170,981	<u>0.27</u>

(x) Interest expense

		20	19	20	18
	_		Percentage of account		Percentage of account
Name	_	Amount	balance	Amount	balance
Taiwan Financial Holding Co., Ltd.	\$	391	-	512	-
BankTaiwan Life Insurance Co., Ltd.		32,614	0.08	48,705	0.13
BankTaiwan Securities Co., Ltd.	_	764		734	
Total	\$ _	33,769	0.08	49,951	0.13

(xi) Service fee income

	_	20	19	2018		
Name		Amount	Percentage of account balance	Amount	Percentage of account balance	
BankTaiwan Life Insurance Co., Ltd.	\$	618,722	10.55	609,563	10.23	
BankTaiwan Securities Co., Ltd.	_	3,366	0.06	3,643	0.06	
Total	\$_	622,088	10.61	613,206	10.29	

(xii) Service fee expense

	2()19	20	18
		Percentage		Percentage
		of account		of account
Name	Amount	balance	Amount	balance
BankTaiwan Securities Co., Ltd.	\$ 5,879	0.85	10,660	1.62

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

		20	19	2018		
Name		Amount	Percentage of account balance	Amount	Percentage of account balance	
BankTaiwan Life Insurance Co., Ltd.	\$	1,134,250	2.32	697,995	(15.48)	
BankTaiwan Securities Co., Ltd.	_	(3,400)	(0.01)	(6,614)	0.15	
Total	\$_	1,130,850	2.31	691,381	(15.33)	

(xiv) Other non-interest income (expense)

	_	20	19	2018		
			Percentage of account		Percentage of account	
Name	_	Amount	_balance_	Amount	balance	
Taiwan Financial Holding Co., Ltd.	\$	26,623	(0.06)	28,177	1.68	
BankTaiwan Life Insurance Co., Ltd.		38,329	(0.08)	43,634	2.59	
BankTaiwan Securities Co., Ltd.	_	30,582	(0.07)	30,915	1.84	
Total	\$ _	95,534	(0.21)	102,726	6.11	

(xv) Other general and administrative expense

		20	19	2018		
Name	A	mount	Percentage of account balance	Amount	Percentage of account balance	
Taiwan Financial Holding Co., Ltd.	\$	621	0.01	645	0.01	
BankTaiwan Life Insurance Co., Ltd.		-	-	35,618	0.50	
BankTaiwan Securities Co., Ltd.				86		
Total	\$	621	0.01	36,349	0.51	

(xvi) Loans

			December 31	, 2019			
Category	House holder amount or name of related party	Highest balance in current period	Ending balance	Status of p Performing loans	Non- performing loans	Type of collateral	Differences in transaction terms between related and non related parties
Consumer loans	24 households	12,193	9,172	9,172	-	None	None
House mortgages	211 households	883,375	720,660	720,660	-	Land and buildings	None
Call loans to banks	Land Bank of Taiwan	8,000,000	4,498,500	4,498,500	-	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.	1,220,200	599,800	599,800	-	None	None
Call loans to banks	Cathy United Bank	11,500,000	-	-	-	None	None
Call loans to banks	The Export-Import Bank of the Republic of China	3,754,000	-	-	-	None	None
Call loans to banks	Chang Hwa Bank	8,000,000	-	-	-	None	None
Short-term loans	Taiwan financial Holding Co., Ltd.	25,200,000	25,200,000	25,200,000	-	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.	88,431	41,119	41,119	-	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	1,500,000	900,000	900,000	-	Land and factory	None
Medium-term secured loans	Tang Eng Iron Works Co., Ltd.	1,800,000	1,200,000	1,200,000	-	Land and factory	None



			December 3	, 2018			
	House holder	Highest	Ending	Status of p	erformance		Differences in
Category	amount or name of related party	balance in current period	balance	Performing loans	Non- performing loans	Type of collateral	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	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	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 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

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.

(xvii)Derivative financial instruments

	December 31, 2019							
					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~ 2020.12.11	43,656,372		Valuation adjustment of financial liabilities measured at fair value through profit or loss - swap	(722,419)		

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.

	December 31, 2018									
					Balance s	heet				
Name of related party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Account name	Amount				
BankTaiwan Life Insurance Co., Ltd.	Swap agreement	2010.08.20~ 2019.03.20	23,100,280	54,467	Valuation adjustment of financial assets measured at fair value through profit or loss - swap	21,138				
					Valuation adjustment of financial liabilities measured at fair value through profit or loss - swap	(29,327)				

(xviii)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	19	2018		
			Percentage of account		Percentage of account	
Name		Amount	balance	Amount	balance	
Taiwan Financial Holding Co., Ltd.	\$	10,051	(0.02)	11,762	0.70	
BankTaiwan Life Insurance Co., Ltd.		38,329	(0.08)	43,634	2.59	
BankTaiwan Securities Co., Ltd.	_	19,766	(0.04)	20,098	1.19	
Total	\$_	68,146	(0.14)	75,494	4.48	

(xix) Lease

Between January 2015 and June 2018, the Bank rented several buildings from its related enterprise, BTLI, to be used as its branch office. A five-year lease contract was signed, in which the rental fee was determined based on nearby office rental rates. The total value of the contract was \$178,218 thousand. Rental expenses for the year ended December 31, 2018 amounted to \$35,618 thousand, which was classified under general expenses. There was no outstanding balance as of December 31, 2018. The Bank applied IFRS 16, with a date of initial application on January 1, 2019. This lease transaction recognized an additional amount of \$67,295 thousand of both right-of-use assets and lease liabilities. For the year ended December 31, 2019, the Bank recognized the amount of \$842 thousand and \$36,686 thousand as interest expense and depreciation expense, respectively. As of December 31, 2019, the balance of lease liabilities amounted to \$97,983 thousand.



In January 2017, the Bank rented a building from its related enterprise, BTLI, to be used as its branch office. A five-year lease contract was signed, in which the rental fee was determined based on nearby office rental rates. The total value of the contract was \$432 thousand. Rental expenses for the year ended December 31, 2018 amounted to \$86 thousand, which was classified under general expenses. There was no outstanding balance as of December 31, 2018. The Bank applied IFRS 16, with a date of initial application on January 1, 2019. This lease transaction recognized an additional amount of \$255 thousand of both right-of-use assets and lease liabilities. For the year ended December 31, 2019, the Bank recognized the amount of \$2 thousand and \$85 thousand as interest expense and depreciation expense, respectively. As of December 31, 2019, the balance of lease liabilities amounted to \$171 thousand.

(xx) The price and payment conditions for related-party transactions mentioned above have no significant differences from the conditions for the transactions between the Bank and subsidiary, and non-related parties. The expense of database is allocated between the Bank and subsidiaries based on the usage of each company in the group.

(11) Pledged Assets:

Pledged assets	Purpose of pledge	Decen	nber 31, 2019	December 31, 2018
Deposits in Central Bank-time deposits	Payment and settlement systems of Central Bank	\$	20,000,000	20,000,000
Financial assets measured at fair value through other comprehensive income – bonds	Guarantee deposit for provisional seizure against defaulted loans and others		527,300	471,100
Financial assets measured at fair value through other comprehensive income – bonds	Operating deposit for securities investment trust and consulting		150,000	150,000
Financial assets measured at amortized cost—bonds	Guarantee deposits for trust business compensation reserve		450,000	450,000
Financial assets measured at fair value through other comprehensive income – negotiable certificate	Payment and settlement systems of Central Bank		27,400,000	27,400,000
		\$	48,527,300	48,471,100

(12) Commitments and Contingencies:

(a) Commitments and contingencies

	December 31, 2019	December 31, 2018
Consignment collection	\$ 47,409,273	49,477,512
Contract guarantee on behalf of counter parties	1,221,551	1,241,441
Traveler's checks held on consignment	659,643	884,739
Marketable securities held as custodian	2,524,269,729	2,215,098,957
Letters of credit	39,579,192	26,676,184
Goods held in custody	32,879,791	42,603,991
Issuance of New Taiwan Dollars	2,449,257,937	2,199,308,024
Trustee of behalf of Lenders	527,631,902	608,892,514
Registered government bonds for sale	715,195,300	798,484,400
Registered short term bills for sale	210,582,786	254,133,758
Consigned sales of goods	872,556	885,736
Trust liabilities	653,305,882	601,845,330
Guarantees	85,887,465	87,101,336
	\$ <u>7,288,753,007</u>	6,886,633,922

