



Leading & Global

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- (1) Standard & Poor's Address: 55 Water Street, New York, N.Y. 10041 U.S.A. Tel: 212-438-2000
- (2) Moody's Investors Service Address: 7 World Trade Center, 250 Greenwich Street, New York, N.Y. 10007 U.S.A.
 - Tel: 212-553-0300
- (3) Taiwan Ratings Corporation
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Notice to Readers

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



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Letter to Shareholders

A Brief Introduction of the Bank



Chairman | Joseph Jye-Cherng Lyu

Letter to Shareholders

The global economy posted a moderate recovery in 2017. In the United States, private consumption increased while corporate investment and labor markets showed stable growth, and the economy expanded moderately. In the Eurozone, economic growth momentum increased on the strength of higher private consumption and recovery in the global economy. In Japan, strong exports and a recovery in private investments powered the economy through eight straight quarters of expansion. The mainland Chinese economy, buoyed by increasing public investments and a recovery in external demand, continued growing at a moderate to high rate. On the whole, the global economy in 2017 posted its strongest growth in six years. In Taiwan, the domestic economy in 2017 benefitted from the global economic recovery, with exports rising sharply to a seven-year high. This boosted the economy as a whole, which posted year-on-year growth of 2.86%, the best in three years.

Over the past year, thanks to the combined efforts of all employees, the Bank of Taiwan (BOT) continued to lead the domestic banking industry in terms of deposits and loans, the gold and trust businesses, total assets, and shareholders' equity. BOT was the number one lead arranger and book runner for syndicated loans in Taiwan. Pre-tax earnings for 2017 came to NT\$11.3 billion, an outstanding performance that far exceeded the annual target, and asset quality was excellent, with a non-performing loan ratio of 0.29% and a coverage ratio of 497.80%. As for business strategies, BOT intends to act in accordance with its "5P business operating policy" (People-centered, Portfoliosound, Performance-driven, Prospection-oriented, and Principle-based) and its "5S corporate culture" (Simple organization, Simple goals, Simple decision making process, Simple strategy, Simple intragroup relationship). This has entailed, among other things, the establishment of "Money Laundering Prevention Center" and "Anti-Money Laundering and Countering Terrorism Financing Committee," the upgrading of its Training Institute to a level-one unit, the launching of "Young Management Development Program," and the promotion of "Lending related to innovative industries, green energy, renovation of hazardous and dilapidated buildings, and the New Southbound Policy," "Encouraging R&D work, innovation, and patent applications," and "International expansion and cooperation." Since the adoption of these initiatives, the Bank's business in all these areas has grown considerably.

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" and an "Outstanding Bank Lender to Innovative Enterprises"; was selected in the Reader's Digest Trusted Brands survey as the winner of the Gold Award in the "Banking" and "Online Financial Services" categories; was the number one



President | Wei, Jan-Lin

financial holding company or bank on 2017 Cheers magazine's list of the "Most Attractive Employer for Young Generation"; honored by Business Today magazine with Best Product Award and Best Financial Advisor Service Award on the basis of its Wealth Management Bank Survey; won the Joint Credit Information Center's Golden Quality Award and Golden Security Award for information security management and credit reporting; and received "Direct Guarantee Outstanding Performance Award" and "Young Entrepreneurs Assistance Award" from the Ministry of Economic Affairs. For these honors, I want to express our deepest gratitude to all of our friends and customers.

While seeking to increase profits, BOT has adopted a wide range of measures to fulfill its corporate social responsibility. In addition to including the Equator Principles among the factors to be considered when evaluating loan interest rates, the Bank has established charitable trusts and retirement trusts and launched the Guide Dog Affinity Card and The Lord is My Shepherd Affinity Card to integrate corporate image and the essence of community service into its financial product marketing, and to take part in a substantive way in community service activities. Examples include: visits and donations to children's homes and nursing homes throughout Taiwan; holding of a fair to promote concern for the blind and greater appreciation for the value of guide dogs; and promotion of sports, including the hosting of baseball and basketball competitions. In addition, BOT held a series of events (including painting, photography, and music festivals) as part of the 2017 Bank of Taiwan Arts Festival. These undertakings were designed to encourage artistic research and creation, and to elevate our CSR activities to include the cultural realm. They elicited a very enthusiastic response. BOT also held the 2017 Bank of Taiwan Awards for Economic and Financial Research to solicit academic papers, thus demonstrating the tremendous pool of economic and financial expertise that exists in Taiwan, and helping to cultivate an atmosphere conducive to economic and financial research.

I. Operating Results for 2017

1. Organizational Change

- (1) January 1, 2017: Upgraded the Training Institute to a level-one unit.
- (2) January 3, 2017: Established the Taichung International Airport Branch by moving the Central Taichung Branch and changing its name.
- (3) August 4, 2017: Established the Taichung Precision Machinery Park Branch by moving the Hsinyuan Branch and changing its name.
- (4) To expand wealth management service network, the Bank set up a new wealth management branch in 2017— Donggang Branch—bringing the total number of such branches to 145, nine of which are wealth management flagship branches.
- (5) December 15, 2017: The Silicon Valley Representative Office in U.S.A. officially opened.

2. Results of Implementation of Business Plan and Operating Strategy

(1) BOT enjoyed a good measure of success in 2017 in the effort to expand its business networks and further build up an international presence. In addition to coordinating with the government's regional development policy by opening the Taichung International Airport Branch and the Taichung Precision Machinery Park Branch, the Bank also moved another branch to a new location. From December 2017 to March 2018, BOT set up representative offices in Silicon Valley and Bangkok as well as a branch in Sydney, and accelerated preparations to open representative offices in Germany, Vietnam, the Philippines, Indonesia, and Malaysia. Moreover, the Bank has adopted an "On the Shoulders of Giants" strategy, which entailed the signing in 2017 of MOUs for business cooperation with Sumitomo Mitsui Financial Group (SMFG) and Deutsche Bank, thus moving an important step forward in the effort to build up its international business.



BOT on December 25, 2017 joined with the Christian Tribune Foundation in announcing plans to issue The Lord is My Shepherd Affinity Card. The card was jointly unveiled by BOT Chairman Joseph Jye-Cherng Lyu (3rd from right) and Christian Tribune Foundation Chief Executive Officer Tim Cheng (3rd from left).

Year Major Operation Category	2017	2016	2017 Growth Rate
Deposits	3,900.9	3,880.7	0.52
Loans	2,322.6	2,332.9	(0.44)
Guarantees	79.9	78.3	2.08
Foreign Exchange	367.4	383.9	(4.29)
Procurement	31.0	30.8	0.62
Precious Metals	130.0	115.7	12.34
Government Employees Insurance	23.5	22.8	3.07
Agency (Insurance Brokerage)	52.0	43.6	19.28

(2) Results of Implementation of Operating Strategy

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

3. Budget Implementation

The volume of deposits during the year was NT\$3.90 trillion, giving a target achievement rate of 111.64%. Loans amounted to NT\$2.32 trillion, for a target achievement rate of 101.42%. Foreign exchange operations undertaken in 2017 totaled US\$367.39 billion, amounting to 107.31% of the target figure, and income after tax reached NT\$10,404 million, achieving 153.56% of the target.

4. Revenues, Expenditures and Profits

(1) Net interest income for 2017 amounted to NT\$25,522 million; non-interest income (net) totaled NT\$7,565 million; bad debt expenses and reserve for guarantees amounted to NT\$1,685 million, and operating expenses totaled NT\$20,105 million. Income before tax reached NT\$11,297 million; income tax amounted to NT\$893 million, leaving a net income after tax of NT\$10,404 million.

(Preferential interest deposits for pensions and veteran benefits reduced earnings by NT\$8,845 million. When the impact of these preferential interest deposits is factored out, income before tax comes to NT\$20,142 million.)

- (2) The year's NT\$10,404 million income after tax was NT\$3,629 million more than the budgeted income of NT\$6,775 million, an increase of 53.56%.
- (3) Pre-tax Return on Assets (ROA) for 2017: 0.23%

(When the impact of preferential interest deposits for pensions and veteran benefits is factored out, pre-tax ROA comes to 0.43%.)

(4) Pre-tax Return on Equity (ROE) for 2017: 4.01%

(When the impact of preferential interest deposits for pensions and veteran benefits is factored out, pre-tax ROE comes to 6.91%.)

5. Research and Development

In response to changes in the financial environment and the needs of business development, the Bank continued collecting and analyzing information on domestic and overseas economic and financial conditions as well as the status of major domestic industries. In addition to the compilation of regular analytical reports related to economics, financial markets and major industries, special reports on important economic and financial issues related to overall banking operations were compiled on an unscheduled basis for use as reference in expanding the Bank's business.

II. Business Plans for 2018

1. Business Strategy and Major Operating Policies

BOT continues acting in accordance with its 5P business operating policy as well as its 5S corporate culture to improve operating efficiency and elevate its corporate culture. Also, taking an



BOT celebrated the opening of its Sydney Branch on February 2, 2018. BOT Chairman Joseph Jye-Cherng Lyu (right) is shown here together with New South Wales Minister for Planning Anthony Roberts (left).

"honest, pragmatic, and down to earth" attitude, BOT is working to "build a leading bank, and embark on global markets." Toward that end, it has planned and operated various lines of business, joined hands with the industrial community to create economic and social value for Taiwan, and adopted the following operating policies with an eye to achieving sustainable development and maintaining stable business operations. With these goals in mind, BOT will:

- (1) Implement AML/CFT controls.
- (2) Support the government's information security protection strategy by actively carrying out various information security controls to improve its information security protection capabilities and ensure transaction security.
- (3) Plan for the launch of personalized online banking and adoption of intelligent customer service systems, actively expand use of the Taiwan Pay mobile payments app, and build a comprehensive range of digital financial services.
- (4) Continue taking part in financing of large infrastructure projects, and seek to expand home loans and lending to small and medium enterprises in order to raise average lending rates and improve capital efficiency.
- (5) 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. BOT will also continue promoting the wealth management business in order to help improve deposit structure and increase fee income.
- (6) Make up for shortcomings in the social safety net by closely monitoring social trends (such as demographic ageing and low birth rates) and promoting long-term care insurance and annuities.
- (7) Strengthen internal audits, internal controls, risk management, and legal compliance to better implement corporate governance, fulfill our corporate social responsibility, and build a more robust risk management system.
- (8) Strengthen professional development of BOT personnel by selecting outstanding young employees for comprehensive training covering such fields as finance, credit, and risk management, and transferring them to different departments to round out their experience and cultivate a corps of key management talent.

2. Business Targets

The BOT's business targets for 2018 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\$2.31 trillion
- (3) Foreign Exchange: US\$338.1 billion
- (4) Income Before Tax: NT\$7.9 billion

III. Development Strategies

- In addition to establishing a money laundering prevention center, set up an organization-wide AML/ CFT mechanism, and will continue to comply with the competent authority's requirements and the rules of international supervisory provisions, while implementing related controls.
- 2. Strengthen the Bank's international presence, increase offshore revenues, continue monitoring economic conditions and market entry policies in other Asian countries, and actively integrate the government's New Southbound Policy into its business undertakings, treating the ASEAN nations as the new focal point of market development efforts. Identify countries that offer business opportunities and development potential, set up business locations there, and enter into tie-ups with international financial institutions to accelerate entry into offshore financial markets.
- 3. Actively support the development of financial technologies and the submission of patent applications of the Bank. The idea is to take full advantage of Fintech and use innovative services, products, and marketing methods to work out a new type of business model and build a cloudbased bank comprising both virtual and physical elements. This will enable BOT to provide higher quality digital financial services.
- 4. Implement information security management, comply with the government's information security protection strategies, and actively carry out various information security controls to improve information security protection capabilities and ensure transaction security.
- 5. Actively strengthen corporate governance in every phase—internal audits, internal controls, risk management, and legal compliance—in order to lay the foundation for a sustainable future.

IV. Credit Ratings

Items	Dating Data	Assigne	d Rating	Outlook	
Rating Company	Rating Date	Long-term	Short-term	Outlook	
Standard & Poor's	Oct. 2017	A+	A-1	Stable	
Moody's Investors Service	Nov. 2017	Aa3	P-1	Stable	
Taiwan Ratings Corp.	Oct. 2017	twAAA	twA-1+	Stable	

While facing many changes and challenges in the business environment over the past year, BOT has succeeded in building a new corporate culture defined by the Bank's "5P business operating policy" and its "5S corporate culture". The Bank has successfully developed multiple lines of business over this period. Looking ahead to 2018, the global economy is expected to perform better than in 2017. BOT will continue supporting the government's "Program for Accelerating Investment in Taiwan," "Forward-looking Infrastructure Development Program," "5+2 Industrial Innovation Program," "Program for Accelerated Renovation of Hazardous and Dilapidated Buildings," and the New Southbound Policy. To deal with competition in today's rapidly innovating financial markets, BOT will keep a close eye on trends in the financial industry and continue working to achieve outstanding business results.

Chairman

Joseph Lyn

President

Jan-Lin Wei



Front Row (left to right): Senior Executive Vice President & General Auditor | Chen, Ying-Kuei · Senior Executive Vice President | Chiou, Ye-Chin Chairman | Joseph Jye-Cherng Lyu · President | Wei, Jan-Lin Senior Executive Vice President | Hsieh, Chuan-Chuan · Senior Executive Vice President | Huang, Jui-Mu

Back Row (left to right): Senior Executive Vice President & Chief Compliance Officer | Lin, Su-Lan · Senior Executive Vice President | Yeh, Shiou-Jsu Senior Executive Vice President | Chang, Hong-Chi (Retired on Mar. 23, 2018) · Senior Executive Vice President | Lin, Chun-Liang

A Brief Introduction of the Bank

I. Date of Establishment: May 20, 1946

II. Brief History

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

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

At the end of 2017, the capital of the BOT was NT\$95 billion and its assets amounted to over NT\$4.9 trillion. Its deposits and loans accounted for 10.61% and 8.57%, respectively, of the entire Taiwan market. According to The Banker magazine's Top 1000 World Banks 2017, as published in its July 2017 issue, the BOT ranked 129th in total assets and ranked 196th in terms of Tier 1 capital in the global banking industry.



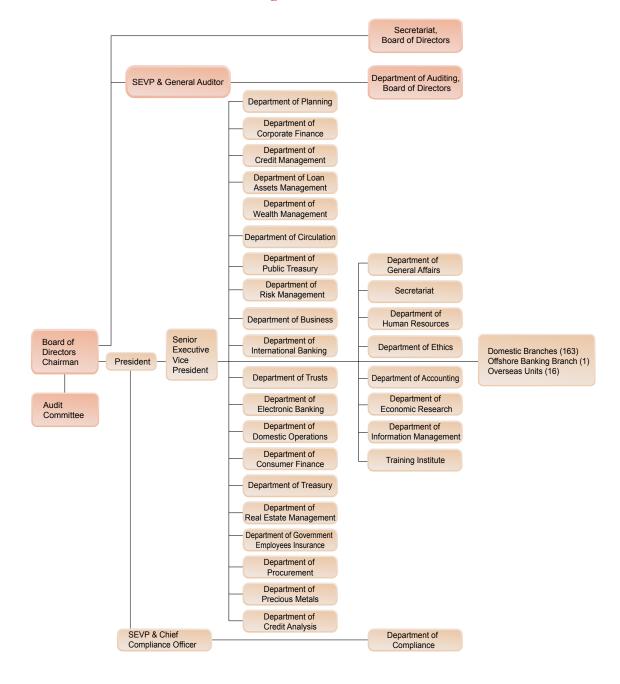
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Corporate Governance Report

I. Organization

At the end of March 2018, the BOT's management organization consisted of Board of Directors, Audit Committee, Secretariat (Board of Directors), Department of Auditing (Board of Directors), 29 departments, 163 domestic branches, one Offshore Banking Branch, and 16 overseas units (including Los Angeles Branch, Hong Kong Branch, New York Branch, London Branch, Tokyo Branch, Singapore Branch, South Africa Branch, Shanghai Branch, Guangzhou Branch, Fuzhou Branch, Sydney Branch, Shanghai JiaDing Sub-Branch, Mumbai Representative Office, Yangon Representative Office, Silicon Valley Representative Office and Bangkok 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, and public relations.
Department of Corporate Finance	Handles matters of designing new products, planning for and promoting corporate finance business, and the supply of consulting assistance services to operating branches.
Department of Credit Management	Handles planning, supervision, examining, consulting assistance services, and management for loan business.
Department of Loan Assets Management	Takes care of planning, examination, supervision, and management related to non-performing loans, loans for collection, and the clearing up of bad loans.
Department of Wealth Management	Handles planning, marketing, evaluation, administration and training of wealth management.
Department of Circulation	Handles the collection and payment, transport, adjustment of supply and demand, and the recovery of worn bills associated with the issuances of New Taiwan currency.
Department of Public Treasury	Handles agency operations for public treasuries at all levels, and direction and supervision of the business of branch treasuries.
Department of Risk Management	Responsible for the planning and revision of risk management, handles formulation and integration of risk management regulations.
Department of Business	Takes care of general deposit, loan, remittance, and agency businesses.
Department of International Banking	Takes care of foreign exchange operations, foreign banking and overseas branch businesses, correspondent banking relations, and operational planning and management for the foreign exchange business.
Department of Trusts	Controls trust businesses and auxiliary businesses.
Department of Electronic Banking	Responsible for planning, study, marketing, integration, supervision, management and examination of the electronic banking business.
Department of Consumer Finance	Takes care of planning, promotion, management, and consultation assistance services for the consumer finance, credit card, and bank card business.
Department of Treasury	Handles allocation, planning, and utilization of New Taiwan Dollar and foreign currency, and securities investment.
Department of Real Estate Management	Takes care of maintenance of buildings and general management of real estate.
Department of Procurement	Handles procurement matters under concentrated system for government institutions, public schools and public enterprises.
Department of Domestic Operations	Handles matters of deposit business, ATMs, planning and evaluation of domestic branches, and customer complaints.
Department of Government Employees Insurance	Handles under the Government's authorization, the general life insurance for civil servants and staffs in public or in private schools.
Department of Precious Metals	Handles the precious metals and customs quotas business.
Department of Credit Analysis	Responsible for the collection, surveying, and editing of data related to the credit investigation, as well as overseas credit investigation services.
Department of General Affairs	Handles general affairs, cashier affairs, and procurement of articles and appliances in office.
Secretariat	Takes care of important affairs, documentation, chop management, meetings, and editing.
Department of Human Resources	Carries out the planning, study, and implementation of personnel affairs.
Department of Ethics	Looks after the propagation of ethics laws and regulations, and the formulation and revision of ethics regulations.
Department of Accounting	Responsible for the planning and formulation of accounting systems, budgets, statistics, internal auditing, and inter-branch settlement.
Department of Economic Research	Carries out the analysis of domestic and overseas economic and financial, banking business research, and the compilation of economic publications.
Department of Information Management	In charge of research, analysis, planning and implementation of information operations.
Department of Compliance	Handles the planning, management, and execution of the regulatory compliance system, anti-money laundering, and countering terrorism.
Training Institute	Responsible for the planning and implementation of personnel training and advanced training.

II. Directors, Supervisors, and Top Management

1. Directors and Supervisors

Information on Directors and Supervisors (1)

Mar. 22, 2018

						Mar. 22, 2018
Title	Name	Gender	Date Elected	Date First Elected	Education and Career	Positions Currently Held in the BOT and Other Companies
Chairman	JOSEPH JYE-CHERNG LYU	Male	Aug. 31, 2016	Aug. 31, 2016	Master of Management, Kellogg School, Northwestern University Minister without Portfolio, Executive Yuan Minister, Ministry of Finance Board Director, Central Bank of the Republic of China Chairman of the Board, Mega Financial Holdings & Mega International Commercial Bank Chairman of the Board, Bank of Taiwan President & CEO, Land Bank of Taiwan Vice Chairman, State-owned Enterprise Commission Vice President, Bank of New York, New York Headquarter Chairman of the Board, The Bankers Association of the Republic of China Chairman of the Board, The Bankers Association of the Republic of China Chairman of the Board, The Bankers Association of Taiwan Board Director, Taiwan Stock Exchange Corporation Board Director, Taiwan Futures Exchange Corporation Board Director, China Steel Cooperation Distinguished Chair Professor, School of Management, National Sun Yat-Sen University Adjunct Professor, School of Technology Management, National Tsing Hua University	Chairman, Taiwan Financial Holding Co., Ltd Chairman of the Board, The Bankers Association of the Republic of China Board Director, Taiwan Stock Exchange Corporation Board Director, Taiwan Futures Exchange Corporation Board Director, Taiwan External Trade Development Council Board Director, Taiwan Academy of Banking and Finance Managing Director, The Bankers Association of Taipei Distinguished Chair Professor, School of Management, National Sun Yat-Sen University Adjunct Professor, School of Technology Management, National Tsing Hua University
Managing Director	WEI, JAN-LIN	Male	Oct. 28, 2016	Oct. 28, 2016	Master of Economics, Soochow University Executive Vice President, Bank of Taiwan Executive Vice President, Central Trust of China SVP & General Manager, Dept. of Treasury, Bank of Taiwan SVP & General Manager, Dept. of Public Treasury, Bank of Taiwan Executive Secretary, Taipei Interbank Money Center, The Bankers Association of the Republic of China Managing Director of Trust Association of R.O.C. Director, Mega Financial Holding Co., Ltd. Supervisor, Mega Financial Holding Co., Ltd. Supervisor, Taiwan Futures Exchange Supervisor, Hua Nan Financial Holdings Co., Ltd. Supervisor, Hua Nan Commercial Bank Adjunct Assistant Professor Rank Specialist, Department of Financial Engineering and Actuarial Mathematics, Soochow University	President, Bank of Taiwan Director, Taiwan Financial Holding Co., Ltd. Director, Taiwan Small Business Integrated Assistance Center Director, Taipei Interbank Money Center, The Bankers Association of the Republic of China Director, The Bankers Association of the Republic of China Adviser, The Bankers Association of Taipei Adjunct Assistant Professor Rank Specialist, Department of Financial Engineering and Actuarial Mathematics, Soochow University

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Title	Name	Gender	Date Elected	Date First Elected	Education and Career	Positions Currently Held in the BOT and Other Companies
Independent Managing Director	HSU, YI-HSIUNG	Male	July 31, 2015	July 31, 2009	M.A. in Economics, National Taiwan University Deputy Governor, Central Bank of the Republic of China (Taiwan) Director General, Dept. of Financial Inspection, Central Bank of the Republic of China (Taiwan)	Director, Audit Committee, Bank of Taiwan
Managing Director	SU, JAIN-RONG	Male	June 24, 2016	June 23, 2016	Ph.D. in Economics, Pennsylvania State University, USA Commissioner, Department of Finance, Taipei City Government Dean of Academic Affairs, National Taipei University Dean of College of Public Affairs, National Taipei University Professor, Department of Public Finance, National Taipei University	Political Deputy Minister, Ministry of Finance
Managing Director	YANG, CHENG-CHEN	Male	July 31, 2015	Distinguished Research Fellow, Institute of Economics, Academia Sinica		
Independent Director	CHEN, MING-CHIN	Male	July 31, 2015	July 31, 2012	Ph.D. in Accounting, Arizona State University, U.S.A. Chairman, Department 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, Department 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	PENG, PAI-HSIEN	Male	Nov. 17, 2017	Nov. 17, 2017	M.A. in Economics, Chinese Culture University Chairman & Associate Professor, Department of Banking & Finance, Kainan University Magistrate, Nantou County Legislator, Legislative Yuan, R.O.C.	Member, Audit Committee, Bank of Taiwan
Director	CHEN, NAN-KUANG	Male	March 22, 2018	March 22, 2018	Ph.D. in Economics, University of Minnesota, USA. Professor, Associate Professor, Assistant Professor, Department of Economics, National Taiwan University Instructor, Department of Economics, University of Minnesota, USA.	Deputy Governor, Central Bank of the Republic of China (Taiwan)

Title	Name	Gender	Date Elected	Date First Elected	Education and Career	Positions Currently Held in the BOT and Other Companies
Director	LU, CHIOU-SHIANG	Female	Aug. 31, 2017	Aug. 31, 2017	M.A. in Political Science, National Taiwan University Chief Secretary, Department of Special Fund Budget, Directorate-General of Budget, Accounting and Statistics, Executive Yuan Comptroller, Veterans Affairs Council, R.O.C.	Comptroller and Director, Department of Special Fund Budget, Directorate-General of Budget, Accounting and Statistics, Executive Yuan Supervisor, Small and Medium Enterprise Credit Guarantee Fund of Taiwan
Director	CHEN, CHUAN-HSI	Male	Aug. 25, 2016	Aug. 25, 2016	Ph.D. in Information Management, National Chengchi University Director General of Information Management Department, Ministry of Justice Division Director of Financial Data Center, Ministry of Finance	Director-General, Fiscal Information Agency, Ministry of Finance
Director	KUO, WEI-YU	Male	JulyJulyPh.D. in Financial Economics, Department of Economics in Cambridge University, U.K.JulyJulyAssociate Professor, Department of International Business, National Chengchi University20152015Visiting Professor, Department of Banking and Finance, Nanyang Technological University Singapore		Economics in Cambridge University, U.K. Associate Professor, Department of International Business, National Chengchi University Visiting Professor, Department of Banking and Finance, Nanyang Technological University	Professor, Department of International Business, National Chengchi University Independent Director, Connection Technology Systems Co., Ltd. Independent Director, Kim Forest Enterprise Co., Ltd.
Director	HU, CHIN-CHUAN	Male	July 31, 2015	July 31, 2015	M.A. in Finance Research, Dayeh University Senior Banking Officer & Manager, Kaohsiung Airport Branch, Bank of Taiwan	Assistant Vice President & Deputy General Manager, Kusan Branch, Bank of Taiwan
Director	CHEN, JUI-LIN	Male	Jan. 16, 2018	Jan. 16, 2018	Industrial Engineering Dept., Provincial Taipei Institute of Technology Senior Banking Officer & Manager, Wenshan Branch, Bank of Taiwan	Assistant Vice President & Deputy General Manager, Kinmen Branch, Bank of Taiwan

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

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

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

4. The terms of all directors will expire on July 30, 2018.

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

Major Shareholders of the Institutional Shareholders

Mar. 22, 2018

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

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

														Mar. 22, 2018
Criteria		ng Professional Qualificatio t Least Five Years Work Exp					Indep	bende	ence	Crite	ria (N	lotes		
Name	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Bank in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified PublicHave WorkAttorney, Certified PublicExperience inAccountant, or Otherthe Areas ofProfessional or TechnicalCommerce,Specialist Who has PassedLaw, Finance,a National Examination andAccounting, orbeen Awarded a CertificateOthers Necessaryin a Profession Necessaryfor the Business of the Bank			2	3	4	5	6	7	8	9	10	Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
JOSEPH JYE- CHERNG LYU	v		v	v		v	v		v	v	v	v		0
WEI, JAN-LIN	V		V	v		v	v		v	v	v	v		0
HSU, YI-HSIUNG			V	v	v	v	v	v	v	v	v	v		0
SU, JAIN-RONG	V			v	v	v	v	v	v	v	v	v		0
YANG, CHENG-CHEN	V			v	v	v	v	v	v	v	v	v		0
CHEN, MING-CHIN	v	v	v	V	v	v	v	v	v	v	v	v	Taiwan Financial Holding Co., Ltd. holds	2 (TaiMed Biologics Inc. & Ruentex Materials Co., Ltd.)
PENG, PAI-HSIEN	V			v	v	v	v	v	v	v	v	v	100% of	0
CHEN, NAN-KUANG	V			v	v	v	v	v	v	v	v	v	shares of the Bank and	0
LU, CHIOU-SHIANG			V	v	v	v	v	v	v	v	v	v	assigned all directors.	0
CHEN, CHUAN-HSI			V	v	v	v	v	v	v	v	v	v		0
KUO, WEI-YU	v			v	v	v	v	v	v	v	v	v		2 (Connection Technology Systems Co., Ltd. & Kim Forest Enterprise Co., Ltd.)
HU, CHIN-CHUAN			V		v	v	v	v	v	v	v	v		0
CHEN, JUI-LIN			V		v	v	v	v	v	v	v	v		0

Notes: A tick in the corresponding boxes indicates that the director or supervisor meets the following qualifications during the two years prior to being elected or during the term of office.

1. Not an employee of the Bank or any of its affiliates.

- 2. Not a director or supervisor of the Bank's affiliates. The same does not apply, however, in cases where the person is an independent director of the Bank, its parent company, or any subsidiary, as appointed in accordance with the Securities and Exchange Act or with the laws of the country of the parent or subsidiary.
- 3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of issued shares of the Bank or ranking in the top 10 in holdings.
- 4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
- 5. Not a director, supervisor, or employee of a bank shareholder that directly holds 5% or more of the total number of issued shares of the Bank or a corporate shareholder that ranks among the top five in shareholdings.
- 6. Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution that has a financial or business relationship with the Bank.
- 7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Bank or to any affiliate of the Bank, or a spouse thereof; however, members of the Remuneration Committee carrying out their duties in accordance with Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter are not limited by this restriction.
- 8. Not having a marital relationship, or a relative within the second degree of kinship, to any other director of the Bank.
- 9. Not a person of any conditions defined in Article 30 of the Company Act.
- 10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Act.

2. Top Management

					Mai. 31, 2018
Title	Name	Gender	Date Effective	Education	Other Position
President	WEI, JAN-LIN	Male	Oct. 28, 2016	Master of Economics, Soochow University	Director, Taiwan Financial Holding Co., Ltd. Director, Taiwan Small Business Integrated Assistance Center Director, Taipei Interbank Money Center, The Bankers Association of the Republic of China Director, The Bankers Association of the Republic of China Adviser, The Bankers Association of Taipei Adjunct Assistant Professor Rank Specialist, Department of Financial Engineering and Actuarial Mathematics, Soochow University
Senior Executive Vice President	CHIOU, YE-CHIN	Female	July 16, 2011	Dept. of Economics, National Taiwan University	Director, Taipei Forex Inc. Director, Mega Financial Holding Company
Senior Executive Vice President	HSIEH, CHUAN- CHUAN	Female	Aug. 6, 2014	Master of Finance, National Taiwan University	Director, Cathay United Bank Director, Small & Medium Enterprise Credit Guarantee Fund of Taiwan
Senior Executive Vice President	YEH, SHIOU-JSU	YEH, SHIOU-JSU Female Dec. 30, 2016 Admin		Dept. of Business Administration, National Taiwan University	Director, First Financial Holding Co., Ltd. Director, United Taiwan Bank S.A. Minister, Management Training Committee, Trust Association of R.O.C.
Senior Executive Vice President	HUANG, JUI-MU	Male	June 9, 2017	Dept. of Technology Mechanical Engineering, Ming Chi Institute of Technology	Director, Tea Industry Co., Ltd. joint venture in China
Senior Executive Vice President	LIN,CHUN-LIANG	Male	Nov.17, 2017	Dept. of Banking and Insurance , Tamkang College of Arts and Sciences	Director, Taiwan Fire & Marine Insurance Co., Ltd. Director, Hua Nan Financial Holdings Co., Ltd. Director, Hua Nan Commercial Bank, Ltd.
Senior Executive Vice President & General Auditor	CHEN, YING-KUEI	Female	Nov.17, 2017	Master of Business Administration, National Chengchi University	Supervisor, Taiwan Financial Asset Service Corporation
Senior Executive Vice President & Chief Compliance Officer	LIN, SU-LAN	Female	Apr. 29, 2015	Master of Laws, The University of New South Wales	Chief Compliance Officer of Taiwan Financial Holding Co., Ltd. Member of Financial Regulations and Disciplinary Committee, The Bankers Association of the Republic of China

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

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

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

4. President Wei, Jan-Lin was elected as Chairman of the Board, The Bankers Association of Taiwan on Mar.23, 2018, and is applying for approval of the Ministry of Finance.

3. Remuneration of Directors, Supervisors, President, and Senior Executive Vice Presidents for 2017

(1) Remuneration of Directors

					Remune	eration					of Total	Relev	ant Rem					irect	tors	Ratio c		,																					
		Base Compensation (A)		Severance Pay (B)		Bonus to Directors (C)		Allowances (D) (Note)		Remuneration (A+B+C+D) to Net Income After Tax (%)		Bonus	Who lary, es, and nces (E)	Seve P	are Also Emp Severance Pay (F)		Employee Bonus (G)			Compensation (A+B+C+D+E+F+G) to Net Income After Tax (%)		Reinvested																					
Title	Name	The Bank	Companies in the Consolidated Financial	The Bank	Companies in the Consolidated Financial Statements	The Bank	Companies in the Consolidated Financial Statements	The Bank	Companies in the Consolidated Financial	The Bank	Companies in the Consolidated Financial Statements	The Bank	Financial	Consolidated Financial The Bank	The Bank	Companies in the Consolidated Financial		The Bank	Financial Statements	Companies in the Consolidated	The Bank	Companies in the Consolidated Financial Statements	ed Enterprises other than the Bank's Subsidiary																				
		al Statements		al Statements		al Statements		al Statements		al Statements		al Statements		al Statements	Cash	Stock	Cash	Stock		al Statements	diary																						
Chairman	JOSEPH JYE-CHERNG LYU																																										
Managing Director	WEI, JAN-LIN	-																																									
Independent Managing Director	HSU, YI-HSIUNG																																										
Managing Director	SU, JAIN-RONG	-																																									
Managing Director	YANG, CHENG-CHEN	-							2,611																																		
Independent Director	CHEN, MING-CHIN	-																																									
Independent Director	PENG, PAI-HSIEN	3,588	3,588	0	0	No	one	2,611		0.06%	0.06%	6,954	6,954	353	353		No	one		0.13%	0.13%	192																					
Independent Director	YEH, KUANG-SHIH																																										
Director	YANG, CHIN-LONG																																										
Director	LU, CHIOU-SHIANG																																										
Director	YANG, MING-SHYANG																																										
Director	CHEN, CHUAN-HSI																																										
Director	KUO, WEI-YU	1																																									
Director	CHAN, TING-JENG																																										
Director	HU, CHIN-CHUAN																																										
Director	HSU, MA																																										

Notes: 1. In view of the fact that Chairman Joseph Jye-Cherng Lyu was not provided with an official residence, a supplemental home rental stipend of NT\$55,000 was provided in 2017; the monthly expense for the chauffeur is NT\$40,695.

2. In view of the fact that President Wei Jan-Lin was not provided with an official residence, a supplemental home rental stipend of NT\$60,000 was provided in 2017; the president's sedan was purchased in November of 2011 at a cost of NT\$573,604, and the monthly expense for the chauffeur is NT\$40,695.

		Name of	Directors	
Descloret	Total of (A	A+B+C+D)	Total of (A+B+	-C+D+E+F+G)
Bracket	The Bank	Companies in the Consolidated Financial Statements	The Bank	The Bank and Reinvested Enterprises
Under NT\$2,000,000	WEI, JAN-LIN HSU, YI-HSIUNG SU, JAIN-RONG YANG, CHENG-CHEN CHEN, MING-CHIN PENG, PAI-HSIEN YEH, KUANG-SHIH YANG, CHIN-LONG LU, CHIOU-SHIANG YANG, MING-SHYANG CHEN, CHUAN-HSI KUO, WEI-YU CHAN, TING-JENG HU, CHIN-CHUAN HSU, MA	WEI, JAN-LIN HSU, YI-HSIUNG SU, JAIN-RONG YANG, CHENG-CHEN CHEN, MING-CHIN PENG, PAI-HSIEN YEH, KUANG-SHIH YANG, CHIN-LONG LU, CHIOU-SHIANG YANG, MING-SHYANG CHEN, CHUAN-HSI KUO, WEI-YU CHAN, TING-JENG HU, CHIN-CHUAN HSU, MA	HSU, YI-HSIUNG SU, JAIN-RONG YANG, CHENG-CHEN CHEN, MING-CHIN PENG, PAI-HSIEN YEH, KUANG-SHIH YANG, CHIN-LONG LU, CHIOU-SHIANG YANG, MING-SHYANG CHEN, CHUAN-HSI KUO, WEI-YU CHAN, TING-JENG HU, CHIN-CHUAN HSU, MA	HSU, YI-HSIUNG SU, JAIN-RONG YANG, CHENG-CHEN CHEN, MING-CHIN PENG, PAI-HSIEN YEH, KUANG-SHIH YANG, CHIN-LONG LU, CHIOU-SHIANG YANG, MING-SHYANG CHEN, CHUAN-HSI KUO, WEI-YU CHAN, TING-JENG HU, CHIN-CHUAN HSU, MA
NT\$2,000,000 ~ NT\$5,000,000	JOSEPH JYE- CHERNG LYU	JOSEPH JYE- CHERNG LYU	JOSEPH JYE- CHERNG LYU WEI, JAN-LIN	JOSEPH JYE- CHERNG LYU WEI, JAN-LIN
NT\$5,000,000 ~ NT\$10,000,000				
NT\$10,000,000 ~ NT\$15,000,000				
NT\$15,000,000 ~ NT\$30,000,000				
NT\$30,000,000 ~ NT\$50,000,000				
NT\$50,000,000 ~ NT\$100,000,000				
Over NT\$100,000,000				
Total (Unit: NT\$1,000)	6,199	6,199	13,506	13,698



(2) Compensation of President and Senior Executive Vice Presidents

													Unit. N	\$1,000											
		Sala	Salary (A)		Severance Pay (B)		Bonuses and Allowances (C)		Employee Bonus (D)			Ratio of Total Compensation (A+B+C+D) to Net Income After Tax (%)		Reinvested E											
Title	Name	The Bank	Companies in the Consolidated Financial Statements		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											
		olidated nts		olidated nts		olidated nts	Cash	Stock	Cash	Stock		olidated nts	lank's												
President	WEI, JAN-LIN																								
Senior Executive Vice President	CHIANG, SHIH-TIEN	-																							
Senior Executive Vice President	CHANG, HONG-CHI																								
Senior Executive Vice President	CHIOU, YE-CHIN																								
Senior Executive Vice President	HSIEH, CHUAN-CHUAN		13,543																						
Senior Executive Vice President	YEH, SHIOU-JSU																								
Senior Executive Vice President	HUANG, JUI-MU	13,543		1,085	1,085	8,605	8,666	None			0.22%	0.22%	751												
Senior Executive Vice President	LIN,CHUN-LIANG	-																							
SEVP & General Auditor	HUANG, JUI-MU																								
SEVP & General Auditor	LIN,CHUN-LIANG																								
SEVP & General Auditor	CHEN, YING-KUEI																								
SEVP & Chief Compliance Officer	LIN, SU-LAN																								

Bracket	Name of President and Senior Executive Vice Presidents							
DIACKEL	The Bank	The Bank and Reinvested Enterprises						
Under NT\$2,000,000	CHIANG, SHIH-TIEN LIN,CHUN-LIANG CHEN, YING-KUEI	CHIANG, SHIH-TIEN LIN,CHUN-LIANG CHEN, YING-KUEI						
NT\$2,000,000 ~ NT\$5,000,000	WEI, JAN-LIN CHANG, HONG-CHI CHIOU, YE-CHIN HSIEH, CHUAN-CHUAN YEH, SHIOU-JSU HUANG, JUI-MU LIN, SU-LAN	WEI, JAN-LIN CHANG, HONG-CHI CHIOU, YE-CHIN HSIEH, CHUAN-CHUAN YEH, SHIOU-JSU HUANG, JUI-MU LIN, SU-LAN						
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)	23,233	24,045						

Unit: NT\$1,000

III. Implementation of Corporate Governance

1. Board of Directors

A total of 11 meetings of the Board of Directors were held in 2017 (A). 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	11	0	100	
Managing Director	WEI, JAN-LIN	11	0	100	
Independent Managing Director	HSU, YI-HSIUNG	11	0	100	
Managing Director	SU, JAIN-RONG	10	1	91	
Managing Director	YANG, CHENG-CHEN	10	1	91	
Independent Director	CHEN, MING-CHIN	10	1	91	
Independent Director	PENG, PAI-HSIEN	-	-	-	Assumed on Nov.17, 2017
Independent Director	YEH, KUANG-SHIH	5	2	72	Relieved on Sep. 22, 2017
Director	CHEN, NAN-KUANG	-	-	-	Assumed on March 22, 2018
Director	YANG, CHIN-LONG	9	2	82	Relieved on Feb. 26, 2018
Director	LU, CHIOU-SHIANG	4	0	100	Assumed on Aug. 31, 2017
Director	YANG, MING-SHYANG	6	1	86	Relieved on Aug. 31, 2017
Director	CHEN, CHUAN-HSI	10	1	91	
Director	KUO, WEI-YU	9	2	82	
Director	CHAN, TING-JENG	11	0	100	Relieved on Nov. 17, 2017
Labor Director	HU, CHIN-CHUAN	11	0	100	
Labor Director	CHEN, JUI-LIN	-	-	-	Assumed on Jan. 16, 2018
Labor Director	HSU, MA	10	1	91	Relieved on Jan. 16, 2018

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) The Bank adopted "Rules of Procedure for Board of Directors Meetings" in accordance with Article 14-3 of the Securities and Exchange Act, and agenda items are set pursuant to the applicable rules.