(b) Balance sheet, income statement and details of assets under trust

Trust assets		December 31, 2	019	December 31, 2018	
		Amount	%	Amount	%
Deposits					
Deposits in BOT	\$	36,138,913	6	29,268,129	5
Deposits in other banks		2,381	-	310,038	-
Short term investment					
Investment in funds		165,849,799	25	164,389,046	27
Investment in bonds		281,239,879	43	260,782,413	43
Common stock investment–marketable securities		48,761,636	7	51,622,134	9
Receivables					
Interest receivable		1,865,932	-	1,376,314	-
Cash dividend receivable		669	-	1,267	-
Receivables from trading securities		198,510	-	292,965	-
Receivables from forward contracts		3,133,135	1	5,553,635	1
Real estate					
Land		20,361,587	3	22,894,616	4
Buildings		160,332	-	121,199	-
Construction in progress		4,502,672	1	3,691,800	1
Marketable securities under custody	_	91,090,437	14	61,541,774	10
Total of trust assets	\$_	653,305,882	100	601,845,330	100



Trust liabilities	December 31, 2019			December 31, 2018		
		Amount	%	Amount	%	
Payables		_				
Payables from trading securities	\$	147,101	-	87,901	-	
Payables from forward contracts		3,184,450	1	5,462,050	1	
Payables from management fee		4,541	-	2,909	-	
Payables from supervision fee		438	-	413	-	
Other payables		716	-	1,575	-	
Tax payable		583	-	722	-	
Securities held in custody payable		91,090,437	14	61,541,774	10	
Trust capital						
Money trust		407,904,771	62	388,748,062	64	
Marketable securities trust		135,482	-	155,028	-	
Real estate investment trust		27,146,753	4	28,387,883	5	
Other reserve and accumulated income						
Accumulated loss		118,938,177	18	89,196,791	15	
Foreign currency translation		(13,592,880)	(2)	(7,715,868)	(1)	
Deferred unrealized income		(292,012)	-	13,805,837	2	
Current income		18,637,325	3	22,170,253	4	
Total of trust liabilities	\$_	653,305,882	100	601,845,330	100	

Note: Including fund and bond investments of the offshore branch amounting to \$275,887 thousand and \$291,683 thousand as of December 31, 2019 and 2018, respectively.

Details of trust		ecember 31, 2019	December 31, 2018
Deposits		_	
Deposits in the Bank	\$	36,138,913	29,268,129
Deposits in other banks		2,381	310,038
Short term investment			
Investment in funds		165,849,799	164,389,046
Investment in bonds		281,239,879	260,782,413
Common stock investment- marketable securities		48,761,636	51,622,134
Real estate			
Land		20,361,587	22,894,616
Buildings		160,332	121,199
Construction in progress		4,502,672	3,691,800
Marketable securities under custody		91,090,437	61,541,774
Total	\$	648,107,636	594,621,149

Income statement for assets under trust	2019	2018
Trust revenue		
Capital interest revenue	\$ 12,048,903	11,987,923
Cash dividend revenue	2,230,135	2,297,993
Donation revenue	206,183	328,336
Realized capital gain shares	90,558	308,916
Realized capital gain fund	1,872,047	2,265,566
Unrealized capital gain fund	4,061	-
Realized exchange gain - bond	2,380,482	1,980,364
Realized gain on property exchange	139,013	316,380
Income from beneficiary certificates	4,127,919	4,021,211
Realized foreign exchange gains	189,100	42,586
Other revenue	 477	63
Total trust revenue	 23,288,878	23,549,338
Trust expense		
Capital management fee	363,590	449,652
Tax expense	(3,671)	10,653
Supervisory fee	517	476
Storage fee	15,542	13,710
Commission fee	97	89
Donation cost	833,961	880,657
Unrealized capital loss shares	3,397,745	-
Other expense	 43,772	23,848
Total trust expense	 4,651,553	1,379,085
Net income	\$ 18,637,325	22,170,253

(13) Profitability:

		December	31, 2019	December	31, 2018
Item		Before adjusting	After adjusting	Before adjusting	After adjusting
Return on total assets	Before income tax	0.26	0.42	0.23	0.40
(Note 6)	After income tax	0.22	0.37	0.21	0.38
Return on net worth	Before income tax	3.84	5.69	3.83	6.26
(Note 7)	After income tax	3.24	5.09	3.42	5.84
Profit margin			26.46		25.97

- 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 2019 and 2018.
- 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, 2019 means assets excluding the assets of government employees insurance department and the income before and after tax, plus, excess preferential interest expense and interest revenue from the advance resulted from government policies, the adjusted return on total assets before (after) tax are 0.43% and 0.38%.)
- 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, 2019 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 5.90% and 5.30%.)
- (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		2019			2018	
By nature	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expenses						
Salaries	61,699	11,419,798	11,481,497	62,839	10,959,527	11,022,366
Labor and health insurances	110,399	527,904	638,303	104,620	520,763	625,383
Pensions	3,105	925,957	929,062	2,984	838,371	841,355
Director and supervisor compensation payment	-	2,553	2,553	-	2,344	2,344
Others	2,405,768	268,669	2,674,437	2,319,418	258,864	2,578,282
Depreciation	48,402	1,324,747	1,373,149	49,037	706,513	755,550
Amortization expenses	-	313,388	313,388	-	280,830	280,830

The number of employees for the years ended December 31, 2019 and 2018 were 8,316 and 8,237, respectively.

(b) Financial Statements Audited adjustment

The accounting records as at and for the year ended December 31, 2018, 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, 2018:

Reported	Adjustments — Increase (Decrease)	As Audited by the MoA, December 31, 2018
 _		
\$ 1,236,103	(122,969)	1,113,134
17,742,711	(122,969)	17,619,742
		(Continued)
	\$ 1,236,103	Reported December 31, 2018 Adjustments — Increase (Decrease) \$ 1,236,103 (122,969)

			Adjustments	
	As Previously		-Increase	As Audited by
Income statement	Rej	oorted 2018	(Decrease)	the MoA, 2018
Income tax expense	\$	1,108,160	122,969	1,231,129
Net income		10,368,175	(122,969)	10,245,206

Revised entries by the MoA in 2018 were as follows:

Item	Adjustment accounts	Amount revis	ed by the MoA	Explanation of revision by the MoA
1.	Income tax expense	\$ 135,435		The accountant of Hong Kong branch adjusted taxable income.
	Current income tax assets		135,435	
2.	Current income tax assets	\$ 12,466		MoA adjusted taxable income by amendment.
	Income tax assets		12,466	

- (c) Supplementary information for government employees' insurance department
 - (i) Balance sheets

		Government insurance de	
	D	ecember 31, 2019	December 31, 2018
Cash and cash equivalents	\$	58,135,335	49,625,324
Financial assets measured at fair value through profit or loss		179,707,321	151,082,813
Debt investments measured at amortized cost		94,907,557	84,604,931
Receivables, net		8,519,617	8,052,203
Property and equipment, net		4,647	4,673
Intangible assets, net		11,635	4,657
Other assets, net		551,592	3,039,547
Total assets	\$_	341,837,704	296,414,148
		Government of insurance de	
	D	ecember 31,	December 31,
		2019	2018
Payables		96,653	34,334
Provisions		341,738,589	296,379,792
Other liabilities	_	2,462	22
Total liabilities	\$	341,837,704	296,414,148



(ii) Income statement

		Government e insurance de	
		2019	2018
Net interest income	\$	2,644,359	2,088,822
Service fee expenses		(16,498)	(1,942)
Gain (loss) on financial assets and liabilities at fair value through profit or loss		38,867,938	(12,832,454)
Foreign exchange gain (loss)		(3,521,667)	1,827,970
Impairment loss of assets		4,504	(5,024)
Premium income		23,511,625	24,863,334
Government subsidy		8,774,387	8,892,009
Insurance payments		(24,671,785)	(23,242,767)
Provision for insurance premium reserve		(45,358,797)	(1,371,850)
Miscellaneous expense		(88,718)	(89,704)
Miscellaneous revenue	_	12,465	15,591
Net revenue		157,813	143,985
Bad debt expenses and reserve for guarantees	_	2,240	3,639
Employee benefits		130,413	122,437
Depreciation and amortization expenses		4,378	3,318
Other general and administrative expenses	_	20,782	14,591
		155,573	140,346
Net income	\$	 _	

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 years ended December 31, 2019 and 2018 were \$60 thousand and \$147 thousand, respectively. There were no interest revenue and other revenue in December 31, 2019 and 2018.

(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:

- 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:

(In Thousands of New Taiwan Dollars)

								counter-party the previous t			References	Purpose of	
					i	Relationship		Relationship			for	acquisition	i I
Name of	Name of	Transaction	Transaction	Status of	Counter-party	with the		with the	Date of		determining	and current	
company	property	date	amount	payment		Company	Owner	Company	transfer	Amount	price	condition	Others
Bank of	Land Serial	2019.09.25	42,000,000	Paid with	Taiwan	Related party	R.O.C.	Shareholders	2019.09.06	42,000,000	Valuation	Will follow the	None
Taiwan	No.111,Sanyu			land.	Financial		(Manager:	of parent			report	government's	
	Section, Shilin				Holding Co.,		National	company				policy	
	Dist., Taipei City,				Ltd.		Property						
	Taiwanetc,, a				l		Administration,						
	total of 56 land						MOF)						

- (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 Company	Name of the counter-party	Existing relationship with the counter-party	Account name	Amount	Terms of trading	Percentage of the total consolidated revenues or total assets
0	Bank of Taiwan	BankTaiwan Insurance Brokers	1	Deposits	410,261	Same as regular transaction	0.01 %
_	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Placement with banks	410,261	"	0.01 %
0	Bank of Taiwan	BankTaiwan Insurance Brokers	1	Cheques deposits	50,000	"	- %
	BankTaiwan Insurance Brokers	Bank of Taiwan		Placement with banks	50,000	"	- %
0	Bank of Taiwan	BankTaiwan Insurance Brokers	1	Other receivables	45,627	"	- %
-	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Other payables	45,627	"	- %
0	Bank of Taiwan	BankTaiwan Insurance Brokers		Service fees revenue	1,211,865	"	2.87 %
-	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Service fees expenses	1,211,865	"	2.87 %
0	Bank of Taiwan	BankTaiwan Insurance Brokers		Miscellaneous revenues	480	"	- %
	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Administrative expense	480	"	- %
0	Bank of Taiwan	BankTaiwan Insurance Brokers	_	Refundable deposits	808	"	- %
	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Guarantee deposits paid	808	"	- %
0	Bank of Taiwan	BankTaiwan Insurance Brokers		Miscellaneous revenue	13,674	//	0.03 %

					State o	of transaction	
Number	Name of Company	Name of the counter-party	Existing relationship with the counter-party	Account name	Amount	Terms of trading	Percentage of the total consolidated revenues or total assets
	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Operating expenses	13,674	Same as regular transaction	0.03 %
0		BankTaiwan Insurance Brokers	_	Other operating income	4,840	"	0.01 %
0		BankTaiwan Insurance Brokers	1	Interest payables	10	"	- %
	BankTaiwan Insurance Brokers	Bank of Taiwan	_	Interest receivables	10	"	- %
0		BankTaiwan Insurance Brokers	1	Interest expenses	410	"	- %
	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Interest incomes	410	"	- %
-	BankTaiwan Insurance Brokers	Bank of Taiwan		Right-of-use assets	14,332	"	0.03 %
	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Lease liabilities	14,415	"	0.03 %
-	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Interest expense	192	"	- %
	BankTaiwan Insurance Brokers	Bank of Taiwan		Depreciation expense	4,730	"	0.01 %

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 2019:

(In Thousands of New Taiwan Dollars)

				Original	Gain(Loss) recognized	Held by th	e bank and	related party at y	ear-end	
Name of the	Investee	Major	% of	investment	during the			Subto	otal	Notes
investee	Location	Operation	shares	amount	period	Shares		Shares	% of Shares	
Hua Nan Financial Holdings Co., Ltd.	Taipei	Financial Holding	21.23 %	40,060,767	3,387,456	3,025,175	ı	3,025,175	25.07 %	
Tang Eng Iron Works Co., Ltd.	Kaohsiung	Iron Industry	21.37 %	1,027,317	3,196	74,802	-	74,802	21.37 %	
Tai Yi Real Estate Management Co., Ltd.	Taipei	Real Estate Service	30.00 %	21,476	4,045	1,500	-	1,500	30.00%	
BankTaiwan Insurance Brokers Co., Ltd.	Taipei	Insurance Brokers	100.00%	437,401	167,267	2,000	1	2,000	100.00%	note 3

- 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.
 - 2) 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: 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	Main	Total Amount of Paid-in	Investment	Accumulated outflow of Investment from Taiwan as of	Investm		December 31,	Net income from	% of	Equity in the Earnings	December	Accumulated inward remittance of earnings as of December
Company	Business	Capital	types (Note1)	January 1, 2015	Outflow	Regain	2015	investee	shares	(gains) (Note2)	31, 2018	31, 2018
Bank of Taiwan, Shanghai Branch	Banking business	4,295,000 CNY1,000,000		4,295,000 CNY1,000,000		1	4,295,000 CNY1,000,000	142,368	100.00%	142,368	5,780,772	-
Bank of Taiwan, Guangzhou Branch	Banking business	4,295,000 CNY1,000,000		4,295,000 CNY1,000,000		1	4,295,000 CNY1,000,000	112,694	100.00%	112,694	4,890,325	-
	Banking business	4,295,000 CNY1,000,000		4,295,000 CNY1,000,000		-	4,295,000 CNY1,000,000		100.00%	74,973	4,703,100	-

Note 1: Three types of investments are as follows:

- 1) Direct investment in Mainland China.
- 2) Investment in Mainland China through a company set up in a third region.
- 3) Via overseas branches.

Note 2: The net income from investeees is not audited by an independent auditor, yet.

(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
12,885,000	12,885,000	226,951,462

(d) Subsidiaries lending to other parties, guarantees and endorsements for other parties, securities held as of December 31, 2019, 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.

				2019			
		Department of					
	Bank department	Government Employees Insurance	Department of Procurement	Department of Precious Metals	BankTaiwan Insurance Brokers	Reconciliation and elimination	Total
Interest income	\$ 63,375,552	2,644,359	15	14,300	410	(410)	66,034,226
Less: interest expense	39,355,438				192	(602)	39,355,028
Interest income, net	24,020,114	2,644,359	15	14,300	218	192	26,679,198
Non-interest income, net	24,945,928	35,334,277	412,001	(128,074)	333,772	(167,267)	60,730,637
Other non-interest income	(7,787,798)	(37,820,823)	(22,511)	412,231	(1,024)	(18,993)	(45,238,918)
Net revenue	41,178,244	157,813	389,505	298,457	332,966	(186,068)	42,170,917
Bad debt expenses and reserve for guarantees	(7,342,988)	(2,240)	-	-	-	-	(7,345,228)
Operating expenses	(21,150,580)	(155,573)	(110,831)	(90,771)	(125,589)	18,885	(21,614,459)
Continuing operating income before income tax	\$ 12,684,676		278,674	207,686	207,377	(167,183)	13,211,230
Continuing operating income after inocme tax	\$ <u>10,671,325</u>		278,674	207,686	167,184	(167,183)	11,157,686
Total assets	\$ <u>4,780,964,131</u>	341,837,704	2,520,539	1,934,694	546,167	(3,234,073)	5,124,569,162
Total Liabilities	\$ 4,403,198,054	341,837,704	2,241,865	1,727,008	108,849	(2,796,755)	4,746,316,725
				2018			
		Department					
	Bank department	of Government Employees 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	\$ 10,930,569		207,264	289,756	243,725	(194,979)	11,476,335
Continuing operating income after inocme tax	\$ 9,748,185		207,264	289,756	194,980	(194,979)	10,245,206
Total assets	\$ <u>4,751,235,673</u>	296,414,148	2,002,026	1,479,559	537,039	(5,676,899)	5,045,991,546
Total Liabilities	\$ 4,441,603,648	296,414,148	1,794,762	1,189,803	110,289	(5,250,149)	4,735,862,501

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, 2019 and 2018, 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, 2019 and 2018, 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, Ruling No. 10802731571 issued by the FSC and the auditing standards generally accepted in Republic of China in 2019 and 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 Republic of China in 2018. 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 December 31, 2018 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). Our opinion is not modified in respect of this matter.

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\$40,082,243 thousand and NT\$36,994,293 thousand as of December 31, 2019 and 2018, respectively, constituting 0.78% and 0.73% of the related total assets; nor the related shares of investment profit in associates accounted for using equity method of NT\$3,391,501 thousand and NT\$3,108,235 thousand for the years then ended, respectively, constituting 8.07% and 7.91% of the related net revenue. 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.

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, 2019. 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. We have determined the matters described below to be the key audit matters to be communicated in our report.