(2) None

- 2. If there is directors' avoidance of motions in conflict of interest, the directors' names, contents of motions, causes for avoidance and voting should be specified:
 - (1) At the 84th meeting of the 5th Board of Managing Directors on Apr. 14, 2017, a proposal to confer awards to President Wei Jan-Lin: Managing Director Wei Jan-Lin exercised recusal because he was considered interested person in the matter (it affected his personal interest). All directors in attendance agreed to pass the proposal.
 - (2) At the 12th meeting of the 5th Board of Directors on May 12, 2017, approval of Ioan to Pacific Construction Co., Ltd.: Independent Director Yeh Kuang-Shih exercised recusal because he had a material interest in the matter as an Independent Director of Pacific Construction Co., Ltd. All directors in attendance agreed to pass the approval.
- 3. Targets in the current year or the most recent year to upgrade the function of the Board of Directors (e.g. establishment of an audit committee; steps taken to increase information transparency; etc), and evaluation of targets achievement.
 - (1) To coordinate with legislative amendments issued by the competent authority, BOT has completed amendments to its Charter, its Organization Rules, and the Rules of Procedure for Board of Directors Meetings in order to strengthen the functions of the Board of Directors.
 - (2) The members of the Board of Directors, in addition to attending the required number of hours of professional development courses, have also taken measures to step up training on AML matters, corporate governance, internal audits, and internal controls in order to ensure effective oversight and administration by the board.
- Note: The actual ratio of attendance (%) is calculated as the ratio (%) of the number of Board of Directors meetings attended to the total number held during the term in office.

2. Audit Committee

A total of 10 Audit Committee meetings were held in 2017 (A). The attendance of the Independent Directors was as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) [B/A] (Note)	Remarks
Independent Managing Director	HSU, YI-HSIUNG	10	0	100	
Independent Director	CHEN, MING-CHIN	9	1	90	
Independent Director	YEH, KUANG-SHIH	4	2	67	Relieved on Sep. 22, 2017
Independent Director	PENG, PAI-HSIEN	-	-	-	Assumed on Nov.17, 2017

Other mentionable items:

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

(1) BOT adopted an Audit Committee Charter in accordance with Article 14-5 of the Securities and Exchange Act, and agenda items are set pursuant to the applicable rules.

(2) None.

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:

At the 12th meeting of the 3th Board of Directors on May 8, 2017, a credit approval to Pacific Construction Co., Ltd.: Independent Director Yeh Kuang-Shih exercised recusal because he had a material interest in the matter as an Independent Director of Pacific Construction Co., Ltd. Both 2 directors in attendance agreed to pass the approval.

- 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 2016; (b) Internal Control Statement in 2016; (c) a report on auditing work for the first half of 2017; and (d) auditing work plan for 2018.

(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) internal control auditing in 2016; (b) financial reports of 2016; (c) the financial report for the first quarter of 2017; (d) the financial report for the second quarter of 2017; and (e) the financial report for the third quarter of 2017.

- (3) In order to reinforce corporate governance and business operations, seminars were held on an irregular basis to discuss the topics of anti-money laundering and countering terrorism financing, risk-based internal auditing, and risk management mechanism in conformity with international norms with business units
- (4) Relevant executives were invited to the Audit Committee's office on an irregular basis, and talks were held via telephone, to discuss important issues.
- (5) A total of 10 Audit Committee meetings were called, 6 seminars were held during this year.
- Note: The actual ratio of attendance (%) is calculated as the ratio (%) of the number of Audit Committee meetings attended to the total number held during the term in office.

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

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

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Mottors Evaluated			Implementation Status
Matters Evaluated	Y	N	Summary Description
(2) Has the Bank established other information disclosure channels?	V		(2) The Bank's website has an English page that provides information on the Bank's finance, business, and corporate governance. To circulate publicly reports and announcements in accordance with the requirements of the competent authority, the units in charge of different areas of business carry out the collection and disclosure of relevant information. To strengthen liaison and communication with the news media, the Bank makes timely and accurate reports on its major policies, business measures, and services; establishes "Bank of Taiwan News Issuance and News Liaison Guidelines"; and appoints spokespersons.
6. Does the Bank have other important information that would contribute to a better understanding of the Bank's corporate governance operations (e.g., including but not limited to employee rights, employee wellness, investor relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, purchasing insurance for directors and supervisors, and donations to political parties, stakeholders, and charity organizations)?	V		 The BOT is a government-run financial institution. The interests of its employees are handled in accordance with the provisions of the "Labor Standards Act," other labor legislation, and regulations issued by the competent authorities. 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." 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 capital adequacy management, crite

Mottors Evolusted			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 insurance for directors and supervisors, and donations to political parties, stakeholders, and charity organizations)?		N	 Summary Description 5. Consumer Protection To protect the interests of customers and assure observance of the competent authority's regulations, the Bank has established rules for the wealth management business including "Operating Regulations for the Sale of Financial Products," "Management Guidelines for Financial Product Salespersons," "Operating Instructions for a Full Understanding of Customers in the Sale of Financial Products," and "Manual of Customer Rights for the Sale of Financial Products." (2) To protect consumer interests, the contracts signed with customers for the extension of consumer loans are drawn up according to the "Items to Be Included and Not Included in Personal Auto and Home Loan Model Contracts" as formulated by the competent authority in accordance with the Consumer Protection Act and other relevant laws and regulations. (3) The Bank has established "Standards for Exemption from Risk due to Loss or Theft of International Credit Cards" and "Regulations for Writing Off Losses due to Fraudulent Use of Credit Cards," so as to protect the users of credit cards.
			 (4) In response to the promugatori 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." 6. Abstention of Directors from Cases in Which They Have a Material Interest:
			 (1) Article 16 of the Rules of Procedure for Board of Directors Meetings stipulates that Directors should, at the current Board of Directors meeting, explain the major content of their relationships of material interest and, in case of any concern that those relationships might do harm to the Company's benefit or if there is any relationship of material interest of its own, they may not participate in discussions or voting and should remove themselves during discussion and voting, nor may they act as proxy for other Directors in exercising their voting rights.
			 (2) Directors have to fill out the "Parties of Material Interest" Form as stipulated in Article 33-1 of the Banking Act, and the Form is managed by the Department of Credit Management.
			7. Purchase of Liability Insurance for Directors and Supervisors: The Bank has not purchased liability insurance for its Directors. The Bank set up an Audit Committee to take over the functions of the supervisors.
			8. Donations to Political Parties, Stakeholders, and Charity Organizations:
			The Bank provides charity donations in accordance with the "Rules for the Handling of Funding (Donations) from the Bank of Taiwan to Private Organizations."

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

The BOT has not established a Remuneration Committee.

5. Social Responsibility

Mottoro Evoluated		Implementation Status					
Matters Evaluated	Y	N	Summary Description				
 Implementation of Corporate Governance Has the Bank adopted a corporate social responsibility policy or system? Does the Bank review the effectiveness of its implementation thereof? Does the Bank periodically hold social responsibility education and training sessions? 	v		 Public-benefit donations are given to civic groups in accordance with the "Bank of Taiwan Rules for the Granting of Subsidies (Donations) to Private Groups." The Bank uses internal education and training programs as well as online learning websites to provide employees with online courses in corporate governance. Employees are required to attend a prescribed number of hours of such coursework. On May 2, 2017, class for CSR report preparation is provided to improve the quality of CSR reports. 				
(3) Does the Bank have a unit (dedicated or otherwise) that is charged with responsibility for promoting corporate social responsibility? Does the board of directors specifically authorize senior management to handle corporate social responsibility matters, and does senior management report back to the board of directors on its handling of such matters?		V	(3) The BOT has not yet established a unit (dedicated or otherwise) to handle corporate social responsibility matters. However, the Bank's Directors all take part in corporate governance courses, and when there are government directives and other such matters, the Bank notifies each Director.				
(4) Has the Bank adopted a policy on reasonable remuneration? Are corporate social responsibility matters factored into employee performance evaluations? Are there clear and effective rewards and sanctions?		V	(4) The BOT is a 100% government-owned bank. As such, its employees' salary points are handled in accordance with regulations issued by the Ministry of Finance. Corporate social responsibility policies are not currently factored into employee performance evaluations.				
2. Development of a Sustainable Environment							
(1) Does the Bank make efforts to enhance the efficiency of resource utilization, and use recyclable materials with a low environmental burden?	V		(1) The Bank stepped up efforts to conduct green purchasing operations in order to implement the "Government Procurement Act" and the "Resource Recycling Act." Of all designated procurement items, 90.63% were obtained in line with green purchasing principles in 2017.				
(2) Has the Bank established an appropriate environmental management system that is suited to the characteristics of the banking industry?	v		(2) The BOT has established an Environmental Management System for the environmental beautification and maintenance of cleanliness.				
(3) Does the Bank pay attention to the impact of climate change on operating activities? Does it prepare greenhouse gas inventory reports? Has it adopted strategies for energy conservation and reduction of carbon and other greenhouse gases?	V		(3) The Bank continued implementing the government's policy of energy conservation and carbon reduction. The reductions during the year amounted to 1.68% for electricity and 0.06% for fuel consumption.				
3. Community Service Work							
(1) Has the Bank adopted policies and procedures in accordance with applicable legislation and international human rights conventions?	V		(1) In order to safeguard the rights and interests of both management and labor, the Bank has adopted work rules in compliance with the "Labor Standards Act" and other legislation governing civil servants.				
(2) Has the Bank established an employee complaint system, including a channel for lodging complaints? Is the system being properly implemented?	V		(2) Employees can lodge complaints in hardcopy form, via telephone or email, or via the Chairperson's Mailbox on the company intranet.				

Matters Evaluated		Implementation Status				
Matters Evaluated	Y	N	Summary Description			
(3) Does the Bank provide a safe and healthy working environment for its employees, and offer them regular safety and health education?	V		(3) In order to prevent workplace accidents and protect the safety and health of employees, the Bank has adopted the "Bank of Taiwan Best Practice Principles for Occupational Safety and Health." This measure is intended to ensure a safe and healthy environment for employees. The Bank also offers employees regular safety and health education.			
(4) Has the Bank established a channel for periodic communication with employees? Does the Bank use reasonable methods to notify employees of operational changes with a potentially major impact upon them?	V		(4) The Bank issues official notices to inform employees of important operating policies related to employee's rights.			
(5) Has the Bank established a career skills development program for its employees?	V		(5) The Bank adopts an employee training program each year, which includes courses and lectures focusing on various professional and managerial topics. In addition, the Bank also dispatches employees to attend external training, as needed.			
(6) Has the Bank adopted consumer protection policies and complaint procedures for its R&D, purchasing, operational, and service processes?	V		(6) a. In order to build a corporate culture that values customer safeguards, and to properly implement customer protections while building stronger customer trust in the Bank, the bank has adopted a set of "Policies and Strategies Regarding the Principles for Fair Treatment of Consumers" in line with the Financial Supervisory Commission's "Principles for Fair Treatment of Consumers by Financial Services Enterprises."			
(7) In its marketing and labeling of products and services, does the Bank comply with applicable legislation and international standards?	V		 b. The Bank has adopted a set of "Rules Governing the Handling of Customer Criticisms and Complaints." When there is a customer complaint or a consumer financial dispute, the customer's demands must be appropriately handled in accordance with these Rules. (7) The Bank has adopted a set of "Management Instructions for Engaging in Advertising, Business Solicitation, and 			
			Sales Promotion Activities" to regulate its advertising, business solicitation, and sales promotion activities, and to safeguard the interests of financial consumers.			
(8) Before entering into a business relationship with a supplier, does the Bank first consider whether the supplier has previously harmed the environment or the interests of society?	V		(8) The Bank handles purchasing matters in compliance with the "Government Procurement Act", environmental protection and labor safety & health legislation, and related legislation. Qualification requirements for suppliers and manufacturers, and the content of contracts, must all be set in accordance with the law.			
(9) Do the Bank's contracts with major suppliers include a provision that allows for the Bank to terminate or rescind at any time if the supplier violates its corporate social responsibility policy in such a manner as to harm the environment or the interests of society?	V		(9) The Bank's goods and services procurement contracts expressly provide that if a supplier violates environmental protection or labor safety & health legislation with serious consequences, the Bank reserves the right to terminate or suspend the contract.			
4. Strengthening of Information Disclosure Does the Bank disclose relevant and reliable information regarding its corporate social responsibility on its own website and the Market Observation Post System (MOPS) website?	V		Related information is disclosed in the Corporate Social Responsibility Report area of the global information web page, in such areas as corporate governance, customer commitments, employee care, environmental protection, and social participation, and sent to the Bank's various units for reference.			

Implementation Status Matters Evaluated Ν **Summary Description** 5. If the Bank has compiled its own corporate social responsibility rules in accordance with the "Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies," please explain their operation and their divergences: The BOT is not a TWSE/GTSM listed company, and has not compiled its own corporate social responsibility rules. 6. Other important information that would aid in understanding the operation of corporate social responsibility: (1) As a 100% government-owned bank, the Bank makes every effort to attain the budget targets set by the government, and coordinates with the government's major construction plans and participates actively in the financing of infrastructure projects as well as large private investment projects in order to promote overall national economic development. (2) In order to give back to society and act upon the company's commitment to caring, the Bank continues to hold community service activities designed to benefit the underprivileged and enhance its image as an enterprise that cares about the public good. The Bank also supports government policy by providing student loans. (3) The BOT carried out the following social benefit activities in 2017: a. 4 March 2017: BOT joined hands with the Taiwan Guide Dog Association 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\$630,000, all of which was donated to the Taiwan Guide Dog Association. b. 24 March-24 April 2017: To cultivate greater capacity among the people of Taiwan to appreciate the arts and engage in cultural and creative undertakings, and to encourage talented youth to take part in artistic research and creation, BOT organized the Painting Division of the 2017 Bank of Taiwan Arts Festival, and carried out an awards ceremony on June 28. c. 28 March 2017: To demonstrate how seriously the Bank takes the development of digital financial technology, BOT jointly organized and participated in an Innovation Forum Series. The first forum focused on the blockchain revolution, and featured a keynote address by Don Tapscott, who is regarded as "the father of the digital economy." d. 28 June-15 August 2017: To encourage photography enthusiasts to hone their creativity and stand witness to Taiwan's hardy survivor spirit, BOT organized the Photography Division of the 2017 Bank of Taiwan Arts Festival, and carried out an awards ceremony on October 20. e. 1 July 2017: Senior members of BOT management visited a children's home administered by Reindeer Social Welfare Foundation to show their concern for the children's well-being. The Bank also donated musical instruments and furniture to help improve the learning environment there. f. 8-9 July 2017: To support baseball, the national pastime of Taiwan, BOT again played a role in the Chinese Professional Baseball League all-star game by acting as a named sponsor of the Red Team. The Bank also invited student athletes from several elementary and junior high school baseball teams in the Hualien area (Stella Maris Junior High School, Hwa-Gang Junior High School, and Fuli Elementary School) to attend the game. Young residents of the St. Andrew Training Center for the Disabled were also invited to the event. g. 19 July 2017: Senior members of BOT management visited the Beacon of Faith Home for Youth, an institution run by the Keelung Christian Community Service and Charity Foundation, to check on the residents there and make a donation toward the purchase of computers and other study aids for the children. h. 3 August 2017: Senior members of BOT management visited the Ren Ai Children's Home (administered by Nantou Ren Ai Home) to check on the welfare of the children living there and hold a ceremony to mark a donation to help the Home replace old facilities and build a more comfortable environment for the children. i. BOT held the 2017 Bank of Taiwan Awards for Economic and Financial Research to support further development of the tremendous pool of economic and financial research expertise that exists in Taiwan. Papers were solicited from September 15, 2017 to January 31, 2018. The event showed how much talent we have in Taiwan, and helped to cultivate an atmosphere conducive to economic and financial research. j. 21 November 2017: Out of concern for the well-being of disadvantaged groups living in remote locations, BOT visited the Bethesda Home for Handicapped Children in Hualien to hold a charity drive and raise donations for the Home. k. 7-10 December 2017: The Bank of Taiwan team in the Super Basketball League (SBL) celebrated its first Home Court Week with a series of promotional events to mark the start of the SBL's 15th season. The events were a huge success, and attracted a total of more than 10,000 fans. I. 29 December 2017: BOT organized the Music Division of the 2017 Bank of Taiwan Arts Festival, featuring performances by the Christian Mountain Children's Home Choir and the Ya Yun Women's Choir. 7. If the Bank's corporate social responsibility reports include passage of certification standards by relevant certification agencies, please explain:

The Bank has prepared Corporate Social Responsibility Reports for 2014, 2015 and 2016 which have not been certificated yet.

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

Matters Evaluated			Implementation Status
Matters Evaluated	Y	N	Summary Description
 Establishment of Ethical Management Policies and Programs Is an ethical management policy clearly expressed in the Bank's charter and public documents? Are its board of directors and management committed to vigorous implementation of that policy? Has the Bank adopted programs for the prevention of unethical behavior? Does each of these programs expressly set out operating procedures and a code of conduct, provide for punishment of unethical behavior, and establish a system for lodging complaints? Are the programs being properly implemented? Has the Bank adopted preventive measures to ensure that the unethical behaviors set out in Article 7, paragraph 2 of the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" will not occur, and that the Bank will not engage in business activities that pose a relatively high risk of unethical conduct? 	v		 The BOT holds to an attitude of sincerity in guaranteeing the principle of putting customer rights first and providing professional services that meet the needs of its customers, and puts "sincerity" at the head of the list of its operating principles. The Bank conducts all matters in compliance with the "Civil Servant Service Act," abides by civil ethics rules, carries out all required registrations, and in order to prevent unethical conduct, the Bank has adopted a rule explicitly requiring that important financial transactions with interested parties must be reported to the Board of Directors for discussion and approval. a. All purchasing transactions, donations, and sponsorships must be reported to the authorization level for review and approval, so compliance with applicable legislation and internal operating procedures is assured. The Bank has established the "Instructions for Professional Ethics and Behavior by Bank of Taiwan Investment Personnel," which clearly prohibits the Bank's investment personnel from recommending, giving, seeking, or accepting a bribe in any form. Also, the "Instructions for Prevention of Insider Trading and Conflicts of Interest in the Wealth Management Business of the Bank of Taiwan" explicitly prohibits wealth management personnel from accepting improper gifts or entertainment. BOT regularly dispatched circulars to all company divisions reminding them to implement the Civil Service Ethics Rules. The idea was to impress upon employees the need to abide by ethical principles when interacting with government agencies. When the competent authority disseminates guidance documents related to ethics and compliance concerns, BOT forwards these in a timely manner to its various divisions, and the Bank's ethics officers call regularly scheduled meeting between management and rank-
			and-file staff to discuss related matters, and to urge all employees to understand the boundaries of propriety and be sure to comply with laws and regulations.
 Implementation of Ethical Management Does the Bank evaluate the ethics track record of parties with which it does business? Do the contracts that it enters into with such parties expressly set out provisions governing ethical conduct? 	v		(1) Before carrying out a public procurement operation, the Bank always visits the website of the Ministry of Economic Affairs to check on the current status of the counterparty, or asks the counterparty to provide tax returns. In addition, purchasing contracts include penal provisions that require the supplier to provide compensation if it acts in breach of contract.

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			Implementation Status
Matters Evaluated	Y	N	Summary Description
(2) Does the Bank have a unit (dedicated or otherwise) that reports to the board of directors and is responsible for promoting ethical business practices? If so, does this unit report periodically to the board of directors on the status of its work?		V	(2) The Bank has not yet established a unit (dedicated or otherwise) that reports to the Board of Directors and is responsible for promoting ethical business practices. The BOT follows the operating principles of "Integrity, Care, Efficiency, and Prudence," and propagates an understanding of these core values to employees during regular and irregular meetings at the different units. The principles are also printed in publications to incorporate them into all operations and services.
(3) Has the Bank adopted a conflict-of-interest policy, and provided an appropriate complaint channel? Is the policy being properly implemented?	V		(3) The BOT's Charter and the Rules of Procedure for Board of Directors Meetings clearly stipulate rules for the recusal of Directors.
(4) Has the Bank established effective accounting and internal control systems designed to achieve ethical management? Does its internal audit unit carry out periodic audits, or if not, does the Bank retain a certified public accountant to carry out audits?	V		(4) The Bank has established a rigorous accounting system and a dedicated accounting unit. All financial reports are audited by a certifying CPA to ensure the fairness of financial statements, and the Bank has established an internal audit system, a self-audit system, a chief compliance officer system, and a risk management system as required by the "Regulations Governing the Implementation of Internal Control and Audit Systems by Financial Holding Companies and Banking Enterprises."
(5) Does the Bank periodically hold in-house or out-of- house education and training sessions that focus on business ethics?	V		(5) a. In 2017 the Bank held 20 in-house training courses for Ethics Guidelines and discipline rules with a total of 945 trainees participating.
			b. BOT adopted the Publicity Implementation Project for the Bank of Taiwan 2017 Civil Service Ethics Program. Under this project, the Bank offered online ethics courses to employees. By the time the project concluded in August 2017, employees from all BOT units in Taiwan had completed training. BOT Chairman Joseph Jye- Cherng Lyu set a positive example by completing two levels of the training program.
			c. The BOT global intranet has an "Online Registration and Management System for Civil Service Ethics Rules." When employees experience an incident with ethical implications—e.g. someone approaches them with a request, seeks to influence them, gives a gift, or treats them to a meal or drinks—they are required to register the incident online. A total of 2,183 incidents were registered in 2017, none of which were found to involve any rules infractions.
3. 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) 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.
(2) Has the Bank adopted a standard operating procedure and a confidentiality regime for investigations launched in response to whistleblower complaints?			(2) The Bank's ethics unit processes whistleblower complaints in accordance with the "Procedures for Handling Whistleblower Complaints and Providing Whistleblower Incentives and Protections (Including Confidentiality)" issued by the Ministry of Justice.
(3) Has the Bank adopted measures to protect whistleblowers from retaliation?	V		(3) The Bank is subject to the provisions of the "Labor Standards Act," Article 74 of which prohibits an employer from discharging, transferring, or taking any other unfavorable measure against a worker who files a complaint or reports to the authorities.

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Matters Evaluated		Implementation Status				
		N	Summary Description			
4. Strengthening of Information Disclosure Does the Bank disclose the content of its ethical best practice standards, and the state of their implementation, on its website and the Market Observation Post System (MOPS) website?	v		The Bank discloses the state of its business ethics work or its 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 BOT 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 w	ith a	appr	oval through the following:			
 Recognized by the Financial Supervisory Commission Persons with Mental and Physical Disabilities" and a 			"Top Bank Provider of Property Trusts for Senior Citizens and standing Bank Lender to Innovative Enterprises."			
(2) "Direct Guarantee Outstanding Performance Award Economic Affairs.	(2) "Direct Guarantee Outstanding Performance Award" and "Young Entrepreneur Assistance Award" from the Ministry of Economic Affairs.					
(3) The Joint Credit Information Center's Golden Quality	y Av	vard	and Golden Security Award.			
(4) The number one financial holding company or bank Generation" in 2017.	on	Che	ers magazine's list of the "Most Attractive Employer for Young			

- (5) The winner of Gold Award in the Reader's Digest Trusted Brands survey in the "Banking" and "Online Financial Services" categories.
- (6) "Best Product Award" and "Best Financial Advisor Service Award" on the basis of its Wealth Management Bank Survey from Business Today magazine.



Outstanding BOT employees singled out for recognition at the Joint Credit Information Center's Golden Quality Award and Golden Security Award Ceremony pose for a group photo with BOT Chairman Joseph Jye-Cherng Lyu (3rd from right) and Chairman Wellington L. Koo of the Financial Supervisory Commission (center).

7. Corporate Governance Guidelines and Regulations

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

8. Internal Control System

(1) Internal Control Statement

Please refer to pages 44 and 45 of the Chinese annual report.

(2) Independent Auditors' Report

Please refer to pages 46 of the Chinese annual report.

9. Major Resolutions of Board Meetings

- (1) Reported by the 73rd meeting of the 5th Board of Managing Directors on Jan. 6, 2017: Board members approved the Bank's "2016 Table of Funding (Donations) from the Bank of Taiwan to Private Organizations and How the Funds Have Been Used" and the "2016 Table of Funding (Donations) from the Bank of Taiwan to Local Governments and How the Funds Have Been Used."
- (2) Passed by the 75th meeting of the 5th Board of Managing Directors on Jan. 20, 2017: Kaohsiung City Government invited the Bank to participate in the Alliance of Asian New Bay Area and sign the letter of intent for cooperation.
- (3) Reported by the 78th meeting of the 5th Board of Managing Directors on Feb. 17, 2017: The Bank of Taiwan on Feb. 15, 2017 adopted a plan and on that same day established a "Working Group on Financing to Support the New Southbound Policy."
- (4) Reported by the 10th meeting of the 5th Board of Directors on Feb. 24, 2017: "Report on the Bank's Promotions System and Human Resource Training" and a "Human Resources Training Plan."
- (5) Passed by the 10th meeting of the 5th Board of Directors on Feb. 24, 2017:
 - a. The Bank's 2018 Business Plan (including the subsidiary).
 - b. "Bank of Taiwan 2017 Compliance/Anti-Money Laundering and Countering Terrorism Financing Plan."
 - c. "Establishment Regulations for Anti-Money Laundering and Countering Terrorism Financing Committee of Bank of Taiwan."
 - d. Feasibility Study for the Bank of Taiwan to Establish a Ho Chi Minh City Representative Office in Vietnam, a Bangkok Representative Office in Thailand, and a Jakarta Representative Office in Indonesia.
- (6) Passed by the 11th meeting of the 5th Board of Directors on Mar. 17, 2017:
 - a. Audited 2016 individual and consolidated statements, Business Report, Statement of Income Appropriation, and List of Major Properties.
 - b. Audited 2016 Internal Control System Recommendations.

- (7) Reported by the 12th meeting of the 5th Board of Managing Directors on May 12, 2017:"Assessment Form of Internal Risk Detection Guidelines for Bank of Taiwan."
- (8) Passed by the 12th meeting of the 5th Board of Directors on May 12, 2017:
 - a. "Bank of Taiwan Rules on Risk-based Internal Audit System Risk Assessments."
 - b. "Matters to be Reported Concerning Compliance by the Bank of Taiwan with Supervisory Review Principles," for filing with the Financial Supervisory Commission.
 - c. "Bank of Taiwan Standards for the Three Lines of Defense in Internal Control Systems."
 - d. "Independent Assessment Report on the 2016 Test of the Bank of Taiwan AML/CFT System" and corrective measures.
 - e. Feasibility Study for the Bank of Taiwan to Establish a Representative Office in the Philippines.
 - f. The Executive Yuan sent instructions via the Ministry of Finance for BOT General Auditor Huang Jui-Mu to be appointed to the post of Senior Executive Vice President Lin Chun-Liang, the director of the Secretariat of the Board of Directors, who was promoted to the position of General Auditor.
 - g. Feasibility Study for the Bank of Taiwan to Establish a Silicon Valley Representative Office in the United States.
- (9) Reported by the 90th meeting of the 5th Board of Managing Directors on May 26, 2017: Adopted the "Bank of Taiwan Project to Establish a Green Energy Finance Team" to coordinate with the government's policy of promoting the financing of green energy projects, and to seize upon green energy business opportunities.
- (10) Passed by the 92nd meeting of the 5th Board of Managing Directors on Jun. 9, 2017: "Bank of Taiwan Guidelines for the Provision of Loans for Renovation or Reconstruction of Hazardous and Dilapidated Buildings," adopted to meet the need for accelerated reconstruction of hazardous and dilapidated buildings in Taiwan.
- (11) Passed by the 97th meeting of the 5th Board of Managing Directors on Jul. 14, 2017: Selected a building in the Yangmingshan US Military Barracks Cultural and Scenic District for BOT to renovate and provide for visitors, cultural and arts events, exhibits, and other community service purposes. This action is intended to fulfill the Bank's corporate social responsibility and to enhance its corporate image.
- (12) Passed by the 99th meeting of the 5th Board of Managing Directors on Jul. 28, 2017: BOT took part in financing of the establishment of Taiwania Capital Management Corporation, investing NT\$1 million in support of this important government policy initiative.

- (13) Passed by the 13th meeting of the 5th Board of Directors on Aug. 25, 2017:
 - a. The "Self-Assessment Form for Bank of Taiwan's Application to Adopt a Risk-based Internal Audit System" and related application documents to support the Bank's application with the competent authority for approval to adopt a risk-based internal audit system.
 - b. "Bank of Taiwan AML/CFT Policy."
- (14) Reported by the 104th meeting of the 5th Board of Managing Directors on Sep. 1, 2017: The Board of Directors of the Taiwan Financial Holding Co., Ltd. discussed and approved that Yang Ming-Hsiang be relieved of his position on the Board effective August 31, 2017, to be replaced by Lu Chiou-Shiang, who shall serve on the Board from August 31, 2017 to July 30, 2018.
- (15) Reported by the 107th meeting of the 5th Board of Managing Directors on Sep. 22, 2017:
 - a. "Bank of Taiwan 2016 Assurance Report on Personal Information Protection and Internal Controls," issued by an accounting firm.
 - b. In order ensure the smooth completion of urban renewal projects involving the Wei Guan Building and the Dazhi Market (in Tainan City's Yongkang District and East District), the Tainan City Government invited BOT to take part in supporting the efforts of the two urban renewal associations involved in the projects and sign a letter of intent regarding the matter.
- (16) Reported by the 109th meeting of the 5th Board of Managing Directors on Oct. 6, 2017: BOT independent director Yeh Kuang-Shih was relieved of his position as an independent director effective September 22, 2017.
- (17) Passed by the 110th meeting of the 5th Board of Managing Directors on Oct. 20, 2017: "Bank of Taiwan Cloud-Based Payments Business Plan."
- (18) Passed by the 14th meeting of the 5th Board of Directors on Nov. 10, 2017:
 - a. The Audit Plan of 2018 by the Department of Auditing, Board of Directors.
 - b. "Bank of Taiwan 2018 Compliance/Anti-Money Laundering and Countering Terrorism Financing Plan."
- (19) Reported by the 114th meeting of the 5th Board of Managing Directors on Nov. 17, 2017: Chan Ting-Jeng was relieved of his position on the Board effective November 17, 2017. Independent director Yeh Kuang-Shih resigned from the Board, and was replaced by Peng Pai-Hsien, who shall serve on the Board from November 17, 2017 to July 30, 2018.
- (20) Reported by the 116th meeting of the 5th Board of Managing Directors on Dec. 1, 2017: "2017 Audit Report on Remote Backup Training for the Information Systems and SWIFT Alliance Data of Overseas Branches."
- (21) Reported by the 15th meeting of the 5th Board of Directors on Jan. 5, 2018: "Bank of Taiwan Fintech Development Plan."

(22) Passed by the 15th meeting of the 5th Board of Directors on on Jan. 5, 2018:

- a. The Bank's 2019 Business Plan (including the subsidiary).
- b. Feasibility Study for the Bank of Taiwan to Establish a Kuala Lumpur Representative Office in Malaysia.
- c. BOT took part in preparations for establishment in early 2018 of the Taiwan Financial Alliance Urban Renewal Services Co. (tentative name) in support of an important government policy initiative.
- d. "Report on the Bank's capital increase plan for 2019."
- e. In support of the National Development Council's Asia Silicon Valley Development Plan, BOT moved its Taohsing Branch to Taoyuan City's Qingpu area and renamed it the Asia Silicon Valley Innovation Branch (tentative name).
- (23) Reported by the 121st meeting of the 5th Board of Managing Directors on Jan. 5, 2018: One of the BOT directors representing labor, Hsu Ma, retired on January 16. Chen Jui-Lin was appointed by the BOT company union as his replacement, and shall serve from January 16 to July 30, 2018.
- (24) Reported by the 122nd meeting of the 5th Board of Managing Directors on Jan. 12, 2018: Board members approved the Bank's "2017 Table of Funding (Donations) from the Bank of Taiwan to Private Organizations and How the Funds Have Been Used."
- (25) Reported by the 124th meeting of the 5th Board of Managing Directors on Jan. 26, 2018:"Bank of Taiwan 2018–2022 Information Operations Development Blueprint."
- (26) Passed by the 126th meeting of the 5th Board of Managing Directors on Feb. 9, 2018: Plan by BOT and subsidiary BankTaiwan Insurance Brokers Co., Ltd. (BTIB) to raise employee compensation by 3% in 2018, based on a recent 3% salary adjustment for ordinary civil servants.
- (27) Reported by the 16th meeting of the 5th Board of Directors on Feb. 23, 2018: Bank of Taiwan 2017 business report, income statement, statement on appropriation of profit or coverage of loss, balance sheet, and cash flow statement.
- (28) Passed by the 16th meeting of the 5th Board of Directors on Feb. 23, 2018:
 - a. Bank of Taiwan 2017 Statement on Internal Control.
 - b. Bank of Taiwan 2017 Statement on Internal Controls for AML/CFT Compliance.
 - c. Bank of Taiwan Corporate Governance Best-Practice Principles.
- (29) Passed by the 129th meeting of the 5th Board of Managing Directors on Mar. 9, 2018: To make the BOT organizational vision more closely reflective of the direction in which the Bank intends to develop, the vision was amended to read as follows: "Building a leading bank, and embarking on global markets."
- (30) Passed by the 130th meeting of the 5th Board of Managing Directors on Mar. 16, 2018:
 - a. "Bank of Taiwan Rules for Monitoring of Accounts and Transactions."
 - b. "Bank of Taiwan Rules for Verification of the Names of Individuals or Entities."

- (31) Reported by the 131st meeting of the 5th Board of Managing Directors on Mar. 23, 2018: Central Bank Governor Yang Chin-Long was relieved of his position on the Board effective February 26, 2018, and was replaced by Central Bank Deputy Governor Chen Nan-Kuang, who will serve from March 22 to July 30, 2018.
- (32) Passed by the 131st meeting of the 5th Board of Managing Directors on Mar. 23, 2018:
 - a. Retirement on March 23, 2018 of BOT Senior Executive Vice President Chang Hong-Chi.
 - b. Organization and operations of the Bank of Taiwan Cultural Heritage Committee.
- 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, 2018 Reasons for Resignation or Title Name Date of Appointment Date of Termination Dismissal Senior Executive Vice President CHIANG, SHIH-TIEN Nov. 23, 2007 Jul. 18, 2017 Applying for Retirement CHANG, HONG-CHI July 16, 2011 Senior Executive Vice President Mar. 23, 2018 Applying for Retirement Senior Executive Vice President & HUANG, JUI-MU Aug. 6, 2014 June 9, 2017 Personnel changes **General Auditor** Senior Executive Vice President & LIN, CHUN-LIANG June 9, 2017 Nov. 17, 2017 Personnel changes **General Auditor** Executive Vice President & PAN, JEN-CHIEH Jan. 16, 2011 June 7, 2017 Applying for Retirement General Manager

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

IV. CPA Information

Audit Fee

Name of Accounting Firm	Name of CPA		Period of Audit	Notes
KPMG Certified Public Accountants	Yen-Ling Fang	Feng-Hui Lee	Jan. 1, 2017 ~ Dec. 31, 2017	

Amount	Auditing Fees	Non-Auditing Fees	Total
Under NT\$ 2,000,000			
NT\$2,000,000 ~ NT\$4,000,000	3,551,000		3,551,000
NT\$4,000,000 ~ NT\$6,000,000			
NT\$6,000,000 ~ NT\$8,000,000		7,191,000	7,191,000
NT\$8,000,000 ~ NT\$10,000,000			
Over NT\$10,000,000			

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

Consolidated Shareholding Ratios

Dec. 31, 2017

		Dec. 51, 201				Unit: Share; %
Reinvested Enterprise (Note)	Investment b	Investment by the BOT		Directors, sident, Senior sidents, Heads nd Branches, prises y Controlled by DT	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.	910,711,679	7.45	345,758,762	2.83	1,256,470,441	10.28
Taiwan Business Bank	844,686,079	13.74	183,556	0.00	844,869,635	13.74
Cathay Financial Holding Co., Ltd.	63,521,565	0.47	11,473,193	0.09	74,994,758	0.56
Mega Financial Holding Co.	334,951,379	2.46	7,396,196	0.05	342,347,575	2.51
Taiwan Fire & Marine Insurance Co., Ltd.	64,608,278	17.84	130,800	0.04	64,739,078	17.88
China Development Financial Holding Corporation	238,729,496	1.59	1,662,596	0.01	240,392,092	1.60
Yuanta Financial Holding Co., Ltd.	242,813,206	2.03	50,744	0.00	242,863,950	2.03
CTBC Financial Holding Co., Ltd.	299,632,426	1.51	44,722,956	0.23	344,355,382	1.74
Taiwan Sugar Corporation	16,658,992	0.30	8,006,499	0.14	24,665,491	0.44
Taiwan Power Company	865,191,972	2.62	148,281,465	0.45	1,013,473,437	3.07
Taiwan Stock Exchange Corporation	69,456,684	10.01	20,812,682	3.00	90,269,366	13.01
China Trade & Development Corp.	1,250,110	1.91	0	0.00	1,250,110	1.91
China Daily News	62,882	0.14	0	0.00	62,882	0.14
Central Motion Picture Corporation	15,869,677	14.39	0	0.00	15,869,677	14.39
United Taiwan Bank S.A.	146,250	4.99	0	0.00	146,250	4.99
Taipei Forex Inc.	1,400,000	7.06	700,000	3.53	2,100,000	10.59
Taiwan Futures Exchange Corporation	6,461,197	2.05	6,199,588	1.97	12,660,785	4.02
Taiwan Asset Management Corporation	75,000,000	5.68	150,000,000	11.35	225,000,000	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.	13,917,825	2.67	6,022,575	1.15	19,940,400	3.82
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
Hua Nan Financial Holdings Co., Ltd.	2,345,314,378	21.23	425,548,819	3.85	2,770,863,197	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

47	Ι.	Capital	and	Shares
			•••••	

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- 51 III. Comments on Implementation of Capital Allocation Plan

Capital Overview

I. Capital and Shares

1. Source of Capital

Month/	Par Value	Authorize	ed Capital	Paid-in Capital		Remark			
Year	Fai value	Shares	Amount	Shares	Amount	Sources of Capital	Others		
Dec. 2017	NT\$10	9.5 billion	NT\$95 billion	9.5 billion	NT\$95 billion	Appropriation from the National Treasury, and a capital increase of NT\$5 billion due to a merger with the Central Trust of China. A capital increase of NT\$25 billion was carried out in 2010, and another NT\$25 billion capital increase (from capital surplus) was carried out in 2014.			

2. Net Worth, Earnings, and Dividends Per Share

Unit: NT\$; Share

Items	Year	2017	2016
Nat Warth Day Chave	Before Appropriation	30.43	28.89
Net Worth Per Share	After Appropriation	30.37	28.84
Fornings Dor Shore	Weighted Average Issued Shares	9,500,000,000	9,500,000,000
Earnings Per Share	Earnings Per Share (After Tax)	1.10	1.86
Dividends Per Share	Cash Dividends	0.06	0.05

Notes: Figures for 2016 are approved by the National Audit Office; figures for 2017 are CPA approved.

3. Dividend Policy and Implementation Status

(1) Dividend Policy

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

- A. Payment of the income tax;
- B. Making up of losses for previous years;
- C. Allocation of 30% for legal reserve;
- D. Allocation of 20~40% of the surplus, and allocation of special reserve according to rule.

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

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

(2) Current Distribution of Stock Dividends

Following the write-down or offset of losses [re-measurements (losses) of defined benefit plans] through allocation of legal reserve and special reserve from the audited after-tax profit for 2017, the Bank decided to distribute a cash dividend of NT\$0.6 billion, or NT\$0.06 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 2017 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	Bank of Taiwan 106-1 Unsecured USD Callable Bonds
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	Aug. 23, 2016 Letter No.(FSC) Gin- Guan-Ying Kong 10500198980
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 	2017
Par Value	NT\$10 million	NT\$10 million	US\$10 million
Currency	TWD	TWD	USD
Offering Price	Offered at full face value	Offered at full face value	Offered at full face value
Issue Amount	NT\$16 billion	NT\$9 billion	US\$0.88 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%. 	 A Issue: Coupon rate of 0%, with an implicit interest rate of 4.20% per annum. B Issue: Coupon rate of 0%, with an implicit interest rate of 4.18% per annum.
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 	 30-year term A Issue: Bonds to mature on April 7, 2047 B Issue: Bonds to mature on April 7, 2047
Mortgage Priority	Subordinate to all BOT depositors and other ordinary creditors	Subordinate to all BOT depositors and other ordinary creditors	Same priority as that enjoyed by other ordinary unsecured creditors.

Types of Financial	Bank of Taiwan's Series 102-1	Bank of Taiwan's Series 103-1	Bank of Taiwan 106-1 Unsecured
Bonds	Unsecured Subordinated Debentures	Unsecured Subordinated Debentures	USD Callable Bonds
Guarantor	None	None	None
Trustee	None	None	None
Underwriting Organization	None	None	None
Verification Lawyer	None	None	None
CPA-Auditor of the Financial Report	None	None	None
Verification Financial Institution	None	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.	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	US\$0.88 billion
Paid-In Capital for the Previous Year	NT\$70 billion	NT\$70 billion	NT\$95 billion
Net Worth Following its Final Budget for the Previous Year	NT\$247,962,981,000	NT\$244,475,322,000	NT\$273,949,309,000
Exercise	Normal	Normal	Normal
The Conditions and Terms for Redemption or Early Settlement	None	None	 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.) 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.)
Conversion and Exchange Terms	None	None	None
Restriction Terms	Subordinated Debentures	Subordinated Debentures	None

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Types of Financial Bonds	Bank of Taiwan's Series 102-1 Unsecured Subordinated Debentures	Bank of Taiwan's Series 103-1 Unsecured Subordinated Debentures	Bank of Taiwan 106-1 Unsecured USD Callable Bonds
Capital Investment Plans	Development of consumer loan and corporate loan.	Development of consumer loan and corporate loan.	 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 (%)	6.45%	10.23%	18.66%
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	No
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)	None

III. Comments on Implementation of Capital Allocation Plan

Year	2013	2016	
Description of Plan	In order to keep the BIS ratio at a proper level, and to meet medium- and long-term credit capital needs, the Bank filed a debt issue plan with the competent authority in 2013. On 9 August 2013, the competent authority approved [per Aug. 9, 2013 Letter No. (FSC) Gin-Guan- Ying Kong 10200215390] the issuance of NT\$25 billion in unsecured subordinated debentures.	In order to provide for the medium- and long-term credit capital needs of the bank and funding needs of the Bank's overseas branches, the Bank filed a debt issue plan with the competent authority, which approved the plan on 23 August 2016 [per Aug. 23, 2016 Letter No. (FSC) Gin-Guan-Ying Kong 10500198980]. Under the plan, BOT could issue US\$1 billion (or other foreign currencies or New Taiwan Dollar of equivalent value) in revolving debt.	
Status of Implementation	 On 2 December 2013, the Bank of Taiwan issued NT\$16 billion in its Series 102-1 Unsecured Subordinated Debentures. The debentures have a 10-year term, the annual rate is a floating rate of the benchmark rate plus 0.15%, and will all be retired at maturity. On 25 June 2014, the Bank of Taiwan issued NT\$5.5 billion in its Series 103-1 Unsecured Subordinated Debentures (A Issue). The debentures have a 10- year term, the annual rate is a simple floating rate of the benchmark rate plus 0.3%, and will all be retired at maturity. On 27 June 2014, the Bank of Taiwan issued NT\$2 billion in its Series 103-1 Unsecured Subordinated Debentures (B Issue). The debentures have a 10-year term, the annual rate is a fixed 1.70% simple rate, and will all be retired at maturity. On 27 June 2014, the Bank of Taiwan issued NT\$1.5 billion in its Series 103-1 Unsecured Subordinated Debentures (B Issue). The debentures have a 10-year term, the annual rate is a fixed 1.70% simple rate, and will all be retired at maturity. On 27 June 2014, the Bank of Taiwan issued NT\$1.5 billion in its Series 103-1 Unsecured Subordinated Debentures (C Issue). The debentures have a 10- year term, the annual rate is a simple floating rate of the benchmark rate plus 0.15%, and will all be retired at maturity. 	 On 7 April 2017, the Bank issued US\$0.5 billion 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. On 7 April 2017, the Bank issued US\$0.38 billion 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. 	
Date of announcement on Market Observation Post System	 Nov. 29, 2013: Posted bond issue data for Bank of Taiwan's Series 102-1 NTD Unsecured Subordinated Debentures. June 20, 2014: Posted bond issue data for Bank of Taiwan's Series 103-1 NTD Unsecured Subordinated Debentures. Oct. 1, 2014: Reported change of bond rating from twAA to twAA+. Dec. 22, 2014: Announced change in issuance rules for Series 103-1, A issue. 	March 29, 2017: Posted bond issue data for Bank of Taiwan's 106-1 Unsecured USD Callable Bonds.	
Effect of Implementation	 The proceeds from the NTD unsecured subordinated debentures issue in 2013 raised the Bank's BIS ratio from 10% at end-November 2013 to 10.73% at end- December 2013. The proceeds from the NTD unsecured subordinated debentures issue in 2014 raised the Bank's BIS ratio from 10.89% at end-May 2014 to 11.14% at end- June 2014. 	 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. US\$120 million worth of unissued bonds in this series will be issued at an appropriate time. 	



Operational Highlights

- 53 I. Business Activities
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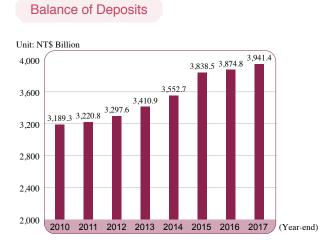
Operational Highlights

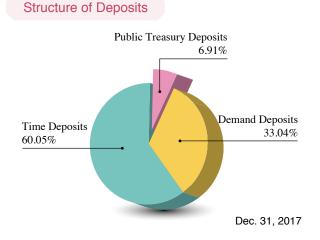
I. Business Activities

1. Main Areas of Business Operations

(1) Deposits

Total deposits in the Bank at the end of December 2017 amounted to NT\$3,941.4 billion, equal to 79.97% of the NT\$4,928.6 billion in the Bank's total assets and representing an increase of 1.72% over the previous year. Demand deposits in 2017 grew by 0.89%, time deposits and public treasury deposits increased by 1.78% and 5.26% respectively over the year before.





(2) Corporate Banking

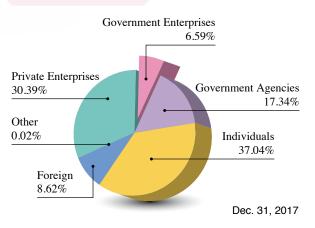
The amount of the Bank's total loans outstanding at the end of December 2017 (including general loans as well as import and export negotiations) stood at NT\$2,313.2 billion, equal to 46.93% of the Bank's total assets and reflecting an increase of 0.47% over a year earlier. Corporate loans outstanding at the end of 2017 (including loans to government agencies and government-owned enterprises) amounted to NT\$1,456.3 billion, accounting for 29.55% of the Bank's total assets and representing an increase of 0.37% from the previous year. The amounts of government enterprises and agencies loans outstanding at the end of 2017 reflected an increase of 6.77% from a year earlier while that of large enterprises and SME indicating a decrease of 5.06% and 1.73% respectively from a year earlier. According to statistics from the specialized syndicated loan magazine Basis Point, the BOT's performance as lead bank for syndicated loans in 2017, calculated as market share, mandated lead arranger and quota book runner, placed it first in the Taiwan's domestic market for the sixth consecutive year.

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Balance of Loans

Unit: NT\$ Billion 2.600 2.410.1 2,251.7 2,318.0 2,302.3 2,313.2 2.200 2.079.1 1,800 1.400 1,000 2010 2017 (Year-end) 2011 2012 2013 2014 2015 2016

Structure of Loans



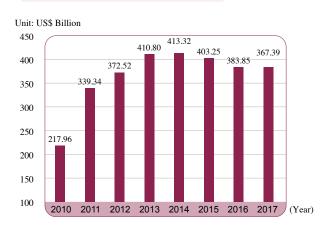
(3) Consumer Banking

Consumer loans outstanding at the end of 2017 amounted to NT\$810.4 billion, NT\$11.3 billion more than a year earlier for a growth of 1.41%. This occurred mainly because 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. To expand the Bank's credit card issuance volume and further contribute to community service, BOT on December 25, 2017 joined with the Christian Tribune Foundation in announcing plans to issue The Lord is My Shepherd Affinity Card.

(4) Foreign Exchange and International Banking The amount of foreign exchange transactions undertaken during the year reached US\$367.39 billion. A total of 158 branches were designated to handle foreign exchange services and 437 foreign-currency exchange bureaus at the end of 2017. The Bank has established correspondent banking relationships with 2,209 financial institutions in a web that covers major cities throughout the world.

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.



BOT opened a representative office in Bangkok on January 11, 2018. Shown here at the ribbon cutting ceremony are BOT Chairman Joseph Jye-Cherng Lyu (4th from left), Bank of Thailand Deputy Governor Ruchukorn Siriyodhin (3rd from right), Representative Tung Chen-Yuan of the Taipei Economic and Cultural Office in Thailand (3rd from left), Thai Bankers' Association Secretary General Kobsak Duangdee (2nd from right), the Thai-Taiwan Business Association's President Liu Shu-Tien (2nd from left) and Honorary Chairman Stanley Kang (1st on left), and Representative Liu Kuo-Pin of the BOT representative office in Bangkok (1st on right).

(5) Electronic Banking

At the end of 2017, the accumulated number of internet banking transfer accounts stood at 3.42 million. Transfers carried out during the year stood at 11.85 million. The number of internet forex transactions amounted to 2.92 million, an increase of 22.69% over a year earlier. Online purchase requests for funds amounted to 1.84 million. Gold Passbook internet transactions numbered 0.52 million. The number of Corporate e-Banking Site accounts stood at 68 thousand. Transfer transactions undertaken via the Bank's Corporate e-Banking site in 2017 numbered 5.87 million, up 6.15% from 2016, while corporate online foreign exchange transactions came to 0.217 million (up 7.43% from 2016). The total value of all transactions for the year came to NT\$680.4 billion. As of year-end 2017, the Bank's BOTPay service, an online transaction collection and payment platform, had more than 9,500 authenticated members.

(6) Trust Business

At the end of 2017, a worldwide economic recovery gradually increased investor confidence. As a result, the average principal of trust property amounted to NT\$432.63 billion, up 6.69% from the previous year. At the end of December 2017, the amount of assets under custodianship by the BOT totaled NT\$1,794 billion, for an increase of 14.25% over the year earlier. Of this total, the outstanding amount of foreign assets under custodianship for investment in domestic securities was NT\$709.5 billion, for a growth of 23.39% over the previous year; discretionary investment assets amounted to NT\$398.1 billion, and boosted the BOT to first place in market share in the fourth quarter of 2017. In addition, 177,949 enterprise units opened worker retirement fund accounts with total deposits of NT\$1,774.2 billion, retirement payments amounting to NT\$991.8 billion, and trust funds outstanding of NT\$782.4 billion.

(7) Investment

A. Bills Finance

Due mainly to increased issuance by the Central Bank of short-maturity negotiable certificates of deposit, short-term bills transactions by the Bank in 2017 totaled NT\$15,691.6 billion, a growth of NT\$6,926.6 billion over a year earlier. The outstanding amount of bills dealing at the end of the year stood at NT\$970.8 billion, of which Central Bank negotiable certificates of deposit (NCD) accounted for NT\$932.5 billion. Rates of return on short-maturity Central Bank certificates of deposit were relatively low. As a result, despite a sharp year-on-year increase in bills finance business volume, gains from bills trading came to NT\$4.99 billion, only 0.39 billion higher than the previous year. The certification and underwriting of short-term bills by the Bank in 2017 totaled NT\$82.59 billion, a growth of NT\$30.14 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\$32.43 billion in 2017, of which government bonds purchased amounted to NT\$22.55 billion and government bonds sold totaled NT\$9.88 billion. Repurchase agreements amounted to NT\$265.47 billion.

(b) Bond Underwriting

The Bank in 2017 acted as the underwriter for International Bonds issued by Kookmin Bank
Deutsche Bank AG, Singapore Branch Arab Petroleum Investments Corporation The Korea Development Bank Societe Generale Credit Agricole Corporate and Investment Bank. In addition, the Bank was also the underwriter for domestic NT Dollar denominated Bonds issued by Green River Holding Co., Ltd. and Yulon Motor Co., Ltd.

(c) Bond Investments

The Bank expanded its foreign currency bond positions in 2017 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 2017, the Bank had investments in 31 enterprises with the book value of the investments totaling NT\$66.34 billion, an increase of NT\$1.06 billion, or 1.63%, from the year before, due primarily to an increase in equity as calculated by the equity method. Profit on long-term equity investments amounted to NT\$5.27 billion in 2017, 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 2017, the costs of the Bank's investment in stocks were NT\$7.81 billion, and the operating volumes were NT\$6.56 billion, and the total return on investment (including unrealized gains or losses) was 12.72%. At the end of 2017, the costs of the Bank's investment in NT Dollar denominated equity funds certificates were NT\$0.08 billion, the operating volumes were NT\$0.12 billion, and the return on investment was 14.84%; the costs of the Bank's investment in foreign-currency equity funds certificates were US\$6.5 million, the operating volumes were US\$4.1 million, and the return on investment was 10.48%. The costs of the Bank's investment in foreign-currency overseas ETFs were US\$9.8 million, the operating volumes were US\$18 million, and the return on investment was 17.35%. The costs of the Bank's investment in QFII (including money market fund) were US\$40 million, the operating volumes (excluding money market fund) were US\$35 million, and the return on investment was 19.31%.

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

As mandated by the Central Bank, the BOT handles collection and payment, transport, regulation of supply and demand, and the recovery of worn bills associated with the issuance of NT currency. The average amount of currency issued in 2017 was NT\$2,024.1 billion, an increase of 6.40% over the previous year. The currency issued peaked at NT\$2,344.6 billion, also an increase of 4.96% over the 2016 peak. The amount in circulation at the end of the year was NT\$2,042.1 billion, 5.37% more than year-end 2016.

(9) Government Employees Insurance

At the end of 2017, there were 7,422 insured units and 584,558 insured persons, income on insurance premiums in 2017 amounted to NT\$23.48 billion, and 48,910 claims totaling NT\$24.90 billion were paid that year. For 2017, the balance of civil servants' and teachers' insurance was NT\$30.21 billion, and the balance of retirement insurance was NT\$1.93 million, the full amount of which was allocated to reserves.

(10) Procurement Business

The primary mission of the BOT's procurement business is to execute the government's centralized procurement policy in carrying out procurement on behalf of government agencies, public schools, as well as government enterprises. The Bank also coordinates with government policy in carrying out special procurement projects designated by the government. The volume of the procurement business in 2017 amounted to NT\$30.96 billion.

(11) Wealth Management Service

The volume of the wealth management business in 2017 amounted to NT\$125.66 billion, for a target achievement rate of 103.55%. At the end of 2017, a total of 145 business units were handling wealth management, nine of them were flagship units, and 223 wealth-management agents were in place to serve high-net-worth customers. To respond to Fintech innovation and improve the Bank's asset management services, BOT launched an Online Financial Planning Service on December 27, 2017.

(12) Precious Metals Business

The operating volume of the precious metals business in 2017 was NT\$129.98 billion, up by 12.35% year-on-year. Fee income from the handling of tariff-rate quotas and outsourced business services came to NT\$48.3 million, up by 0.1% year-on-year.

2. Operating Plans for 2018

(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.

(2) Corporate Banking

Loans to private enterprises will be promoted continuously and loan risk controls will be reinforced. The Bank will seek opportunities to lead or participate in syndicated loans at home and abroad; strengthen OBU services and actively expand overseas credit business; promote e-Loan and factoring businesses to increase credit and fee income; actively pursue lending for the purpose of renovating or rebuilding hazardous and dilapidated buildings; actively participate in the Project for Provision of Special Loans and Credit Guarantees to the innovation

and development of small and medium enterprises; and prepare the handling procedures for coordinating with the decision of the Taiwan Depository & Clearing Corporation to switch to the issuance of Commercial Paper II (CP2) in book-entry (dematerialized) form.

(3) Consumer Banking

The Bank will continue to promote high-quality loans for owner-occupied homes; actively undertake "Young Entrepreneur and Start-up Loans" and "Micro-business Start-up Phoenix Loans"; continue promoting HCE (host card emulation) credit cards, mobile payments services and Fintech applications; and 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.

(4) Foreign Exchange and International Banking Promotion of the Bank's foreign-currency deposit business and development 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.

(5) Electronic Banking

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

(6) 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.

(7) Investment

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

(8) Government Employees Insurance

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

(9) 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.

(10) Precious Metals Business

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

3. Market Analysis

(1) Business operations areas

The BOT is a 100% government-owned bank, and all of its financial products are marketed to customers through business branches and internet. At the end of March 2018, the BOT's business units included 163 domestic branches and one Offshore Banking Branch, and 16 overseas units (including New York Branch, Los Angeles Branch, London Branch, Hong Kong Branch, Singapore Branch, Tokyo Branch, South Africa Branch, Shanghai Branch, Guangzhou Branch, Fuzhou Branch, Sydney Branch, Shanghai JiaDing Sub-Branch, Mumbai Representative Office, Yangon Representative Office, Silicon Valley Representative Office and Bangkok Representative Office).

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

Various situations introduce uncertainty into the outlook for global economic growth. The policies of US President Donald Trump (e.g. tax cuts and trade protectionism) bear watching, as do Brexit and the separatist movement in Catalonia, and there are risks connected with growth momentum in the mainland Chinese economy, geopolitical conflicts, and climate change. In addition, the US Federal Reserve has entered into an upswing in the interest-rate cycle, and is starting to implement its balance sheet normalization program, while the central banks of other major countries are leaning toward tighter monetary policies. BOT needs to be aware of the potential influence of these factors. Taiwan's 2017 economic growth rate is calling for growth of 2.42% per Taiwan's Directorate-General of Budget, Accounting and Statistics (DGBAS) forecast. Factors pushing in this direction include the fact that the government will continue pursuing financial liberalization, digitalization, and internationalization. At the same time, the government will also help bankers to take active steps in the establishment of a stronger presence in the markets covered by the New Southbound Policy.

- (3) Competitive Niches
 - A. As the oldest bank in Taiwan, the BOT enjoys an outstanding reputation and the trust of the public.
 - B. An outstanding brand image and professional financial personnel, along with service channels spread over the whole country, will facilitate the promotion of business in various areas.
 - C. Financial holding company resources will be integrated to provide a comprehensive financial product line that will satisfy customers' diverse needs in financial services.

- (4) Factors Favorable and Unfavorable to the Bank's Development Prospects
 - A. Favorable factors:
 - a. The BOT is a government-owned bank and has the highest credit rating of all domestic banks; with a solid operating base, it enjoys the trust of the public. The Bank's huge customer base facilitates efforts to solicit new business.
 - b. The Bank enjoys a No. 1 position in scale of deposits and loans, leadership among local banks in total assets and shareholders' equity, and a solid operating strength.
 - c. The BOT is a subsidiary of Taiwan Financial Holdings, the resource-sharing platform of which reinforces the operation of the primary and cross-sales systems, and realizes the synergies of business integration.
 - d. The BOT serves as the cover bank for RMB cash in the Taiwan area and the settlement bank for the NT dollar in mainland China. This advantage facilitates the development of RMB-related businesses.
 - B. Unfavorable factors:
 - a. As a bank that is 100% owned by the government, the BOT has a personnel system, budget, and procurement that are relatively inflexible. The Bank's organizational framework makes it difficult to respond to changes of the external environment in a timely manner and grasp early opportunities in the market.
 - b. Domestic banks in Taiwan have long been dealing with intense competition and a low interest rate spread environment. The BOT, on top of that, also shoulders policy missions, which reduces profitability.
 - c. As a bank that is 100% owned by the government, capital accumulation is slow; the resulting difficulty of boosting capital through cash injections weakens the Bank's capital adequacy ratios.
 - d. The Bank holds massive deposits, a large share of which are time deposits, so the cost of funds is relatively high.
 - C. Countermeasures:
 - a. The Bank will make optimum use of its big customer base, outstanding brand image, and the holding company's complete line of financial products to give full play to its integrated marketing capabilities and take advantage of group-wide market capabilities to generate operating revenues and profits.
 - 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. The Bank will adjust the allocation of assets and liabilities and the structure of its equity investments to enhance capital efficiency; will raise its retention ratio for special reserves; and will use diverse means, including capital increase by property, to strengthen capital.
- d. The Bank will increase customer stickiness with its state-run and private-sector corporate clients, thus improving deposit structure and cutting the cost of funds by increasing demand deposits as a share of total deposits. In addition, the Bank will also improve capital efficiency in order to increase returns and earnings.

4. Financial Product R&D and Business Development

The Bank has established "Guidelines for Handling the Suggestion System," enabling employees to make suggestions online via the internal global information network. Bonuses are given for suggestions that are adopted following evaluation and approval. The Bank received a total of 494 staff suggestions in 2017, of which 75 were adopted, in whole or in part, and incentives in the amount of NT\$41,600 were granted.

- (1) Major Financial Products and New Business Units Added in the Past Two Years, and Scale and Profit and Loss Situation Up to Date of Publication of the Annual Report
 - A. For major financial products during the past two years, refer to "Results of Implementation of Business Plan and Operating Strategy" on page 10.
 - B. Establishment of new business units:
 - a. The Fuzhou Branch in mainland China was established on June 6, 2016.
 - b. The Silicon Valley Representative Office in U.S.A. officially opened on December 15, 2017.
- (2) R&D Expenditures and Results for the Past Two Years, and Future R&D Plans

R&D spending amounted to NT\$6,591,000 in 2017 and NT\$7,619,000 in 2016. To respond to changes in the financial environment and the needs of business development, and to encourage employees to pursue self-development, the Bank will continue to carry out research related to reform and development of its own business as well as to the financial business in general, and will continue to implement the employee suggestion program as well as self-initiated research and overseas study by employees.

5. Long-term and Short-term Development

- (1) Short-term development plan
 - A. Improve the Bank's AML/CFT mechanism, strengthen legal compliance.
 - B. Improve information security, upgrade the quality of the Bank's information services.
 - C. The business opportunities in countries covered by the New Southbound policy will be grasped to expand the scope and scale of overseas business.
 - D. Strengthen corporate governance and fulfill our corporate social responsibility.
 - E. Build up a comprehensive range of digital financial services and accumulate the Bank's Fintech patent quantity.
 - F. Strengthen professional development, enhance the Bank's business development capabilities.
 - G. Expand credit business, enhance profitability.
 - H. Strengthen funds management and capital allocations, and reinforce the performance of asset utilization.
 - I. Facilitate the government's pension reform effort by optimizing deposit structure.
 - J. Reinforce the credit card business and service to generate operating revenues.
 - K. Introduce a diverse range of insurance products to satisfy customer needs.
- (2) Long-term development plan

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

II. Human Resources

Year Items		2016	2017	As of Mar. 31, 2018
Number of Employees	Staff	7,203	7,333	7,283
	Guards	138	150	155
	Janitors	641	651	631
	Total	7,982	8,134	8,069
Average Age		45.53	45.37	45.41
Average Years of Service		18.42	18.06	18.10
Education (%)	Ph.D.	0.04	0.05	0.05
	Master's Degree	17.93	18.93	19.21
	Bachelor's Degree	72.75	72.35	72.27
	Senior High School	8.08	7.67	7.50
	Below Senior High School	1.20	1.00	0.97

Employee Statistics

Note: The above numbers do not include contract salespersons, 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 in 2017 by holding the Bank of Taiwan Arts Festival and the 2017 Bank of Taiwan Awards for Economic and Financial Research to solicit academic papers.

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

The Bank had 7,801 non-managerial employees in 2016, and 7,938 in 2017. Average benefit expenditures came to NT\$1,495,329 per non-managerial employee (baseline date: 31 December 2016) in 2016, and NT\$1,475,672 in 2017 (31 December 2017), a decrease of NT\$19,657 from 2016 to 2017.



BOT held an awards ceremony for the Painting Division of the 2017 Bank of Taiwan Arts Festival on June 28, 2017. Posing here for a photo with the award winners are (from the left side of the middle row) Director Hsiao Tsung-Huang of the National Taiwan Museum of Fine Arts, BOT Chairman Joseph Jye-Cherng Lyu, Minister of Culture Cheng Li-Chiun, Professor Liao Shiou-Ping, and BOT President Wei Jan-Lin.

V. Information Equipment

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

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

The Bank builds up a comprehensive financial service network that, in addition to traditional teller operations, has a front-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 2017 included the following:

- (1) The Bank won the Joint Credit Information Center's Golden Security Award and Golden Quality Award.
- (2) BOT took part in an "Automated Clearing House (ACH) competition" held by Taiwan Clearing House in 2017, winning awards in the categories of "most ACH direct debit transactions" and "most eACH credit and debit transactions."

- (3) To coordinate with the counterfeit card liability shift program launched by an international consortium, the Bank updated its ATM software and hardware to make its systems EMVcapable and reduce its liability for fraudulent ATM transactions.
- (4) In preparation for the 2018 start for implementation of IFRS 9 (Financial Instruments), BOT began observing IFRS 9 financial reporting requirements on January 1, 2018, and has completed necessary additions and revisions to its system functions.
- (5) In response to an interpretation by the Financial Supervisory Commission of Article 20, paragraph 4 of the "Regulations Governing Internal Operating Systems and Procedures for Banks Conducting Financial Derivatives Business," BOT began modifying related procedures based on three different types of derivatives credit lines: "general purpose," "hedging," and "non-hedging."
- (6) To meet the requirement of the South African Financial Intelligence Centre's goAML system for automated reporting capability, BOT updated its international funds transfer reporting (IFTR) functions to facilitate the reporting operations of its South Africa Branch.
- (7) In response to "financial era" trends and the financial planning needs of consumers, BOT began offering NT Dollar interbank deposits as well as foreign currency and NT Dollar cardless withdrawals via its ATM machines in order to provide customers with greater convenience.
- (8) On the basis of the autonomous operations management plan of BOT's Mainland Branch Information System, the Bank carried out a procurement project for a server room at Shanghai Data Center. The project was completed in December 2017.
- 2. Future Development or Procurement Plans
 - (1) To coordinate with plans for an adjustment on July 1, 2018 to the preferential interest rate for the savings of retired public sector employees, BOT will make needed additions and revisions to its system functions.
 - (2) To deal with outdated AML systems at the Bank's overseas branches, and to implement corrective actions requested by some overseas host authorities, BOT carried out AML system upgrades at seven overseas branches. Upgraded systems have gone into operation at the branches in Hong Kong, South Africa, Singapore, and Los Angeles, while the switchover to upgraded systems at the Tokyo, New York, and London branches will be finished in April 2018.
 - (3) To strengthen Taiwan's AML/CFT mechanisms and prepare for the Asia/Pacific Group on Money Laundering's Third Follow-up Report to the Mutual Evaluation Report of Chinese Taipei in Fourth-quarter 2018, the Bank will set up the following functions by end-April 2018: watch list filtering; SWIFT message examining; and customer due diligence.

(4) BOT will launch a "cloud-based banking system" to integrate its online and offline processes and provide customers with online application processes, pre-filled forms, and pre-appointment questionnaires as well as a smart queueing system. These innovations will expand the scope of BOT services to include people who are not customers of the Bank itself. Online and offline functions will be combined in close coordination to provide a better customer experience.

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 2017, thus maintaining the following certifications: ISO 20000, ISO 27001, BS 10012, and ISO 22301.
 - B. To enhance information security control and better protect sensitive information, the Bank made continued use of a previously acquired IP Workstation Maximum Authorization Management System, an email sensitive-information detection and protection system, a Data Endpoint Protection System, an Outlook Web Access Control Platform for Email and a Web Domain Workstation Security Screening Platform.

VI. Labor Relations

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

The BOT is a government enterprise in an industry that is subject to the Labor Standards Act. Working conditions, welfare measures, and the retirement system are all handled in accordance with the provisions of the Labor Standards Act and other laws and regulations governing civil servants. The Bank addresses concrete requests raised by employees by establishing a laborownership 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 under IFRS

Condensed Consolidated Balance Sheets

						Unit: NT\$1,000
Items	Year	2017	2016	2015	2014	2013
Cash, cash equivalents, placement with Central Bank and call loans to banks		833,847,494	809,634,632	721,386,220	738,816,618	704,709,365
Financial assets measured or loss	l at fair value through profit	236,519,757	212,560,998	173,005,205	208,646,968	166,714,218
Available-for-sale financial	assets	1,135,942,401	1,037,841,339	1,053,598,710	797,692,802	765,521,333
Hedging financial assets		22,759	21,221	15,970	25,613	5,443
Bills and bonds purchased	under resell agreements	-	-	50,040	1,956,563	6,173,451
Receivables, net		59,257,009	63,311,112	72,072,783	62,570,189	82,279,036
Current income tax assets		1,160,916	785,838	1,343,508	1,876,292	2,169,130
Assets held for sale, net		-	-	-	-	-
Loans and discounts, net		2,285,039,243	2,274,236,504	2,386,598,795	2,298,237,964	2,240,652,458
Held-to-maturity financial assets		144,060,765	138,812,328	113,786,391	77,372,697	73,044,728
Investments under equity n	nethod, net	36,203,500	35,055,524	35,855,822	36,989,325	34,791,149
Restricted assets		-	-	-	-	-
Other financial assets, net		75,603,497	76,578,794	68,891,471	68,466,496	70,317,802
Property and equipment, n	et	96,344,383	96,695,325	96,733,221	97,108,785	97,502,611
Investment property, net		15,238,207	15,238,207	-	-	-
Intangible assets, net		708,732	803,225	853,946	941,417	1,048,025
Deferred tax assets, net		167,171	297,880	476,040	361,798	241,804
0	Before distribution	8,171,938	8,745,962	7,820,322	11,400,793	9,229,150
Other assets	After distribution	8,171,938	8,745,962	7,820,322	7,750,867	5,630,335
-	Before distribution	4,928,287,772	4,770,618,889	4,732,488,446	4,402,464,320	4,254,399,703
lotal assets	After distribution	4,928,287,772	4,770,618,889	4,732,488,446	4,398,814,394	4,250,800,888
Deposits of Central Bank and other banks		219,021,384	227,596,814	225,425,517	156,988,830	252,738,244
Financing from Central Bar	nk and banks	-	-	-	-	-
Financial liabilities measured at fair value through profit or loss		35,030,435	6,709,063	39,224,475	47,915,342	3,999,496
Hedging financial liabilities		60,480	144,195	243,967	103,024	225,806

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Year		2017	2016	2015	2014	2013
Bills and bonds sold under	repurchase agreements	33,906,120	11,337,914	16,336,619	38,018,153	19,036,703
Payables		42,267,063	41,513,445	42,217,119	41,039,673	44,758,616
Current income tax liabilitie	s	514,709	673,312	395,504	240,379	162,430
Liabilities related to assets	held for sale	-	-	-	-	-
Deposits and remittances		3,941,132,048	3,873,982,764	3,837,520,416	3,554,081,722	3,409,605,226
Bonds payable		24,998,316	24,998,082	24,997,826	24,997,612	15,998,240
Preferred stock liabilities		-	-	-	-	-
Other financial liabilities		842,822	748,855	1,785,430	1,756,954	1,243,698
Provision		314,774,236	283,367,966	264,199,252	257,745,112	232,874,066
Deferred tax liabilities		18,130,057	18,173,159	18,340,284	18,348,772	18,299,657
	Before distribution	8,505,331	6,924,012	6,954,757	7,202,222	7,491,439
Other liabilities	After distribution	9,105,331	7,424,012	7,354,757	7,297,671	7,491,439
-	Before distribution	4,639,183,001	4,496,169,581	4,477,641,166	4,148,437,795	4,006,433,621
Total liabilities	After distribution	4,639,783,001	4,496,669,581	4,478,041,166	4,148,533,244	4,006,433,621
Equity attributable to owner	rs of the parent company	-	-	-	-	-
Conital stack	Before distribution	95,000,000	95,000,000	95,000,000	95,000,000	70,000,000
Capital stock	After distribution	95,000,000	95,000,000	95,000,000	95,000,000	70,000,000
Capital surplus	·	80,453,043	80,453,034	80,453,034	80,521,742	105,496,092
Detained a service of	Before distribution	84,560,352	75,707,978	59,290,245	54,966,997	50,945,002
Retained earnings	After distribution	83,960,352	75,207,978	58,890,245	51,221,622	47,346,187
Other equity		29,091,376	23,288,296	20,104,001	23,537,786	21,524,988
Treasury stock		-	-	-	-	-
Non-controlling interests		-	-	-	-	-
Total abovebs idensity on "	Before distribution	289,104,771	274,449,308	254,847,280	254,026,525	247,966,082
Total shareholders' equity	After distribution	288,504,771	273,949,308	254,447,280	250,281,150	244,367,267

Note: Figures for 2013 and 2014 are readjusted by the CPA in accordance with figures approved by the National Audit Office; figures for 2015 and 2016 are approved by the National Audit Office; figures for 2017 are CPA approved.

					Unit: NT\$1,000
Year	2017	2016	2015	2014	2013
Interest income	59,105,478	59,402,785	64,758,332	65,232,885	59,252,283
Less: Interest expense	33,583,405	33,367,303	36,352,155	36,453,488	33,364,389
Net interest income	25,522,073	26,035,482	28,406,177	28,779,397	25,887,894
Non-interest income, net	7,564,771	18,658,370	6,807,204	7,274,161	3,609,713
Net Revenue	33,086,844	44,693,852	35,213,381	36,053,558	29,497,607
Bad debt expense and reserve for guarantees	1,685,005	5,183,736	4,404,468	7,284,809	2,625,044
Operating expenses	20,104,743	20,075,500	20,207,363	19,321,701	18,025,012
Income before tax from continued operations	11,297,096	19,434,616	10,601,550	9,447,048	8,847,551
Income tax expenses	893,506	1,780,559	1,730,852	1,245,800	1,429,623
Net income from continued operations	10,403,590	17,654,057	8,870,698	8,201,248	7,417,928
Gain (Loss) from discontinued operations	-	-	-	-	-
Net income	10,403,590	17,654,057	8,870,698	8,201,248	7,417,928
Other comprehensive income	4,752,883	2,347,971	- 4,235,860	1,432,360	3,557,719
Total comprehensive income	15,156,473	20,002,028	4,634,838	9,633,608	10,975,647
Net income attributed to owners of the parent company	10,403,590	17,654,057	8,870,698	8,201,248	7,417,928
Net income attributed to non-controlling interests	-	-	-	-	-
Total comprehensive income attributed to owners of the parent company	15,156,473	20,002,028	4,634,838	9,633,608	10,975,647
Total comprehensive income attributed to non- controlling interests	-	-	-	-	-
Earnings per share (NT\$)	1.10	1.86	0.93	0.86	0.78

Condensed Consolidated Statements of Comprehensive Income

Notes: 1. Figures for 2013 and 2014 are readjusted by the CPA in accordance with figures approved by the National Audit Office; figures for 2015 and 2016 are approved by the National Audit Office; figures for 2017 are CPA approved.

2. The Bank's authorized capital was increased to NT\$95 billion on October 15, 2014 and the Bank retroactively adjusts annual figures for earnings per share.

Condensed Individual Balance Sheets

						Unit: NT\$1,000
Items	Year	2017	2016	2015	2014	2013
Cash, cash equivalents Bank and call loans to b	, placement with Central anks	833,847,464	809,634,602	721,386,190	738,816,588	704,709,335
Financial assets measured at fair value through profit or loss		236,519,757	212,560,998	173,005,205	208,646,968	166,714,218
Available-for-sale financ	ial assets	1,135,942,401	1,037,841,339	1,053,598,710	797,692,802	765,521,333
Hedging financial assets	3	22,759	21,221	15,970	25,613	5,443
Bills and bonds purchas agreements	ed under resell	-	-	50,040	1,956,563	6,173,451
Receivables, net		59,237,166	63,288,567	72,046,562	62,547,115	82,258,188
Current income tax asse	ets	1,160,916	761,713	1,343,508	1,876,292	2,169,130
Assets held for sale, net		-	-	-	-	-
Loans and discounts, ne	et	2,285,039,243	2,274,236,504	2,386,598,795	2,298,237,964	2,240,652,458
Held-to-maturity financia	al assets	144,060,765	138,812,328	113,786,391	77,372,697	73,044,728
Investments under equit	y method, net	36,594,041	35,497,450	36,178,241	37,241,461	34,940,504
Restricted assets		-	-	-	-	-
Other financial assets, n	et	75,603,497	76,578,794	68,891,471	68,466,496	70,317,802
Property and equipment	i, net	96,340,880	96,691,099	96,728,064	97,103,753	97,497,978
Investment property, net	1	15,238,207	15,238,207	-	-	-
Intangible assets, net		708,629	802,989	853,571	940,987	1,047,495
Deferred tax assets, net		163,217	293,925	472,085	357,844	237,929
O	Before distribution	8,168,927	8,742,952	7,817,258	11,396,056	9,227,485
Other assets	After distribution	8,168,927	8,742,952	7,817,258	7,746,130	5,628,670
-	Before distribution	4,928,647,869	4,771,002,688	4,732,772,061	4,402,679,199	4,254,517,477
Total assets	After distribution	4,928,647,869	4,771,002,688	4,732,772,061	4,399,029,273	4,250,918,662
Deposits of Central Ban	k and other banks	219,021,384	227,596,814	225,425,517	156,988,830	252,738,244
Financing from Central Bank and banks		-	-	-	-	-
Financial liabilities measured at fair value through profit or loss		35,030,435	6,709,063	39,224,475	47,915,342	3,999,496
Hedging financial liabilities		60,480	144,195	243,967	103,024	225,806
Bills and bonds sold unc agreements	ler repurchase	33,906,120	11,337,914	16,336,619	38,018,153	19,036,703
Payables		42,248,261	41,495,209	42,195,648	41,013,062	44,746,966

Unit: NT\$1,000

Items	Year	2017	2016	2015	2014	2013
Current income tax liabi	lities	506,359	610,261	368,527	213,270	132,072
Liabilities related to asse	ets held for sale	-	-	-	-	-
Deposits and remittance	98	3,941,518,628	3,874,447,418	3,837,851,868	3,554,349,701	3,409,797,342
Bonds payable		24,998,316	24,998,082	24,997,826	24,997,612	15,998,240
Preferred stock liabilities	S	-	-	-	-	-
Other financial liabilities		842,822	748,855	1,785,430	1,756,954	1,243,698
Provision		314,774,236	283,367,966	264,199,252 257,745,112		232,850,278
Deferred tax liabilities		18,130,057	18,173,159	18,340,284	18,348,772	18,299,657
Other liabilities	Before distribution	8,506,000	6,924,444	6,955,368	7,202,842	7,482,893
	After distribution	9,106,000	7,424,444	7,355,368	7,298,291	7,482,893
Total liabilities	Before distribution	4,639,543,098	4,496,553,380	4,477,924,781	4,148,652,674	4,006,551,395
Total habilities	After distribution	4,640,143,098	4,497,053,380	4,478,324,781	4,148,748,123	4,006,551,395
Equity attributable to ow company	ners of the parent	-	-	-	-	-
Capital stock	Before distribution	95,000,000	95,000,000	95,000,000	95,000,000	70,000,000
	After distribution	95,000,000	95,000,000	95,000,000	95,000,000	70,000,000
Capital surplus		80,453,043	80,453,034	80,453,034	80,521,742	105,496,092
Retained earnings	Before distribution	84,560,352	75,707,978	59,290,245	54,966,997	50,945,002
	After distribution	83,960,352	75,207,978	58,890,245	51,221,622	47,346,187
Other equity		29,091,376	23,288,296	20,104,001	23,537,786	21,524,988
Treasury stock		-	-	-	-	-
Non-controlling interests	3	-	-	-	-	-
Total shareholders'	Before distribution	289,104,771	274,449,308	254,847,280	254,026,525	247,966,082
equity	After distribution	288,504,771	273,949,308	254,447,280	250,281,150	244,367,267

Note: Figures for 2013 and 2014 are readjusted by the CPA in accordance with figures approved by the National Audit Office; figures for 2015 and 2016 are approved by the National Audit Office; figures for 2017 are CPA approved.

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Condensed Individual Statements of Comprehensive Income

					Unit: NT\$1,000
Year	2017	2016	2015	2014	2013
Interest income	59,105,478	59,402,785	64,758,332	65,232,885	59,252,283
Less: Interest expense	33,583,762	33,367,745	36,352,682	36,453,834	33,364,505
Net interest income	25,521,716	26,035,040	28,405,650	28,779,051	25,887,778
Non-interest income, net	7,418,563	18,478,694	6,650,585	7,111,700	3,513,757
Net Revenue	32,940,279	44,513,734	35,056,235	35,890,751	29,401,535
Bad debt expense and reserve for guarantees	1,685,005	5,183,736	4,404,468	7,284,809	2,625,044
Operating expenses	19,998,078	19,958,435	20,098,410	19,201,141	17,955,435
Income before tax from continued operations	11,257,196	19,371,563	10,553,357	9,404,801	8,821,056
Income tax expenses	853,606	1,717,506	1,682,659	1,203,553	1,403,128
Net income from continued operations	10,403,590	17,654,057	8,870,698	8,201,248	7,417,928
Gain (Loss) from discontinued operations	-	-	-	-	-
Net income	10,403,590	17,654,057	8,870,698	8,201,248	7,417,928
Other comprehensive income	4,752,883	2,347,971	- 4,235,860	1,432,360	3,557,719
Total comprehensive income	15,156,473	20,002,028	4,634,838	9,633,608	10,975,647
Net income attributed to owners of the parent company	10,403,590	17,654,057	8,870,698	8,201,248	7,417,928
Net income attributed to non-controlling interests	-	-	-	-	-
Total comprehensive income attributed to owners of the parent company	15,156,473	20,002,028	4,634,838	9,633,608	10,975,647
Total comprehensive income attributed to non- controlling interests	-	-	-	-	-
Earnings per share (NT\$)	1.10	1.86	0.93	0.86	0.78

Notes: 1. Figures for 2013 and 2014 are readjusted by the CPA in accordance with figures approved by the National Audit Office; figures for 2015 and 2016 are approved by the National Audit Office; figures for 2017 are CPA approved.