1. The assessment of impairment of financial assets

Please refer to Note 4(k) "Impairment of assets" for related accounting policy, Note 5(b) "The evaluation of financial asset impairments" for the uncertainty of accounting assumptions and estimations, and Note 8 "Financial risk management" for the details of evaluation of financial asset 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 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. Eventually, the assumptions used may also affect the estimated amount significantly. 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(e) "Financial instrument" for related accounting policy, Note 5(a) "The fair value valuation of non-active market or non-quoted 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 the details of 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, 2019 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 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 the Audit Committee) are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the 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, 2019 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

KPMG

Taipei, Taiwan (Republic of China) March 20, 2020

Notes to Readers

The accompanying parent company only financial statements are intended only to present the financial position, financial performance and 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 ®F TAIWAN

BANK OF TAIWAN Balance Sheets December 31, 2019 and 2018 (Expressed in Thousands of New Taiwan Dollars)

December 31, 2019 December 31, 2018	Amount % Amount %	\$ 229,253,533 5 221,756,139 4	60,283,847 1 50,554,317 1	25,537 - 12,973 -	21,564,871 - 25,078,047 -	43,827,118 1 45,769,665 1	1,343,857 - 262,675 -	3,972,246,112 78 4,026,190,539 81	24,998,820 - 24,998,566 -	962,539 - 678,843 -	361,813,702 8 315,017,702 6	1,479,132	18,235,065 - 18,191,904 -	10,694,864 - 7,751,184 -	4,746,728,997 93 4,736,262,554 93		109,000,000 2 95,000,000 2	108,453,043 2 80,453,043 2		44,692,790 1 42,037,924 1	36,640,733 1 33,103,998 1	 - 	7 -	 	7 310,129,045	$8 + \frac{5,124,981,434}{5,046,391,599} = \frac{100}{5,046,391,599} = \frac{100}{100}$
	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 Payables	Other Financial Liabilities	Provisions	Lease Liabilities	Deferred Tax Liabilities	Other Liabilities	Total liabilities	Equity attributable to owners of parent:	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	26000	29300	29500			31101	31500		32001	32003	32005	00500	37200		
81	3 %	=	5	22		3	,	_	,	51	-	_	2	,	,	,	,	,							1	<u>=</u>
December 31, 2018	Amount 165,864,930	535,130,849	236,408,718	1,117,727,277		167,824,692	41,693	59,258,329	1,113,134	2,557,027,294	38,434,590	46,040,182	96,222,499	,	15,238,207	764,829	308,336	8,986,040							•	5,046,391,599
	 %	=	2	20 1		3		_		52 2	_	_	33												•	네 웨
December 31, 2019	Amount \$ 144,312,778	560,586,872	244,193,929	1,013,078,126		177,206,775	1,071	58,497,703	993,628	2,676,141,224	41,546,961	40,158,445	138,125,216	1,603,487	15,238,207	873,217	870,221	11,553,574								S 5,124,981,434
		nks	ofit or Loss	her Comprehensive																						
	Assets Cash and Cash Equivalents	Placement 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	Income	Debt Investments Measured at Amortized Cost	Hedging Derivative Financial Assets	Receivables, net	Current Income Tax Assets	Loans and Discounts, net	Investments under Equity Method, net	Other Financial Assets, net	Property and Equipment, net	Right-of-Use Assets, net	Investment Property, net	Intangible Assets, net	Deferred Tax Assets	Other Assets, net								Total assets

BANK OF TAIWAN

Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

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

		2019		2018		Change
		Amount	%	Amount	%	%
	Revenue and income:					
41000	Interest income	\$ 66,034,226	157	63,883,640	162	3
51000	Less:Interest expenses	(39,355,438)	(94)	(38,258,657)	(98)	3
	Net interest income	26,678,788	63	25,624,983	64	4
	Non-interest income, net					
49100	Service fees .net	4,840,315	12	4,928,791	12	(2)
49200	Gain (loss) on financial assets or liabilities measured at fair value through profit or loss	48,786,406	116	(4,510,425)	(11)	1,182
49310	Realized gains from financial assets measured at fair value through other comprehensive income	3,580,638	9	2,925,419	7	22
49600	Foreign exchange gain (loss)	(203,841)	-	5,712,951	14	(104)
49700	Provision of impairment loss on assets	(1,350)	-	(86,510)	_	98
49750	Share of profit (loss) of associates and joint ventures accounted for using equity method	3,561,964	8	2,995,129	8	19
49837	Premiums (loss) gain	(1,160,160)	(3)	1,620,567	4	(172)
49843	Sales income	500,387	1	366,662	1	36
48054	Subsidized income from government	8,774,387	21	8,892,009	23	(1)
49898	Excess preferential interest expenses	(8,781,167)	(21)	(9,584,098)	(24)	8
49871	Provisions for policyholders' reserve premium	(45,358,797)	(108)	(1,371,850)	(3)	(3,206)
49899	Excess interest expenses	806,449	2	1,779,850	5	(55)
	Net Revenue	42,024,019	100	39,293,478	100	7
58200	Total bad debts expense and guarantee liability provision	(7,345,228)	(17)	(7,302,488)	(19)	1
	Expenses:					
58500	Employee benefits expenses	(13,092,439)	(31)	(12,530,866)	(32)	4
59000	Depreciation and amortization expenses	(1,637,320)	(4)	(986,495)	(3)	66
59500	Other general and administrative expenses	(6,777,995)	(16)	(7,046,039)	(18)	(4)
	Total Expenses	(21,507,754)	<u>(51</u>)	(20,563,400)	(53)	5
	Profit from continuing operations before tax	13,171,037	32	11,427,590	28	15
61003	Less: Income tax expenses	2,013,351	5	1,182,384	3	70
	Net profit	11,157,686	27	10,245,206	25	9
65000	Other comprehensive income:					
65200	Components of other comprehensive income that will not be reclassified to profit or loss					
65201	Losses on remeasurements of defined benefit plans	(1,565,918)	(4)	(1,082,366)	(3)	(45)
65205	Change in fair value of financial liability attributable to change in credit risk of liability	(299,554)	(1)	239,502	1	(225)
65204	Unrealized gains from investments in equity instruments measured at fair value through other comprehensive income	16,242,122	39	4,416,925	11	268
65207	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss	829,608	2	(117,866)	-	804
65220	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss		<u> </u>		<u> </u>	-
		15,206,258	36	3,456,195	9	340
65300	Components of other comprehensive income (loss) that will be reclassified to profit or loss					
65301	Exchange differences on translation of foreign financial statements	(445,785)	(1)	574,152	1	(178)
65308	Unrealized gains (losses) from investments in debt instruments measured at fair value through other comprehensive income	821,721	2	(569,070)	(1)	244
65307	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	213,814	1	(176,704)	-	221
65320	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	30,302		(81,229)		137
	Components of other comprehensive income that will be reclassified to profit or loss	559,448	2	(90,393)		719
65000	Other comprehensive income	15,765,706	38	3,365,802	9	368
	Total comprehensive income	\$ <u>26,923,392</u>	65	13,611,008	34	98
	Basic earnings per share(In dollars)	\$	1.13		1.08	
					_	

BANK ®F TAIWAN

BANK OF TAIWAN Statements of Changes in Equity For the years ended December 31, 2019 and 2018 (Expressed in Thousands of New Taiwan Dollars)

										Other equity interest	y interest				
						ı		ø L	Unrealized gains	•	à	;	Other comprehensive		
	Share capital			Retained earnings	rmings		foreign	value through other	available-for-	cams (losses) on effective		_	reclassified by		
	Ordinary shares	Capital surplus		Special reserve	Undistributed earnings	Total	financial statements	comprehensive income	sale financial assets	portion of cash flow hedges		instruments for a hedging	applying overlay approach	Total	Total equity
Balance at January 1, 2018	\$ 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
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
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
Appropriation and distribution of retained earnings:															
Legal reserve appropriated			2,791,239	,	(2,791,239)						,				
Special reserve appropriated	•	,	,	3,722,511	(3,722,511)	,	,				ı			,	,
Cash dividends of ordinary share	•	1		1	(600,000)	(000,000)					1				(000,009)
Reversal of special reserve			,	(2,041)	2,041					1	,		,		
Net income for the period				,	10,245,206	10,245,206					,				10,245,206
Other comprehensive income					(1,146,774)	(1,146,774)	665,984	3,635,389			237,114	202	(26,113)	4,512,576	3,365,802
Total comprehensive income					9,098,432	9,098,432	665,984	3,635,389	,		237,114	202	(26,113)	4,512,576	13,611,008
Disposal of investments in equity instruments designated at fair value															
through other comprehensive income					(56,468)	(56,468)		56,468	İ					56,468	
Balance at December 31, 2018	95,000,000	80,453,043	42,037,924	33,103,998	17,619,742	92,761,664	(650,811)	42,375,680			192,515	4,193	(7,239)	41,914,338	310,129,045
Appropriation and distribution of retained earnings:															
Legal reserve appropriated	•	1	2,654,866	1	(2,654,866)	,					1				,
Special reserve appropriated			,	3,539,881	(3,539,881)					1	,		,		
Cash dividends of ordinary share		1		,	(800,000)	(800,000)				1	,	1	1		(800,000)
Reversal of special reserve		1	1	(3,146)	3,146					1	,		1	,	
Net income for the period		,	1	,	11,157,686	11,157,686				,	,	,		1	11,157,686
Other comprehensive income					(1,639,655)	(1,639,655)	(699,412)	18,370,191			(301,751)	(238)	36,571	17,405,361	15,765,706
Total comprehensive income					9,518,031	9,518,031	(699,412)	18,370,191			(301,751)	(238)	36,571	17,405,361	26,923,392
Capital increase based on land pricing	14,000,000	28,000,000													42,000,000
Disposal of investments in equity instruments designated at fair value															
through other comprehensive income					(6,050)	(6,050)		6,050					·	6,050	
Balance at December 31, 2019	\$ 109,000,000	108,453,043	44,692,790	36,640,733	20,140,122	101,473,645	(1,350,223)	60,751,921			(109,236)	3,955	29,332	59,325,749	378,252,437