2. The Bank's authorized capital was increased to NT\$95 billion on October 15, 2014 and the Bank retroactively adjusts annual figures for earnings per share.

2. CPA-Auditor of Financial Report

Year	Name of Accounting Firm	Name of CPA	Audit Opinion
2013	KPMG Certified Public Accountants	Yen-Ling Fang, Derek Hsu	Modified Unqualified Opinion
2014	KPMG Certified Public Accountants	Yen-Ling Fang, Derek Hsu	Modified Unqualified Opinion
2015	KPMG Certified Public Accountants	Yen-Ling Fang, Derek Hsu	Modified Unqualified Opinion
2016	KPMG Certified Public Accountants	Yen-Ling Fang, Feng-Hui Lee	Unqualified Opinion
2017	KPMG Certified Public Accountants	Yen-Ling Fang, Feng-Hui Lee	Unqualified Opinion

II. Five-Year Financial Analysis

Consolidated Financial Analysis

					U	nit: NT\$1,000; %
Items	Year	2017	2016	2015	2014	2013
	Ratio of Loans to Deposits	58.69	59.42	62.79	65.25	66.02
	Non-Performing Loan Ratio	0.29	0.26	0.23	0.31	0.44
	Ratio of Interest Cost to Annual Average Deposits	1.07	1.09	1.23	1.27	1.25
Operating Ability	Ratio of Interest Income to Annual Average Loans Outstanding	1.66	1.69	1.88	1.89	1.89
	Total Assets Turnover (Times)* (Note 4)	0.68	0.94	0.77	0.83	0.71
	Average Revenue per Employee*	4,055	5,517	4,343	4,485	3,674
	Average Profit per Employee*	1,275	2,179	1,094	1,020	924
	Return on Tier 1 Capital (%) (Note 4)	5.63	10.41	6.06	5.51	5.13
	Return on Assets (%) (Note 4)	0.21	0.37	0.19	0.19	0.18
Profitability*	Return on Shareholders' Equity (%) (Note 4)	3.69	6.67	3.49	3.27	3.03
	Net Income Ratio (%)	31.44	39.50	25.19	22.75	25.15
	Earnings per Share (NT\$) (Note 7)	1.10	1.86	0.93	0.86	0.78
Finencial	Ratio of Liabilities to Assets	94.11	94.22	94.59	94.20	94.16
Financial Structure	Ratio of Property and Equipment to Shareholders' Equity	33.33	35.23	37.96	38.23	39.32
Orrest the Data	Rate of Asset Growth*	3.30	0.81	7.50	3.48	4.95
Growth Rate	Rate of Profit Growth*	-41.87	83.32	12.22	6.78	10.00

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Items	Year	2017	2016	2015	2014	2013
	Cash Flow Ratio (Note 5)	1.36	81.26	2.47	16.29	-
Cash Flow*	Cash Flow Adequacy Ratio (Note 6)	1,580.25	1,745.34	683.66	674.42	582.05
	Cash Flow Satisfied Ratio (Note 5)	2,207.03	1,611.02	244.81	6,178.17	-
Liquidity Res	erve Ratio	49.64	47.90	44.97	39.90	42.81
Loans to Part	ies with Material Relationship with the Bank	23,136,658	42,815,251	38,403,189	34,864,509	34,267,212
Ratio of Loan Bank to Total	s to Parties with Material Relationship with the Loans	0.96	1.79	1.53	1.44	1.45
	Market Share of Assets	9.40	9.50	9.68	9.34	9.83
Operating	Market Share of Net Worth	7.96	7.87	7.72	8.39	9.10
Scale	Market Share of Deposits	10.12	10.36	10.72	10.59	10.80
	Market Share of Loans	8.03	8.29	8.90	8.78	9.06

*a. Total assets turnover, average revenue/profit per employee, the ratios related to profitability and the growth rate of profit decreased, derived mainly from the benefit from booking by the equity method in 2016 (including a real-estate asset revaluation gain of NT\$13.3 billion following the liquidation of Kaohsiung Ammonium Sulfate Co.).

b.The growth rate of assets increased because asset growth in 2017 came to NT\$157.7 billion.

c. Cash flow ratio and cash flow adequacy ratio declined because the net cash inflow from operating activities decreased in 2017, NT\$179.2 billion less than in 2016; Cash flow satisfied ratio increased due to a decline of NT\$11.2 billion in the net cash inflow from investing activities in 2017.

- Notes: 1. Figures for 2013 and 2014 are readjusted by the CPA in accordance with figures approved by the National Audit Office; figures for 2015 and 2016 are approved by the National Audit Office; figures for 2017 are CPA approved.
 - 2. Formulae used in calculations:
 - (1) Operating Ability
 - a. Ratio of loans to deposits = Annual average loans outstanding / Annual average deposits
 - b. Non-performing loan ratio = Non-performing loans / Total loans outstanding
 - c. Ratio of interest cost to annual average deposits = Interest cost related to deposits (Note 3) / Annual average deposits
 - d. Ratio of interest income to annual average loans outstanding = Interest income related to loans outstanding / Annual average amount of loans outstanding
 - e. Total assets turnover (times) = Net interest and non-interest income / Average Total Assets
 - f. Average revenue per employee = Net interest and non-interest income / Total number of employees
 - g. Average profit per employee = Net income / Total number of employees

(2) Profitability

- a. Return on Tier 1 capital = Net income before tax / Total amount of Tier 1 capital
- b. Return on assets = Net Income / Average total assets
- c. Return on shareholders' equity = Net income / Average net shareholders' equity
- d. Net income ratio = Net income / Net interest and non-interest income
- e. Earnings per share = (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 shareholders' equity = Net property and equipment / Net shareholders' equity

(4) Growth Rate

- a. Rate of asset growth = (Total assets for current year total assets for previous year) / Total assets for previous year
- b. Rate of profit growth = (Before-tax profit or loss for current year before-tax profit or loss for previous year) / Before-tax profit for previous year (5) Cash Flow
- (5) Cash Flow
 - a. Cash flow ratio = Net cash flow from operating activities / (Call loans and overdrafts from banks + commercial paper + financial liabilities measured at fair value through profit or loss + bonds and bills sold under repurchase agreements + current portion of payables)
 - b. Cash flow adequacy ratio = Net cash flow from operating activities for the past five years / (Capital expenditures + cash dividends) for the past five years
 - c. Cash flow satisfied ratio = Net cash flow from operating activities / Net cash flow from investing activities

- (6) Liquidity reserve ratio = Liquid assets specified by the Central Bank / Debt items for which liquidity reserves should be allocated
- (7) Operating Scale
 - a. Market Share of Assets = Total assets / Total assets of the major financial institutions
 - b. Market Share of Net Worth = Net worth / Total net worth of the major financial institutions
 - c. Market Share of Deposits = Deposits / Total deposits of the major financial institutions
 - d. Market Share of Loans = Loans / Total loans of the major financial institutions
- To reasonably express average interest rate, excess interest paid on preferential deposits was added back into total interest expenditures for 2017, 2016, 2015, 2014 and 2013 in the amounts of NT\$11,005,334,000, NT\$10,776,622,000, NT\$11,006,282,000, NT\$10,663,770,000 and NT\$10,820,906,000, respectively.
- 4. The Bank began compiling its financial statements in accordance with IFRS in 2013. The "Rate of Return" for 2013 uses the average amounts of Tier 1 Capital and asset or net value average for 2012 and 2013. For 2014, the average amounts of the preceding items for 2013 and 2014 are used. For 2015, the average amounts of the preceding items for 2014 and 2015 are used. For 2016, the average amounts of the preceding items for 2015 and 2015 are used. For 2016, the average amounts of the preceding items for 2015 and 2016 are used. For 2017, the average amounts of the preceding items for 2016 and 2017 are used.
- 5. Net cash outflow produced by operating activities in 2013, making it impossible to calculate this ratio.
- 6. Net cash flow adequacy ratios for 2013 [2014/2015/2016/2017] were calculated using net cash flows from operating activities for past two [three/ four/ five/five] years/(capital expenditures + cash dividends).
- 7. The Bank's authorized capital was increased to NT\$95 billion on October 15, 2014 and the Bank retroactively adjusts annual figures for earnings per share.

						III. INT \$1,000, 7
Items	Year	2017	2016	2015	2014	2013
	Ratio of Loans to Deposits	58.69	59.42	62.79	65.25	66.02
	Non-Performing Loan Ratio	0.29	0.26	0.23	0.31	0.44
	Ratio of Interest Cost to Annual Average Deposits	1.07	1.09	1.23	1.27	1.25
Operating Ability	Ratio of Interest Income to Annual Average Loans Outstanding	1.66	1.69	1.88	1.89	1.89
	Total Assets Turnover (Times) * (Note 4)	0.68	0.94	0.77	0.83	0.71
	Average Revenue per Employee*	4,037	5,519	4,342	4,481	3,674
	Average Profit per Employee*	1,275	2,189	1,099	1,024	927
	Return on Tier 1 Capital (%) (Note 4)	5.61	10.38	6.03	5.49	5.11
	Return on Assets (%) (Note 4)	0.21	0.37	0.19	0.19	0.18
Profitability*	Return on Shareholders' Equity (%) (Note 4)	3.69	6.67	3.49	3.27	3.03
	Net Income Ratio (%)	31.58	39.66	25.30	22.85	25.23
	Earnings per Share (NT\$) (Note 7)	1.10	1.86	0.93	0.86	0.78
	Ratio of Liabilities to Assets	94.11	94.23	94.59	94.20	94.16
Financial Structure	Ratio of Property and Equipment to Shareholders' Equity	33.32	35.23	37.96	38.23	39.32
0	Rate of Asset Growth*	3.30	0.81	7.50	3.48	4.95
Growth Rate	Rate of Profit Growth*	-41.89	83.56	12.21	6.62	9.67

Individual Financial Analysis

Unit: NT\$1,000; %

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Items	Year	2017	2016	2015	2014	2013
	Cash Flow Ratio (Note 5)	1.36	81.26	2.45	16.30	-
Cash Flow*	Cash Flow Adequacy Ratio (Note 6)	1,580.58	1,745.42	683.58	674.62	582.05
	Cash Flow Satisfied Ratio (Note 5)	2,250.10	1,611.45	247.61	5,980.34	-
Liquidity Res	erve Ratio	49.64	47.90	44.97	39.90	42.81
Loans to Part	ies with Material Relationship with the Bank	23,136,658	42,815,251	38,403,189	34,864,509	34,267,212
Ratio of Loan Bank to Total	s to Parties with Material Relationship with the Loans	0.96	1.79	1.53	1.44	1.45
	Market Share of Assets	9.40	9.50	9.68	9.34	9.83
Operating	Market Share of Net Worth	7.96	7.87	7.72	8.39	9.10
Scale	Market Share of Deposits	10.12	10.37	10.72	10.59	10.81
	Market Share of Loans	8.03	8.29	8.90	8.78	9.06

*a. Total assets turnover, average revenue/profit per employee, the ratios related to profitability and the growth rate of profit decreased, derived mainly from the benefit from booking by the equity method in 2016 (including a real-estate asset revaluation gain of NT\$13.3 billion following the liquidation of Kaohsiung Ammonium Sulfate Co.).

b. The growth rate of assets increased because asset growth in 2017 came to NT\$157.6 billion.

c.Cash flow ratio and cash flow adequacy ratio declined because the net cash inflow from operating activities decreased in 2017, NT\$179.2 billion less than in 2016; Cash flow satisfied ratio increased due to a decline of NT\$11.2 billion in the net cash inflow from investing activities in 2017.

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(2) Profitability

- a. Return on Tier 1 capital = Net income before tax / Total amount of Tier 1 capital
- b. Return on assets = Net Income / Average total assets
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- d. Net income ratio = Net income / Net interest and non-interest income
- e. Earnings per share = (Income attributable to owners of the parent company preferred stock dividend) / Weighted average number of shares issued
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- (4) Growth Rate
 - a. Rate of asset growth = (Total assets for current year total assets for previous year) / Total assets for previous year
- b. Rate of profit growth = (Before-tax profit or loss for current year before-tax profit or loss for previous year) / Before-tax profit for previous year (5) Cash Flow
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 - 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

Linit: NT\$1.000

- (7) Operating Scale
 - a. Market Share of Assets = Total assets / Total assets of the major financial institutions
 - b. Market Share of Net Worth = Net worth / Total net worth of the major financial institutions
 - c. Market Share of Deposits = Deposits / Total deposits of the major financial institutions
 - d. Market Share of Loans = Loans / Total loans of the major financial institutions
- To reasonably express average interest rate, excess interest paid on preferential deposits was added back into total interest expenditures for 2017, 2016, 2015, 2014 and 2013 in the amounts of NT\$11,005,334,000, NT\$10,776,622,000, NT\$11,006,282,000, NT\$10,663,770,000 and NT\$10,820,906,000, respectively.
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- 7. The Bank's authorized capital was increased to NT\$95 billion on October 15, 2014 and the Bank retroactively adjusts annual figures for earnings per share.

~						Unit: N1\$1,000	
Items		Year	2017	2016	2015	2014	2013
	Common Stor	Common Stocks Equity		196,707,640	176,651,076	173,517,616	169,355,190
Self-Owned	Other Total Tie Stocks Equity	er 1 of Non-Common					
Capital	Tier 2 Capital		42,705,800	44,259,621	50,075,363	50,204,345	34,157,947
	Self-Owned C	apital	246,987,645	240,967,261	226,726,439	223,721,961	203,513,137
		Standardized Approach	1,723,632,715	1,845,427,164	1,879,583,822	1,836,910,103	1,768,858,574
	Credit Risk	Internal Rating Based Approach					
		Securitization	249,668	248,551			4,374,030
	Operational Risk	Basic Indicator Approach				56,984,163	51,777,388
Total Risk- Weighted Assets		Standardized Approach/ Alternative Standardized Approach	61,430,838	64,622,213	56,853,725		
		Advanced Measurement Approach					
	Market Risk	Standardized Approach	95,600,876	90,793,588	89,149,500	86,770,575	71,523,188
		Internal Model Approach					
	Total Risk-We	ighted Assets	1,880,914,097	2,001,091,516	2,025,587,047	1,980,664,841	1,896,533,180

Adequacy of Capital

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Year	2017	2016	2015	2014	2013
Capital Adequacy Ratio	13.13%	12.04%	11.19%	11.30%	10.73%
Ratio of Tier 1 Capital to Risk Assets	10.86%	9.83%	8.72%	8.76%	8.93%
Ratio of Common Stocks Equity to Risk Assets	10.86%	9.83%	8.72%	8.76%	8.93%
Leverage Ratio	4.10%	4.08%	3.64%	2.87%	3.58%

Notes: 1. Figures for 2017 are CPA approved.

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

3. Formulae used in calculations:

- a. Self-owned capital = Common stocks equity + other total Tier 1 of non-common stocks equity + Tier 2 capital
- b. Total risk-weighted assets = Credit risk-weighted assets + (Operational risk + Market risk) Capital requirement ×12.5

c. Capital adequacy ratio = Self-owned capital / Total risk-weighted assets

d.Ratio of Tier 1 capital to risk assets = (Common stocks equity + Other total Tier 1 of non-common stocks equity) / Total risk-weighted assets

e. Ratio of common stocks equity to risk assets = Common stocks equity / Total risk-weighted assets

f. Leverage ratio = Net Tier 1 capital / Exposure measurement

III. Statement by the Audit Committee

Please refer to page 85 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 Group") and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2017 and 2016, 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 Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the "Regulations Governing the Preparation of Financial Reports by Public Banks" and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Emphasis of Matter

In accordance with the auditing regulations in Taiwan, the financial statements of the Group and its subsidiaries are required to be audited by the Ministry of Audit (the "MoA"). The financial statement for the financial year ended 2015 has been audited and approved by the MoA. The adjustments made by the MoA are reflected in the financial statement. For further information, please see note 16(b).

Other Matter

As stated in note 6(j) of the consolidated financial statements, we did not audit the financial statements of Hua Nan Financial Holdings Co., Ltd. and Tai Yi Real Estate Co., Ltd. of investments in associates accounted for using equity method of the Group amounting to NT\$34,887,145 thousand and NT\$33,771,463 thousand as of December 31, 2017 and 2016, respectively, constituting 0.71% and 0.71% of the related consolidated total assets; nor the related shares of investment profit in associates accounted for using equity method of NT\$2,559,751 thousand and NT\$2,994,036 thousand for the years then ended, respectively, constituting 22.66% and 15.41% of the related consolidated net income before tax. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts includes above, is based solely on the report of the other auditors.

We have also audited the separated financial statements of Bank of Taiwan as of 2017 and 2016, 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, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. The assessment of loans impairment

Please refer to Note 4(1) "Impairment of assets" for related accounting policy, Note 5(a) "Assessments of loans impairment" for major sources of uncertainty for assumptions and estimation, Note 6(g) "Loans and discounts, net" for details of the assessment of loans impairment.

Description of key audit matters

When conducting credit business, the Group shall assess whether there is any indication that the loan assets may be impaired, because of the Group assumed credit risk that customer can't repay. First of all, the Bank evaluates the impairment loss of loans in accordance with IAS 39, the amount of allowance for doubtful accounts should not be lower than the amount evaluated in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non performing/Non accrual Loans". According to IAS 39, the Group measured the impairment loss of loans whichever the Group adopted assessment of the specific impairment or collective impairment both be relied on human judgment. The significant assumptions will effect assessment of the impairment loss of loans on the financial report, such as effective interest rate, recovery rate and future cash flow. The Group recognizes the amount of loans amounted to \$2,318,081,105 thousand, and appropriated for allowance for doubtful accounts was \$33,041,862 thousand as of December 31, 2017, respectively. The amount was significant as far as the Group is concerned. Therefore, the assessment on the impairment of loans 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) testing the internal control procedure of credit operation, and inspect meeting minutes by Board of Directors and the Assets and Liabilities Management Committee (ii) executing substantive analytical procedure, analysis the balance and structure of loan (iii) inspecting whether the proceeding at determining parameter made are in accordance with the related regulations for internal systems, and evaluate the appropriateness of adjusting parameter (iv) executing the retrospective testing of recognized allowance for doubtful accounts in last year (v) measuring the accuracy of allowance for doubtful accounts in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non performing/Non accrual Loans" (vi) ensuring whether the disclosure information of financial statement was present fairly.

2. The valuation of financial instruments

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

Description of key audit matters

The Group 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 financial asset and liabilities the Group hold as of December 31, 2017 were \$1,539,773,204 thousand and \$94,838,173 thousand, respectively, and significant among which the financial assets and liabilities measure at fair value other than level 1 in the fair value hierarchy were \$1,133,224,669 thousand and \$35,090,915 thousand, respectively. Therefore, the valuation of financial instruments has been identified as a key audit matter in our audit.

How the matter was addressed in our audit

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

3. The valuation of financial assets impairments

Please refer to Note 4(1) "Impairment of assets" for related accounting policy, Note 5(c) "The valuation of financial assets impairments" for accounting assumptions and estimations uncertainty, and Note 6(h) "Available for sale financial assets, net", Note 6(i) "Held to maturity financial assets, net" and Note 6(k) "Other financial assets, net" for details of the valuation of financial assets impairments, respectively.

Description of key audit matters

The Group evaluates whether non designated as financial assets at fair value through profit or loss have impairment loss, which shall consider and depend on assortment of observable data by management considering, that judged whether the impairment of objective evidences was exist. There is an objective evidence indicating that a financial asset was impaired, which needs to consider future cash flow and effective interest rate or current market rate, etc. to measure impairment loss. The conclusion involves in human judgments and the Bank should evaluate whether financial asset is impaired, that amounting to \$1,303,230,688 thousand December 31, 2017 is significant. Therefore, the valuation of financial assets impairment has been identified as a key audit matter in our audit.

How the matter was addressed in our audit

Our principal audit procedures included inspecting the regulations of assessment impairment and acquired reports of evaluating impairment to test; (i) the procedure of the Bank evaluating financial assets whether there is any indication and related internal controls; (ii) the accuracy and adequacy of financial assets may be impaired. As far as audit team' understanding and the evidence from other audit procedure to evaluate the reasonably conclusion whether the Bank recognized impairment loss.

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 or Supervisors) are responsible for overseeing the Bank and its subsidiaries' 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, 2017 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 Yen-Ling Fang and Feng-Hui Lee.

KPMG

Taipei, Taiwan (Republic of China) March 20, 2018

Notes to Readers

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

The auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language auditors' report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese) BANK OF TAIWAN AND ITS SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

December 31, 2017 December 31, 2016	Amount % Amount %	\$ 219,021,384 4 227,596,814 5 35 030 435 1 6 700 063			-	42,267,063 1 41,513,445 1	514,709 - 673,313 -	3,941,132,048 79 3,873,982,764 81	24,998,316 1 24,998,082 1	842,822 - 748,855 -	6 283.			4 639 183 001 93 4 496 169 581 95		4.639.183.001 93 4.496.169.581 95		95,000,000 2 95,000,000 2	80,453,043 2 80,453,034 2		39,246,685 1 34,201,365 1	29,383,528 1 22,686,273 -	15,930,139 - 18,820,340 - 84 560 357 - 75 707 078 1	4 -	 - '	289,104,771 7 274,449,308 5	$8 \frac{4,928,287,772}{4,770,618,889}$ 100 4,770,618,889 100
	Liabilities and Equity	Deposits of Central Bank and other banks (note 6(g), 7 and 10) Deposits of Laboratory of Device Anternation Devict on Laboratory	financial Laconness intersuce at fair value titlough front of Loss (not 6(r), 7, and 10)	Hedging Derivative Financial Liabilities, Net (note 6(d) and 7)	Bills and Bonds Sold under Repurchase Agreements (note 6(e) and 7)	Payables (note $6(s)$, 7 and 10)	Current Income Tax Liabilities (note 16(b))	Deposits and Remittances (note $6(t)$, 7 and 10)	Financial bonds payable (note 6(u) and 7)	Other Financial Liabilities (note 6(v) and 7)	Provision (note 6(w) and (x))	Deferred Tax Liabilities (note 6(z))	Other Liabilities (note $6(y)$ and 10)			Total liabilities	Equity attributable to owners of parent:	Capital stock	Capital surplus	Retained earnings (note 6(z) and 16(b)):	Legal reserve	Special reserve	Unappropriated retained earnings (note $6(z)$ and $16(b)$)			Total equity	Total liabilities and equity
		21000	000077	22300	22500	23000	23200	23500	24000	25500	25600	29300	29500					31101	31500		32001	32003	32005	00300	00025		
2016	»°	14	4			-	,	48	22	б	1	2	7		,												3
December 31, 2016	Amount 122,398,656	687,235,976	212,560,998	100 10	177,17	63,311,112	785,838	2,274,236,504	1,037,841,339	138,812,328	35,055,524	76,578,794	96,695,325	15,238,207	803,225	297,880	8,745,962									000 017 022	4,//0,018,889
5	۳ %	14	5			-		46 2	23 1	ŝ	-	7	7														₹ 1
December 31, 201	Amount 158,343,084	675,504,410	236,519,757	03L CC	22, 139 50 357 000	600,162,66	1,160,916	2,285,039,243	1,135,942,401	144,060,765	36,203,500	75,603,497	96,344,383	15,238,207	708,732	167,171	8,171,938										4,928,281,112
Q	and 10)	oans to Banks (note $6(a)$, (g) , 7 and	Financial Assets Measured at Fair Value through Profit or Loss (note $6(c)$, 7, $0 = 2.23 \pm 100$)	10 Line (GA) 7 Line 10		md 10)				, Net (note 6(i), 7, 8 and 11)	1, Net (note 6(j))	6(f), (j), (k), (p),7 and 8)	te 17 and 20)		()		(10)										- II
	Assets Cash and Cash Equivalents (note 6(a), 7 and 10)	Placement with Central Bank and Call Loans to Banks (note $6(a)$, (g) , 7 and 10)	Financial Assets Measured at Fair Valu	o anu 10) Hadrina Darimtina Eiranaial Ascota Mat (mata 2040, 7 and 80	Description of the relation of	Kecelvables, Net (note o(1), (g), /, 8 and 10)	Current Income Tax Assets (note 16(b))	Loans and Discounts, Net (note 6(g), 7, 8 and 10)	Available-for-Sale Financial Assets, Net (note 6(h), (p), 7, 8 and 11)	Held-to-Maturity Financial Assets, Net (note 6(i), 7, 8 and 11)	Investments under Equity Method, Net (note 6(j))	Other Financial Assets, Net (note 6(f), (j), (k), (p),7 and 8)	Property and Equipment, Net (note 17 and 20)	Investment Property (note 6(m))	Intangible Assets, Net (note 6(n))	Deferred Tax Assets (note 6(z))	Other Assets, Net (note 6(0) and 10)										l otal assets

See accompanying notes to consolidated financial statements.

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(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese) BANK OF TAIWAN AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

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

		2017		2016		Change
		Amount	%	Amount	%	%
	Revenue and income:					
41000	Interest income (note 6(ab) and 10)	\$ 59,105,478	179	59,402,785	132	(1)
51000	Less:Interest expense (note 6(ab) and 10)	33,583,405	102	33,367,303	75	1
	Net interest income (note 6(ab))	25,522,073	77	26,035,482	57	(2)
	Non-interest income, net					
49100	Service fees .net (note 6(ac) and 10)	5,178,019	16	5,629,681	13	(8)
49200	Gain (loss) on financial assets or liabilities measured at fair value through profit or loss (note 6(ad) and 10)	31,513,696	95	16,322,868	37	93
49300	Realized gain (loss) on available-for-sale financial assets (note 6(ae) and 10)	3,013,653	9	2,131,822	5	41
49600	Foreign exchange gain (loss) (note 6(af) and 10)	(3,249,634)	(10)	(457,893)	(1)	(610)
45000	Reversal of impairment losses (note 6(1) and (p))	(1,913)	-	27,659	-	(107)
49750	Share of profit (loss) of associates and joint ventures accounted for using equity method (note 6(j))	2,612,076	8	16,413,920	37	(84)
49837	Premiums loss (note 6(ag))	(1,445,511)	(4)	(7,092,220)	(16)	80
49837		455,670	(4)	542,536	1	
49843	Sales income (note 6(o) and (ag))	· · · · · ·		,		(16)
	Subsidized income from government (note 6(ag) and 12(c))	10,452,705	32	13,754,258	31	(24)
49898	Excess preferential interest expenses (note $6(f)$ and (ag))	(11,005,803)	. /	(10,777,111)	(24)	(2)
49871	Provisions for policyholders' reserve premium (note 6(ag))	(30,214,824)		(18,843,200)	(42)	(60)
49899	Excess interest expenses (note 6(ag) and 10)	256,637	1	1,006,050	2	(74)
	Net Revenue	33,086,844	100	44,693,852	100	(26)
58200	Bad debt expense and reserve for guarantees (note 6(g))	1,685,005	5	5,183,736	12	(67)
	Expenses: (note 51)					
58500	Employee benefits expenses (note $6(x)$ and (ah))	12,029,135	36	11,961,924	27	1
59000	Depreciation and amortization expenses (note 6(ai))	1,101,527	3	1,105,162	2	-
59500	Other general and administrative expenses (note 6(aj) and 10)	6,974,081	21	7,008,414	16	-
	Total Expenses	20,104,743	60	20,075,500	45	-
	Operating Income, Net	11,297,096	35	19,434,616	43	(42)
	Net income before income tax	11,297,096	35	19,434,616	43	(42)
61003	Income Tax Expenses (note 6(z) and 16(b))	(893,506)	<u>(3</u>)	(1,780,559)	(4)	50
	Net income	10,403,590	32	17,654,057	39	(41)
65000	Other comprehensive income:					
65200	Components of other comprehensive income that will not be reclassified to profit or loss					
(5201		(0(2,002)		(744.291)		(20)
65201	Gains (losses) on remeasurements of defined benefit plans	(962,992)	(3)	(744,381)	(2)	(29)
65205	Change in fair value of financial liability attributable to change in credit risk of liability	(49,185)	-	-	-	-
65206	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	(91,561)	-	(105,554)	-	13
65220	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-		-	-
	······································	(1,103,738)	(3)	(849,935)	(2)	(30)
65300	Other components of other comprehensive income that will not be reclassified to profit or loss	(1,105,150)	<u></u>)		<u> </u>	(50)
65301		(1,437,837)	(4)	(468,214)	(1)	(207)
	Exchange differences on translation					
65302	Unrealised gains (losses) on valuation of available-for-sale financial assets	7,119,853	22	4,003,761	9	78
65306 65320	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 Income tax related to components of other comprehensive income that will be reclassified to profit or loss	195,022 (20,417)	-	(309,797) (27,844)	(1)	163 27
05520					7	
	Components of other comprehensive income that will be reclassified to profit or loss	5,856,621	<u>19</u>	3,197,906		83
65000	Other comprehensive income	4,752,883	16	2,347,971	5	102
	Total comprehensive income	\$ <u>15,156,473</u>	48	20,002,028	44	(24)
	Basic earnings per share	s	1.10		1.86	

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Other equity interest

Equity attributable to owners of parent

Retained earning

		1		c						Change in fair		
	Ordinary	Canital surveius	Logia I	Snorial recerve	Deficit yet to be commented	Total	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Gains (losses) on effective portion of cash flow bodiese	value of financial liability attributable to change in credit	Torial	Tatel
Balance at January 1, 2016	95,000,000	95,000,000 80,453,034	31,822,306	19,514,195	7,953,744	59,290,245	1,177,610	18,899,561	1	22,552	20,104,001	254,847,280
Appropriation and distribution of retained earnings:												
Legal reserve appropriated			2,379,059		(2, 379, 059)							
Special reserve appropriated				3,172,078	(3, 172, 078)							
Cash dividends					(400,000)	(400,000)	,					(400,000)
Consolidated net income					17,654,057	17,654,057	,					17,654,057
Other comprehensive income (loss) for the period					(836,324)	(836,324)	(690,728)	3,884,715	3,919	(13,611)	3,184,295	2,347,971
Total comprehensive income			ı		16,817,733	16,817,733	(690,728)	3,884,715	3,919	(13,611)	3,184,295	20,002,028
Balance at December 31, 2016	95,000,000	80,453,034	34,201,365	22,686,273	18,820,340	75,707,978	486,882	22,784,276	6 8,197	8,941	23,288,296	274,449,308
Appropriation and distribution of retained earnings:												
Legal reserve appropriated			5,045,320		(5,045,320)							
Special reserve appropriated				6,727,093	(6,727,093)							
Cash dividends					(500,000)	(500,000)						(500,000)
Reversal of special reserve-sale of land				(29,838)	29,838		,					,
Changes in equity of associates and joint ventures accounted for using												
equity method		6			(1,019)	(1,019)						(1,010)
Consolidated net income					10,403,590	10,403,590	,					10,403,590
Other comprehensive income (loss) for the period		ľ			(1,050,197)	(1,050,197)	(1,803,677)	7,664,503	(4,206)	(53,540)	5,803,080	4,752,883
Total comprehensive income					9,353,393	9,353,393	(1,803,677)	7,664,503	(4,206)	(53,540)	5,803,080	15,156,473
Balance at December 31, 2017	95,000,000	80,453,043	39,246,685	29,383,528	15,930,139	84,560,352	(1,316,795)	30,448,779	3,991	(44,599)	29,091,376	289,104,771

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese) BANK OF TAIWAN AND ITS SUBSIDIARIES

For the years ended December 31, 2017 and 2016 (Expressed in Thousands of New Taiwan Dollars)

Consolidated Statements of Changes in Equity

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese) BANK OF TAIWAN AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	 2017	2016
Cash flows from (used in) operating activities:		
Profit before tax	\$ 11,297,096	19,434,616
Adjustments:		
Adjustments to reconcile profit:		
Depreciation expense	780,880	789,460
Amortization expense	367,125	360,891
Provision (reversal of provision) for bad debt expense	1,685,005	5,183,736
Interest expense	33,583,405	33,367,303
Interest income	(59,105,478)	(59,402,785)
Dividend income	(7,342,219)	(6,419,120)
Net change in other provisions	30,213,909	18,843,004
Loss (gain) on financial assets securitization	59	(3,430)
Share of profit of associates and joint ventures accounted for using equity method	(2,612,076)	(16,413,920)
Loss on disposal of property and equipment	160,942	31,493
Impairment loss on non-financial assets	 1,913	(27,659)
Total adjustments to reconcile profit	 (2,266,535)	(23,691,027)
Changes in operating assets and liabilities:		
(Increase) decrease in due from the central bank and call loans to banks	(32,592,172)	50,381,710
Increase in financial assets at fair value through profit or loss	(15,213,726)	(40,268,377)
Increase in derivative financial assets for hedging	(1,538)	(5,251)
Decrease in receivables	7,953,366	8,755,612
(Increase) decrease in discounts and loans	(12,308,842)	107,195,573
(Increase) decrease in available-for-sale financial assets	(95,360,474)	51,457,030
Decrease (increase) in held-to-maturity financial assets	1,460,149	(26,005,419)
(Increase) decrease in other financial assets	(111,670)	2,638,627
Decrease (increase) in other assets	950,393	(771,906)
(Decrease) increase in deposits from the central bank and banks	(8,575,430)	2,171,297
Increase (decrease) in financial liabilities at fair value through profit or loss	28,321,372	(32,515,412)
Decrease in derivative financial liabilities for hedging	(83,715)	(99,772)
Increase (decrease) in notes and bonds issued under repurchase agreement	22,568,206	(4,998,705)
(Decrease) increase in payable	(478,548)	759,012
Increase in deposits and remittances	67,149,284	36,462,348
Increase in provisions for employee benefits	965,211	372,920
(Decrease) increase in other liabilities	 (471,269)	378,332
Total adjustments	(38,095,938)	132,216,592
Cash inflow (outflow) generated from operations	 (26,798,842)	151,651,208
Interest received	59,704,895	63,173,054
Dividends received	4,458,340	3,884,138
Interest paid	(32,351,005)	(34,829,733)
Income taxes paid	(1,339,581)	(934,045)
Net Cash flows from operating activities	 3,673,807	182.944.622

See accompanying notes to consolidated financial statements.

BANK [®]F TAIWAN 2017 ANNUAL REPORT

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese) BANK OF TAIWAN AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

		2017	2016
Cash flows from (used in) investing activities:			
Proceeds from disposal of investments accounted for using equity method	\$	-	187,907
Acquisition of property and equipment		(604,366)	(757,290)
Increase in refundable deposits		(376,488)	(150,506)
Acquisition of intangible assets		(272,572)	(309,966)
Decrease (increase) in other financial assets		1,086,967	(10,325,950)
Net cash flows used in investing activities		(166,459)	(11,355,805)
Cash flows from (used in) financing activities:			
Increase in guarantee deposits received		2,052,589	-
Decrease in guarantee deposits received		-	(409,078)
Increase in other financial liabilities		93,967	-
Decrease in other financial liabilities		-	(1,036,575)
Cash dividends paid		(500,000)	(400,000)
Net cash flows from (used in) financing activities		1,646,556	(1,845,653)
Effect of exchange rate changes on cash and cash equivalents		(1,792,104)	(688,837)
Net increase in cash and cash equivalents		3,361,800	169,054,327
Cash and cash equivalents at beginning of period		1,082,227,822	913,173,495
Cash and cash equivalents at end of period	\$	1,085,589,622	1,082,227,822
Composition of cash and cash equivalents:			
Cash and cash equivalents reported in the statement of financial position	\$	158,343,084	122,398,656
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7		274,645,417	318,969,155
Securities purchased under resell agreements qualifying for cash and cash equivalents under the definition of IAS 7	of	652,601,121	640,860,011
Cash and cash equivalents at end of period	\$	1,085,589,622	1,082,227,822

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese) BANK OF TAIWAN AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

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

(1) Organization and Business Scope

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

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

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

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

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

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

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

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

(Continued)

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, 2017, 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 Procurement of Human Resources, Department of Ethics, Department of Accounting, Department of Economic Research, Department of Information Management, Department of Compliance, Board Secretariat, Department of Auditing Board of Directors. There were 163 domestic branches, 1 offshore banking unit, 10 overseas branches, 1 subbranch (in Shanghai Jiading), 3 representative offices (in Humahi, Yangon and Silicon Valley), 1 preparatory branch (in Sydney) and 5 preparatory offices (in Ho Chi Minh City, Djakarta, Manila, Bangkok and Frankfurt).

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, 2017 include the accounts of the Bank and its subsidiary (hereby referred as the Bank and its 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 19, 2018 and were authorized for issue by the Board of Directors on March 20, 2018.

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BANK OF TAIWAN AND ITS SUBSIDIARIES Notes to the Consolidated Financial Statements

(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, 2017:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Presentation of Financial Statements-Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendments to IAS 36 "Impairment of Non-Financial assets- Recoverable Amount Disclosures for Non Financial Assets"	January 1, 2014
Amendments to IAS 39 "Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
Annual Improvements to IFRSs 2010 2012 Cycle and 2011 2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012 2014 Cycle	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

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

(i) Amendments to IAS 36 "Recoverable Amount Disclosures for Non Financial Assets"

Under the amendments, the recoverable amount is required to be disclosed only when an impairment loss has been recognized or reversed. In such cases, the amendments also require that the following be disclosed if the recoverable amount is based on fair value, less costs of disposal:

1) the level of the fair value hierarchy within which the fair value measurement is categorized; and

(Continued)

2) the valuation technique(s) used for fair value measurements categorized within Levels 2 and 3 of the fair value hierarchy, and the key valuation assumptions made.

The Bank and its subsidiaries have included the required disclosures.

(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, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017:

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

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

(i) IFRS 9 "Financial Instruments"

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

1) Classification- Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial assets in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. In addition, IAS 39 has an exception to the measurement requirements for investments in unquoted equity instruments that do not have a quoted market price in an active market (and derivatives on such an instrument) and for which fair value cannot therefore be measured reliable. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

Based on its assessment, the Bank and its subsidiaries estimated the application of IFRS 9's classification requirements on January 1, 2018, resulting in an increase of \$7,636,210 thousand in the assets, as well as the increase of \$7,323,850 thousand and \$312,360 thousand in the other equity and retained earnings respectively.

2) Impairment-Financial assets and contact assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

(Continued)

The Bank and its subsidiaries believe that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. The Bank and its subsidiaries estimated the application of IFRS 9's impairment requirements on January 1, 2018, resulting in an increase of \$152,919 thousand in the allowance for impairment, which correspondingly led to the decrease of \$51,454 thousand in assets and the decrease of \$25,171 thousand in liabilities, (including the increase in the allowance for impairment of \$47,718 thousand from the Department of Government Employees Insurance which resulted in the decrease in the provisions for civil servants', teachers' and labor's insurance, instead of retain earnings), as well as the increase of \$78,918 thousand in other equity and the decrease of \$105,201 thousand in retained earnings, respectively.

3) Hedge accounting

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

4) Investment under equity method

The Bank and its subsidiaries estimated the influence from their investees' application of IFRS 9 on January 1, 2018, resulting in the increase of \$486,624 thousand in investment under equity, and the increase of \$881,261 thousand in other equity, as well as the decrease of \$394,637 thousand in retained earnings.

5) Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Bank and its subsidiaries' assessment included an analysis to identify data gaps against current processes, wherein they plan to implement the system and control the changes that they believe will be necessary to obtain the required data.

6) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

• The Bank and its subsidiaries plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and reserves as at January 1, 2018.

- The Bank and its subsidiaries have chosen to continue to apply the hedge accounting requirements of IAS 39.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

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

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

As of the date the following IFRSs that have been issued by the IASB, but not yet 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 16 "Leases"	January 1, 2019
IFRS 17 "Insurance Contracts"	January 1, 2021
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment features with negative compensation"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019

(Continued)

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

Issuance / Release Dates	Standards or Interpretations	Content of amendment
January 13, 2016	IFRS 16 "Leases"	The new standard of accounting for lease is amended as follows:
		• For a contract that is, or contains, a lease, the lessee shall recognize a right of use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right of-use asset during the lease term.
		• A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.
February 7, 2018	Amendments to IAS 19 "Plan	The amendments clarify that:
	Amendment, Curtailment or Settlement"	 on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the remainder of the reporting period after the change to the plan; and the effect of the asset ceiling is disregarded when calculating past service cost and the gain or loss on settlement. Any change in that effect is recognised in other comprehensive income.

The Bank and its subsidiaries are evaluating the impact on its consolidated financial position and consolidated financial performance upon the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed once the evaluation is completed.

(4) Significant accounting policies:

(a) Statement of compliance

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

The financial statements in 2014 and 2013 were approved by the MoA, and the opening balances of retained earnings in 2015 and 2014 are the same as those approved in the closing balances in 2014 and 2013, respectively. Please see note 51(2) 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 its 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

			Shareh	oldings	
Name of Investor	Name of Subsidiary	Principal activities	December 31, 2017	December 31, 2016	Note
Ivalle of Investor	Name of Substatary	Frincipal activities	31, 2017	51, 2010	Note
Bank of Taiwan	BankTaiwan Insurance Brokers	Life and Property insurance	100.00 %	100.00 %	
	(BTIB)	broker			

(c) Basis of preparation

(i) Basis of measurement

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

- 1) Financial instruments measured at fair value through profit or loss (including derivative financial instruments)
- 2) Available-for-Sale financial assets measured at fair value
- 3) Hedging derivatives 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.

(Continued)

(ii) Functional and presentation currency

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

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

Transactions in foreign currencies are translated to the respective functional currencies of the Bank and its 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.

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

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

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Bank and its 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 and its 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 its 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 noncontrolling interest. When the Bank and its subsidiary dispose of only part of investment in an associate of joint venture that includes a foreign operation while retaining significant or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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

(e) Cash and cash equivalents

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

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

(f) Financial instrument

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

(i) Financial asset

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

(Continued)

1) Financial assets at fair value through profit or loss

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

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

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

2) Loans and receivables

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

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

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

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

3) Available-for-sale financial assets

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

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

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

4) Held-to-maturity financial assets

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

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

5) Financial assets at cost

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

(Continued)

6) Debts investment without active market

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

(ii) Financial liability and equity instrument

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

1) Financial liabilities at fair value through profit or loss

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

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

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

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

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

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

2) Other financial liabilities

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

3) Financial guarantee contract

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

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

- a) the amount determined in accordance with IAS 37 "Provision, Contingent Liabilities and Contingent Assets" and
- b) the amount initially recognized, less, when appropriate, cumulative amortization recognized in accordance with revenue accounting policy.
- (iii) Derivative financial instruments and hedge accounting

The Derivative financial instruments means forward swaps, FX swaps, interest rate swaps, cross currency swaps, options and other transactions related to foreign exchange, interest rate and capital market. The derivative financial instruments are initially recognized at fair value and the transaction costs are recognized through profit or loss. The sequential assessment is still assessed by fair value and the resulted gain or loss is recognized as profit or loss. However, for the derivate financial instrument designated as an effective hedging instrument, the recognition timing is decided by the nature of the hedging relationship. When the fair value of the derivate financial instrument is positive, it should be recorded as financial asset. When it is negative, it should be recorded as financial liability.

When the risk and characteristics of the embedded derivate are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss, the derivate is treated as a separate derivative.

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

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

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

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

(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 its 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 its subsidiary have significant influence.

The Bank and its 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 its subsidiary recognize the changes according to the holding shares.

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

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

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

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

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

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

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

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

(ii) Reclassification to investment property

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

(iii) Subsequent cost

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

(iv) Depreciation

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

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

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

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

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

- (i) Lease
 - (i) Operating Lease

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

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

(j) Investment property

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

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

- (k) Intangible assets
 - (i) Computer Software

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

(ii) Subsequent Expenditure

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

(iii) Amortization

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

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

Computer software

5 years

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

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

(l) Impairment of Assets

(i) Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

(ii) Impairment loss of non financial assets

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

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

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

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

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

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

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

Reversal of an impairment loss for goodwill is prohibited.

(m) Provision

- (i) The Bank and its 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 its subsidiary shall take into account the risks, uncertainties that surround the underlying events and the time value of the currency.
- (iii) The Bank and its subsidiary evaluate the provision at every end of the reporting date, and adjust the carrying amount according to the best estimation.
- (n) Other reserves

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

- (o) Revenue and expense recognition
 - (i) 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,
 - 4) the seller retains neither continuing managerial involvement to degree usually associated with ownership nor effective control over the goods sold, and

- 5) the amount of revenue can be measured reliably.
- (iii) 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 its subsidiary shall consider the materiality principle to decide to measure the interest by agreed interest rate or effective interest rate.
- (iv) 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.
- (v) Dividend revenue: it shall be recognized if and only if the Bank and its subsidiary have right to receive the dividend revenue.
- (vi) 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.
- (vii) 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 41.1 and the related regulations set forth in the Labor Standards Act. All the contributions are made to the fund managed by the Pension Supervision Committee for future payments.

2) Labor pension:

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

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

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

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

- 5) The oversea branches of the Bank abide by the foreign government's regulations.
- (iii) Preferential interest deposits
 - 1) The Bank and its 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 its 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 its 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.
- (iv) Other employee's retirement benefits
 - 1) Include three Chinese festival gifts, survivors benefit, and special benefits to retired employees who were paid pension in early times.
 - 2) It belongs to the definite benefit plan, and the independent actuary uses the projected unit credit method to calculate the present value of the defined benefit obligation and the current service cost. The present value of the defined benefit obligation is the projected future cash flow discounted by the market yields at the end of the reporting period on the bonds that have maturity dates approximating the terms of the obligation and that are denominated in the same currency in which the benefits are expected to be paid. The actuarial gains and losses are recognized in the other comprehensive income when they occur.
- (q) Income tax

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

(i) Current income tax

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

(ii) Deferred Tax

When measuring the deferred tax asset and deferred tax liability, the Bank and its 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 its subsidiary that engages in business activities that can generate revenues and expenses (including the revenues and expenses arising from inter-company transactions). The segments' operating results are reviewed regularly by the Bank and its 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) Assessments of loans impairment

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

For the valuation of impairment loss of loans, please see note 6(g).

(b) The valuation of financial instruments

The fair value of non active market or non quoted financial instruments is determined using valuation techniques. Such fair value is based on observable data of similar financial instruments or valuation model. If there are no observable market parameters, the fair value of financial instruments is evaluated based on appropriate assumptions. If fair value is determined by the valuation model, the model is calibrated to ensure that all output data and the results reflect the actual market price. This valuation model use only observable data as much as possible. But for credit risk (both our own and the contracting parties credit risk), the managements shall estimate the relation and the variation. For the sensitivity analysis of financial instruments, please see note 7.

- (c) The valuation of financial assets impairments
 - (i) Available for sale securities

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

(ii) Financial assets carried at amortized cost

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

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

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

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

- 1) The actual result in the market may differ from the expectation,
- 2) The event and the condition may change in the future and differ from the original estimations and assumptions, or
- 3) The Bank and its subsidiaries may decide to sell the related assets due to the changes in condition in the future.

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

(a) Income tax

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

(b) Payments to defined contribution retirement benefit plans

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

Significant assumptions used on retirement benefit obligations are based on current market conditions. Please refer to note 6(w).

(6) Explanation of Significant Accounts:

(a) Cash and Cash Equivalents

	Ι	December 31, 2017	December 31, 2016
Cash on hand	\$	12,522,333	12,456,276
Foreign currency on hand		12,051,213	11,813,908
Notes and checks for clearing		9,980,049	10,860,257
Placement with banks	_	123,789,489	87,268,215
Total	\$	158,343,084	122,398,656
	Ι	December 31, 2017	December 31, 2016
Cash and cash equivalents in consolidated balance sheets	\$	158,343,084	122,398,656
Placement with the Central Bank of R.O.C. and other banks that meet the definition of cash and cash equivalents in IAS 7		274,645,417	318,969,155
Securities purchased under agreements to resell that meet the definition of cash and cash equivalents in IAS 7		652,601,121	640,860,011
Total	\$_	1,085,589,622	1,082,227,822

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

	December 31, 2017		December 31, 2016
Call loans to banks	\$	248,949,224	220,021,403
Less: allowance for doubtful accounts – call loans to banks		58,446	45,819
Deposit reserve – account A and account B		96,973,952	104,699,725
Deposit reserve-foreign-currency deposits		675,337	470,500
Deposits in Central Bank-oversea branches		2,436,464	6,828,487
Deposits in Central Bank		326,527,879	355,261,680
Total	\$	675,504,410	687,235,976

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, 2017 and 2016, 60% of the reserve deposits collected on behalf of a government institution amounting to \$4,015,405 thousand and \$4,362,710 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, Net

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

	December 31, 2017		December 31, 2016
Financial assets held for trading	\$	182,086,044	170,712,002
Add: valuation adjustment	_	37,816,908	23,778,698
Subtotal		219,902,952	194,490,700
Financial assets designated as fair value through profit or loss		16,419,807	18,004,143
Add: Valuation adjustment		196,998	66,155
Subtotal		16,616,805	18,070,298
Total	\$	236,519,757	212,560,998

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

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

	December 31, 2017	December 31, 2016
Commercial papers	\$ 26,396,634	16,139,250
Government bonds	-	183,242
Corporate bonds	20,491	-
Convertible bonds	4,590	-
Financial bonds	200,793	283,453
Foreign exchange call options	19,675	18,619
Treasury bills	-	1,994,714
Stocks and beneficates	142,905,390	131,650,783
Foreign government bonds	637,973	2,218,242
Negotiable certificates of deposits	11,900,498	18,223,699
Add: valuation adjustment		
Non derivative financial instruments	30,735,655	13,431,275
Foreign exchange call options	3,763	(3,712)
Cross currency swaps	73,778	23,610
Swaps	6,363,095	9,636,979
Interest rate swaps	270,152	179,791
Forward foreign exchange	180,265	378,430
Fixed-rate commercial papers	21	4,488
Asset swaps	190,179	127,837
Total	\$ <u>219,902,952</u>	194,490,700

(iv) Details of financial assets designated as fair value through profit or loss were as follows:

	D	ecember 31, 2017	December 31, 2016
Foreign government bonds, corporate bonds, financial bonds and others	\$	16,419,807	18,004,143
Add: valuation adjustment		196,998	66,155
Total	\$	16,616,805	18,070,298

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

	December 31,		December 31,	
		2017	2016	
Foreign exchange call options	\$	2,024,129	2,321,240	
Swaps		374,505,627	627,115,437	
Interest rate swaps		19,386,518	16,673,850	
Foreign exchange forward transactions		19,155,646	12,156,217	
Fixed-rate commercial paper		500,000	415,650	
Asset swaps		26,890,080	2,190,960	
Cross currency swaps		623,280	676,620	
Total	\$	443,085,280	661,549,974	

(d) Hedging Derivative Financial Instruments

The details of hedging derivatives financial assets were as follows:

	Dec	ember 31, 2017	December 31, 2016	
Fair value hedges:				
Interest rate swap	\$	22,759	21,221	

The details of hedging derivatives financial liabilities were as follows:

	Dece	ember 31, 2017	December 31, 2016
Fair value hedges:			
Interest rate swap	\$	60,480	144,195

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

		Hedging Investments			
		Fair Value			
	Designated Hedging		December 31,	December 31,	
Hedged Item	Instruments		2017	2016	
USD financial bonds	Interest rate swap	\$	7,775	(18,069)	
USD corporate debts	"		6,035	2,098	
USD government debts	"		(51,531)	(107,003)	

The net loss of hedging instruments in 2017 and 2016 amounted to \$6,819 thousand and \$37,095 thousand , respectively. The net losses of hedged items embedded in hedging instrument in 2017 and 2016 amounted to \$81,317 thousand and \$111,645 thousand, respectively.

(e) 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, 2017		December 31, 2016	
Bills and bonds sold under repurchase agreements:				
Commercial papers	\$	49,936	549,382	
Government bonds		17,130,485	10,319,665	
Treasury bills		-	468,867	
Financial bonds		1,477,417	-	
Foreign government bonds		14,920,187	-	
		328,095		
Total	\$	33,906,120	11,337,914	

(f) Receivables, Net

	December 31, 2017		December 31, 2016
Notes receivable	\$	4,616	2,511
Accounts receivable		1,121,137	1,343,728
Long-term receivables – payment on behalf of the government		16,694,448	17,054,885
Accrued revenues		679,563	552,483
Interests receivable		12,139,121	12,738,538
Premiums receivable		143,394	114,028
Acceptance notes receivable		2,706,967	2,494,641
Non-recourse factoring		11,462,524	9,414,652
Others-replenishment of national treasury		12,058,261	16,910,332
Others-undelivered spot exchanges		2,283	4,813
Other – ATM temporary receipts, payments and interbank differences		1,816,568	1,589,410
Others-FX Swaps		89,200	49,673
Others		466,057	1,159,984
Subtotal		59,384,139	63,429,678
Less: allowance for doubtful accounts		127,130	118,566
Total	\$	59,257,009	63,311,112

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 Noninterest income, net were \$8,174,483 thousand and \$8,284,655 thousand , respectively, due to executing the government premium savings policy.

As of the year ended December 31, 2017 and 2016, the Bank had paid the following premium savings interest expenses on behalf of the government:

	De	ecember 31, 2017	December 31, 2016
Long-term receivables	\$	16,694,448	17,054,885
Short-term advances (booked under other financial assets,		48,928,992	48,703,199
net)		-	-
Total	\$	65,623,440	65,758,084



(g) Loans and Discounts, Net

	December 31, 2017	December 31, 2016
Discounts and export / import negotiations	\$ 3,970,292	3,872,121
Overdrafts	19,375,066	23,276,308
Secured overdrafts	954,176	475,381
Short-term loans	447,088,805	333,038,929
Short-term secured loans	92,121,185	107,308,621
Accounts receivable financing	166,450	235,309
Accounts receivable secured financing	7,338	5,201
Medium-term loans	474,555,063	550,638,619
Medium-term secured loans	239,572,988	245,968,781
Long-term loans	166,879,651	176,933,311
Long-term secured loans	868,466,755	860,547,639
Non-performing loans	4,923,336	4,749,071
Subtotal	2,318,081,105	2,307,049,291
Less: allowance for doubtful accounts	33,041,862	32,812,787
Total	\$ <u>2,285,039,243</u>	2,274,236,504

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

		2017	2016
Loans:			
Beginning balance	\$	32,812,787	27,885,470
Allowance for doubtful accounts		1,506,103	5,166,718
Write-off		(2,491,515)	(2,634,547)
Recovery from written-off		1,368,059	2,402,036
Effects of exchange rate changes and others		(153,572)	(6,890)
Ending balance	<u>\$</u>	33,041,862	32,812,787
Receivables (including other financial assets and so on):			
Beginning balance	\$	301,718	1,444,475
Reversal of doubtful accounts		(48,248)	64,228
Write-off (note)		(14,780)	(1,185,753)
Recovery from written-off		59,630	13,543
Effects of exchange rate changes and others		(1,309)	(34,775)
Ending balance	\$ <u> </u>	297,011	301,718
Total	\$	33,338,873	33,114,505

Note: The Collateralized Bond Securitization of E. Sun Bank 2007-1 Beneficiary Securities No. B-1 were \$995,505, which was held by the Bank and confirmed that it could not be recovered. The board of directors of Bank of Taiwan held on February 26, 2016 approval for the write-off.

Details of allowance for doubtful accounts were as follows:

	December 31, 2017		December 31, 2016	
Call loans to banks	\$	58,446	45,819	
Receivables		127,130	118,566	
Loans and discounts		33,041,862	32,812,787	
Other financial assets		111,435	137,333	
Total	\$	33,338,873	33,114,505	

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

	2017	2016
Bad debts	\$ 1,457,855	5,230,946
Reserves for guarantee liabilities	 227,150	(47,210)
Total	\$ 1,685,005	5,183,736

As of December 31, 2017 and 2016, the amounts of loans and receivables on which the interests stopped to accrue were \$5,005,039 thousand and \$4,872,177 thousand, respectively, which were booked under loans and discounts— non-performing loans and other financial assets-overdue receivables. As of December 31, 2017 and 2016, the non accrued interests were \$287,035 thousand and \$337,301 thousand, respectively.

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

(h) Available-for-sale Financial Assets, Net

	D	ecember 31, 2017	December 31, 2016
Negotiable certificates of deposits	\$	932,539,967	847,664,916
Government bonds		41,318,500	37,693,244
Foreign government bonds, corporate bonds, financial bonds and negotiable certificates of deposits		56,723,065	63,532,948
Financial bonds		10,532,340	9,227,850
Corporate bonds		33,840,601	27,038,343
Financial asset securitization investments		500,000	500,000
TSEC and OTC stocks and certificates		30,192,850	28,923,413
Add: Adjustment valuation		30,295,078	23,260,625
Total	\$	1,135,942,401	1,037,841,339

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

(i) Held-to-maturity Financial Assets, Net

	December 31, 2017		December 31, 2016
Domestic:			
Financial bonds	\$	16,680,754	16,579,124
Corporate bonds		7,532,282	7,492,435
Negotiable certificates of deposits		1,402,431	2,605,284
Commercial papers		15,973,499	9,494,908
Government bonds		70,037,492	67,013,737
		111,626,458	103,185,488
Foreign:			
Corporate bonds and financial institution bonds		23,299,248	23,841,818
Financial bonds		6,049,203	6,923,772
Negotiable certificates of deposits		409,410	1,543,860
Treasury bills		1,173,380	1,225,639
Government bonds		1,503,066	2,091,751
		32,434,307	35,626,840
Total	\$	144,060,765	138,812,328

(j) Investments Accounted for Using Equity Method-Net

	December 31, 2017		December	· 31, 2016
		Percentage of		Percentage of
Associates	Amount	Ownership (%)	Amount	Ownership (%)
Hua Nan Financial Holdings Co., Ltd.	\$ 34,866,577	21.23	33,751,821	21.23
Tang Eng Iron Works Co., Ltd.	1,316,355	21.37	1,284,061	21.37
Tai Yi Real Estate Management Co., Ltd.	 20,568	30.00	19,642	30.00
	\$ 36,203,500		35,055,524	

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

	2017	2016
Hua Nan Financial Holdings Co., Ltd.	\$ 122,484	(410,128)
Tang Eng Iron Works Co., Ltd.	 (19,023)	(5,223)
Total	\$ 103,461	<u>(415,351</u>)

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

	2017	2016
Hua Nan Financial Holdings Co., Ltd.	\$ 2,555,815	2,990,692
Kaohsiung Ammonium Sulfate Co., Ltd.	-	13,312,318
Tang Eng Iron Works Co., Ltd.	52,325	107,566
Tai Yi Real Estate Co., Ltd.	 3,936	3,344
Total	\$ 2,612,076	16,413,920

(iii) Individually significant associate(s)

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

			The perc shareholdir and votin	0
Associate(s)	The relationship with the Bank	Principal operating place/registration country	December 31, 2017	December 31, 2016
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, 2017		December 31, 2016	
Hua Nan Financial Holdings Co., Ltd.	\$	39,284,016	36,296,532	

1) Summarized Financial Information

]	December 31, 2017	December 31, 2016		
Total Assets	\$	2,573,419,750	2,545,941,962		
Total Liabilities	_	(2,409,185,587)	(2,386,958,692)		
Net Assets	\$ _	164,234,163	158,983,270		
Attributable to the Bank	\$	34,866,577	33,751,821		

		2016	
Net income	\$	12,015,568	14,086,800
Other comprehensive income		599,718	(1,931,831)
Total comprehensive income	\$ <u></u>	12,615,286	12,154,969
Attributable to the Bank			
Investment income	\$	2,555,815	2,990,692
Other comprehensive income		122,484	(410,128)

- 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 \$2,555,815 thousand and \$2,990,692 thousand in 2017 and 2016, respectively.
- (iv) All other non-individually-significant associates
 - 1) Summarized Financial Information- Attributable to the Bank

	Dec	cember 31, 2017	December 31, 2016
Investment in non-individually-significant associates in aggregate	\$	1,336,923	1,303,703
		2017	2016
Investment income	\$	56,261	13,423,228
Other comprehensive income		(19,023)	(5,223)

- 2) Kaohsiung Ammonium Sulfate Co., Ltd., one of the associates accounted for using the equity method, is completing of the liquidation at January 15, 2016 (the date for liquidation). And the determination of distributing residual property by original shareholding percentage that determined by shareholders meeting. The Bank get NT\$232,412 thousand of cash, NT\$15,238,207 thousand of land which value was estimated by appraisal report (recognized in investment property), and \$13,312,318 thousand of related gains.
- (v) Collateral

No investment in associates was used as collateral on December 31, 2017.

(k) Other Financial Assets, Net

	D	ecember 31, 2017	December 31, 2016
Short-term advances	\$	52,291,017	52,253,321
Less: allowance for doubtful accounts – short-term advances		29,710	32,088
Debt investments without quoted price in active markets		14,644,697	15,732,665
Financial assets carried at cost		8,597,825	8,596,825
Less: cumulative impairment – financial assets carried at cost		15,000	15,000
Remittances purchased		7,171	5,765
Less: allowance for doubtful accounts – remittances purchased		71	58
Overdue receivables		81,703	123,106
Less: allowance for doubtful accounts-overdue receivables		81,654	105,187
Others		107,519	19,445
Total	\$	75,603,497	76,578,794

(i) Please see note 7, "Fair Value And Fair Value Hierarchy of the Financial Instruments", for details of the valuation of hedging derivative financial assets and debt investments without quoted price in active markets for December 31, 2017 and 2016.

(ii) Concerning for the payment of excess preferential interest on behalf of the government, booked under "short-term advances" for December 31, 2017 and 2016, please refer to note 6(f) for further information.

(l) Property and Equipment, Net

Changes in the cost, depreciation, and impairment of the properties and equipments of the Bank and its subsidiary in 2017 and 2016 were as follows:

Cost:		Land and Land provements	Buildings	Machineries and equipments	Transport equipments	Miscellaneous equipments	Leasehold improvements	Constructions in progress and prepayments for equipments	Total
Balance at January 1, 2017	\$	86,292,163	14,604,644	6,515,424	1,056,604	978,952	783,859	621,690	110,853,336
Additions		-	3,815	232,028	33,147	26,873	2,425	306,078	604,366
Disposals		(136,013)	(29,515)	(1,209,053)	(43,126)	(32,136)	(216)	-	(1,450,059)
Reclassification		-	86,283	97,633	931	426	16,997	(207,170)	(4,900)
Effect of change in exchange rates		-	-	(4,643)	(1,172)	(2,317)	(9,451)		(17,583)
Balance at December 31, 2017	\$	86,156,150	14,665,227	5,631,389	1,046,384	971,798	793,614	720,598	109,985,160
Balance at January 1, 2016	\$	86,292,163	14,558,694	6,475,669	1,039,062	985,219	740,760	474,409	110,565,976
Additions		-	14,269	389,974	28,847	28,761	12,479	282,960	757,290
Disposals		-	(11,800)	(371,920)	(46,538)	(35,571)	(52)	-	(465,881)
Reclassification		-	43,481	22,628	35,668	990	32,789	(135,679)	(123)
Effect of change in exchange rates	_	-	-	(927)	(435)	(447)	(2,117)		(3,926)
Balance at December 31, 2016	\$	86,292,163	14,604,644	6,515,424	1,056,604	978,952	783,859	621,690	110,853,336

		Land and Land provements	Buildings	Machineries and equipments	Transport equipments	Miscellaneous equipments	Leasehold improvements	Constructions in progress and prepayments for equipments	Total
Accumulated depreciation:									
Balance at January 1, 2017	\$	14,785	6,722,285	5,029,386	861,593	803,696	680,329	-	14,112,074
Depreciation		181	275,045	402,079	39,993	30,120	33,462	-	780,880
Disposal		-	(29,454)	(1,188,485)	(41,907)	(29,055)	(216)	-	(1,289,117)
Effect of change in exchange rates			-	(1,840)	(705)	(1,804)	(6,561)		(10,910)
Balance at December 31, 2017	\$	14,966	6,967,876	4,241,140	858,974	802,957	707,014		13,592,927
Balance at January 1, 2016	\$	14,423	6,463,402	4,965,817	865,746	803,713	646,058	-	13,759,159
Depreciation		362	270,677	408,870	41,167	32,746	35,638	-	789,460
Disposal		-	(11,794)	(345,003)	(45,102)	(32,437)	(52)	-	(434,388)
Reclassification		-	-	98	-	-	(93)	-	5
Effect of change in exchange rates	_		-	(396)	(218)	(326)	(1,222)		(2,162)
Balance at December 31, 2016	\$	14,785	6,722,285	5,029,386	861,593	803,696	680,329		14,112,074
Accumulated impairment:									
Balance at January 1, 2017	\$	45,937	-	-	-	-	-	-	45,937
Reversal of impairment loss	_	1,913	-						1,913
Balance at December 31, 2017	\$	47,850	-						47,850
Balance at January 1, 2016	\$	73,596	-	-	-	-	-	-	73,596
Reversal of impairment loss	_	(27,659)	-						(27,659)
Balance at December 31, 2017	\$	45,937	-	-	-				45,937
Carrying amounts:	_								
December 31, 2017	\$	86,093,334	7,697,351	1,390,249	187,410	168,841	86,600	720,598	96,344,383
January 1, 2016	\$	86,204,144	8,095,292	1,509,852	173,316	181,506	94,702	474,409	96,733,221
December 31, 2016	\$	86,231,441	7,882,359	1,486,038	195,011	175,256	103,530	621,690	96,695,325

The Bank and its 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, 2017 and 2016, the total revaluation increments for land were \$81,603,802 and \$81,739,784, respectively. The total revaluation increments for Buildings were \$34,307, both.

Based on the assessment in December, 2017, the carrying amount of the lands which have indicators of impairment was determined to be \$133,328 thousand higher than its recoverable amount of \$135,241 thousand, wherein an impairment loss of \$1,913 thousand was recognized. In 2016, the carrying amount of the lands which have an indicator of impairment was determined to be \$174,169 thousand lower than its recoverable amount of \$201,828 thousand. Therefore, the amount of \$27,659 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, 2017 and 2016, the Bank and its subsidiary's properties and equipments neither served as guarantees or collaterals, nor they were pledged.

(m) Investment property

(i) Changes in the investment properties of the Bank and its subsidiary for the year ended 2017 were as follows:

		Land
Cost:		
Balance at December 31, 2016 (same as beginning balance)	\$	15,238,207
Balance at January 1, 2016	\$	-
Additions		15,238,207
Balance at December 31, 2016	\$	15,238,207
Carrying amounts:		
December 31, 2017 (same as beginning balance)	\$	15,238,207
December 31, 2016	\$	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.

After Kaohsiung Ammonium Sulfate Co., Ltd. is completed in liquidation, distribute of residual property (land) to the Bank. The appraiser hired by the bank performed analyzing for the subject property about property rights, General factors, Local factors, Individual factors, market situation of property asset, highest and best use and profession judgment. Land of commercial district is appraised using the comparison approach and land development analysis of cost approach. Lands reserved for urban roads is belonging to land reserved for public facilities, and the roads have be using in the current situation. Based on field survey, the lands reserved for urban roads is accord with sending sites in transfer of floor area rights. The market value of land is assessed present value from 30% to 35%, and reference the percent of transaction. The lands is based on assessed present value 30% as of 2015. The relevant contract information and key assumptions used in the method are as follows:

The rate of return	19%
Overall capital interest rate	4.31%
Appraised by external independent appraiser or self-appraisal	External independent appraiser
Appraiser office(s)	Honda Real estate appraiser firm
Appraiser name(s)	Hsiang-Ming Nieh
Appraisal date	104/12/03
Fair value by external independent appraiser(s)	NT\$16,588,863 thousand (NT\$15,238,207 thousand recognized by original shareholding percentage)

The Bank's plan for the development land includes determining the scope of land development, estimating the duration of development, surveying and analyzing costs, obtaining current market prices, conducting on-site surveys, and investigating and analyzing the degree of development in the local environment. There was no significant fluctuation revealed by the assessment of macroeconomic factors, i.e., market indexes, population, employment rate, market prices and rates, market equilibrium, and other relevant market factors; hence, these data were used for estimating the total selling price after development or construction, and this expected selling price was used to derive the price before development and construction.

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

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

	December 31,	December 31,
	2017	2016
The fair value of investment property	\$15,282,337	16,367,959

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, 2017 the Bank did not provide any investment accounted for using equity method as collaterals for its loans.

(n) Intangible Assets

Changes in costs, amortization, and impairment loss of the intangible assets of the Bank and its subsidiary for the year ended 2017 and 2016 were as follows:

	Computer software
Costs:	
Balance at January 1, 2017	\$ 3,225,256
Additions	272,572
Balance at December 31, 2017	\$ <u>3,497,828</u>
Balance at January 1, 2016	\$ 2,915,290
Additions	309,966
Balance at December 31, 2016	\$ <u>3,225,256</u>
Amortization:	
Balance at January 1, 2017	\$ 2,422,031
Amortization for the year	367,065
Balance at December 31, 2017	\$ <u>2,789,096</u>
Balance at January 1, 2016	\$ 2,061,344
Amortization for the year	360,687
Balance at December 31, 2016	\$ <u>2,422,031</u>
Carrying amounts:	
December 31, 2017	\$ <u>708,732</u>
January 1, 2016	\$ <u>853,946</u>
December 31, 2016	\$ 803,225

(o) Other Assets

	 2017	2016
Foreclosed collaterals and residuals taken over, net	\$ 1,084,739	1,076,959
Advance payments	4,708,723	5,715,024
Operating guarantee deposits and settlement funds	10,000	10,000
Refundable deposits	830,053	453,565
Temporary Payments and Suspense Accounts	725,067	326,578
Inventories	812,975	1,163,603
Others	 381	233
Total	\$ 8,171,938	8,745,962

(i) Foreclosed collaterals and residuals taken over, net

Foreclosed collaterals and residuals taken over

De	cember 31,	December 31,
	2017	2016
\$	1,084,739	1,076,959

December 31,

(Continued)

December 31,

(ii) Advance payments

	December 31, 2017		December 31, 2016	
Prepaid expenses	\$	312,601	295,774	
Prepaid interests		17,596	5,434	
Business tax paid		662	170	
Business tax carry forward		511	699	
		4,301,227	5,350,068	
Other prepayments		76,126	62,879	
Total	\$ <u></u>	4,708,723	5,715,024	

(iii) Inventories

	Dec	cember 31, 2017	December 31, 2016
Inventories	\$	813,034	1,163,603
Less: allowance for inventory valuation		59	
Total	\$	812,975	1,163,603

The effects on the cost of goods sold derived from the inventory write-off or reversal for the year ended 2017 and 2016 were as follows:

	20	017	2016
Net sales gain	\$	(59)	3,430

(p) Impairment

For the year ended 2017 and 2016, the movements of the accumulated impairment were as follows:

	 2017	2016
Beginning balance	\$ 60,937	88,596
Reversal of impairment losses for the current period	 1,913	(27,659)
Ending balance	\$ 62,850	60,937

Note: It was mainly because the financial bonds and the beneficiary certificates of financial asset securitization had reached their maturity, and hence, were reclassified to accounts receivable – other receivables, as well as the accumulated impairment were all reclassified to allowance for doubtful accounts – other receivables.

Details of accumulated impairment were as follows:

	December 31, 2017		December 31, 2016	
Other financial assets	\$	15,000	15,000	
Property and Equipment		47,850	45,937	
Total	\$	62,850	60,937	

(q) Deposits of Central Bank and other banks

	December 31, 2017		
Deposits from Central Bank	\$	11,251,965	11,350,048
Deposits from banks-others		48,206,734	49,661,259
Postal deposits transferred		690,413	1,001,178
Bank overdrafts		2,271,023	778,312
Call loans from bank		156,601,249	164,806,017
Total	\$	219,021,384	227,596,814

(r) 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:

	De	ecember 31, 2017	December 31, 2016	
Financial liabilities held for trading	\$	24,558	26,798	
Add: valuation adjustment		8,682,092	6,682,265	
Subtotal		8,706,650	6,709,063	
Financial liabilities designated as fair value through profit or loss		26,118,400	-	
Add: valuation adjustment		205,385		
Subtotal		26,323,785		
Total	\$	35,030,435	6,709,063	

(ii) For valuation of financial liabilities measured at fair value through profit or loss, please refer to note 42 "Fair Value And Fair Value Hierarchy of the Financial Instruments".

(iii) Financial liabilities held for trading

	Dee	cember 31, 2017	December 31, 2016	
Foreign exchange options premium	\$	24,558	25,709	
Commodities options		-	1,089	
Add: valuation adjustment				
Foreign exchange options premium		(944)	(8,409)	
Swaps		8,131,915	5,895,391	
Interest rate swaps		237,780	173,441	
Forward foreign exchanges		90,779	269,986	
Asset swaps		82,351	104,798	
Cross currency swaps		140,211	247,210	
Commodities options		_	(152)	
Total	\$	8,706,650	6,709,063	

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

	De	December 31, 2016	
Financial bonds	\$	26,118,400	-
Add: valuation adjustment		205,385	
Total	\$	26,323,785	

The Bank has been approved by the FSC on August 23, 2016 to issue USD \$1 billion of 2017-1 Senior Unsecured Financial Bonds, denominated in U.S. dollar. The financial bonds amounted to USD \$0.88 billion had been issued in 2017.

The details of the financial bonds were as follow:

		Co	nditions				Bond	
Name of bond	Beginning date	Maturity date	Coupon rate	Face value	Туре		Am	ount
						D	ecember 31, 2017	December 31, 2016
2017-1 Senior unsecured financial bonds-A	2017/04/07	2047/04/07	0 %	USD \$0.5 million	Senior unsecured financial bond	\$	14,840,000	-
2017-1 Senior unsecured financial bonds-B	2017/04/07	2047/04/07	0 %	USD \$0.38 million	Senior unsecured financial bond		11,278,400	-
				Valuation adjustment		_	205,385	
						\$_	26,323,785	

The Bank have embedded call options to the above bonds. The call options may be exercised 2 years 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. The call options were exercised at November 28th and December 1st, 2016, the Bank recalled all of its financial bonds which were issued in 2014. 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.

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

	D	December 31, 2016		
Foreign exchange options premium	\$	2,031,574	3,163,326	
Swaps		643,656,468	431,236,970	
Interest rate swaps		12,033,858	16,436,661	
Forward foreign exchanges		9,699,171	15,088,510	
Asset swaps		801,360	1,288,800	
Cross currency swaps		2,404,080	2,609,820	
Product options		-	160,552	
Total	\$	670,626,511	469,984,639	

(s) Payables

	December 31, 2017	December 31, 2016
Accounts payables	\$ 10,458,971	11,882,206
Receipts under custody	944,051	956,166
Accrued expenses	2,548,386	2,524,004
Other tax payables	467,776	457,330
Interests payables	12,679,576	11,447,177
Banker's acceptances payables	2,719,831	2,508,820
Payables to representative organizations	564,570	626,716
Construction payables	9,794	15,204
Accounts payables – non-recourse factoring	361,199	347,180
Other payables – undelivered spot exchange	192	535
Other payables – collection bills	744,435	1,271,059
Other payables – payments awaiting transfer	7,161,698	6,471,553
Other payables –ATM temporary receipts, payments and inter branch differences	1,931,229	1,753,455
Other payables – foreign exchange awaiting transfer	408,084	556,826
Other payables – amounts awaiting settlement	592,578	71,915
Other payables – overdue accounts	188,049	164,970
Other payables – checking accounts	115,216	122,373
Other payables – collection	20,897	29,931
Other payables – others	350,531	306,025
Total	\$ <u>42,267,063</u>	41,513,445

(t) Deposits and Remittances

	December 31, 2017	December 31, 2016	
Cheques deposits	\$ 35,519,323	36,130,549	
Government deposits	272,339,999	258,655,614	
Demand deposits	404,154,620	393,816,788	
Time deposits	678,567,393	616,587,574	
Remittances	764,098	676,407	
Savings account deposits:			
Demand savings deposits	836,924,067	835,507,981	
Staff accounts	25,216,326	24,761,970	
Club saving deposits	804,229	918,514	
Non-drawing time savings deposits	392,680,420	382,729,099	
Interest withdrawal on principal deposited	833,272,930	860,048,514	
Preferential Interest deposits	460,888,643	464,149,754	
Total	\$ <u>3,941,132,048</u>	3,873,982,764	

(u) Financial Bonds Payable

	Condition			Bond		
Name of bond	Beginning date	Maturity date	Interest rate	Туре	Amo	unt
					December 31, 2017	December 31, 2016
2013-1 TWD subordinated unsecured financial bonds	2013/12/2	2023/12/2	The Bank's listed annual fixed interest rate of time deposits, plus, 0.15%.	Subordinated unsecured financial bond	\$ 16,000,000	16,000,000
2014-1 TWD subordinated unsecured financial bonds-A	2014/06/25	2024/06/25	TAIBOR 3M plus 0.30%	Subordinated unsecured financial bond	5,500,000	5,500,000
2014-1 TWD subordinated unsecured financial bonds-B	2014/06/27	2024/06/27	1.70%	Subordinated unsecured financial bond	2,000,000	2,000,000
2014-1 TWD subordinated unsecured financial bonds-C	2014/06/27	2024/06/27	The Bank's listed annual fixed interest rate of time deposits, plus, 0.15%	Subordinated unsecured financial bond	1,500,000	1,500,000
			unamortized discount amount		(1,684)	(1,918)
Total					\$ <u>24,998,316</u>	24,998,082

(v) Other Financial Liabilities

	Dec	ember 31, 2017	December 31, 2016
Appropriated loan funds	\$	41,430	52,626
Principal from structured products		801,392	696,229
	\$ <u></u>	842,822	748,855

(w) Provision

	D	ecember 31, 2017	December 31, 2016
Employee benefit obligations	\$	18,420,543	17,455,332
Guarantee reserve		1,298,033	1,071,798
Reserve for government employees insurance		295,055,660	264,840,836
Total	\$	314,774,236	283,367,966

(x) Provisions – Employee benefits

	 2017	2016
Recognized in Consolidated Balance Sheet:		
Defined benefit plan	\$ 10,250,785	9,472,702
Employees preferential interest	 8,169,758	7,982,630
Total	\$ 18,420,543	17,455,332

December 31,

(Continued)

December 31,

(i) Defined contribution plans

The Bank and its subsidiary have established the defined contributions plans in accordance with the provision of the Labor Pension Act since July 1, 2005. The Bank and its 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 \$2,110 thousand and \$1,714 thousand for the years ended December 31, 2017 and 2016, respectively.

(ii) Defined benefit plans

The Bank and its 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 its 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 its 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-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 its 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 its 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 \$1,163,544 thousand and \$1,160,343 thousand as of December 31, 2017 and 2016, respectively. Bank and its subsidiaries expect to contribute \$808,754 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	11.60 year
Employee care bonuses during the three Chinese	11.60 year
festivals	

1) 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:

		ecember 31, 2017	December 31, 2016	
Present value of the defined benefit obligations	\$	17,745,198	16,800,503	
Less: fair value of the plan assets		(7,494,413)	(7,327,801)	
		10,250,785	9,472,702	
Limit of assets adjustment		-		
Recognized liabilities for the defined benefit obligations	\$ <u></u>	10,250,785	9,472,702	

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

		2017	2016
Defined benefit obligation at January 1	\$	16,800,503	16,181,900
Current service costs		653,610	646,800
Interest expense		235,207	306,955
Remeasurements of the defined benefit plans of other Comprehensive Income			
-3 percent increase in salary		516,683	-
 Changes in actuarial gains and losses in financial assumptions 		154,057	665,655
-Experience adjustments		274,982	20,586
Past service cost		-	(235,859)
Benefit payments		(889,844)	(785,534)
Defined benefit obligation at December 31	<u>\$</u>	17,745,198	16,800,503

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

2017	2016	
\$ 7,327,801	7,156,866	
102,589	138,166	
(17,270)	(58,140)	
887,453	782,816	
 (806,160)	(691,907)	
\$ 7,494,413	7,327,801	
 2017	2016	
\$ 653,610	646,800	
132,618	168,789	
 	(235,859)	
\$ 786,228	579,730	
\$	\$ 7,327,801 102,589 (17,270) 887,453 (806,160) \$ 7,494,413 2017 \$ 653,610 132,618	

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

The Bank and its subsidiary re-measurement of the net defined benefit liability (asset) recognized in other comprehensive income for the years ended December 31, 2017 and 2016, was as follows:

2017

	 2017	2010
Accumulated amount at January 1	\$ (2,550,791)	(1,806,410)
Recognized during the period	 (962,992)	(744,381)
Accumulated amount at December 31	\$ (3,513,783)	(2,550,791)

6) Portfolio analysis of plan asset

4)

		2017	2016
Bonds instruments	\$	750,000	750,000
Others	_	6,744,413	6,577,801
Total	\$_	7,494,413	7,327,801

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.

(Continued)

2016

7) Actuarial assumptions

	December 31, 2017	December 31, 2016
Discount rate	1 10 %	1 40 %
Assets expected rate of return	1 10 %	1 40 %
Future of salary increases	1.50 %	1.75 %

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

8) Sensitivity analysis

The followings would be the impacts on the present value of defined benefit obligations as of December 31, 2017 and 2016 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, 2017	C (197				
Discount rate					
Defined benefit plans	0.25%	\$	17,198,892	18,243,289	
Employee care bonus during the three Chinese festivals	0.25%		6,953	7,199	
Salary increase rate	0.50%		18,646,280	16,898,386	
December 31, 2016					
Discount rate					
Defined benefit plans	0.25%		16,279,269	17,275,283	
Employee care bonus during the three Chinese festivals	0.25%		8,155	8,430	
Salary increase rate	0.50%		17,665,168	15,985,004	

The aforementioned sentivity 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 sentivity analysis.