BANK OF TAIWAN

Statements of Cash Flows

For the years ended December 31, 2019 and 2018 (Expressed in Thousands of New Taiwan Dollars)

	2019	2018
Cash flows from (used in) operating activities: Profit before tax	\$ 13,171,037	11,427,590
Adjustments:	Ψ 13,171,037	11,127,570
Adjustments to reconcile profit (loss):		
Depreciation expense	1,372,375	754,764
Amortization expense	313,346	280,768
Expected credit loss	7,345,228	7,302,488
Interest expense	39,355,438	38,258,657
Interest income	(66,034,226)	(63,883,640
Dividend income	(8,047,397)	(7,710,596
Net change in other provisions	45,358,090	1,372,218
Gain from price recovery of inventory	-	(59
Share of profit of subsidiaries, associates and joint ventures accounted for using equity method	(3,561,964)	(2,995,129
Loss on disposal of property and equipment	57,853	61,59
Impairment loss on financial assets	- (091)	4,918
Reversal of impairment loss on financial assets Impairment loss on non-financial assets	(981) 2,331	81,592
Total adjustments to reconcile profit	16,160,093	(26,472,428
Changes in operating assets and liabilities:	10,100,093	(20,472,420
(Increase) decrease in due from the central bank and call loans to banks	(1,445,740)	27,835,155
(Increase) decrease in financial assets measured at fair value through profit or loss	(9,965,223)	10,499,031
Decrease (increase) in financial assets measured at fair value through other comprehensive income	140,323,013	(52,424,789
Increase in investments in debt instruments measured at amortised cost	(8,723,585)	(8,585,790
Decrease (increase) in financial assets for hedging	40,622	(18,934
Decrease in receivables	2,490,935	4,441,965
Increase in discounts and loans	(126,391,557)	(279,369,555
Decrease in other financial assets	5,881,738	6,338,650
(Increase) decrease in other assets	(2,913,826)	46,869
Increase in deposits from the central bank and banks	7,497,394	2,734,755
Increase in financial liabilities measured at fair value through profit or loss	9,729,530	15,523,882
Increase (decrease) in financial liabilities for hedging	12,564	(47,507
Decrease in notes and bonds issued under repurchase agreement	(3,513,176)	(8,828,073
(Decrease) increase in payables	(2,901,596)	1,774,498
(Decrease) increase in deposits and remittances	(53,944,427)	84,671,911
Increase (decrease) in provisions for employee benefits	1,382,569	(1,078,720
(Decrease) increase in other liabilities	(176,928)	233,544
Total adjustments Cash outflow generated from operations	(26,457,600)	(222,725,536
Interest received	(13,286,563) 65,974,873	61,468,447
Dividends received	7,734,668	6,908,958
Interest paid	(38,396,135)	(36,511,501
Income taxes paid	(1,331,388)	(1,518,139
Net Cash flows from (used in) operating activities	20,695,455	(180,950,181
Cash flows from (used in) investing activities:		
Acquisition of property and equipment	(792,992)	(776,099
Increase in refundable deposits	-	(868,549
Decrease in refundable deposits	236,713	-
Acquisition of intangible assets	(421,687)	(336,916
Net cash flows from (used in) investing activities	(977,966)	(1,981,564
Cash flows from (used in) financing activities:		
Increase in guarantee deposits received	3,120,608	-
Decrease in guarantee deposits received	-	(988,360
Payment of lease liabilities	(602,260)	-
Increase in other financial liabilities	283,696	-
Decrease in other financial liabilities	-	(163,979
Cash dividends paid	(800,000)	(600,000
Net cash flows from (used in) financing activities	2,002,044	(1,752,339
Effect of exchange rate changes on cash and cash equivalents	(654,258)	575,258
Net increase (decrease) in cash and cash equivalents Cash and each equivalents at heginning of period	21,065,275	(184,108,820
Cash and cash equivalents at beginning of period	901,466,185 922,531,460	1,085,575,01
Cash and cash equivalents at end of period Composition of cash and cash equivalents:	3 922,331,460	901,466,185
Cash and cash equivalents reported in the statement of financial position	\$ 144,312,778	165,864,930
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	186,167,478	162,126,076
Securities purchased under resell agreements qualifying for cash and cash equivalents under the definition of IAS 7	592,051,204	573,475,179

See accompanying notes to parent company only financial statements.



Review of Financial Conditions, Operating Results, and Risk Management

281	I.	Analy	sis o	of F	-inancia	al Status
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281 II. Financial Performance

282 III. Analysis of Cash Flow

283 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

284 V. Risk Management

299 VI. Crisis Management Mechanism

Review of Financial Conditions, Operating Results, and Risk Management

I. Analysis of Financial Status

Unit: NT\$1,000

Year	Dog 21 2010	Dec 21 2019	Change	
Items	Dec. 31, 2019	Dec. 31, 2018	Amount	%
Total Assets	5,124,569,162	5,045,991,546	78,577,616	1.56
Total Liabilities	4,746,316,725	4,735,862,501	10,454,224	0.22
Total Equity	378,252,437	310,129,045	68,123,392	21.97

Note: Consolidated financial reports serve as the accounting basis.

Analysis of changes in increase/decrease ratios:

Total assets in 2019 increased from the previous year, mainly because the discounts and loans of the asset account increased from 2018. Total equity in 2019 was up from 2018, due mainly to the increases in the common stock, capital surplus, retained earnings and other equity.

II. Financial Performance

Unit: NT\$1,000

Year	2019	2018	Cha	nge
Items	2019	2010	Amount	%
Net Interest Income	26,679,198	25,625,359	1,053,839	4.11
Non-Interest Income, Net	15,491,719	13,823,128	1,668,591	12.07
Net Revenue	42,170,917	39,448,487	2,722,430	6.90
Bad Debt Expense and Reserve for Guarantees	7,345,228	7,302,488	42,740	0.59
Operating Expenses	21,614,459	20,669,664	944,795	4.57
Net Income before Tax	13,211,230	11,476,335	1,734,895	15.12
Income Tax Expenses	2,053,544	1,231,129	822,415	66.80
Net Income after Tax	11,157,686	10,245,206	912,480	8.91

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 2019 compared with 2018 was due mainly to an increase in the net interest income and financial assets and liabilities measured at fair value through profit or loss.
- 2. The increase in net interest income in 2019 compared with 2018 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 2019 compared with 2018 was due to the increase in financial assets and liabilities measured at fair value through profit or loss.
- 4. The increase in bad debt expense and reserve for guarantees in 2019 compared with 2018 was caused mainly by an increase in provision for allowance for doubtful accounts.
- 5. Income tax expenses for 2019 were up from 2018, mainly due to an increase in net income before tax, which came about because income tax expenses were calculated on the basis of the structure of actual earnings.