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

(iii) Employee preferential interest plan

3)

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

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

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

		cember 31, 2017	December 31, 2016	
Fair value of the Employees preferential interest plan	\$	8,169,758	7,982,630	
Limit of assets adjustment		-		
Recognized liabilities for the defined benefit obligations	\$	8,169,758	7,982,630	

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

		2017	2016
Present value of employees preferential interest plan at January 1	\$	7,982,630	8,057,378
Interest expense		319,305	283,186
Remeasurement of net employees preferential deposit			
Benefit payments		2,004,037	1,697,952
Benefit paid by the plan		(2,136,214)	(2,055,886)
Present value of employees preferential interest plan at December 31	\$ <u></u>	8,169,758	7,982,630
Expense recognized in profit or loss			

	2017		2016	
Net interest of employees preferential deposit	\$	319,305	283,186	
Prior service costs and settlement of losses		2,004,037	1,697,952	
Total (booked under employee benefits expense,	\$	2,323,342	1,981,138	
note 6(ah))				

4) Actuarial assumptions

	2017	2016
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 %

5) Sensitivity analysis

The followings would be the impacts on the present value of defined benefit obligations as of December 31, 2017 and 2016 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, 2017						
Discount rate	0.25%	\$	8,017,613	8,327,296		
December 31, 2016						
Discount rate	0.25%		7,832,679	8,137,942		

The aforementioned sentivity analysis is used to analyze what the impact could be when one variable changes, while all other variables remaind 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 sentivity analysis.

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

6) Future cash flow of Employees preferential interest plan

The Bank and its 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 its subsidiary expect to contribute \$2,034,458 thousand to the plan.

(y) Other Liabilities

	Dec	2017 cember 31,	December 31, 2016
Advance collections	\$	2,266,090	2,097,900
Guarantee deposits received		4,919,516	2,866,927
Temporary receipt and suspense accounts		46,652	686,127
Other liabilities to be settled		8,239	8,239
Compensation arising from land revaluation		1,264,803	1,264,803
Defered revenue		31	15
Total	\$	8,505,331	6,924,011

Income Tax Expenses (z)

Income Tax expenses (benefits) (i)

The income tax expenses for 2017 and 2016 were as follow:

	 2017		
Current income tax expense	\$ 826,316	1,797,368	
Deferred tax expense (benefit)	 67,190	(16,809)	
Income tax expenses	\$ 893,506	1,780,559	

Income tax (expenses) benefits recognized directly in other comprehensive income for 2017 and 2016 were as follows:

	2017	2016
Unrealised gains (losses) on valuation of available-	\$ 20,417	27,844
for-sale financial assets	 	

The amount of expense (income) tax recognized in other comprehensive income for in 2017 and 2016 were as follows:

	2017	2016
Profit before tax	\$ <u>11,297,096</u>	19,434,616
Income tax using the company's domestic tax rate	1,920,506	3,303,885
Income tax expenses of overseas branches	544,692	789,611
Net movements of deferred tax assets	67,190	(16,809)
Tax-exempt effects and others	(1,638,882)) (2,296,128)
Total	\$ <u>893,506</u>	1,780,559

1) Unrecognized Deferred Tax Assets

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

	December 31,		December 31,
		2017	2016
Deductible Temporary Differences	<u>\$</u>	4,685,497	4,712,918

2) Recognised Deferred Tax Assets and Liabilities

Changes in the amount of deferred tax assets and liabilities for 2017 and 2016 are as follows:

Deferred Tax Assets:

		Gains	Others	Total
Balance at January 1, 2017	\$	293,926	3,954	297,880
Recognized in profit or loss		(93,266)	-	(93,266)
Recognized in other comprehensive income		(37,443)		(37,443)
Balance at December 31, 2017	\$_	163,217	3,954	167,171
Balance at January 1, 2016	\$	377,183	98,857	476,040
Recognized in profit or loss		(30,618)	(94,903)	(125,521)
Recognized in other comprehensive income		(52,639)		(52,639)
Balance at December 31, 2016	\$	293,926	3,954	297,880

Deferred Tax Liabilities:

	Land Value Increment Tax	Fair Value Gains	Others	Total
Balance at January 1, 2017	\$ 18,106,962	66,197	-	18,173,159
Recognized in profit or loss	(26,076)	-	-	(26,076)
Recognized in other comprehensive income	-	(17,026)	-	(17,026)
Balance at December 31, 2017	\$ <u>18,080,886</u>	<u> </u>		18,130,057
Balance at January 1, 2016	\$ 18,106,962	138,419	94,903	18,340,284
Recognized in profit or loss	-	(47,427)	(94,903)	(142,330)
Recognized in other comprehensive income	-	(24,795)	-	(24,795)
Balance at December 31, 2016	\$ <u>18,106,962</u>	<u> </u>		18,173,159

- (ii) The Bank and its subsidiary's income tax returns have been audited by the MoA up until 2016 and examined by the National Tax Administration up until 2015.
- (iii) Information related to the unappropriated earnings and deduction tax account were summarized below:

	December 31, 2017	December 31, 2016
Unappropriated earnings of 1998 and after	(Note)	\$ 18,820,340
	December 31, 2017	December 31, 2016
Balance of deductible tax account	(Note)	910,796

After the Bank's filing of the income tax return, the imputed tax creditable ratio for appropriating the net income for 2017 and 2016 were 1.00% and 8.68% (actual). The integrated income tax is calculated according to the Tai Cai Shui No.10204562810 (October 17, 2013).

Note: According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, effective January 1, 2018, the Bank will no longer be required to establish, record, calculate, and distribute their ICA due to the abolishment of the imputation tax system.

(aa) Equity

(i) Capital stock

As of December 31, 2017 and 2016, the Bank's authorized and issued shares of common stock were 9,500,000 thousand shares. The above mentioned common stock had a par value of \$10.

(ii) Capital surplus

According to the ROC Company Act prior to the new amendment on January 4, 2012, capital surplus can only be used to increase share capital by the realized capital surplus after making good the deficit. Capital surplus cannot be used for distribution of cash dividends. According to the new amendment of the ROC Company Act, the Bank can declare dividend with capital surplus. The aforementioned realized capital surplus includes the income derived from the issuance of new shares at a premium and the income from endowments received by the Bank. The share capital capitalized in any one year may not exceed a certain percentage for the Bank's increasing share capital under the Regulations Governing the Offering and Issuance of Securities by Securities Issuers. The Bank 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 from cash premium on capital stock.

(iii) Legal reserve

In accordance with the Company Act prior to the new amendment on January 4, 2012, the Bank shall set aside 30 percent of the net income after tax as legal reserve until such legal reserve amounts have reach the authorized capital. The legal reserve can only be used to make good the deficit but not use to distribute any cash dividends. According to the amendment of the ROC Company Act, the distribution of the legal reserve by issuing new shares or by cash is allowed only with the approval granted through the shareholder's meeting when the Bank does not have any deficit, and only the portion of legal reserve which exceeds 25 percent of the paid-in capital may be distributed.

(iv) Other equity (net of tax)

		Financial statements translation differences of foreign operations	Gain (losses) on effective portion of cash flow hedges	Unrealized gain (loss) on available-for- sale financial assets	Effect of credit risk changes of financial liabilities measured at fair value	Total
Balance at January 1, 2017	\$	486,882	8,197	22,784,276	8,941	23,288,296
Exchange differences arising on translation of foreign operations		(1,803,677)	-	-	-	(1,803,677)
Unrealized gain (loss) on available-for-sale		-	-	7,664,503	-	7,664,503
Changes in equity of associates and joint venture accounted for equity method	s	-	(120)	-	-	(120)
Change in cash flow hedges of associates and joint ventures accounted for equity method		-	(4,086)	-	-	(4,086)
Effect of credit risk changes in financial liabilities measured at fair value sale financial assets	_	-	-	-	(53,540)	(53,540)
Balance at December 31, 2017	\$_	(1,316,795)	3,991	30,448,779	(44,599)	29,091,376
Balance at January 1, 2017	\$	1,177,610	4,278	18,899,561	22,552	20,104,001
Exchange differences arising on translation of foreign operations		(690,728)	-	-	-	(690,728)
Unrealized gain (loss) on available-for-sale		-	-	3,884,715	-	3,884,715
Change in cash flow hedges of associates and joint ventures accounted for equity method		-	3,919	-	-	3,919
Effect of credit risk changes in financial liabilities measured at fair value sale financial assets	_	-	-	-	(13,611)	(13,611)
Balance at December 31, 2017	\$	486,882	8,197	22,784,276	8,941	23,288,296

(v) Appropriation of earnings

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

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

4) special reserve

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

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

5) To appropriate dividends.

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

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

- 6) For accumulating the Bank's regulatory capital, TFH offers the application to Ministry of Finance and Executive Yuan about the Bank doesn't need to pay the surplus in 2015 over to the treasury which by Jin-Kung-Tsai-Tsu No. 10515400091 on January 15, 2016. And Ministry of Finance responds the Bank by the letter of Executive Yuan on March 31, 2016, that the amount of surplus recognize as retained earnings except for four hundred million of working capital from distributing surplus in 2015 which is TFH needs in 2016.
- 7) Under the premise that making government final accounts of revenue and expenditure balance during the period of the budget 2016 deliberated by Legislative Yuan. Executive Yuan agree the Bank and TFH do not pay the surplus in 2016 over to the treasury for the purpose of strength the constitution of operation and improving capital adequacy ratio which was made in Third Reading. TFH required the Bank distribute the surplus in 2016 which as working capital TFH need by Jin-Kung-Tsai-Tsu No. 10615400021 on January 4, 2017. And which authorized by the Board of Directors on February 24, 2017, then covered by the adjustment of the Competent Authority.

8) 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.

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

(ab) Net interest income

	2017	2016
Interest income:		
Loans and discounts	\$ 38,596,404	39,433,276
Placement with Central Bank and call loans to banks	8,565,108	8,020,118
Securities investment	11,103,318	10,995,673
Credit cards	26,392	29,085
Bonds purchased under resell agreements	-	612
Others	 814,256	924,021
	 59,105,478	59,402,785
Interest expense:		
Deposits from customers	30,379,528	30,788,106
Deposits of Central Banks and other banks	2,750,030	2,175,375
Bonds sold under repurchased agreements	110,407	49,158
Financial bonds	304,369	322,410
Structured deposits	17,242	15,616
Others	 21,829	16,638
	 33,583,405	33,367,303
Total	\$ 25,522,073	26,035,482

(ac) Service fees, net

	 2017	2016
Service fees revenue:		
Trust services	\$ 916,419	731,592
Custody services	136,629	137,651
Foreign exchange business	273,700	264,389
Credit business	610,663	632,552
Credit card services	138,133	128,635
Deposit, remittance and other services	 3,745,324	4,358,581
Subtotal	 5,820,868	6,253,400
Service fees expense:		
Trust services	88,325	81,936
Custody services	15,381	15,703
Credit card services	121,710	115,682
Deposit, remittance and other services	 417,433	410,398
Subtotal	 642,849	623,719
Total	\$ 5,178,019	5,629,681

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

	 2017	2016
Gain on financial assets or liabilities measured at fair value through profit or loss:		
Dividend income	\$ 4,600,572	3,939,458
Net interest (loss) income	(43,946)	(560,980)
Net gain on disposal	 8,921,436	4,084,336
	 13,478,062	7,462,814
Gain on financial assets or liabilities measured at fair value through profit or loss – evaluation:		
Net (loss) gain on valuation	 18,035,634	8,860,054
Total	\$ 31,513,696	16,322,868

(ae) Realized gain (loss) on available-for-sale financial assets

			2017	2016
	Dividend income	\$	2,505,077	2,198,262
	Gain on disposal	_	637,069	313,331
	Subtotal	_	3,142,146	2,511,593
	Loss on disposal	_	128,493	379,771
	Total	\$	3,013,653	2,131,822
(af)	Foreign exchange gain or loss			
			2017	2016
	Foreign exchange gains	\$	8,626,221	13,588,461
	Foreign exchange losses	_	(11,875,855)	(14,046,354)
	Foreign exchange gains or losses	\$	(3,249,634)	(457,893)
(ag)	Other non-interest income (expense)			
			2017	2016
	Premiums income	\$	23,478,165	22,779,133
	Sales revenue		129,984,314	115,695,073
	Subsidized income from government		10,452,705	13,754,258
	Benefits and claims		(24,923,676)	(29,871,353)
	Cost of goods sold		(129,528,644)	(115,152,537)
	Provisions for policy holders' reserve premium		(30,214,824)	(18,843,200)
	Excess preferential interest expenses		(11,005,803)	(10,777,111)
	Others	_	256,637	1,006,050
	Total	\$	(31,501,126)	(21,409,687)
(ah)	Employee benefits expenses			
		_	2017	2016
	Salaries	\$	10,479,618	10,380,981
	Labor and health insurances		506,574	503,041
	Pensions		808,792	835,164
	Others	_	234,151	242,738
	Total	\$	12,029,135	11,961,924

(ai) Depreciation and amortization expenses

	2017	2016
Depreciation expenses	\$ 734,4	02 744,271
Amortization expenses	367,1	25 360,891
Total	\$ <u>1,101,5</u>	27 1,105,162

(aj) Other general and administrative expenses

	2017	2016
Taxes	\$ 3,170,497	3,318,279
Rental expenses	720,049	716,926
Insurance expenses	949,931	923,616
Postage and phone / fax expenses	228,216	217,590
Utilities	193,641	198,548
Supplies expenses	161,546	162,952
Repair and maintenance expenses	413,208	399,361
Marketing expenses	312,921	314,029
Professional service fees	415,196	370,220
Cashes transferring expenses	87,590	74,806
Others	 321,286	312,087
Total	\$ 6,974,081	7,008,414

(ak) Earnings per Share

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

	Unit: thousand dollars / thousand share				
	20	17	2016		
	Before-Tax	After-Tax	Before-Tax	After-Tax	
Consolidated net income	\$ <u>11,297,096</u>	10,403,590	19,434,616	17,654,057	
Weighted average outstanding shares	9,500,000	9,500,000	9,500,000	9,500,000	
Basic earnings per share (In dollars)	\$ <u>1.19</u>	1.10	2.05	1.86	

(7) The Fair Value Information of Financial Instruments:

- (a) Fair value information
 - (i) Fair value information
 - 1) 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.

- 2) The Three-level Definition
 - a) 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.

b) 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 its subsidiary are classified as level 2.

c) Level 3

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

(b) Measure at fair value measurement

(i) Fair value hierarchy

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

	December 31, 2017				
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	229,418,830	174,480,334	54,938,496	-	
Financial assets held for trading	212,802,025	174,480,334	38,321,691		
Investment in stocks	93,049,984	93,049,984	-	-	
Investment in bonds	874,788	850,578	24,210	-	
Others	118,877,253	80,579,772	38,297,481	-	
Financial assets designated as fair value through profit or loss	16,616,805	-	16,616,805	-	
Available-for-sale financial assets	1,135,942,401	64,779,914	1,071,162,487		
Investments in stocks	58,569,287	58,569,287	-	-	
Investment in bonds	143,815,265	5,714,116	138,101,149	-	
Others	933,557,849	496,511	933,061,338	-	
Liabilities :					
Financial liabilities measured at fair value through profit or loss	26,323,785	-	26,323,785	-	
Financial liabilities designated as fair value through profit or loss	26,323,785	-	26,323,785	-	
Derivative financial instruments					
Assets:					
Financial assets measured at fair value through profit or loss	7,100,927	-	7,100,927	-	
Hedging derivatives financial assets	22,759	-	22,759	-	
Liabilities:					
Financial liabilities measured at fair value through profit or loss	8,706,650	-	8,706,650	-	
Hedging derivatives financial liabilities	60,480	-	60,480	-	

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	December 31, 2016				
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	202,194,956	147,581,135	54,613,821	-	
Financial assets held for trading	184,124,658	147,581,135	36,543,523		
Investment in stocks	77,529,161	77,529,161	-	-	
Investment in bonds	2,740,995	2,574,086	166,909	-	
Others	103,854,502	67,477,888	36,376,614	-	
Financial assets designated as fair value through profit or loss	18,070,298	-	18,070,298	-	
Available-for-sale financial assets	1,037,841,339	57,699,831	980,141,508		
Investment in stocks	51,706,108	51,706,108	-	-	
Investment in bonds	134,829,227	5,712,226	129,117,001	-	
Others	851,306,004	281,497	851,024,507	-	
Liabilities :					
Derivative financial instruments					
Assets :					
Financial assets measured at fair value through profit or loss	10,366,042	-	10,366,042	-	
Hedging financial assets	21,221	-	21,221	-	
Liabilities :					
Financial liabilities measured at fair value through profit or loss	6,709,063	-	6,709,063	-	
Hedging derivatives financial liabilities	144,195	-	144,195	-	

(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 its subsidiary adopt the valuation methods which are widely used and accepted by other market participants. The parameters used are usually the observable market data or information.

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

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

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

2) Credit risk valuation adjustment

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

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

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

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

The Banks 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 was as follows:

There were no financial instruments categorized in level 3 as of December 31, 2017 and 2016.

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

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

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

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

The favorable and unfavorable effects represent the changes in fair value, and the fair value are based on a variety of unobservable inputs calculated using a valuation technique. There are no such effects as of December 31, 2017 and 2016. The analysis only reflects the effects of changes in a single input, and it does not include the inter-relationships with another input.

- (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, 2017		
Financial Assets		
Held-to-maturity financial assets	144,060,765	145,207,512
Other financial assets – Debt investments without quoted price in active markets	14,644,697	14,595,704
December 31, 2016		
Financial Assets		
Held-to-maturity financial assets	138,812,328	138,123,366
Other financial assets – Debt investments without quoted price in active markets	15,732,665	15,452,600

(ii) Fair value hierarchy

		December 31, 2017					
		Quoted prices in active markets for identical asset	Significant other observable inputs	Significant observable inputs			
Assets and liabilities item	<u> </u>	(Level1)	(Level2)	(Level3)			
Financial Assets:							
Held-to-maturity financial assets	\$145,207,512	64,875,859	80,331,653	-			
Other financial assets – Debt investments without quoted pric in active markets	14,595,704 e	-	14,595,704	-			

		December 31, 2016					
Assets and liabilities item	Total	Quoted prices in active markets for identical asset (Level1)	Significant other observable inputs (Level2)	Significant observable inputs (Level3)			
Financial Assets:							
Held-to-maturity financial assets	\$138,123,366	58,842,117	79,281,249	-			
Other financial assets – Debt investments without quoted pric in active markets	15,452,600 e	-	15,452,600	-			

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

- Financial instruments that have short term to maturity or of which the agreed prices are close to carrying amounts are recognized using their carrying amounts at reporting date. These financial instruments include cash and cash equivalents, placement with Central Bank and call loans to banks, bills and bonds purchased under resell agreements, receivables, limited assets, deposits of Central Bank and other banks, loans to the Central Bank and other banks, bills and bonds sold under repurchase agreements, payables and guarantee deposits received.
- 2) The discounts and loans (including non-performing loans): The Bank use the floating interest rate to be the interest rate of loans. The floating interest rate can also reflect the market interest rate. So it is reasonable to use the carrying amount and the recoverability to estimate the fair value. The mid-term and long-term loans using with fixed interest rate should use the discounted present value of expected future cash flow to estimate their fair value. However, if the loans with fixed interest rate are minor, it is reasonable to use the carrying amount and their recoverability to estimate their fair value.
- 3) Held-to-maturity financial assets: The quoted price in an active market shall be used to estimate the fair value. Otherwise, the quoted price of the counterparty or the valuation methods will be used instead.
 - a) New Taiwan Dollar Government Bonds: The "Government Bonds Fair Value" offered by the Taipei Exchange is used to evaluate the bonds.
 - b) New Taiwan Dollar Corporate Bonds and Financial Bonds: The present value is decided by the present value discounted at the yield offered by the Taipei Exchange or the fair value offered by the Taipei Exchange.

- 4) Deposits and Remittances: The Bank and its 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 its 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.
- 6) Other Financial Assets Bonds Investments with Non-active Market: If there are related transactions or quoted price from market makers, the latest strike price or quoted price should be used to measure the fair value. Otherwise, use the valuation methods to estimate the discounted present value of cash flow.
- 7) Other Financial Assets Financial Assets Carried at Cost: Because there is no quoted price in the active market and the interval of estimated fair values is significant or it is not reasonable to evaluate the probability of each estimated fair value within the interval, therefore, the fair value cannot be measured reliably. Hence, the Bank and its subsidiary can not disclose the fair value.

(8) Financial Risk Management:

(a) Overview

The Bank's activities has expose to various risks from financial instruments, which included credit risk, market risk, operational risk, interest rate risk, liquidity risk, national risk, legal risk and so forth. The principle of risk management is as follow:

- (i) Monitor the BIS Capital Adequacy Ratio in response to operation scale, credit risk, market risk, operational risk and the operating trades in the future.
- (ii) Establish a systematic risk measure and control mechanism to measure, monitor and control every risk.
- (iii) Manage every business risk considering the risk capacity, capital reserve, nature of debts and performance.
- (iv) Establish a valuation method for the quality and classification of assets, control the intensity of exposure and significant exposure, check periodically and recognize allowance for loss.
- (v) Establish information system protection mechanism and emergency plan for bank operation, transactions, and information. Build an independent and effective risk management mechanism and strengthen the risk management of business through appropriate policies, procedures, and systems.

(b) Risk management structure

The risk management structure of the Bank and its subsidiary is composed of the Board of Directors, risk management committee, risk management department and every operational unit.

- (i) The Board of Director is the final decision maker for risk management and is responsible for the result of risk. The Board of Director should decide the entire risk management policies in view of operational strategies and business environment to monitor the risk management mechanism which understand the risk status and maintain the appropriate Capital Adequacy Ratio in response to all risk.
- (ii) Risk management committee under the Board of Directors is responsible for executing risk management policies and coordinating interdepartmental management of risk.
- (iii) Risk management department is responsible to monitor, trace the execution status of risk management policies and submit reports to the board of directors or risk management committee. If a significant risk exposure is discovered, the risk management department has to make appropriate procedures and report them to the board of directors.
- (iv) Every department should identify, evaluate, and control the risks of new products or business, set related risk management regulations as a guideline, and monitor the risk management to ensure the risk control of entire company.
- (v) All operational units shall comply with the regulations for risk management.
- (c) Credit Risk
 - (i) Causes and definition of credit risk

Credit risk is the risk of financial loss to the Bank if a borrower, issuer or a counterparty to a financial instrument fails to meet its contractual obligations principally due to their credit deterioration or other factors (i.e. disputes between a loanee and its counterparty). Credit risk is derived both from on- and off- balance sheet items. On-balance-sheet items include loans, placement with banks, call loans to banks, acceptance bills, debt instruments, derivatives, etc. Off-balance sheet items include guarantees, acceptances, letter of credits, loan commitments, etc.

(ii) Identification and measurement of credit risk

To ensure the credit risk is in a tolerable range, the Bank and its subsidiary set the credit risk management policies which identified that the credit risk includes all the transactions and business related to the assets, liabilities and off-balance sheet items. Before executing present or new businesses, the Bank and its subsidiary shall identify the credit risk, understand the risk exposure through appropriate evaluation and assess the possibilities of default.

Except that the local financial supervisory institutions have their own regulations, the overseas business units of the Bank and its subsidiary shall conduct the credit ability of the loans and discounts, and recognized impairment in accordance with the "Operational Manual of Evaluating the Impairment of Loans and Receivables". The followings are the detailed information of how major businesses of the Bank measure and manage credit risk.

- 1) Credit business(including loan commitments and deposit)
 - a) Credit assets categories and post-loan management

The Bank has established the "Operational Manual of Evaluating the Impairment of Loans and Receivables" and classify the credit assets into five categories. Except for the normal credit assets that are classified at the first category, the other bad credit rating assets are classified as the second category- requiring attention, the third category- collectable, the forth 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 its subsidiary set the "Credit Review and Follow up Evaluations Provision", the "Review of the Credit Conducted by Managers Provision" and "Warning Mechanism Provision" and evaluate and monitor the quality of credit assets regularly. Also, the Bank and its subsidiary keep retrial according to rating of credit cases and check significant credit case periodically to enhance the management of abnormal credit for the intention of warning and interim monitor.

b) Internal credit rating

When conducting credit review, the Bank will obtain necessary collateral to mitigate risk arising from financial loss due to the environment, economic changes, risk factors of business development strategies and policies. In order to balance the credit risk and earnings target, they strengthen the market competitiveness of products strive for customer identification and broaden the business. The following are the credit process of corporate finance and consumer finance.

i) Corporate Finance

The Bank has established a credit policy under which each new customer is analyzed individually for creditworthiness before the interest rate is offered. The Banks review includes external rating, when available, and in some cases, the information that is publicly available. The corporate credit rating score classify companies into two types, 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 eight credit ratings, all in all.

ii) Consumer Finance

The Bank and its subsidiary use the credit application scorecard and behavior scorecard, both of which have five grades to consider the credit risk evaluation and differential interest rate. Unsecured consumer loans are graded based on seven scoring items and classified into five ratings. The Bank and its subsidiary will reject those below the lowest scores; the others are reviewed in accordance with related provisions.

2) Due from Banks and Call Loans to Banks

The Bank will assess the counterparty's creditworthiness, and refer to external ratings, provided by domestic and international credit rating agencies, to set up different credit risk limits before any transactions are carried out.

3) Investment in debt instruments and derivative

The Bank identifies and manages credit risk of debt instruments by reviewing the external ratings, bonds' creditworthiness, and geographic region of its counterpartys.

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) 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 and its subsidiary's person in charge, employees, and any interested party. In respect to credit intensity, the Bank and its subsidiary provide credit and investment quota rules for the same enterprise, and industry. The Bank and its subsidiary also limit and manage the credit amount for enterprises, groups and every industry.
 - 2) The Bank and its 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 diversify the risk for countries, the Bank and its subsidiary allocate different credit amount according to the ranking of the countries in Euromoney to the Financing Department, OBU, and foreign branches. The covered businesses are loan assets, transaction assets, and off balance sheet positions.
- (iv) 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 banks 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 its subsidiary shall request collaterals or guarantees to decrease the credit risk. The permitted collaterals and guarantees included mortgages on real estate or properties (i.e., land, building, machinery, car, ship, aircraft, etc.), pledges of securities or other rights (i.e., certificates of deposit; various bonds, stocks, or other securities), guarantees provided by the government agencies, banks, or credit guarantee institutions authorized by the government, and any other guarantees or collaterals approved by the Bank and its subsidiary.

2) Master netting agreement

The Bank's transactions are usually settled individually without bundling or netting with any other transactions. However, the Banks 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 Banks are entitled to offset the obligation by claiming the deposits of the borrower who are in default to mitigate credit risk.

- (v) The maximum credit exposure to the credit risk of financial assets (without considering the allowance for bad debt, collaterals and guarantees)
 - December 31, 2017 December 31, 2016 Maximum Book Book Maximum credit credit exposure exposure (Note 2) Item Value (Note 1) Value Cash and cash equivalents 114,043 79.489 81,044 45,914 Placement with Central Bank and call loans 675,563 251,386 687,282 226,850 to banks Financial assets measured at fair value 64,827 64,827 67,334 65,174 through profit or loss 1,135,941 161.370 1.037.838 152.394 Available-for-sale financial assets Hedging derivatives financial assets 21 23 23 21 Receivables 100.519 83.175 45.795 28,044 Loans and discounts 2.318.081 2,252,679 2.307.049 2.236.786 Held-to-maturity financial assets 81,258 12,809 81,983 16.564 75,632 75,715 76,716 28,017 Other financial assets Total 4,565,970 2,981,390 4,385,062 ,799,764
 - 1) Assets in the Financial Statements

Note 1: December 31, 2017

 The amount of non-performing loans which included the department of loan management was \$4,923 million

Unit: In million of TWD

- (2) Apart from cash, the maximum exposure to credit risk of other assets shall exclude the debts (including tax receivables, placement with Central Bank and deposits in Central Bank) from the government and the Central Bank. Explanations were as follows:
 - 1) Cash and cash equivalents exclude cash, notes, and checks for clearing of \$34,554 million.
 - Placement with Central Bank and call loans to banks exclude placement with Central Bank and deposits in Central Bank of \$424,177 million.
 - Financial assets measured at fair value through profit or loss exclude the government bonds of \$0 million.
 - Available-for-sale financial assets exclude the government bonds of \$42,225 million and negotiable certificate of deposits of \$932,346 million.
 - 5) Held-to-maturity financial assets exclude the government bonds of \$68,449 million.
 - Receivables exclude tax receivables of \$650 million and long-term receivables of \$16,694 million.
 - 7) Loans and discounts exclude loans to government of \$65,402 million.
 - 8) Other financial assets exclude short-term advances to government of \$83 million.
- (3) The book value of hedging derivatives is the principal of the hedging instruments (IRS); and the amount of greatest credit exposure is the adjusted amount of hedging derivatives at fair value.
- (4) This table excludes the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

Note 2: December 31, 2016

- The amount of non-performing loans which included the department of loan management was \$4,749 million)
- (2) Apart from cash, the maximum exposure to credit risk of other assets shall exclude the debts (including tax receivables, placement with Central Bank and deposits in Central Bank) from the government and the Central Bank. Explanations were as follows:
 - 1) Cash and cash equivalents exclude cash, notes, and checks for clearing of \$35,130 million.
 - Placement with Central Bank and call loans to banks exclude placement with Central Bank and deposits in Central Bank of \$460,432 million.
 - Financial assets measured at fair value through profit or loss exclude the treasury bonds of \$1,993 million and the government bonds of \$167 million.
 - Available-for-sale financial assets exclude the government bonds of \$38,028 million and negotiable certificate of deposits of \$847,416 million.
 - 5) Held-to-maturity financial assets exclude the government bonds of \$65,419 million.
 - Receivables exclude tax receivables of \$696 million and long-term receivables of \$17,055 million.
 - 7) Loans and discounts exclude loans to government of \$70,263 million.
 - 8) Other financial assets exclude short-term advances to government of \$48,699 million.
- (3) The greatest impact of the credit exposure is the fair value at the balance sheet date; the book value of hedging derivatives is the principal of the hedging instruments (IRS); and the amount of greatest credit exposure is the adjusted amount of hedging derivatives at fair value.
- (4) The carrying amounts excluded the assets of the Department of Government Employees Insurance.

2) Off-balance sheet Items

Unit: In million of TWD

	December 31, 2017			December 31, 2016	
Item		Book Value	Maximum credit exposure (Note 1)	Book Value	Maximum credit exposure (Note 2)
Irrevocable loan commitment (with lines of credit)	\$	431,389	12,627	344,599	5,797
Letter of credit receivables		25,419	23,548	28,935	26,766
Deposits receivables		85,039	85,000	75,684	75,684
Total	\$	541,847	121,175	449,218	108,247

Note 1: December 31, 2017

- (1) While measuring the maximum exposure to credit risk, the Bank and its subsidiary only consider the items that are positive at the reporting date, the off-balance commitments and guarantee contracts and exclude the position to the government.
 - 1) Irrevocable loan commitment with credit agreement excludes \$418,762 million.
 - 2) Letter of credit receivables exclude \$1,871 million.
 - 3) Deposits receivable exclude the amount of \$39 million.
- (2) This table excludes the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

Note 2: December 31, 2016

- (1) While measuring the maximum exposure to credit risk, the Bank and its subsidiary only consider the items that are positive at the reporting date, the off-balance commitments and guarantee contracts and exclude the position to the government.
 - 1) Irrevocable loan commitment with credit agreement excludes \$338,802 million.
 - 2) Letter of credit receivables exclude \$2,169 million.
- (2) This table excludes the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

3) 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 :

December 31, 2017	Collateral	General agreement of net amount settlement	Enhancement of other credits	Total
In balance sheet:				
Receivables				
Others	\$ 1,161	3	2,427	3,591
Loans and discounts	1,314,590	-	1,002,505	2,317,095
Off-balance sheet				
Irrevocable loan commitments	2,432	-	428,686	431,118
Standby letters of credit	1,506	-	23,913	25,419
Financial guarantees	 7,008		78,031	85,039
Total	\$ 1,326,697	3	1,535,562	2,862,262
Total December 31, 2016	\$ 1,326,697 Collateral	General agreement of net amount settlement	<u> </u>	2,862,262 Total
	\$ 	General agreement of net amount	Enhancement of other	
December 31, 2016	\$ 	General agreement of net amount	Enhancement of other	
December 31, 2016	\$ 	General agreement of net amount	Enhancement of other	
December 31, 2016 In balance sheet: Receivables	 Collateral	General agreement of net amount settlement	Enhancement of other credits	Total
December 31, 2016 In balance sheet: Receivables Others	 Collateral 329	General agreement of net amount settlement	Enhancement of other credits 4,561	Total 4,959
December 31, 2016 In balance sheet: Receivables Others Loans and discounts	 Collateral 329	General agreement of net amount settlement	Enhancement of other credits 4,561	Total 4,959
December 31, 2016 In balance sheet: Receivables Others Loans and discounts Off-balance sheet	 Collateral 329 1,333,311	General agreement of net amount settlement	Enhancement of other credits 4,561 972,576	Total 4,959 2,305,887
December 31, 2016 In balance sheet: Receivables Others Loans and discounts Off-balance sheet Irrevocable loan commitments	 Collateral 329 1,333,311 795	General agreement of net amount settlement	Enhancement of other credits 4,561 972,576 343,952	Total 4,959 2,305,887 344,747

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.

(vi) 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.

Unit: In million of TWD

Unit: In million of TWD: %

BANK OF TAIWAN AND ITS SUBSIDIARIES Notes to the Consolidated Financial Statements

The credit risk of the Bank and its subsidiary 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

					11011WD, 70
Industry type Finance and insurance	December 31, 2017			December 31, 2016	
	Book Value			Book Value	
		(Note 1)	%	(Note 2)	%
	\$	1,536,358	38.58 %	1,409,055	36.98 %
Individuals		859,455	21.59 %	853,804	22.41 %
Manufacturing		364,778	9.16 %	370,483	9.72 %
Government Agencies		523,183	13.14 %	475,771	12.49 %
Shipping, warehousing and communications		119,558	3.00 %	130,645	3.43 %
Electricity and gas supply		105,930	2.66 %	100,166	2.63 %
Others	_	472,697	11.87 %	470,203	12.34 %
Total	\$	3,981,959	<u>100.00</u> %	3,810,127	<u>100.00</u> %

Note 1: December 31, 2017

- (1) The carrying amounts include loans (\$2,318,081 million), call loans to banks, overdraft of banks and placement with banks (\$328,438 million), security investments (\$1,335,440 million) and so on. Loans refer to discounts, overdrafts, government overdrafts, secured overdrafts, short-term loans, short-term secured loans, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, import bill advance and nonperforming loans (\$4,923 million). Security investments include bonds and stocks. Bonds are measured at fair value. However, the bonds classified as held-to-maturity financial assets or bond investments in non-active market are carried at cost. Equity investments are measure at fair value but those classified as cost of long-term equity investments under the equity method and financial assets carried at cost are measured at cost.
- (2) This table excludes the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

Note 2: December 31, 2016

- (1) The carrying amounts include loans (\$2,307,049 million), call loans to banks, overdraft of banks and placement with banks (\$265,934 million), security investments (\$1,237,144 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 (\$4,749 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, 2017			December 31, 2016		
Areas type	Va	Book lue(Note 1)	%	Book Value(Note 2)	%	
Domestic	\$	3,508,669	88.11 %	3,339,650	87.65 %	
Foreign		473,290	11.89 %	470,477	<u>12.35</u> %	
Total	\$	3,981,959	<u> 100.00</u> %	3,810,127	<u>100.00</u> %	

Note 1: December 31, 2017

- (1) The carrying amounts include loans (\$2,318,081 million), call loans to banks, overdraft of banks and placement with banks (\$328,438 million), security investments (\$1,335,440 million) and so on. Loans refer to discounts, overdrafts, government overdrafts, secured overdrafts, short-term loans, short-term secured loans, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, import bill advance and nonperforming loans (\$4,923 million). Security investments include bonds and stocks. Bonds are measured at fair value. However, the bonds classified as held-to-maturity financial assets or bond investments in non-active market are carried at cost. Equity investments are measure at fair value but those classified as cost of long-term equity investments under the equity method and financial assets carried at cost are measured at cost.
- (2) This table excludes the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

Note 2: December 31, 2016

- (1) The carrying amounts include loans (\$2,307,049 million), call loans to banks, overdraft of banks and placement with banks (\$265,934 million), security investments (\$1,237,144 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 (\$4,749 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

Type of collateral		December 31	, 2017	December 31, 2016	
	Book		0/	Book Value(Note 1)	A /
		<u>lue(Note 1)</u>	<u>%</u>	Value(Note 1)	<u>%</u>
Non-secured	\$	1,003,492	43.29 %	973,737	42.21 %
Secured		1,314,589	56.71 %	1,333,312	57.79 %
Guarantee		144,249	6.22 %	164,646	7.14 %
Securities		85,437	3.68 %	89,334	3.87 %
Real estate		1,029,837	44.43 %	1,006,275	43.62 %
Chattel		54,961	2.37 %	72,864	3.15 %
Valuables		105	0.01 %	193	0.01 %
Total	\$	2,318,081	<u>100.00</u> %	2,307,049	<u>100.00</u> %

Unit: In million of TWD; %

- Note 1: The carrying amounts only contain loans which refer to discounts, overdrafts, government overdrafts, secured overdrafts, short-term loans, short-term secured loans, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, import bill advance and non-performing loans (\$4,923 million at December 31, 2017; \$4,749 million at December 31, 2016).
- Note 2: This table excludes the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.
- (vii) The analysis of credit quality and impairment of financial instruments

The financial instruments held by the Bank, such as cash and cash equivalents, due to the Central Bank and other banks, financial assets measured at fair value through profit, bills and bonds purchased under resell agreements, guarantees deposits paid, operating guarantee deposits and settlement funds, are considered to have "very low risk" since all counterparties have good credit ratings.

1) The credit quality of loans and receivables

Unit: In thousand of TWD

			Perform	ing loans			NPL but	Impairment	Total	Impairme	nt loss(D)	Net
December 31, 2017	Very good	Good	Medium	Weak	Non-evaluate	Subtotal(A)	not impair amount(B)	Amount(C)	(A)+(B)+(C)	With objective	No objective	(A)+(B)+ (C)-(D)
Account receivables												
Credit card business	296,330	80,898	115,560	321,905	318	815,011	23,377	9,044	847,432	6,620	884	839,92
Others	250,773	2,007,931	923,157	222,199	184,417	3,588,477		176,389	3,764,866	118,684	66,586	3,579,59
Loans and Discounts	160,621,243	,286,089,052	591,286,363	142,319,646	118,120,011	,298,436,315		19,644,790	,318,081,105	10,493,372	22,548,490	,285,039,24

		Performing loans					NPL but	Impairment	Total	Impairme	nt loss(D)	Net
December 31, 2016	Very good	Good	Medium	Weak	Non-evaluate	Subtotal(A)	not impair amount(B)	Amount(C)	(A)+(B)+(C)	With objective	No objective	(A)+(B)+(C)- (D)
Account receivables												
Credit card business	273,993	81,521	116,550	338,802	365	811,231	25,315	9,577	846,123	6,522	692	838,909
Others	374,308	2,647,760	1,192,862	351,260	305,845	4,872,035		220,896	5,092,931	144,688	67,677	4,880,566
Loans and Discounts	175,802,682	,243,583,117	560,255,867	164,977,713	143,647,261	,288,266,640		18,782,651	,307,049,291	10,325,824	22,486,963	,274,236,504

2) Credit quality analysis for either overdue nor impaired bill purchases discounts and loans by customers

Unit: In thousand of TWD

			Performi	ng loans		
December 31, 2017	Very good	Good	Medium	Weak	Non-evaluate	Total
Government agencies	65,402,181	335,655,307	-	-	-	401,057,488
Financial, investment, and insurance industries	16,300,000	1,336,447	23,044,411	3,397,193	727,554	44,805,605
Corporate and business	77,401,746	117,213,170	477,218,999	113,669,740	18,093,934	803,597,589
Individuals	-	814,290,345	7,612,739	-	28,409,712	850,312,796
Others	1,517,316	17,593,783	83,410,214	25,252,713	70,888,811	198,662,837
Total	160,621,243	1,286,089,052	591,286,363	142,319,646	118,120,011	2,298,436,315
			Performi	ng loons		
December 31, 2016	Very good	Good	Medium	Weak	Non-evaluate	Total
Government agencies	70,263,218	289,673,990	-	-	-	359,937,208
Financial, investment, and insurance industries	16,750,000	9,413,719	31,207,584	3,230,748	746,961	61,349,012
Corporate and business	84,476,184	119,075,878	452,992,586	134,103,274	27,387,743	818,035,665
Individuals	-	808,288,362	7,895,469	-	29,093,547	845,277,378
Others	4,313,280	17,131,168	68,160,228	27,643,691	86,419,010	203,667,377
Total	175,802,682	1,243,583,117	560,255,867	164,977,713	143,647,261	2,288,266,640

3) Credit quality analysis for security investments

											housand of TWD
			Performi	ng loans				Impairment	Total	(D)	Net
Item	Very good	Good	Medium	Weak	Non-evaluate	Subtotal(A)	not impair amount(B)	Amount(C)	(A)+(B)+(C)	With objective evidence	(A)+(B)+(C)- (D)
Available-for-sale Financial Assets											
Bond investment	90,525,466	33,649,293	18,404,341	1,008,514	227,651	143,815,265	-	-	143,815,265	-	143,815,265
Stock investment	2,556,148	50,329,096	3,552,208	-	2,131,835	58,569,287			58,569,287	-	58,569,287
Others	932,640,422	421,060		-	496,367	933,557,849			933,557,849	-	933,557,849
Held-to-maturity Financial Assets											
Bond investment	120,364,279	1,783,360	2,657,617	296,789	-	125,102,045			125,102,045	-	125,102,045
Others	18,549,310		409,410	-	-	18,958,720		-	18,958,720	-	18,958,720
Other financial assets											
Stock investment	-		6,805,780	-	1,764,358	8,570,138		27,687	8,597,825	15,000	8,582,825
Bond investment	10,743,196	3,901,501	-	-	-	14,644,697		-	14,644,697	-	14,644,697

December 31, 2017

December 31, 2016

										Unit: In th	nousand of TWI
			Perform				NPL but	Impairment	Total	(D)	Net
Item	Very good	Good	Medium	Weak	Non-evaluate	Subtotal(A)	not impair amount(B)	Amount(C)	(A)+(B)+(C)	With objective evidence	(A)+(B)+(C)- (D)
Available-for-sale Financial Assets											
Bond investment	83,620,167	33,740,890	14,988,676	1,413,145	770,842	134,533,720	-	-	134,533,720	-	134,533,720
Stock investment	669,899	36,937,457	11,314,924	-	2,783,830	51,706,110		-	51,706,110		51,706,110
Others	847,417,426	1,262,204	2,642,040	-	279,839	851,601,509		-	851,601,509	-	851,601,509
Held-to-maturity Financial Assets											
Bond investment	117,251,810	1,968,018	3,109,631	644,269	-	122,973,728		-	122,973,728	-	122,973,728
Others	13,325,831	-	1,868,369	644,400	-	15,838,600		-	15,838,600		15,838,600
Other financial assets											
Stock investment	-	-	6,805,780	12,501	1,750,857	8,569,138		27,687	8,596,825	15,000	8,581,825
Bond investment	13,291,193	2,441,472	-	-	-	15,732,665		-	15,732,665	-	15,732,665

(viii) Aging analysis of overdue but not impaired financial assets

		D	Unit: In th December 31, 2017	ousand of TWD	
Item	Overdue less than 1 month		Overdue 1 to 3 months	Total	
Accounts Receivable					
-Credit Card Business	\$	4,411	1,980	6,391	
		_	0	ousand of TWD	
			December 31, 2016		
Item		erdue less	Overdue 1 to 3 months	Total	
Accounts Receivable					
-Credit Card Business	\$	3,175	3,305	6,480	

(ix) The analysis of allowance for doubtful accounts of loans and receivables

Loans

	December 31, 2017								
Iten	1	Total Loans	Allowance for doubtful accounts						
There is objective evidence of impairment on individual	Individual assessment of impairment	6,587,942	1,185,732						
asset	Collective assessment of impairment	13,048,535	3,108,230						
There is no objective evidence of impairment on individual asset	Collective assessment of impairment	2,298,444,628	28,747,900						
Subtotal		2,318,081,105	33,041,862						

Receivables (including other financial assets)

	December 31, 2017	1	
Iten	Total Loans	Allowance for doubtful accounts	
There is objective evidence of impairment on individual	Individual assessment of impairment	28,944	13,501
asset	Collective assessment of impairment	192,202	124,315
There is no objective evidence of impairment on individual asset	Collective assessment of impairment	360,492,108	159,195
Subtotal		360,713,254	297,011
Total			33,338,873

Loans

	December 31, 2016			
Iten	n	Total Loans	Allowance for doubtful accounts	
There is objective evidence of impairment on individual	Individual assessment of impairment	6,554,812	1,337,971	
asset	Collective assessment of impairment	12,227,839	3,392,253	
There is no objective evidence of impairment on individual asset	Collective assessment of impairment	2,288,266,640	28,082,563	
Subtotal	-	2,307,049,291	32,812,787	

Receivables (including other financial assets)

	December 31, 2016	I	
Iten	n	Total Loans	Allowance for doubtful accounts
There is objective evidence of impairment on individual	Individual assessment of impairment	26,334	8,084
asset	Collective assessment of impairment	229,610	149,869
There is no objective evidence of impairment on individual asset	Collective assessment of impairment	335,575,225	143,765
Subtotal		335,831,169	301,718
Total			33,114,505

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

		De	cember 31, 2017			
Type / Ite	m	Amount of overdue loans (Note 1)	Total amount of loans	Ratio (%) (Note 2)	Allowance for doubtful debt	Coverage ratio(%) (Note 3)
Enterprise	Secured	2,095,613	540,476,564	0.39 %	11,362,328	542.20 %
	Non secured	571,687	968,383,422	0.06 %	13,698,993	2,396.24 %
	House mortgage (Note 4)	2,341,594	563,681,594	0.42 %	4,597,724	196.35 %
	Cash card	-	-	- %	-	- %
Consumer	Micro credit (Note 5)	31,440	4,856,602	0.65 %	148,237	471.49 %
finance	Others Secured	1,364,773	210,430,752	0.65 %	2,650,379	194.20 %
	(Note 6)Non secured	232,525	30,252,171	0.77 %	584,201	251.24 %
Total	ł . ł	6,637,632	2,318,081,105	0.29 %	33,041,862	497.80 %
		Overdue receivables	Account receivable	Ratio (%)	Allowance for bad debt	Cover ratio
Credit car	d business	2,356	849,735	0.28 %	10,096	428.52 %
Non-recou	urse factoring (Note 7)	-	11,462,525	- %	52,894	- %

1) Asset Quality of overdue loans and receivables

		De	cember 31, 2016			
Type / Item		Amount of overdue loans (Note 1)	Total amount of loans	Ratio (%) (Note 2)	Allowance for doubtful debt	Coverage ratio(%) (Note 3)
EnterpriseSecured		1,825,875	569,790,985	0.32 %	10,715,741	586.88 %
	Non secured	704,723	939,146,795	0.08 %	12,809,461	1,817.66 %
	House mortgage (Note 4)	1,799,702	550,621,979	0.33 %	5,835,403	324.24 %
	Cash card	-	-	- %	-	- %
Consumer	Micro credit (Note 5)	32,367	5,135,618	0.63 %	144,878	447.61 %
	Others Secured	1,339,404	212,898,316	0.63 %	2,731,454	203.93 %
	(Note 6)Non secured	236,607	29,455,598	0.80 %	575,850	243.38 %
Total	•	5,938,678	2,307,049,291	0.26 %	32,812,787	552.53 %
		Overdue receivables	Account receivable	Ratio (%)	Allowance for doubtful debt	Cover ratio
Credit care	d business	4,088	847,454	0.48 %	12,432	304.11 %
Non-recou	urse factoring (Note 7)	-	9,359,683	- %	51,582	- %

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.

Note 8: Include secured and non secured loans for government institutions.

2) Non-performing Loans and Overdue Receivables Exempted from Reporting

			Unit: I	n thousand of TWD
	December 31, 2017		December 31, 2016	
	Excluded NPL	Excluded overdue receivables	Excluded NPL	Excluded overdue receivables
As a result of debt consultation and loans agreement	471	-	707	-
As a result of debt solvency and restart plan	29,209	20,554	38,692	22,192
Total	29,680	20,554	39,399	22,192

3) Concentration of Credit Risk

Unit: In million of TWD; %

December 31, 2017					
Rank	Group Name	Credit Extensions Balance	% of Net Asset Value		
1	A company-Transport via Railways	55,856	19.32 %		
2	B group – Air Transport	39,771	13.76 %		
3	C group—Smelting and Refining of Iron and steel	24,625	8.52 %		
4	D group—Ocean Transportation	20,083	6.95 %		
5	E group—Smelting and Refining of Iron and steel	20,028	6.93 %		
6	F group—Cable Television	17,190	5.95 %		
7	G group—Real Estate Development Activities	16,089	5.57 %		
8	H group—Ocean Transportation	11,908	4.12 %		
9	I group – Air Transport	11,384	3.94 %		
10	J group—Manufacture of Liquid Crystal Panel and Components	11,138	3.85 %		

	December 31, 20	016	
Rank	Group Name	Credit Extensions Balance	% of Net Asset Value
1	A company – Transport via Railways	63,823	23.26 %
2	B group – Air Transport	45,963	16.75 %
3	C group—Manufacture of Petroleum and Coal Products	33,065	12.05 %
4	D group—Rolling, Extruding and Drawing of Aluminum	22,964	8.37 %
5	E group—Real Estate Development Activities	16,417	5.98 %
6	F group—Ocean Transportation	15,394	5.61 %
7	G group—Manufacture of Made-up Textile Articles	12,943	4.72 %
8	H group—Manufacture of Made-up Textile Articles	12,356	4.50 %
9	I group—Ocean Transportation	12,298	4.48 %
10	J group—Manufacture of Liquid Crystal Panel and Components	12,079	4.40 %

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

	December 31, 2017				on of TWD; % er 31, 2016
		Average	Average interest rate (%)	Average	Average interest rate (%)
Interest earnings assets		8		8	
Call loans and placement with banks	\$	279,785,036	1.78	354,531,288	1.19
Placement with Central Bank		463,711,187	0.69	487,587,720	0.71
Financial assets		1,192,639,414	0.87	1,117,203,415	0.91
Negotiation, discounts and total loans		2,326,583,609	1.66	2,336,875,064	1.69
Interest bearing liabilities					
Deposit of Central Bank		13,783,569	-	12,978,220	-
Deposits and call loans from banks		212,369,290	1.06	229,170,621	0.71
Demand deposits		395,050,689	0.15	390,112,955	0.12
Demand savings		869,863,600	0.57	872,819,625	0.57
Time savings		1,700,764,507	1.57	1,701,113,006	1.67
Time deposits		636,316,359	1.44	633,072,303	1.24
Government deposits		265,804,022	0.19	249,531,567	0.22
Structured products		1,296,613	1.33	2,045,694	0.76
Financial bonds		25,000,000	1.22	25,000,000	1.29

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.

3. The interest rates used in calculation include preferential interests.

4. Financial bonds do not include those recognized in financial liabilities measured at fair value through profit or

(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. Assets and Liabilities Management Committee discusses the liquid position and risk management every month and reports to the Board of Directors periodically.
 - 3) Management of liquidity risk
 - a) Maintain liquidity reserve ratio: According to "Liquidity Guidelines for Financial Institutions" published by the Central Bank, the Bank and its subsidiary have to maintain the liquidity reserve ratio of deposit balances greater than 15%.
 - b) Management of loan and deposit ratio: Set the loan and deposit ratio of TWD between 65% and 87% as a risk indicator.
 - c) Short term gap analysis: Calculate 1~10 day and 11~30 day gaps which should be greater than zero.
 - d) 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%.

- 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 its 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 liabilities

These tables represent the cash outflow analysis of non derivative financial liabilities according to the unexpired term of the contracts. The disclosed amounts are presented on the basis of contract cash flows, so some disclosed items do not correspond to the accounts in the financial statements.

2017	0~30days	31~90days	91days~1year	Over one year	Total
Cash and cash equivalents	34,553,595	-	-	-	34,553,595
Placement with Central Bank and call	146,394,658	279,862,290	191,560,922	181,534,475	799,352,345
loans to banks					
Financial assets measured at fair value through profit or loss, net	31,925,040	7,030,513	2,845,602	194,718,602	236,519,757
Available-for-sale financial assets, net	623,196,158	46,460,759	246,090,763	220,194,721	1,135,942,401
Held-to-maturity financial assets, net	1,802,224	1,913,342	8,938,812	131,406,387	144,060,765
Financial assets carried at cost	-	-	-	8,582,825	8,582,825
Debt investments without quoted price in active markets	-	846,114	1,956,070	11,842,513	14,644,697
Investments under equity method, net	-	-	-	36,203,500	36,203,500
Receivables, net	25,507,736	811,736	16,192,324	177,886	42,689,682
Loans and discounts, net	154,196,744	210,093,618	412,976,646	1,531,920,469	2,309,187,477
Non-performing loans	-	-	-	5,005,039	5,005,039
Total assets	1,017,576,155	547,018,372	880,561,139	2,321,586,417	4,766,742,083
Deposits of Central Bank and other banks	120,775,200	44,376,789	33,010,221	20,859,174	219,021,384
Payables	23,025,846	15,739	20,734	19,804,288	42,866,607
Financial liabilities measured at fair value through profit or loss	-	-	-	35,030,435	35,030,435
Bonds and bills sold under repurchase agreements	26,975,041	6,248,588	682,491	-	33,906,120
Other financial liabilities	783,733	-	17,660	41,429	842,822
Deposits and remittances	332,916,384	428,240,620	1,275,316,034	1,904,659,010	3,941,132,048
Total liabilities	504,476,204	478,881,736	1,309,047,140	1,980,394,336	4,272,799,416

2016	0~30days	31~90days	91days~1year	Over one year	Total
Cash and cash equivalents	35,130,441	-	-	-	35,130,441
Placement with Central Bank and call loans to banks	58,187,886	248,004,626	197,693,087	270,664,412	774,550,011
Financial assets measured at fair value through profit or loss, net	14,749,440	16,875,512	8,086,642	172,849,404	212,560,998
Available-for-sale financial assets, net	606,533,709	100,914,037	175,258,219	155,135,374	1,037,841,339
Held-to-maturity financial assets, net	834,950	6,512,386	1,254,459	130,210,533	138,812,328
Financial assets carried at cost	-	-	-	8,581,825	8,581,825
Debt investments without quoted price in active markets	-	-	966,600	14,766,065	15,732,665
Investments under equity method, net	-	-	-	35,055,524	35,055,524
Receivables, net	21,476,827	1,178,499	357,692	23,371,800	46,384,818
Loans and discounts, net	194,728,793	238,896,916	408,917,906	1,455,884,484	2,298,428,099
Non-performing loans	-	-	-	4,872,178	4,872,178
Total assets	931,642,046	612,381,976	792,534,605	2,271,391,599	4,607,950,226
Deposits of Central Bank and other banks	101,040,170	34,964,693	31,822,400	59,769,551	227,596,814
Payables	19,036,632	48,202	77,110	22,863,327	42,025,271
Financial liabilities measured at fair value through profit or loss	-	-	-	6,709,063	6,709,063
Bonds and bills sold under repurchase agreements	1,930,925	9,136,811	270,178	-	11,337,914
Other financial liabilities	667,849	25,003	-	56,003	748,855
Deposits and remittances	323,985,682	393,903,349	143,891,262	3,012,202,471	3,873,982,764
Total liabilities	446,661,258	438,078,058	176,060,950	3,101,600,415	4,162,400,681

(iv) Maturity analysis of derivatives

						Unit: 1	In thousand of TWE
December 31, 2017 Derivative financial instruments	1.Overdue less than 1 month	2.Overdue 1 to 3 months	3.Overdue 3 to 6 months	4.Overdue 6 months to 1 year		6.Overdue more than 5 years	Total
Financial assets and liabilities 1	neasured at fair value	e through profit or los	s, Derivative instrum	ents (Foreign exchan	ge)		
Foreign exchange outflow	11,228,075	12,985,294	1,638,380	770,031	1,616,418	-	28,238,198
Foreign exchange inflow	11,245,164	13,606,119	1,638,380	840,360	1,616,418	-	28,946,441
Financial assets and liabilities	neasured at fair value	through profit or los	s, Derivative instrum	ents (Interest)		-	
Foreign exchange outflow	361,851,127	322,601,974	184,332,159	80,730,081	1,440,668	45,318	951,001,327
Foreign exchange inflow	366,976,122	317,192,197	184,044,239	82,146,280	1,606,216	28,390	951,993,444
Hedging derivative financial in	struments (Interest)						
Foreign exchange outflow	17,286	55,112	39,465	-	-	-	111,863
Foreign exchange inflow	13,299	34,877	23,301	-	-	-	71,477

Unit: In thousand of TWD

December 31, 2016 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 r	neasured at fair value	through profit or los	s, Derivative instrum	ents (Foreign exchan	ge)		
Foreign exchange outflow	16,007,441	15,653,076	2,552,111	728,858	427,462	-	35,368,948
Foreign exchange inflow	16,010,653	15,653,072	2,552,111	728,858	427,462	-	35,372,156
Financial assets and liabilities r	neasured at fair value	through profit or los	s, Derivative instrum	ents (Interest)			
Foreign exchange outflow	460,540,392	381,910,368	155,898,243	28,889,785	5,643,435	-	1,032,882,223
Foreign exchange inflow	483,933,106	398,811,140	168,304,044	39,902,553	5,575,269	-	1,096,526,112
Hedging derivative financial in	struments (Interest)						
Foreign exchange outflow	-	1,089	-	-	-	-	1,089
Foreign exchange inflow	-	-	-	-	-	-	-

(v) Maturity analysis of off-balance sheet items

If the off-balance credit items of the Bank and its 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.

December 31, 2017	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year	Total
Irrevocable loan commitment		-	1,171,662	239,283,744	190,662,883	431,118,289
Irrevocable credit card commitment	-	-	-	-	270,542	270,542
Unused letter of credit	5,475,797	3,050,021	3,790,534	11,362,227	1,740,268	25,418,847
Guarantee receivables	58,542,125	3,058,657	4,792,337	9,826,968	8,818,651	85,038,738
70 · 1	(4.017.022	6,108,678	0.754.522	260,472,939	201,492,344	541,846,416
Total	64,017,922	0,108,078	9,754,533	200,472,939	, ,	
					Unit: Ii	n thousand of TW Total
December 31, 2016	0-30 days	31-90 days 171,086,300	9,754,555 91-180 days 91,170	181 days-1 year 168,964,907		n thousand of TW
l otal December 31, 2016 Irrevocable loan commitment Irrevocable credit card commitment		31-90 days	91-180 days	181 days-1 year	Unit: Ii Over 1 year	n thousand of TW Total
December 31, 2016 Irrevocable loan commitment	0-30 days -	31-90 days	91-180 days	181 days-1 year	Unit: In Over 1 year 4,311,062	n thousand of TW Total 344,453,439
December 31, 2016 Irrevocable loan commitment Irrevocable credit card commitment	0-30 days - -	31-90 days 171,086,300	91-180 days 91,170	181 days-1 year 168,964,907 -	Unit: Ir Over 1 year 4,311,062 145,626	n thousand of TW Total 344,453,439 145,620

(vi) Maturity analysis of lease agreements and capital expenditures

The lease agreements of the Bank and its subsidiary refer to operational lease.

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

December 31, 2017	Less than 1 year	1-5 years	Over 5 years	Total
Lease agreements				
Operating lease payments (Lessee)	(336,672)	(514,828)	(370)	(851,870)
Operating lease income(Lessor)	137,854	180,893	-	318,747
Total	(198,818)	(333,935)	(370)	(533,123)
December 31, 2016	Less than1 year	1-5 years	Over 5 years	Total
Lease agreements				
8				
Operating lease payments (Lessee)	(353,773)	(731,209)	-	(1,084,982)
Operating lease payments (Lessee) Operating lease income(Lessor)	(353,773) 152,489	(731,209) 109,502	-	(1,084,982) 261,991

- (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)

December 31, 2017

						Unit: In 1	thousand of TWD	
			Amount for each remaining period to maturity					
	Total	Less than 10 days	11~30 davs	31~90 davs	91~180 days	181~365 davs	Over 1 vear	
Major matured capital inflow	\$ 4,561,860,640							
Major matured capital outflow	4,561,860,640	172,919,251	284,413,940	639,285,610	543,710,647	941,070,529	1,980,460,663	
Capital gap	-	376,157,624	244,174,146	(56,530,611)	(89,344,281)	(413,546,564)	(60,910,314)	

December 31, 2016

						Unit: In t	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	\$ 4,040,338,530	311,399,548	737,168,092	652,255,605	343,306,304	442,509,506	1,553,699,475	
Major matured capital outflow	4,262,128,400	155,002,003	374,300,680	596,221,167	543,802,825	916,752,263	1,676,049,462	
Capital gap	(221,789,870)	156,397,545	362,867,412	56,034,438	(200,496,521)	(474,242,757)	(122,349,987)	

2) Maturity analysis of assets and liabilities (United State Dollars)

December 31, 2017

	Unit: In	thousand	of USD
440			

			Amount for eac	ch remaining per	iod to maturity	
	Total	Less than 30 days	31~90 days	91~180 days	181~365 days	Over 1 year
Major matured capital inflow	\$ 51,904,325	9,480,751	11,092,430	5,574,245	2,871,724	22,885,175
Major matured capital outflow	51,904,325	11,034,343	8,087,184	4,763,223	4,422,098	23,597,477
Capital gap	-	(1,553,592)	3,005,246	811,022	(1,550,374)	(712,302)

December 31, 2016

Unit: In thousand of USD								
			Amount for each remaining period to maturity					
		Total	Less than 30 days	31~90 davs	91~180 davs	181~365 davs	0	
	¢.						Over 1 year	
Major matured capital inflow	\$	41,235,359	13,366,111	10,309,276	5,360,255	2,941,194	9,258,523	
Major matured capital outflow		41,235,359	16,271,096	11,089,307	4,442,059	3,338,991	6,093,906	
Capital gap		-	(2,904,985)	(780,031)	918,196	(397,797)	3,164,617	

(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 net operating income and the value of investment portfolio will have volatility risk.

The main market risks of the Bank are interest rate risk, exchange rate risk and equity investment risk. The main position of interest rate risk includes transactions with conditions, bonds, securities investments, interest rate swaps and so on. The main position of exchange risks includes forward exchange, foreign exchange swaps, 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 set up market risk management regulations and policies according to the risk management strategies approved by the Board of Directors, the Basel Accord and government regulations. In order to identify, assess, measure and monitor various risks of investments, they also decide the quota of investments and stop-loss point for financial instruments by types and characteristics in accordance with whole management target and offer reports to the Board of Directors, risk management committee and high-level managers.

- (iii) Procedures of market risk management
 - 1) Identification

The identification procedures are as follows. First, use the business analysis or product analysis to identity the market risk factors of financial instruments. Second, measure the market risk of all financial instruments according to the risk factors changes of the important exposure. Finally, identify the market risk factors of every constitution of structured products and use the factors as the measurement basis. The above risk factors include interest rate, exchange rate and price of equity security.

2) Measurement

The Bank's market risk exposure can be classified into trading book and banking book. The financial instruments classified in trading book are measured at market value every day; those classified in banking book are measured at market value at least once a month. Following IFRS 13, the Bank ensures that Level-1 inputs (i.e. quoted prices in an active market, such as OTC or Bloomberg) and Level-2 inputs (those which can be directly or indirectly observed in the market) are available. When the aforementioned inputs are not available, the related instruments shall be classified to Level 3. The sources from which the Bank obtains inputs largely remain the same as prior periods and the Bank will check if a financial instrument can be reasonably measured before entering into a transaction.

3) Monitor and Report

The Bank conduct various risks monitoring for ordinary trading activities. The monitor includes the control of market risk position and profit and loss, the control of exposure and quota of investments, the control of concentration, the sensitivity analysis and the stress testing. They report to the risk management committee or the Board of Directors to let the directors understand the market risk control status. The Bank also have communication mechanism. Each operating units put forward transaction information to management departments periodically in order to ensure accuracy and effectiveness, and communicate the events when trading amount excesses the quota, important events and abnormal conditions.

(iv) Management policies of trading book risk

The trading book refers to the financial instruments held for trading or hedging. The positions held for trading mean the positions that are held to earn profit from the buy-sell spread. The positions not belonging to trading book are regarded as banking book.

1) Policy and Procedure

The Bank formulates "Taiwan Bank Trading Book Management Provision" as important guideline for all trading units.

2) Valuation Policy

The Bank's market risk exposure can be classified into trading book and banking book. Following IFRS 13, the Bank ensures that Level-1 inputs (i.e. quoted prices in an active market, such as OTC or Bloomberg) and Level-2 inputs (which can be directly or indirectly observed in the market) are available. When the aforementioned inputs are not available, the related instruments shall be classified to Level 3. The sources from which the Bank obtains inputs largely remain the same as prior periods and the Bank will check if a financial instrument can be reasonably measured before entering into a transaction.

- 3) Measurement Method
 - a) Monitoring the trading book of risk exposure including stocks, funds, bonds, spot exchanges, forward exchanges, rate swap, option, etc. Checking the ratio of risk exposure with total investment everyday and reporting monthly.
 - b) The Bank conduct 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 its 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 its subsidiary also use the PV01 and Duration to monitor the influence of interest risk.

- (vi) Exchange rate risk management
 - 1) Definition of exchange rate risk

The exchange rate risk refers to the profit or loss resulted from two different currencies transferred at different times. The Bank 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 set 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 conduct stress testing. The simulated situations are $\pm 3\%$ changes of exchange rate for every currency. The relevant statements are disclosed at sensitivity analysis.

- (vii) Equity security risk management
 - 1) Definition of equity security risk

The market risk of holding equity securities includes the respective risk arising from the market price changes of respective equity security and general market risk resulting from the whole market price changes.

2) The intention of equity security price risk management

The intention is to avoid loss and worse financial status due to violent fluctuations of equity security price and increase the effectiveness of capital usage and improve the business.

3) Procedure of equity security price risk management

The Bank and its subsidiary set 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.

BOT conducts stress testing every season. The simulated situations are $\pm 15\%$ changes of equity security price. The relevant statements are disclosed at sensitivity analysis.

- (viii) Market risk valuation technique
 - 1) Interest rate risk sensitivity

The Bank assume that other factors did not change and the yield curve of the whole world moves upward by 100 bps at December 31, 2017 and 2016. Under this assumption, the income after tax will decrease \$4,743 million and \$5,265 million, respectively, and the other comprehensive income will decrease \$6,169 million and \$5,665 million, respectively. If the yield curve moves downward by 100 bps, the income after tax will increase \$5,362 million and \$5,935 million, respectively, and the other comprehensive income will increase \$6,440 million and \$5,966 million, respectively.

2) Exchange rate risk sensitivity

The Bank assume that other factors did not change and the foreign currency to New Taiwan Dollars exchange rate appreciates by 3% at December 31, 2017 and 2016. Under this assumption, the income after tax will increase \$1,795 million and \$2,624 million, respectively, and the other comprehensive income will increase \$2,285 million and \$2,440 million, respectively.

If the exchange rate depreciates by 3%, the income after tax will decrease \$1,795 million and \$2,624 million, respectively, and the other comprehensive income will decrease \$2,285 million and \$2,440 million, respectively.

3) Equity security price risk sensitivity

The Bank and its subsidiary assume that other factors did not change and the market prices of the equity securities increase by 15% at December 31, 2017 and 2016. Under this assumption, the income after tax will increase \$8,177 million and \$7,648 million, respectively, and the other comprehensive income will increase \$8,860 million and \$7,779 million, respectively.

If the market prices decrease by 15 %, the income after tax will decrease \$8,177 million and \$7,648 million, respectively, and the other comprehensive income will decrease \$8,860 million and \$7,779 million, respectively.

4) Sensitivity analysis is as follows:

Unit: In million of TWD

December 31, 2017						
		Amount	Influence			
Main risk	Range of changes	Equity	Gain or loss			
Interest rate risk	Interest rate curve rise 100BPS	(6,169)	(4,743)			
Interest rate risk	Interest rate curve fall 100BPS	6,440	5,362			
Exchange rate risk	Other foreign currency/ TWD rise3%	2,285	1,795			
Exchange rate risk	Other foreign currency / TWD fall 3%	(2,285)	(1,795)			
Price of equity stock risk	Price of equity stock rise 15 %	8,860	8,177			
Price of equity stock risk	Price of equity stock fall 15 %	(8,860)	(8,177)			

Unit: In million of TWD

December 31, 2016							
	Amount Influence						
Main risk	Range of changes	Equity	Gain or loss				
Interest rate risk	Interest rate curve rise 100BPS	(5,665)	(5,265)				
Interest rate risk	Interest rate curve fall 100BPS	5,966	5,935				
Exchange rate risk	Other foreign currency/ TWD rise 3%	2,440	2,624				
Exchange rate risk	Other foreign currency / TWD fall 3%	(2,440)	(2,624)				
Price of equity stock risk	Price of equity stock rise 15 %	7,779	7,648				
Price of equity stock risk	Price of equity stock fall 15 %	(7,779)	(7,648)				

(ix) Information of currency risk concentrate

Net position of major foreign currencies

			Unit: In thousand of stated currencies			
	December 31, 2017					
An	nount in original cur	Amount in New Taiwan Dollars				
USD		962,416	28,564,507			
RMB		1,271,223	5,782,793			
JPY		2,966,635	781,115			
GBP		18,387	734,193			
KRW		16,555,529	460,244			

Unit: In thousand of stated currencies

December 31, 2016						
Amount in original cur	Amount in New Taiwan Dollars					
USD	992,029	31,963,174				
RMB	1,205,142	5,572,577				
GBP	24,509	970,801				
JPY	2,983,514	826,732				
KRW	13,858,455	370,021				

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, 2017 and 2016, respectively.

Unit: In thousand of TWD

	December 31, 2017	Unit. In thousand of 1 wi		
Assets	USD to TWD	Other currencies to TWD	Total TWD	
Cash and cash equivalents	\$ 37,363,032	64,466,405	101,829,437	
Placement with Central Bank and call loans to banks	85,638,257	72,348,322	157,986,579	
Financial assets measured at fair value through profit or loss	69,756,516	19,029,826	88,786,342	
Available-for-sale financial assets	11,107,435	60,532,829	71,640,264	
Hedging derivatives financial assets	-	22,759	22,759	
Receivables, net	7,213,203	3,912,394	11,125,597	
Current income tax assets	131,895	267,825	399,720	
Loans and Discounts, net	136,368,376	86,447,448	222,815,824	
Held-to-maturity financial assets, net	10,601,839	21,832,468	32,434,307	
Other financial assets, net	1,200,256	13,558,975	14,759,231	
Property and equipment, net	53,789	19,396	73,185	
Intangible assets, net	6,030	4,095	10,125	
Deferred income tax assets, net	212,323	39,876	252,199	
Other assets, net	537,939	628,723	1,166,662	
Total assets	\$ <u>360,190,890</u>	343,111,341	703,302,231	
		Other		
Liabilities	USD to TWD	currencies to TWD	Total TWD	
Deposits of Central Bank and other	\$ 64,847,252	58,792,937	<u>123,640,189</u>	
banks	¢ 01,017,202	00,192,901	120,010,109	
Financial liabilities measured at fair value through profit or loss	270,822	26,196,172	26,466,994	
Hedging derivatives financial liabilities	-	60,480	60,480	
Bills and bonds sold under repurchase agreement	16,725,699	-	16,725,699	
Payables	5,857,607	663,414	6,521,021	
Current income tax liabilities	75,125	52,691	127,816	
Deposits and remittances	436,646,132	238,849,658	675,495,790	
Other financial liabilities	136,760	664,632	801,392	
Provisions	5,862	2,486	8,348	
Deferred income tax liabilities	-	49,172	49,172	
Other liabilities	109,269,941	41,007,308	150,277,249	
Total liabilities	\$ <u>633,835,200</u>	366,338,950	1,000,174,150	

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	D	1 21 2017	Unit: In	thousand of TWD
	Dec	ember 31, 2016	Other	
			currencies to	
Assets	U	SD to TWD	TWD	Total TWD
Cash and cash equivalents	\$	21,116,033	44,451,890	65,567,923
Placement with Central Bank and call loans to banks		58,864,822	89,908,956	148,773,778
Financial assets measured at fair value through profit or loss		68,742,875	16,079,536	84,822,411
Available-for-sale financial assets		16,952,654	61,064,521	78,017,175
Hedging derivatives financial assets		-	21,221	21,221
Receivables, net		6,296,325	3,991,314	10,287,639
Current income tax assets		204,732	213,909	418,641
Loans and Discounts, net		141,656,340	88,781,135	230,437,475
Held-to-maturity financial assets, net		10,080,990	25,545,850	35,626,840
Other financial assets, net		2,104,042	13,653,881	15,757,923
Property and equipment, net		78,966	21,806	100,772
Intangible assets, net		8,442	3,082	11,524
Deferred income tax assets, net		222,514	65,465	287,979
Other assets, net		153,833	95,665	249,498
Total assets	\$	326,482,568	343,898,231	670,380,799
			Other	
			currencies to	
Liabilities	-	SD to TWD	TWD	Total TWD
Deposits of Central Bank and other banks	\$	64,963,069	67,860,227	132,823,296
Financial liabilities measured at fair value through profit or loss		499,977	22,349	522,326
Hedging derivatives financial liabilities		-	144,195	144,195
Payables		5,012,940	(232,736)	4,780,204
Current income tax liabilities		17,314	88,255	105,569
Deposits and remittances		355,495,039	237,940,297	593,435,336
Other financial liabilities		212,972	483,257	696,229
Provisions		12,124	1,039	13,163
Deferred income tax liabilities		-	66,197	66,197
Other liabilities		98,700,099	35,696,048	134,396,147
Total liabilities	\$	524,913,534	342,069,128	866,982,662

- (x) Disclosures required by the Regulations Governing the Preparation of Financial Reports by Public banks
 - 1) Interest rate sensitivity assets and liabilities analysis (New Taiwan Dollars)

December 31, 2017						
Item	1~90 days	91~180 days	181 days to one year	Over one year	Total	
Interest rate sensitive assets	\$ 1,789,260,805	1,368,411,212	274,603,809	321,835,409	3,754,111,235	
Interest rate sensitive liabilities	473,231,012	2,777,386,813	293,928,923	131,538,240	3,676,084,988	
Interest rate sensitive gap	1,316,029,793	(1,408,975,601)	(19,325,114)	190,297,169	78,026,247	
Net worth					286,583,277	
Ratio of interest rate sensitive assets to liabilities (%)					102.12	
Ratio of interest rate sensitive gap	to net worth (%)				27.23	

Unit:	In	thousand	of	Т	WD

December 31, 2016							
Item	1~90 days	91~180 days	181 days to	Over one year	Total		
			one year				
Interest rate sensitive assets	\$ 1,778,022,449	1,290,382,982	217,875,054	354,541,173	3,640,821,658		
Interest rate sensitive liabilities	365,304,321	2,745,230,523	333,722,350	133,837,865	3,578,095,059		
+Interest rate sensitive gap	1,412,718,128	(1,454,847,541)	(115,847,296)	220,703,308	62,726,599		
Net worth							
Ratio of interest rate sensitive assets to liabilities					101.75		
(%)							
Ratio of interest rate sensitive gap	to net worth (%)				22.97		

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, 2017							
Item	1~90 days	91~180 days	181 days to one year	Over one year	Total		
Interest rate sensitive assets	\$ 28,823,293	5,395,605	3,420,487	787,330	38,426,715		
Interest rate sensitive liabilities	20,704,148	9,049,931	3,406,640	1,112,683	34,273,402		
Interest rate sensitive gap	8,119,145	(3,654,326)	13,847	(325,353)	4,153,313		
Net worth	Net worth						
Ratio of interest rate sensitive assets to liabilities (%)					112.12		
Ratio of interest rate sensitive gap	to net worth (%)				(36,728.98)		

Unit: In thousand of USD

December 31, 2016							
Item	1~90 days	91~180 days	181 days to one year	Over one year	Total		
Interest rate sensitive assets	\$ 27,014,893	4,917,394	3,143,912	1,213,969	36,290,168		
Interest rate sensitive liabilities	22,373,842	6,573,443	2,547,247	511,782	32,006,314		
Interest rate sensitive gap	4,641,051	(1,656,049)	596,665	702,187	4,283,854		
Net worth							
Ratio of interest rate sensitive assets to liabilities (%)					113.38		
Ratio of interest rate sensitive gap	to net worth (%)				(10,021.65)		

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

Note 2: Interest rate sensitivity assets and liabilities are interest-earning assets and interest-bearing liabilities with revenues and costs affected by interest rate changes.

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

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

(xi) Interest rate risk management for banking book

The main management purpose is to strengthen the interest rate risk management, increase the effectiveness of capital usage and improve the business.

1) Strategy

The interest rate risk management increases the Bank flexibility in order to measure, manage and hedge the interest rate risk. The Bank formulate "Liquidity and Interest Rate Management Strategies" to reinforce the management and maintain proper liquidity and adjust the interest rate sensitivity gap for the steady long-term profitability and business growth.

2) Management procedure

In order to adapt the economic financial environment changes and to fulfill the capital requirement, the Bank conduct 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 use the "Assets and Liabilities Management Information System" to identify interest rate sensitivity assets and liabilities and analyses the maturity gap and changes of maturity structure as the basis of interest rate risk management and pricing strategies. They also make proper financial transfer and adjust the capital structure to lower the liquidity risk and increase the profit.

(f) Other risks

(i) Operational risk and legal risk

The Bank and its subsidiary have identified, measured and monitored with related risk by the FSC. The Bank and its subsidiary have offered the "Information of the Capital Adequacy and the Risk Managements" disclose the qualitative data and the quantitative data, i.e., market risk management regulations of operational risk and quantitative data.

Operation risks refer that the Bank has loss caused by the internal operations, the employee's faults, the system errors or external events, and include legal risks. Therefore, as the legal risks have been included into the range of operational risks management, when operational lost events have included into the range of legal risks, will be included into the range of operational risks monitor report.

(ii) Compliance risks and reputation risks

The Department of Compliance have set out "Regulations for legal compliance ", regulate the authority of the Governance unit (as settle by Department of Compliance), the management unit (settle by Department of head office, Board Secretariat, Department of Auditing Board of Directors), training unit (settle by Department of Human Resources), own estimates unit (every operational unit (excluding Department of Auditing Board of Directors), and respond separately to the bank's legal compliance's planning, management, and executing. For example, the management unit should look through the possible risks of legal compliances, before applying to bring out new type of business as the bank set out new product and service, and let the main of department of legal compliance to issue and sign a recommendation which in according to the legal and internal guideline.

In response to changing of external regulations, Legal and Compliance Division uses "The Legislation and Amendment of External Financial Regulations Checklist" to let every operation unit check and amend their internal regulations. And pass the information to colleagues about changing of financial regulations which were related to the Bank's operations to lower the risk of legal and compliance. If the operational loss event of legal and compliance happen, it will be involved in the monitor report of operation risk.

The Bank's "Declaration of Operation Risk Appetite" stressed that not only attaching importance to direct financial losses cause by operational loss event, but also to indirect losses which might damage the quality of service and reputation. In view of internal fraud will cause enormous losses and serious reputation hazard. The Bank actively established the enterprise culture with risk awareness. Enhancing colleagues' concept of risk (collecting and compiling the information to the report about the concept of risk), executing internal control certainly, and emphasizing the importance of compliance with regulations and laws which can avoid internal fraud.

In the future, except for meeting the requirements of the Competent Authority, the Bank collects domestic and international information and the reference with the inter-related banking pragmatic way to enhance the quantitative measurement and qualitative management about operation risk, legal risk, compliance risk and reputation risk.

(iii) Money laundering and terrorist financing risks

The Bank has established and amended the related policies and procedures in accordance with the "Money Laundering Control Act" and related regulations announced by the FSC, as well as the "Template of Directions Governing Anti-Money Laundering and Countering the Financing of Terrorism of Banks" and the 53 suspicious transaction patterns amended or issued by the bankers association of the R.O.C. The Bank took the following actions to combat money laundering and terrorism financing (AML/CFT):

1) Setting up responsible unit and appoint AML/CFT Responsible Officer

The board of directors of the Bank appointed the Chief Compliance Officer to serve as AML/CFT Responsible Officer, and set up "AML Center" under The Department of Compliance in January 16, 2017. A Supervisor and a Vice Supervisor are set up in the center, and the Deputy Chief Compliance Officer is appointed to serve as the Supervisor. So far, there are 13 members in the center.

2) Setting up AML/CFT Committee

The Bank set up "Anti-Money Laundering and Combating Terrorism Financing Committee (AML/CFT Committee)" according to the "Regulations for Anti-Money Laundering and Combating Terrorism Financing Committee, Bank of Taiwan". The President is the Chairperson, and the Chief Compliance Officer is the Vice President of the committee. The managers of the 16 other departments also serve as the committee members. The AML/CFT Committee is responsible for examining and supervising AML/CFT related affairs.

- 3) Optimizing AML/CFT managerial mechanisms
 - a) In order to strengthen the Bank's AML/CFT managerial mechanisms, the Bank has already hired independent third parties to audit the effectiveness of the AML/CFT managerial mechanisms in 2016 and 2017. Against the findings of the audit, the Bank then hired external consultants to assist the Bank for improvement. The external consultants also participated and provided suggestions in the establishment of the Bank's AML/CFT information systems.
 - b) The consulting engagement is divided into three stages, including "Anti-Money Laundering and Combating Terrorism Financing System Difference analysis", "Anti-Money Laundering and Combating Terrorism Financing Managerial System Improvement and Optimization", and "Managerial System Operation". By analyzing the differences between the Bank's current AML/CFT operation and the regulatory requirements all over the world, the consulting engagement focuses on mitigating the differences, optimizing the mechanisms, and re-examing the effectiveness of the optimized managerial mechanisms to ensure the perfectness of the systems.

4) Setting up and optimizing AML/CFT information systems

According to "Regulations Governing Anti-Money Laundering" Art. 9.1., financial institutions should gradually integrate customer information and transaction data by information systems, for the purpose of enhancing its capability of account and transaction monitoring. The Bank will strengthen its policies and procedures regarding ongoing monitoring of accounts and transactions by applying risk-based approach and the assistance of information systems.