III. Analysis of Cash Flow

1. Liquidity Analysis for the Past Year

(1) Cash Flow Analysis

Unit: NT\$1,000

Year	2019	2018	Change		
Items	2019	2010	Amount	%	
Net Cash Inflow (Outflow)	21,065,275	(184,108,826)	205,174,101	111.44	

The main reasons for the net change were as follows:

Unit: NT\$1,000

Items	Amount
Decrease in net cash inflow from placement with Central Bank and call loans to banks	(29,280,895)
Decrease in net cash inflow from financial assets measured at fair value through profit or loss	(20,464,254)
Decrease in net cash outflow from financial assets measured at fair value through other comprehensive income	192,841,789
Increase in net cash outflow from debt investments measured at amortized cost	(137,795)
Decrease in net cash outflow from hedging financial assets	59,556
Decrease in net cash inflow from receivables	(1,951,437)
Decrease in net cash outflow from loans and discounts	152,977,998
Decrease in net cash inflow from other financial assets	(456,912)
Decrease in net cash inflow from other assets	(2,963,570)
Increase in net cash inflow from deposits of Central Bank and other banks	4,762,639
Decrease in net cash inflow from financial liabilities measured at fair value through profit or loss	(5,794,352)
Decrease in net cash outflow from hedging financial liabilities	60,071
Decrease in net cash outflow from bills and bonds purchased under resell agreements	5,314,897
Decrease in net cash inflow from payables	(4,674,574)
Decrease in net cash inflow from deposits and remittances	(138,560,305)
Decrease in net cash outflow from employee benefit obligations	2,463,340
Decrease in net cash inflow from other liabilities	(411,141)
Increase in net cash inflow from other operating activities	47,949,085
Decrease in net cash outflow from investing activities	1,006,018
Decrease in net cash outflow from financing activities	3,755,292
Others	(1,321,349)
Total	205,174,101

Note: Consolidated financial reports serve as the accounting basis.

(2) Remedy for Estimated Shortage of Liquidity: Not applicable.

2. Liquidity Analysis for the Coming Year

Unit: NT\$1,000

	Beginning Cash Balance (a)	Annual Net Cash Flow from Operating Activities (b) Annual Net Cash Flow from Other Activities (c)		Cash Balance	Remedy for Estima	ted Cash Shortage
			(Shortage) (a)+(b)+(c)	Investment Plan	Financial Management Plan	
	922,531,490	9,723,135	(3,912,924)	928,341,701	-	-

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 2019 amounted to approximately NT\$6.296 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 2019

Items	Contents
Credit Risk Strategies, Goals, Policies, and Procedures	 Credit Risk Strategies, Goals, and Policies 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. The Bank will establish and effectively implement a healthy credit risk management mechanism to lower credit risk, and achieve operating and management targets. 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. Credit Risk Management Procedures Credit risk assessment and monitoring are carried out in accordance with the relevant regulations of the competent authority and the Bank, and reports are submitted to the Bank's Board of Directors and Risk Management Committee. Risk quotas and early-warning indexes are established by industry, country, conglomerate, and trading partner in order to control the concentration of risk, and monitoring and reporting are carried out. 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 mechanisms: a loan review and follow-up evaluation system, and loan early-warning mechanism; monitori
	allocation of loss provisions; and adequate capital provision. (4) To strengthen the credit risk management capability, the Bank has established the credit risk systems with a foundation internal ratings-based approach to help the Bank identify and weigh credit risk.
Organization and Framework of	The Bank'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
Credit Risk Management	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.

Items	Contents
	Credit Risk Reporting (1) Including the standard system-produced credit risk reports that are submitted
Scope and Characteristics of the Credit Risk Reporting and Measuring System	to the competent authority, and monthly credit risk monitoring reports. (2) 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. 2. Credit Risk Measuring System (1) 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.
	(2) 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.
	Credit Risk Hedging and Mitigation Policy (1) The Bank has established quotas for the concentration of credit risk—by industry, conglomerate, and country, among others.
	(2) 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 for important loan cases.
	(3) 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.
Credit Risk Hedging or Mitigation Policy, and Strategies and Procedures for Monitoring the Continuing Effectiveness of Hedging and Mitigation Instruments	(4) 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.
	2. Strategies and Procedures for Monitoring the Continuing Effectiveness of Hedging and Mitigation Instruments
	(1) 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.
	(2) The Bank has set up a collateral management system that can effectively handle its collateral and calculate accurately of the results of collateral mitigation.
Method of Legal Capital Allocation	Standardized Approach



B. Exposure and Accrued Capital Following Risk Mitigation Using the Standardized Credit Risk Approach

Dec. 31, 2019

Unit: NT\$1,000

Type of Exposure	Exposure Following Risk Mitigation	Accrued Capital
Sovereign Nations	1,505,925,274	121,742
Non-Central Government Public Sector	784,953,785	25,947,781
Banks (Including Multilateral Development Banks)	365,947,921	15,222,995
Enterprises (Including Securities and Insurance Firms)	943,715,270	89,188,466
Retail Loans	389,125,966	23,719,351
Residential Real Estate	670,318,711	32,607,455
Equity Investment	10,882,924	1,142,707
Other Assets	206,906,761	17,357,331
Total	4,877,776,612	205,307,828

(2) Securitization Risk Management System, Exposure, and Accrued Capital

A. Securitization Risk Management System

Year 2019

Items	Contents
Securitization Management Strategies and Procedures	 The Bank has not acted as the originator of securitized products, but only as investor. The Bank'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."
Organization and Framework of Securitization Management	The Bank 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 Bank's risk management system and reporting mechanism.
Scope and Characteristics of the Securitization Risk Reporting and Measuring System	The Bank 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)

Dec. 31, 2019

Unit: NT\$1,000

					Traditional			Synth	etic	Total		
	Type of Exposure		Risk Exposure					Risk Exposure				
Bank	Book	Asset Class	Retention or Purchasing	The Provision of Liquidity Facilities	The Provision of Credit Enhancement	Subtotal (1)	Accrued Capital (2)	Retention or Pur- chasing (3)	Accrued Capital (4)	Risk Exposure (5)=(1)+(3)	Accrued Capital (6)=(2)+(4)	Accrued Capital Before Securitization
	Banking Book	MBS	832,223	0	0	832,223	17,477	0	0	832,223	17,477	
Non- Originating		ABS	250,904	0	0	250,904	13,172	0	0	250,904	13,172	
Bank	Trading Book	REITs	34,161	0	0	34,161	5,603	0	0	34,161	5,603	
	Subtotal		1,117,288	0	0	1,117,288	36,252	0	0	1,117,288	36,252	
	Banking Book											
Originating Bank	Trading Book											
	Subtotal											
Total			1,117,288	0	0	1,117,288	36,252	0	0	1,117,288	36,252	

D. Securitized Product Information

a. Summarization of information about investment in securitization products

Dec. 31, 2019

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	814,562	17,661	0	832,223
Asset-Backed Securities (ABS)	130222 Financial assets measured at fair value through other comprehensive income -noncurrent	250,716	188	-122	250,782
Real Estate Investment Trusts (REITs)	110401 Financial assets measured at fair value through profit or loss -current-closed end fund	28,561	5,600	0	34,161

Note: This table includes beneficial interest securities or asset-backed securities held by the bank as an originator.



b. Summarization of the information about original cost of single transaction for investment in securitization products amounting to more than NT\$300 million

Dec. 31, 2019

Unit: 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	Aug. 24, 2016	Aug. 24, 2021	1.9%	twAAA Taiwan Ratings	Interest paid monthly; Class A notes scheduled for completion of redemption between Aug. 24, 2019 and Aug. 24, 2021	250,716	188	-122	250,782		(1) 79 finance leases, NT\$257.52 million (2) 768 installment sales, NT\$ 2,210.17 million (3) 96 conditional sales, NT\$ 182.81 million
GNR 2018- 120 JP MTGE (US38380YVQ50)	130222 Financial assets measured at fair value through other comprehensive income -noncurrent	USD	GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (US)	Sep. 6, 2018	Sep. 20, 2048	4%	NIL/ AA+/ AAA	Interest and principal paid monthly	182,937	1,839	0	184,776	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)	Nov. 2, 2018	Nov. 20, 2048	4%	NIL/ AA+/ AAA	Interest and principal paid monthly	244,735	4,927	0	249,662	N.A.	First-Lien Mortgage Loans
GNR 2019- 18 EC MTGE (US38381BZ989)	130222 Financial assets measured at fair value through other comprehensive income -noncurrent	USD	GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (US)	Feb. 1, 2019	Nov. 20, 2048	3.5%	NIL/ AA+/ AAA	Interest and principal paid monthly	386,890	10,895	0	397,785	N.A.	First-Lien Mortgage Loans

Note: This table includes both domestic and overseas securitization products.

(3) Operational Risk Management System and Accrued Capital

A. Operational Risk Management System

Year 2019

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.
Organization and Framework of Operational Risk Management	 The Bank's organizational framework of operational 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 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. 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. 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. The units in charge of different areas of business have established business rules and operating manuals in order to distinguish operational risk. The different units bank-wide carry out their various businesses in accordance with business rules, operating manuals, and standard operating procedures. 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.
Scope and Characteristics of the Operational Risk Reporting and Measuring System	 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. 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. The Bank currently uses the standardized operational risk approach to calculate capital charges for operational risk, has established a standardized operational risk capital charge 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.

Items	Contents
Operational Risk Hedging or Mitigation Policy, and Strategies and Procedures for Monitoring the Continuing Effectiveness of Hedging and Mitigation Instruments	 To reduce operational risk, the Bank has established regulations and manuals to serve as a basis for undertaking relevant business operations. 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, 2019

Unit: NT\$1,000

Year	Gross Income	Accrued Capital
2017	29,863,587	
2018	34,910,823	
2019	37,813,327	
Total	102,587,737	5,090,284

(4) Market Risk Management System and Accrued Capital

A. Market Risk Management System

Year 2019

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.
Organization and Framework of Market Risk Management	 The Bank'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. 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. The Risk Management Committee is responsible for the Bank's risk management policy, rules, organization, overall risk assessment, supervision, and examining revision affairs. The Department of Risk Management is responsible for the planning and revision of risk management, handles formulation and integration of risk management regulations. 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. 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.
Scope and Characteristics of Market Risk Reporting and Measuring System	 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, trading targets, and trading book risks, 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. 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. 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. In order to introduce the IMA for market risk into day-to-day risk management processes, the Bank has incorporated VaR limits management mechanism into "Bank of Taiwan Trading Book Management Provision", which are monitored daily and reported monthly.

Items	Contents
Market Risk Hedging or Mitigation Policy, and Strategies and Procedures for Monitoring the Continuing Effectiveness of Hedging and Mitigation Instruments	 The Bank'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. 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. 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

B. Market Risk Accrued Capital

Dec. 31, 2019

Unit: NT\$1,000

Risk Category	Accrued Capital
Interest Rate Risk	2,587,125
Equity Security Risk	1,839,402
Foreign Exchange Risk	2,179,899
Option Risk	0
Commodity Risk	0
Total	6,606,426

Note: The calculation includes securitization exposure.

(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 "Directions for Auditing Liquidity of 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, 2019

Unit: NT\$ 1,000

		Amounts by Time Remaining before Maturity								
Items	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	4,895,473,013	556,635,559	456,027,147	664,335,212	505,464,174	762,127,172	1,950,883,749			
Major Outflows of Matured Funds	6,520,037,051	477,798,626	301,701,912	796,178,062	781,202,184	1,445,214,437	2,717,941,830			
Period Gap	-1,624,564,038	78,836,933	154,325,235	-131,842,850	-275,738,010	-683,087,265	-767,058,081			

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, 2019

Unit: US\$ 1,000

		Amounts by Time Remaining before Maturity							
Items	Total	0-30 days	31-90 days	91-180 days	181 days- one year	Over one year			
Major Inflows of Matured Funds	44,193,004	10,814,477	12,298,696	8,329,879	4,782,713	7,967,239			
Major Outflows of Matured Funds	45,175,188	9,519,232	10,963,187	8,422,281	6,009,130	10,261,358			
Period Gap	-982,184	1,295,245	1,335,509	-92,402	-1,226,417	-2,294,119			

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

(1) Impact of Changes in Major Domestic and Overseas Policies on the Bank's Financial Operations, and Countermeasures

Corporate governance, corporate social responsibility, and other sustainability issues are the subject of special concern due to the rapid pace of FinTech development at home and abroad, steps taken by the government to better prevent FinTech crime, and increasingly stringent cyber security and anti-money laundering regulations. These factors have increased the complexity of banks' business operations.

The Bank remained attentive to the influence of major government financial and economic policies, and provided appropriate responses in a timely fashion so as to lower the impact on its financial operations. The Bank has taken the following measures:

- A. Measures to bolster capital: The Taiwan Financial Holding Company carried out a land-backed capital increase on behalf of the Bank via private placement. This measure boosted the Bank's paid-in capital from NT\$95 billion to NT\$109 billion, and as of end-September 2019 BOT's capital adequacy ratio was up by 1.79 percentage points.
- B. Steps to reorganize: To strengthen its ability to quickly resolve and report cyber security incidents, the Bank on November 1, 2019 established a Computer Security Incident Response Team (CSIRT), and was the first state-owned bank in Taiwan to do so. Also, the Bank established an InnoLab on November 19, 2019 to integrate innovative forces currently scattered among various units throughout the BOT organization while simultaneously introducing innovative technologies and engaging in cooperation designed to further innovation.
- C. Corporate governance measures: To keep in line with international corporate governance trends and the regulatory requirements of the competent authority, the Bank amended its Corporate Governance Best-Practice Principles in May 2019.
- D. Support for the government's economic policies: The Bank actively coordinated with the government's efforts to push real economic development by crafting its lending activities to facilitate the development of small and medium businesses, the "five plus two" key innovative industries, and companies active in countries targeted by the New Southbound Policy, as well as loans to support urban renewal and renovation of hazardous and dilapidated buildings. The Bank also worked to achieve the goal of financial inclusion.
- E. R&D in digital financial services: The Bank continues to encourage employees to engage in innovative research and development. In 2019, the Bank launched cloud-based banking services, and also demonstrated two new payment methods using optical codes and license plates in November at FinTech Taipei 2019.

(2) Impact of Changes in Major Domestic and Overseas Laws on the Bank's Financial Operations, and Countermeasures

Domestically, the Bank's Department of Compliance collected information on legal provisions related to the Bank's businesses and forwarded 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. The Bank's overseas branches, meanwhile, are required each month to fill out "Updates on Important Local Legislative Action and Table of Follow-up Action on Material Compliance Irregularities," and analyze the impact of the legal environment on current business operations as well as adjustments made by the Bank to ensure proper compliance. In addition, the Department of Compliance regularly browsed the websites of overseas financial authorities and prepared reports on important overseas legislative action in order to assess the performance of overseas branches in collecting information on legislative changes in their host jurisdictions.

3. Impact of Technological and Industrial Changes on the Bank's Financial Operations, and Countermeasures

- (1) Impact of Technological Changes on the Bank's Financial Operations, and Countermeasures Fintech progress has decisively changed financial services. The melding of finance and technology has opened the door for non-financial enterprises to enter the financial sector and pose serious competition to traditional banks. By taking a "Prospection-Oriented" approach, the Bank will respond to deregulation by taking maximum advantage of fintech innovation and continuing to promote digital financial services.
 - A. The Bank continued to provide a wide variety of online and mobile banking services, and expanded the functions available to users of mobile phone interbank account transfer services.
 - B. The Bank continued working with the Financial Information Service Co. and Taiwan Mobile Payment Co. to jointly promote the "Taiwan Mobile Payment App," used near-field communication (NFC) or the Financial Information Service Company's "Common QR Code" to provide swipe payments and swipe account transfers, and gradually expanded the "Common QR Code" functionality to support swipe payments of utility bills, government fees, and bills owed to state-owned enterprises.

- C. The Bank expanded the functionality of its platform for integrated cloud services to provide customers with pre-filled forms, online application services, and other services involving preprocessing on the branch's end. The Bank also integrated its accounting servers to provide online-to-offline and mobile services, thus improving the user experience and achieving more efficient operations.
- D. The Bank drew up plans for an "e-Bill National Payment Network Online Payment Gateway" system, which provides an API interface that third-party service providers can use to retrieve account data in the Paytax network. Having this ability enables a third-party service provider to offer its customers a one-step process for checking and paying bills online. In addition, the e-Bill and Paytax systems now have newly added functions that enable users to establish and cancel automatic withdrawals.
- E. The Bank is planning to expand the functionality of its intelligent customer service system by using the Bank's official LINE account to issue push notifications to customers, who will be able to use their LINE accounts to retrieve account data. The Bank will use ID tags and analyze customer behavior to conduct well-targeted marketing activities. In addition, the Bank will also hook up customers to its online banking service so that customers can enjoy access to no-breakpoint online banking services.
- (2) Impact of Industrial Changes on the Bank's Financial Operations, and Countermeasures 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. Enhancement of the Bank's credit risk management
 The Bank has established limits of assumption of risk on loans to different industries and conglomerates to strengthen risk management.
 - B. Enhancement of the ability to track industrial development trends

The Bank prepares monthly sector reports that focus on industries in which the Bank lends especially large amounts, industries in which development trends are subject to especially sharp swings, or industries which have been targeted for special development assistance. These sector reports are distributed throughout the Bank and cover nine sectors, including semiconductors, information technology, green energy, petrochemicals, steel, transportation, etc. In addition, the Bank also publishes monthly updates on conditions in 13 sectors (semiconductors; DRAM chips; printed circuit boards; flat panels; solar power; LEDs; desktop and notebook computers; communications equipment; Apple and mobile phone supply chains; telecoms operators; the Internet of Things; cultural and creative industries; and shipping). These sector reports and updates cover the specific

status of BOT borrowers in these sectors, and provide the information to BOT branches to help them track industry trends and understand the condition of borrowers and how their performance compares with that of their peers. Such information informs post-loan management and helps to reduce credit risk.

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 Bank 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: recognition 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 Cheers magazine's 2019 list of the "Most Attractive Employers for the Younger Generation"; "Golden Quality Award" and "Golden Security Award" by the Joint Credit Information Center; a Gold Award at the Ministry of Culture's 14th Arts & Business Awards ceremony; Gold Winner at the "Sports Administration's Sports Activist Awards" ceremony of the Ministry of Education; and the excellence award for the Bank's Jenai Branch in the Overall Service Quality category of the 2nd Government Service Quality Awards program.

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.

The Bank has been taking proactive steps in recent years to expand its overseas presence and accelerate its development of markets throughout Asia. The idea is to closely monitor potential business opportunities in emerging Asian economies, improve the quality of services, and the Bank's determination to internationalize its business. 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.

In 2020, the Financial Supervisory Commission will lower reserve valuation rates for new life insurance policies, raise the threshold for payment of death benefits, and introduce a mechanism for stabilization of the crediting interest rate for interest-sensitive products. These measures will weaken insurance products, and could seriously affect the 2020 fee income of insurers. 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; and (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 crises, the Bank has adopted a series of pre-event, mid-event, and post-event 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," an "Emergency Reporting System" for headquarters and branches, a "Computer Security Incident Response Team" (CSIRT), the "Bank of Taiwan Response Measures for the COVID-19 (Wuhan Pneumonia) Epidemic," the "Bank of Taiwan Directions for Indoor Activities During the Wuhan Pneumonia Epidemic," the "Bank of Taiwan Measures for Response to Any Worsening of the Novel Coronavirus (Wuhan Pneumonia) Epidemic at Domestic Units," and a "Chart of Standard Operating Procedures for Handling by the Bank of Taiwan the COVID-19 (Wuhan Pneumonia) Epidemic." The Bank continues to amend all of the foregoing as necessary.



Special Disclosure

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- II. Private Placements and Bank Debenture Offerings

Special Disclosure

I. Information on Affiliated Enterprises

1. The Bank's Subsidiaries (Dec. 31, 2019)

Bank of Taiwan

Shareholding 100%

BankTaiwan Insurance Brokers Co., Ltd.

2. Basic Data of the Bank's Subsidiaries

Dec. 31, 2019

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 Chairman, Directors, Supervisors and President of the Bank's Subsidiaries

Dec. 31, 2019

Enterprise Name	Decilion	Common Name and Degrees statics	Shareholding		
Enterprise Name	Position	Company Name and Representative	Shares	%	
BankTaiwan Insurance Brokers Co., Ltd.	Chairman Director Director Supervisor President	Bank of Taiwan Legal Representative: Hsieh, Fu-Deng Legal Representative: Huang, Chen-Ying Legal Representative: Ho, Ming-Yao Legal Representative: Chen, Yung-Sheng Huang, Chen-Ying	2,000,000	100%	

4. Operation Overview of the Bank's Subsidiaries

Dec. 31, 2019

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	546,166	240,219	305,947	1,545,800	208,183	167,184	83.59



II. Private Placements and Bank Debenture Offerings

ltem	1st Private Placement, 2019 Date of Issuance: November 22, 2019					
Type of privately placed securities	Common shares					
Date of Board approval & No. of shares approved for issuance	April 12, 2019: The Board of Directors (fulfilling the function of a shareholders meeting) passed a resolution to carry out a capital increase of NT\$42 billion worth of common shares, using real estate as its capital contribution.					
Basis and rationale for the setting of the price	 The Bank's CPA-audited financial statements for 2018 indicate that the Bank, taking net worth per share of NT\$32.66 as the reference price, set an issue price of NT\$30 per share, which was in conformance with of the "Directions for Public Companies Conducting Private Placements of Securities" Paragraph 4, point 2, which provides as follows: "If the placees are insiders or related parties of the company, the price per share fixed for privately placed common shares may not be lower than 80 percent of the reference price." After CCIS Real Estate Joint Appraisers Firm and Top Real Estate Joint Appraisers Firm appraised the value of the land contributed as equity, Taiwan Financial Holding Co., Ltd. and BOT jointly valued the land at NT\$42 billion, then Mr. Chen Wen-pin, a CPA at HLB Candor Taiwan CPAs provided a professional opinion on the reasonableness of the valuation of the non-cash contribution. 					
Method for selection of placees	To maintain a unified share structure, all shares were subscribed by Taiwan Financial Holding Co., Ltd.					
Reasons necessitating the private placement	There are currently only three types of equity contributions (cash, monetary claims, and technologies) that may be used to fund a secondary offering of new shares; land is not a permissible form of equity contribution. For this reason, and in order to maintain a unified share structure, the shares were privately placed.					
Date of payment in full of subscription price	September 25, 2019					
	Placee	Qualifications	No. of subscribed shares	Relationship with BOT	Participation in management of BOT	
Information on placee	Taiwan Financial Holding Co., Ltd.	Article 12-1 of the "Act of Taiwan Financial Holding Co., Ltd."	1.4 billion	Holds 100% of BOT equity, is the sole shareholder.	No. of director seats: 15	
Actual subscription (or conversion) price	1.4 billion shares with a par value of NT\$10 per share, issued at a premium price of NT\$30 per share, yielded total proceeds of NT\$42 billion.					
Discrepancy between the actual subscription (or conversion) price and the reference price	The Bank's CPA-audited financial statements for 2018 indicate that the Bank, taking net worth per share of NT\$32.66 as the reference price, set an issue price of NT\$30 per share. Registration of the transfer of ownership of the land contributed as equity was completed on September 25, 2019, and the actual subscription price was NT\$30 per share.					
Any effect of the private placement on shareholder equity (e.g. increase in accumulated loss, etc.)	NT\$14 billion was booked to share capital and NT\$28 billion to capital reserves, which boosted the Bank's paid-in capital from NT\$95 billion to NT\$109 billion.					
Utilization of the funds raised in the private placement, and progress of implementation of the funds utilization plan	Utilization of funds has been completed. As a result, the Bank's capital has been increased, its capital adequacy ratio has been raised, and its risk-bearing capacity has been strengthened.					
Achievement of the projected benefits of the private placement	The Bank's capital adequacy ratio increased by 1.79 percentage points from 12.54% in August 2019 to 14.33% in September 2019. The capital increase has thus improved BOT's capital structure and strengthened its risk-bearing capacity.					



Directory of Head Office and Branches

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I. Domestic Business Units

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II. Overseas Units



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, U.K.	44-20-7382-4530	44-20-7374-8899	BKTWGB2L
Shanghai Branch	30F, No.1788, Nan-Jing West Rd., Jing-An District, Shanghai, P.R.C. 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, P.R.C.	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, P.R.C.	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, U.S.A.	1-408-963-0451	1-408-389-0883	-
Bangkok Representative Office	Unit 3, 22nd Floor, AIA Sathorn Tower, 11/1 South Sathorn Road, Yannawa, Sathorn, Bangkok 10120, Thailand	66-20464926	66-20464924	-
Frankfurt Representative Office	4F, Bockenheimer Landstrasse 51-53, 60325 Frankfurt, Germany	49-699-77887600	49-699-77887601	-
Manila Representative Office	Unit 1404, Tower 1 & Exchange Plaza, Ayala Avenue Makati City, Philippines	632-53101688	632-53101687	-
Ho Chi Minh City Representative Office	Rm 503-1, 5F, Royal Tower B, Royal Centre Building,235 Nguyen Van Cu Street, Nguyen Cu Trinh Ward, District 1, Ho Chi Minh City, Vietnam	28-39253096	28-39253095	-
Jakarta Representative Office	Gedung Artha Graha Lt 26, 26-03 SCBD, Jl. Jend. Sudirman Kav. 52-53, Jakarta 12190, Indonesia	62-215153386	62-215153346	-
Kuala Lumpur Representative Office	Unit 1-30-3A, Level 30, Menara Bangkok Bank, No. 105, Jalan Ampang, 50450 Kuala Lumpur, Malaysia	60-3-21811616	60-3-21815588	-



BANK OF TAIWAN

Chairman

Joseph Lyu







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