5) Establishing AML/CFT area in its internal information network

In order for its employees to have an immediate access to AML/CFT related information, the Bank set up an AML/CFT website within its internal network. This measure simplifies the procedures of collecting related information, and is beneficial to the Bank by providing compliance guidance to its employees in their daily operations.

- 6) Training responsible officers and supervisors
 - a) In order to respond to the announcement of the amendments to AML/CFT related regulations and to enhance the employees' understanding of related regulations, the Bank hired external expert to hold orientation training for the Bank's responsible officers and supervisors. The Bank also held seminars and invited professional lecturer to discuss the amendments to AML/CFT related regulations and patterns for the Board of Directors, General President, and responsible officers or supervisors.
 - b) To propagate "Money Laundering Control Act" and related regulations, the Bank recorded AML/CFT online courses, and requires all employees to finish the online courses. The Bank also drew up "Understanding AML Q&A", and held online exam about the Q&A. The Bank requires all its employees to read the Q&A thoroughly and finish the online exam so as to improve their knowledge on AML related regulations.
- (g) Transfer of Financial Assets Transferred financial assets that are not completely derecognized

The transferred financial assets of the Bank and its subsidiary that are not qualified for derecognition in the daily operation are mainly debt securities under repurchase agreements. Since the right to receive cash flow is transferred and it reflects the associated liabilities to repurchase transferred financial assets at a fixed price in the future period, the Bank and its subsidiary cannot use, sell or pledge these transferred financial assets during the valid transaction period. However, since the Bank and its subsidiary still bear the interest rate risk and credit risk, their transferred financial assets are not completely derecognized. Analysis of financial assets that are not completely derecognized and the associated liabilities are as follows.

	December 31, 2017					
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	a55015	hability	assets	nabilities	net position	
fair value through profit or						
loss						
Under repurchase agreements	\$ 4,351,953	4,154,202	4,351,954	4,154,202	197,752	
Available for sale-financial assets						
Under repurchase agreements	30,614,896	29,751,918	30,614,896	29,751,918	862,978	
		D	ecember 31, 20	16		

	December 51, 2010							
Type of financial assets Financial asset measured at fair value through profit or loss	t	Carrying amount of the ransferred financial assets	Carrying amount of the Financial liability	Fair value of transferred financial assets	Fair value of financial liabilities	Fair value net position		
Under repurchase agreements	\$	1,072,336	1,071,878	1,072,336	1,071,878	458		
Available for sale-financial assets								
Under repurchase agreements		9,315,866	10,265,271	9,315,866	10,265,271	(949,405)		

(h) Offsetting of financial assets and financial liabilities

Bank of Taiwan and its 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 its 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:

	December 31, 2017							
Financ	cial assets under o	ffsetting or gene	ral agreement of r	et amount settle	ment or similar n	orms		
		Total						
		recognized						
		financial						
		liabilities	Net amount of	Relevant amo				
	Total	offsetting on	financial assets	on the bala	nce sheet (d)			
	recognized	the balance	on the balance	Financial				
	financial assets	sheet	sheets	instrument	Cash received	Net amount		
Financial assets	()	(b)	(c)=(a)-(b)	(note)	as collaterals	(e)=(c)-(d)		
Derivative	\$ <u>7,071,851</u>		7,071,851	529,545	1,461,975	5,080,331		
financial assets								
		D						
·			ecember 31, 2017	• • • • •				
Financia	al liabilities under		eral agreement of	net amount sett	lement or similar	norms		
		Total						
	T ()	recognized	Net amount of	D.1				
	Total	financial assets	financial	Relevant amo				
	recognized financial	offsetting on	liabilities	on the balar Financial	ice sneet (u)			
Financial	liabilities	the balance	on the balance		Diadaad aaab	Not amount		
liabilities		sheet	sheets	instrument	Pledged cash Collaterals	Net amount $(a) = (a) (d)$		
Derivative	(a)	(b)	(c)=(a)-(b)	(note)		(e)=(c)-(d)		
financial	\$ <u>8,722,072</u>		8,722,072	529,545	200,773	7,991,754		
liabilities								
naunnies								

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

		D	ecember 31, 2016			
Financia	l assets under o	ffsetting or gene	ral agreement of r	et amount settle	ment or similar n	orms
	Total	Total recognized financial liabilities	Net amount of	Relevant amo	unt not offset	
	recognized	offsetting on	financial assets		ice sheet (d)	
	financial	the balance	on the balance	Financial		
	assets	sheet	sheets	instrument	Cash received	Net amount
Financial assets	(a)	(b)	(c)=(a)-(b)	(note)	as collaterals	(e)=(c)-(d)
Derivative \$	10,320,504		10,320,504	1,199,479	3,441	9,117,584
financial assets						
		D	ecember 31, 2016			
Financial l	iabilities under	offsetting or gen	eral agreement of	f net amount sett	lement or similar	norms
		Total recognized	Net amount of			
	Total	financial assets	financial	Relevant amo	unt not offset	
	recognized	offsetting on	liabilities	on the balar	ice sheet (d)	
	financial	the balance	on the balance	Financial		.
Financial	liabilities	sheet	sheets	instrument	Pledged cash	Net amount
liabilities	<u>(a)</u>	(b)	(c)=(a)-(b)	(note)	Collaterals	(e)=(c)-(d)
Derivative \$	6,667,566		6,667,566	1,199,479	50,263	5,417,824
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 conduct the stress testing, the simulation analysis periodically, consider the external conditions and other factors, such as potential risks, environment changes of the financial market and other events that will affect the risk tolerable ability to ensure the Bank can maintain sufficient capital while unfavorable events and significant changes to the market occur.

(b) The definition and regulations of capital

The Competent authority of the Bank is the Financial Supervisory Commission (the FSC). The Bank and its subsidiary follow the "Regulations Governing the Capital Adequacy and Capital Category of Banks" issued by the FSC.

The term "Ratio of Regulatory Capital to Risk-weighted Assets" shall mean Common Equity Tier 1 Ratio, Tier 1 Capital Ratio, and Total Capital Adequacy Ratio. Except computing the Bank own ratios, it also calculates the ratios using the consolidated financial information according to the IAS 27. All mentioned ratios should be in conformity with article 5 of the regulations.

(c) Regulatory Capital

The term "Regulatory Capital" shall mean the net Tier 1 Capital and the net Tier 2 Capital according to the Regulations Governing the Capital Adequacy and Capital Category of Banks."

- (i) The term "Net Tier 1 Capital" shall mean the aggregate amount of net Common Equity Tier 1 and net additional Tier 1 Capital.
 - 1) The common equity Tier 1 capital consists of the common equity that reduces intangible assets, the deferred tax assets due to losses from the previous year, the insufficiency of operation reserves and loan loss provisions, the revaluation surplus of real estate, unamortized losses on sales of non-performing loans, and the statutory adjustment items calculated in accordance with other rules for calculation methods. The common equity tier 1 capital shall mean the sum of the common stock and additional paid-in capital in excess of par- common stock, the capital collected in advance, the capital reserves, the statutory surplus reserves, the special reserves, the accumulated profit or loss, the non-controlling interests and the other items of interest.

- 2) The range of additional Tier 1 capital shall mean the total amount of the following items reduces the total amount of the deductible items in accordance with the rules for calculation methods.
 - a) Non-cumulative perpetual preferred stock and its capital stock premium.
 - b) Non-cumulative perpetual subordinated debts.
 - c) The non-cumulative perpetual preferred stock and its capital stock premium, and the non-cumulative perpetual subordinated debts which are issued by banks' subsidiaries, and are not directly or indirectly held by banks.
- (ii) The range of Tier 2 capital shall mean the total amount of the following items reduces the total amount of the deductible items in accordance with the rules for calculation methods.
 - 1) Cumulative perpetual preferred stock and its capital stock premium.
 - 2) Cumulative perpetual subordinated debts.
 - 3) Convertible subordinated debts
 - 4) Long-term subordinated debts
 - 5) Non-perpetual preferred stock and its capital stock premium
 - 6) When the real estate was adopted by the International Financial Reporting Standards for the first time and used the fair value or the re-estimated value as the deemed cost. The difference in amount between the deemed cost and the book value was recognized in retained earnings, the 45% of unrealized gain on available-for-sale financial assets, as well as operational reserves and loan-loss provisions.
 - 7) The cumulative perpetual preferred stock and its capital stock premium, cumulative perpetual subordinated debts, convertible subordinated debts, long-term subordinated debts, and the non-perpetual preferred stock and its capital stock premiums which are issued by banks' subsidiaries, and are not directly or indirectly held by banks.

When a bank reports its capital adequacy ratio according to the regulations, the competent authority shall examine its capital category in accordance with the provisions of these regulations on the calculation of capital adequacy ratio.

When a bank's capital is graded as inadequate capital, significantly inadequate capital or seriously inadequate capital by the competent authority's examination, the competent authority shall take prompt corrective actions in pursuant to Sections 1 to 3, Paragraph 1, Article 44-2 of the Act.

The government regulations are formulated in accordance with the Basel Accord. The followings are the content of the Basel Accord and the implementation of the Bank and its 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 its 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 its subsidiary use the Standardized Approach.
- 3) Operation risks refer that the Bank has loss caused by the internal operations, the employee's faults, the system errors or external events. The operation risks include legal risks but exclude strategy risks and reputation risks. The measurement methods are the Basic Indicator Approach, the Standardized Approach, the Alternative Standardized Approach and the Advanced Measurement Approach. The Bank has adopted the Basic Indicator Approach since the first quarter of 2015 after obtaining the approval from the authorities.
- (ii) The Second Pillar

The second pillar is used to ensure that each bank has sufficient internal assessment procedures and each bank can understand the capital adequacy through complete risk measurements. At the same time, it also uses proper supervisory operations to ensure the regulatory capital accord with the whole risk characteristics. The Bank and its 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 its 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.

Analyze	Items	Year	December 31, 2017	December 31, 2016
Eligible	Common stock capital		204,281,845	196,707,640
	Other tier 1 capital		-	-
capital	Tier 2 capital		42,705,800	44,259,621
	Eligible capital		246,987,645	240,967,261
Risk assets	Credit	Standardized approach	1,723,882,383	1,845,675,715
weighted		Internal rating based approach	-	-
assets	risk	Securitization	-	-
	Operational	Basic indicator approach	-	-
		Standardized approach/Alternative standardized approach	61,430,838	64,622,213
	risk	Advance measurement approach	-	-
	Market	Standardized approach	95,600,876	90,793,588
	risk	Internal models approach	-	-
	Total risk weighted assets		1,880,914,097	2,001,091,516
Capital a	dequacy ratio		13.13 %	12.04 %
Common	stock based capital ratio		10.86 %	9.83 %
Tier 1 ris	k based capital ratio		10.86 %	9.83 %
Leverage	ratio		4.10 %	4.08 %

(d) Capital adequacy ratio

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 its subsidiary
BankTaiwan Life Insurance Co., Ltd.	Wholly-owned subsidiary
BankTaiwan Securities Co., Ltd.	Wholly-owned subsidiary
Hua Nan Financial Holdings Co., Ltd.	Investee company of the Bank under the equity method
Taiwan Life Insurance Co., Ltd.	Investee company of the Bank under the equity method
Tang Eng Iron Works Co., Ltd.	Investee company of the Bank under the equity method
Kaohsiung Ammonium Sulfate 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
The Export-Import Bank of the Republic of China	Related- Party
Cathy United Bank	Related- Party
Chang Hwa Bank	Related- Party
Others	Directors, supervisors, managers and their relatives up to the second degree, affiliates and so on

(b) Key Management Personnel Compensation

The related information about the salaries and bonus for the key management personnel in 2017 and 2016 were as follows:

	2017	2016	
Short-term employee benefits	\$ 9,836	9,593	

(c) Other related-party transactions

(i) Call loans to bank

			December 3	31, 2017	
Hua Nan Financial Holdings Co., Ltd.	\$ Highest balance 11,112,275	Ending balance 1,528,375	Interest rate range (%) 0.17~5.10	Interest income 50,551	
			December 3	31, 2016	
				Interest	
		Highest	Ending	rate range	Interest
		 balance	balance	(%)	income
	Hua Nan Financial Holdings Co., Ltd.	\$ 49,325,120	3,060,900	0.17~3.30	51,762
)	Receivables				

(ii) Receivables

		December	31, 2017	December 31, 2016	
Name	A	mount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holding Co., Ltd.	\$	3,238	0.01	2,971	-
BankTaiwan Life Insurance Co., Ltd.		35,010	0.06	44,178	0.07
Total	\$	38,248	0.07	47,149	0.07

(iii) Other assets

	December 31		31, 2017	December	nber 31, 2016	
			Percentage of account		Percentage of account	
Name		mount	<u>balance</u>	Amount	balance	
BankTaiwan Life Insurance Co., Ltd.	\$	5,873	0.07	6,780	0.09	
BankTaiwan Securities Co., Ltd.		14		14		
Total	\$	5,887	0.07	6,794	0.09	

(iv) Deposits of banks

	December	31, 2017	December 31, 2016		
		Percentage of account		Percentage of account	
Name Hua Nan Financial Holdings Co., Ltd.	Amount \$ <u>317,818</u>	balance 0.66	Amount 209,950	balance 0.42	

(v) Call loans from banks

			December 3	31, 2017	
Hua Nan Financial Holdings Co., Ltd.		Highest balance 10,000,000	Ending balance 296,800	Interest rate range (%) 0.01~5.10	Interest expense 1,459
			December	31, 2016	
				Interest	
	_	Highest balance	Ending balance	rate range (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$	12,371,120		0.17~8.00	2,975

(vi) Deposits

	Decemb	oer 31, 2017	December	r 31, 2016
Norm	A	Percentage of account	A	Percentage of account
Name	Amount	balance	Amount	balance
Taiwan Financial Holding Co., Ltd.	\$ 130,65		178,808	0.08
BankTaiwan Life Insurance Co., Ltd.	3,656,36	.09	3,848,677	1.69
BankTaiwan Securities Co., Ltd.	377,40	0.01	322,246	0.14
Hua Nan Financial Holdings Co., Ltd.	376,29	0.01	399,156	0.18
Taiwan Life Insurance Co., Ltd.	-	-	-	-
Tang Eng Iron Works Co., Ltd.	-	-	13,309	-
Tai Yi Real Estate Management Co., Ltd.	10,33		605	-
Total	\$ <u>4,551,0</u> 4	<u>1 0.11</u>	4,762,801	2.09

(vii) Payables

	1	December 31, 2017		December 31, 2016	
Name	A	mount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holding Co., Ltd.	\$	3	-	4	-
BankTaiwan Life Insurance Co., Ltd.		1,746	-	155	-
BankTaiwan Securities Co., Ltd.		61		46	
Total	\$	1,810		205	

(viii) Other liabilities

BankTaiwan Securities Co., Ltd.

Total

			December	31, 2017	December	r 31, 2016
				Percentage		Percentage
	Name		mount	of account balance	Amount	of account balance
	Taiwan Financial Holding Co.,	<u> </u>	2,717	<u>0.03</u>	<u>Amount</u> 2,708	<u>0.04</u>
	Ltd.	Ф	2,717	0.03	2,708	0.04
	BankTaiwan Securities Co., Ltd.		1,792	0.02	1,664	0.02
	Total	\$	4,509	0.05	4,372	0.06
(ix)	Interest income					
			20		20	
				Percentage		Percentage
				of account		of account
	Name		mount	balance	Amount	balance
	Taiwan Financial Holding Co., Ltd.	\$	132,410	0.22	143,325	0.24
	BankTaiwan Securities Co., Ltd.	_	520		675	
	Total	\$	132,930	0.22	144,000	0.24
(x)	Interest expense					
			20	17	20	16
				Percentage		Percentage
				of account		of account
	Name		Amount	balance	Amount	balance
	Taiwan Financial Holding Co., Ltd.	\$	321	-	482	-
	BankTaiwan Life Insurance Co., Ltd.		41,251	0.12	35,754	0.11
	BankTaiwan Securities Co., Ltd.		826		1,194	
	Total	\$	42,398	0.12	37,430	0.11
(xi)	Service fee income					
			20		20	
				Percentage		Percentage
	Nome			of account	Amount	of account
	Name DankTaiwan Lifa Inguranaa Ca	• <u>_</u>	<u>Amount</u> 568,193	<u>balance</u> 9.76	Amount 1,330,860	<u>balance</u> 21.28
	BankTaiwan Life Insurance Co., Ltd.	Ф	200,193	9.70	1,330,800	21.28

2,935

571,128

\$

0.05

9.81

1,837

1,332,697

(Continued)

0.03

21.31

(xii) Service fee expense

	20	17	2016		
		Percentage			
		of account		of account	
Name	Amount	balance	Amount	balance	
BankTaiwan Securities Co., Ltd.	\$ <u>12,008</u>	1.87	15,227	2.44	

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

	201	7	2016		
Name	Amount	Percentage of account balance	Amount	Percentage of account balance	
BankTaiwan Life Insurance Co., Ltd.	372,504	1.18	(199,355)	1.22	
BankTaiwan Securities Co., Ltd. Total	(4,315) §<u>368,189</u>	0.01 1.19	(2,301) (201,656)	0.01 1.23	

(xiv) Realized loss on available-for-sale financial assets

	201	7	201	16
		Percentage		Percentage
		of account		of account
Name	Amount	balance	Amount	balance
BankTaiwan Securities Co., Ltd.	\$ <u>(1,849</u>)	0.06	(1,533)	0.07

(xv) Other non-interest income (expense)

		20	17	2016		
			Percentage of account		Percentage of account	
Name	A	mount	balance	Amount	balance	
Taiwan Financial Holding Co., Ltd.	\$	28,796	0.09	27,072	0.13	
BankTaiwan Life Insurance Co., Ltd.		37,363	0.12	39,716	0.19	
BankTaiwan Securities Co., Ltd.		30,350	0.10	32,024	0.15	
Total	\$	96,509	0.31	98,812	0.47	

(xvi) Other general and administrative expense

		20	17	2016		
N			Percentage of account	•	Percentage of account	
Name	A	mount	balance	Amount	balance	
Taiwan Financial Holding Co., Ltd.	\$	822	0.01	781	0.01	
BankTaiwan Life Insurance Co., Ltd.		35,574	0.51	39,577	0.56	
BankTaiwan Securities Co., Ltd.		86		86		
Total	\$	36,482	0.52	40,444	0.57	

(xvii)Loans

			December 31	/			1
	House holder	Highest	Ending		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	27	14,354	9,642	9,642	-	None	None
House mortgages	104	574,881	521,316	521,316	-	Land and buildings	None
Call loans to banks	Land Bank of Taiwan Co., Ltd.	15,000,000	5,000,000	5,000,000	-	None	None
Call loans to banks	Hua Nan Financial Holdings Co., Ltd.	5,000,000	-	-	-	None	None
Call loans to banks	Taiwan Business Bank Co., Ltd.	3,000,000	-	-	-	None	None
Call loans to banks	Cathy United Bank	10,000,000	-	-	-	None	None
Call loans to banks	The Export-Import Bank of the Republic of China	1,800,000	1,500,000	1,500,000	-	None	None
Call loans to banks	Chang Hwa Bank.	5,000,000	-	-	-	None	None
Long-term secured loans	Tai Yi Real Estate Co., Ltd.	2,934	-	-	-	Land and bulidings	None
Short-term loans	Taiwan financial Holding Co., Ltd.	16,250,000	16,250,000	16,250,000	-	Government (or financial institutions) guarantee	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.	402,676	91,395	91,395	-	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	BankTaiwan Securities Co., Ltd.	1,189,338	973,428	973,428	-	Land and factory	None
Medium-term secured loans	Tang Eng Iron Works Co., Ltd	400,000	-	-	-	Land and factory	None
Medium-term secured loans	Tang Eng Iron Works Co., Ltd.	1,600,000	1,300,000	1,300,000	-	Land and factory	None

			December 31	, 2016			
	House holder	Highest	Ending		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	32	13,922	9,153	9,153	-	None	None
House mortgages	110	662,165	581,249	581,249	-	Land and buildings	None
Call loans to banks	Land Bank of Taiwan Co., Ltd.	8,000,000	8,000,000	8,000,000	-	None	None
Call loans to banks	Hua Nan Financial Holdings Co., Ltd.	30,000,000	-	-	-	None	None
Call loans to banks	Taiwan Business Bank Co., Ltd.	6,000,000	2,000,000	2,000,000	-	None	None
Call loans to banks	The Export-Import Bank of the Republic of China	4,000,000	2,650,000	2,650,000	-	None	None
Long-term secured loans	Tai Yi Real Estate Co., Ltd.	3,162	2,934	2,934	-	Land and bulidings	None
Short-term secured loans	Taiwan financial Holding Co., Ltd.	16,750,000	16,750,000	16,750,000	-	Government (or financial institutions) guarantee	None
Secured overdrafts loans	Tang Eng Iron Works Co., Ltd.	170,947	170,947	170,947	-	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.	650,000	650,000	650,000	-	Land and factory	None
Medium-term secured loans	Tang Eng Iron Works Co., Ltd.	600,000	400,000	400,000	-	Land and factory	None
Medium-term secured loans	Tang Eng Iron Works Co., Ltd.	1,550,000	950,000	950,000	-	Land and factory	None
Short-term secured loans	BankTaiwan Securities Co., Ltd.	500,000	-	-	-	Real estate and government (or financial institutions) guarantee	None

Note 1: The consumer loans to staff and mortgage loans to staff can be lumped together for disclosure. The disclosure of other loans is sorted by interested parties.

Note 2: Collateral is classified by real estate, short term notes, government bonds, secured or non secured bonds, TSEC and GTSM stocks, non TSEC and non GTSM stocks, and others.

(xviii) Derivative financial instruments

	December 31, 2017							
					Balance s	heet		
Name of related party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Account name	Amount		
BankTaiwan Life Insurance Co., Ltd.	Smap	2010.8.20~ 2018.4.20	19,890,440		Valuation adjustment of financial assets measured at fair value through profit or loss - swap	(221,156)		

	December 31, 2016								
					Balance s	sheet			
Name of related party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Account name	Amount			
BankTaiwan Life Insurance Co., Ltd.	2 mg	2009.2.24~ 2017.4.19	19,411,560		Valuation adjustment of financial assets measured at fair value through profit or loss - swap	216,252			

(xix) The expenses of shared assets allocated to Taiwan Financial Holding Co., Ltd, BankTaiwan Life Insurance Co., Ltd, BankTaiwan Securities Co., Ltd, by the Bank were as follows:

	2017			2016		
			Percentage of account		Percentage of account	
Name	A	mount	balance	Amount	balance	
Taiwan Financial Holding Co., Ltd.	\$	12,546	0.04	10,822	(0.05)	
BankTaiwan Life Insurance Co., Ltd.		37,363	0.12	39,716	(0.19)	
BankTaiwan Securities Co., Ltd.		20,319	0.06	21,978	(0.10)	
Total	\$	70,228	0.22	72,516	(0.34)	

(11) Pledged Assets:

Pledged assets	Purpose of pledge	December 31, 2017	December 31, 2016
Available-for-sale financial assets — bonds	Guarantee deposit for provisional seizure against defaulted loans and others	\$ 520,400	458,600
Available-for-sale financial assets — bonds	Operating deposit for securities investment trust and consulting	150,000	150,000
Available-for-sale financial assets —bonds	Guarantee deposits for trust business compensation reserve	-	50,000
Held-to-maturity financial assets – government bonds	Guarantee deposits for trust business compensation reserve	450,000	400,000
Deposits in Central Bank-time deposits	Payment and settlement systems of Central Bank	20,000,000	20,000,000
Available-for-sale financial assets – negotiable certificate of deposit	Payment and settlement systems of Central Bank	27,400,000	27,435,000
		\$48,520,400	48,493,600

(12) Commitments and Contingencies:

(a) Commitments and contingencies

	December 31,	December 31,
	2017	2016
Consignment collection	\$ 51,138,609	52,942,935
Contract guarantee on behalf of counter parties	1,230,613	1,197,372
Traveler's checks held on consignment	971,512	1,065,827
Marketable securities held as custodian	1,945,718,196	1,795,341,745
Letters of credit	25,418,847	28,935,428
Goods held in custody	39,968,747	40,812,620
Issuance of New Taiwan Dollars	2,044,208,550	1,940,153,805
Trustee of behalf of Lenders	697,542,841	856,509,331
Registered government bonds for sale	802,097,600	726,985,400
Registered short term bills for sale	257,055,720	242,241,487
Consigned sales of goods	1,625,640	1,753,281
Trust liabilities	618,391,788	606,784,770
Guarantees	85,038,738	75,683,983
	\$ <u>6,570,407,401</u>	6,370,407,984

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

Trust assets		ecember 31, 2017	December 31, 2016	
Deposits				
Deposits in the BOT	\$	33,934,811	30,143,837	
Deposits in other banks		892,101	3,551,648	
Short term investment				
Investment in funds		164,744,058	169,839,348	
Investment in bonds		246,406,386	239,092,992	
Common stock investment-marketable securities		50,742,896	49,446,789	
Receivables				
Interest receivables		1,470,549	1,724,011	
Cash dividend receivables		591	2,813	
Receivables from trading securities		211,773	266,618	
Receivables from forward contracts		4,498,190	8,767,532	
Prepaid expenses		-	823	
Real estate				
Land		17,554,272	16,646,162	
Buildings		121,433	101,832	
Construction in progress		20,867,817	19,336,087	
Marketable securities under custody		76,946,911	67,864,278	
Total of trust assets	\$	618,391,788	606,784,770	

Trust liabilities		ecember 31, 2017	December 31, 2016	
Payables				
Payables from trading securities	\$	214,740	180,652	
Payables from forward contracts		4,611,400	8,604,839	
Payables from management fee		2,846	2,681	
Payables from supervision fee		329	327	
Other payables		1,498	1,327	
Tax payable		402	392	
Securities held in custody payable		76,946,911	67,864,278	
Trust capital				
Money trust		395,622,083	382,320,418	
Marketable securities trust		169,981	142,543	
Real estate investment trust		41,897,668	40,602,282	
Other reserve and accumulated income				
Accumulated loss		72,680,382	72,754,445	
Foreign currency translation		(7,696,426)	7,796,843	
Deferred unrealized income		14,243,990	11,937,642	
Current income	_	19,695,984	14,576,101	
Total of trust liabilities	\$	618,391,788	606,784,770	

Note: Including fund and bond investments of the offshore branch amounting to \$297,466 and \$318,007 as of December 31, 2017 and 2016, respectively.

Details of trust		ecember 31, 2017	December 31, 2016	
Deposits				
Deposits in the Bank	\$	33,934,811	30,143,837	
Deposits in other banks		892,101	3,551,648	
Short term investment				
Investment in funds		164,744,058	169,839,348	
Investment in bonds		246,406,386	239,092,992	
Common stock investment- marketable securities		50,742,896	49,446,789	
Real estate				
Land		17,554,272	16,646,162	
Buildings		121,433	101,832	
Construction in progress		20,867,817	19,336,087	
Marketable securities under custody		76,946,911	67,864,278	
Trust capital	\$	612,210,685	596,022,973	

Income statement for assets under trust		2017	2016	
Trust revenue				
Capital interest revenue	\$	11,074,157	10,513,381	
Cash dividend revenue		1,993,096	1,461,112	
Donation revenue		344,272	326,737	
Realized capital gain shares		120,211	17,819	
Realized capital gain fund		2,384,913	73,787	
Realized exchange gain – bond		852,895	774,069	
Realized gain on property exchange		1,210,426	-	
Income from beneficiary certificates		3,475,430	3,230,082	
Other revenue		61		
Total trust revenue		21,455,461	16,396,987	
Trust expense				
Capital management fee		474,397	391,517	
Tax expense		21,560	10,883	
Supervisory fee		353	348	
Custodian fee		8,939	8,775	
Commission fee		18	9	
Donation cost		594,640	498,511	
Realized loss on property exchange		-	459,778	
Realized exchange loss		585,715	337,662	
Other expense		73,855	113,403	
Total trust expense		1,759,477	1,820,886	
Net income	\$	19,695,984	14,576,101	

(13) Profitability:

Item		December	• 31, 2017	December 31, 2016		
		Before adjusting	After adjusting	Before adjusting	After adjusting	
Return on total assets	Before income tax	0.23	0.43	0.41	0.63	
(Note 6)	After income tax	0.21	0.41	0.37	0.59	
Return on net worth	Before income tax	4.01	6.91	7.34	10.47	
(Note 7)	After income tax	3.69	6.59	6.67	9.80	
Profit margin			31.44		39.50	

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 2015 and 2014.
- 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, 2017 means assets excluding the assets of government employees insurance department and the income before and after tax, plus, excess preferential interest revenue from the advance resulted from government policies, the adjusted return on total assets before (after) tax are 0.44% and 0.42%.)
- 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, 2016 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 7.15% and 6.83%.)

(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	De	cember 31, 201	7	December 31, 2016			
By nature	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total	
Employee benefits expenses							
Salaries	66,365	10,479,618	10,545,983	68,921	10,380,981	10,449,902	
Labor and health insurances	101,216	506,574	607,790	99,101	503,041	602,142	
Pensions	3,180	808,792	811,972	3,315	835,164	838,479	
Others	-	234,151	234,151	-	242,738	242,738	
Depreciation expenses	46,478	734,402	780,880	45,189	744,271	789,460	
Amortization expenses	-	367,125	367,125	-	360,891	360,891	

The number of employees in 2017 and 2016 were 8,198 and 8,045, respectively.

(Continued)

(b) Financial Statements Audited adjustment

The accounting records as at and for the year ended December 31, 2016, 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, 2016

Balance Sheet	F	Previously Reported cember 31, 2016	Adjustments —Increase (Decrease)	As Audited by the MoA, December 31, 2016
Assets				
Current income tax assets	\$	761,630	24,208	785,838
Liabilities				
Current income tax liabilities		654,191	19,122	673,313
Stockholders' equity				
Retained earnings		18,815,254	5,086	18,820,340
			Adjustments	

	Aujustments							
	As	Previously	As Audited by					
Income statement	Rej	ported 2015	(Decrease)	the MoA, 2015				
Income tax expense	\$	1,785,645	(5,086)	1,780,559				
Net income		17,648,971	5,086	17,654,057				

Revised entries by the MoA in 2015 were as follows:

Item	Adjustment accounts	Amount revise	ed by the MoA	Explanation of revision by the MoA		
1.	Current income tax assets	\$ 83		Hong Kong Branch CPA adjustment		
	Income tax expense		83			
2.	Current income tax liabilities Income tax expense	5,003	5,003	Head office adjusted taxable income by amendment.		
3.	Current income tax assets Current income tax liabilities	24,125	24,125	Return the reclassify entry made by BankTaiwan Insurance Brokers.		

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

		Government (insurance de	1 0
	D	ecember 31, 2017	December 31, 2016
Cash and cash equivalents	\$	44,300,291	41,355,259
Financial assets measured at fair value through profit or loss		171,775,507	145,324,912
Receivables, net		13,045,439	18,317,170
Held-to-maturity financial assets		62,802,459	56,829,157
Property and equipment, net		5,842	7,560
Intangible assets, net		6,017	8,268
Other assets, net		3,228,093	3,031,254
Total assets	\$	295,163,648	264,873,580
		Government e insurance de	• •
	D	ecember 31,	December 31,
		2017	2016
Payables		107,877	32,731
Provisions		295,055,660	264,840,836
Other liabilities		111	13
Total liabilities	\$	295,163,648	264,873,580

(Continued)

(ii) Income statement

	Government employees' insurance department					
	December 31, 2017	December 31, 2016				
Net interest income	\$ 1,758,366	1,670,627				
Service fee expenses	(15,411)	(8,666)				
Gain (loss) on financial assets and liabilities at fair value through profit or loss	24,913,983	13,590,760				
Foreign exchange gain (loss)	(5,235,079)	(2,865,129)				
Premium income	23,478,165	22,779,133				
Government subsidy	10,452,705	13,754,258				
Insurance payments	(24,923,675)	(29,871,353)				
Recovered premium reserve	-	-				
Provision for insurance premium reserve	(30,214,824)	(18,843,200)				
Miscellaneous expense	(93,142)	(92,807)				
Miscellaneous revenue	13,504	21,015				
Net revenue	134,592	134,638				
Employee benefits	116,354	116,983				
Depreciation and amortization expenses	4,779	3,881				
Other general and administrative expenses	13,459	13,774				
	134,592	134,638				
Net income	\$ <u> </u>					

Note: According to Government Employees and School Staff 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.

(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 in 2017 and 2016 were \$3 thousand and \$1 thousand, respectively. There were no interest revenue and other revenue in 2017 and 2016

(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 its Subsidiary were as follow:

- (i) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 10% of the capital stock:None
- (ii) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 10% of the capital stock:None
- (iii) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 10% of the capital stock:None
- (iv) Service charge discounts on transactions with related parties in an aggregate amount of NT\$5 million or more:None
- (v) Receivables from related parties with amounts exceeding the lower of NT\$300 million or 10% of the capital stock:None
- (vi) Information on NPL disposal transaction:
 - 1) Summary table of NPL disposal:None
 - 2) Disposal of a single batch of NPL up to NT\$1 billion and information on each transaction:None
- (vii) Types of securitization instruments approved to be issued pursuant to financial assets securitization rules or real estate securitization rules and other relevant information:None
- (viii) Business relationships and significant intercompany transactions:

					Stata	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		BankTaiwan Insurance Brokers	1	Deposits	336,580	Same as regular transaction	0.01 %
	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Placement with banks	336,580	//	0.01 %
0		BankTaiwan Insurance Brokers	1	Cheques deposits	50,000	"	- %
	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Placement with banks	50,000	"	- %
0		BankTaiwan Insurance Brokers	1	Other receivables	71,951	"	- %
	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Other payables	71,951	"	- %
0		BankTaiwan Insurance Brokers	1	Service fees revenue	1,313,644	"	3.97 %
	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Service fees expenses	1,313,644	"	3.97 %
0	Bank of Taiwan	BankTaiwan Insurance Brokers	1	Miscellaneous revenues	435	"	- %
	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Administrative expense	435	"	- %
0		BankTaiwan Insurance Brokers	1	Refundable deposits	769	"	- %
	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Guarantee deposits paid	769	"	- %
0		BankTaiwan Insurance Brokers	1	Miscellaneous revenue	14,630	"	0.04 %
	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Operating expenses	14,630	"	0.04 %
	Bank of Taiwan	BankTaiwan Insurance Brokers	1	Other operating income	4,609	"	0.01 %
	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Operating expenses	4,609	//	0.01 %
	Bank of Taiwan	BankTaiwan Insurance Brokers	1	Interest payables	8	"	- %
	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Interest receivables	8	"	- %

(Continued)

					State	of transaction		
Number	Name of Company	Name of the counter-party	Existing relationship with the counter-party		Amount Terms of trading		Percentage of the total consolidated revenues or total assets	
0		BankTaiwan Insurance Brokers	1	Interest expenses	357	//	- %	
1	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Interest incomes	357	"	- %	

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 2015:

							(In T	housands of	New Taiwan I	Dollars)
				Original	Gain(Loss) recognized	Held by th	Held by the bank and related party at year-end			
Name of the	Investee	Major	% of	investment	during the			Su	btotal	Notes
investee	Location	Operation	shares	amount	period	Shares		Shares	% of Shares	
		Holding	21.23%	-	34,866,577	2,555,815	2,769,788	-	2,769,788.00 %	
Iron Works Co., Ltd.	5F., No.53, Zhonghua 4th Rd., Kaohsiung City, Taiwan	Iron Industry	21.37%	-	1,316,355	52,325	74,802	-	74,802.00%	
Estate Management	,,	Real Estate Service	30.00%	-	20,568	3,936	1,500	-	1,500.00%	
	, ,	Insurance Brokers	100.00%	-	390,541	194,809	2,000	-	2,000.00%	

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: The table do not need to disclosure in the financial statement at first and third quarter.

Note 4: This transaction had been written off when preparation the consolidated financial statements.

(c) Information on Investment in Mainland China:

(i) Information on investees' names, locations, etc. in China:

	(In Thousands of New Taiwan Dollars)											
Investee Company	Main Business	Total Amount of Paid-in Capital	Investment types (Note1)	Accumulated outflow of Investment from Taiwan as of January 1, 2015	Investmen Outflow	t flows Regain	Accumulated outflow of investment from Taiwan as of December 31, 2015	Net income from investee	% of shares	Equity in the Earnings (gains) (Note2)	Carrying value as of December 31, 2015	Accumulated inward remittance of earnings as of December 31, 2015
Bank of Taiwan, Shanghai Branch	Banking business	4,549,000 CNY1,000,000		4,549,000 CNY1,000,000		-	4,549,000 CNY1,000,000	-	- %	298,409	5,402,326	-
Bank of Taiwan, Guangzhou Branch	Banking business	4,549,000 CNY1,000,000		4,549,000 CNY1,000,000		-	4,549,000 CNY1,000,000	-	- %	242,283	4,750,484	-
Bank of Taiwan Fuzhou Branch	Banking business	4,549,000 CNY1,000,000	(3)	4,549,000 CNY1,000,000		-	4,549,000 CNY1,000,000		- %	224,081	4,625,302	-

Note 1: Three types of investments:

1) Direct investment in Mainland China.

2) Investment in Mainland China through a company set up in a third region.

3) Others through overseas branches.

Note 2: Equity in the earnings for the year:

1) If a subsidiary has no income or loss during the period, the parent company should disclose all the related information.

- 2) A Company can recognize the investment income by obtaining the followings:
 - a) Financial statements audited or reviewed by an international accounting firm which has a member firm in Taiwan.
 - b) Financial statements audited or reviewed by the auditor of the parent company

c) Others.

- 3) If the information regarding a subsidiary's current profit and loss is not available, the parent company should disclose it.
- Note 3: Numbers in this table are shown in thousands of TWD.
- (ii) Limitation on investment in Mainland China:

		Unit: In thousands of TWD
Current period of accumulate	The rationed investing amount	The regulation announced by
investment amount remitting from	approved by Investment Commission,	Investment Commission, MOEA
Taiwan	MOEA	rationed investing amount
13,647,000	13,647,000	173,462,863

(d) Subsidiaries lending to other parties, guarantees and endorsements for other parties, securities held as of December 31, 2017, 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.

(Continued)

(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.

					2017			
			Department of					
	-	Bank Emplo		overnment Department mployees of nsurance Procurement		BankTaiwan Insurance Brokers	Reconciliation and elimination	Total
Interest income	\$	57,346,281	1,758,366	9	822	357	(357)	59,105,478
Less: interest expense		33,583,762					(357)	33,583,405
Interest income, net		23,762,519	1,758,366	9	822	357	-	25,522,073
Non-interest income, net		18,916,607	19,663,493	256,313	62,369	361,926	(194,811)	39,065,897
Other non-interest income	(10,540,493)	(21,287,267)	(14,394)	361,934	(1,234)	(19,672)	(31,501,126)
Net revenue		32,138,633	134,592	241,928	425,125	361,049	(214,483)	33,086,844
Bad debt expenses and reserve for guarantees		(1,685,005)	-	-	-	-	-	(1,685,005)
Operating expenses	(19,625,653)	(134,592)	(107,463)	(91,022)	(126,339)	(19,674)	(20,104,743)
Continuing operating income before income tax	\$ <u></u>	10,827,975		134,465	334,103	234,710	(234,157)	11,297,096
Continuing operating income after inocme tax	\$ <u></u>	9,974,370	<u> </u>	134,465	334,103	194,809	(234,157)	10,403,590
Total assets	\$ <u>4,6</u>	34,906,207	295,163,648	1,835,376	1,445,558	489,753	(5,552,770)	4,928,287,772
Total Liabilities	\$ 4,34	46,270,005	295,163,648	1,700,910	1,111,455	99,212	(5,162,229)	4,639,183,001

					2016			
			Department of Government	Department	Department	BankTaiwan	Reconciliation	
	_	Bank	Employees	of	of Precious	Insurance	and	
Toda and in a second	d	epartment	Insurance	Procurement	Metals	Brokers	elimination	Total
Interest income	\$	57,731,311	1,670,627	86	761	441	(441)	59,402,785
Less: interest expense	_	33,367,744		-	-	-	(441)	33,367,303
Interest income, net		24,363,567	1,670,627	86	761	441	-	26,035,482
Non-interest income, net		28,863,755	10,716,965	254,992	34,140	505,950	(307,745)	40,068,057
Other non-interest income	_	(9,544,661)	(12,252,954)	(8,440)	414,897	(1,390)	(17,139)	(21,409,687)
Net revenue		43,682,661	134,638	246,638	449,798	505,001	(324,884)	44,693,852
Bad debt expenses and reserve for guarantees		(5,183,736)	-	-	-	-	-	(5,183,736)
Operating expenses	_	(19,625,638)	(134,638)	(110,134)	(88,026)	(134,205)	17,141	(20,075,500)
Continuing operating income before income tax	\$	18,873,287		136,504	361,772	370,796	(307,743)	19,434,616
Continuing operating income after inocme tax	\$_	17,155,780		136,504	361,772	307,744	(307,743)	17,654,057
Total assets	<u>\$</u> _4	4,506,806,527	264,873,580	2,032,309	1,908,219	580,974	(5,582,720)	4,770,618,889
Total Liabilities	\$	4,232,855,495	264,873,580	1,895,805	1,546,447	139,048	(5,140,794)	4,496,169,581

V. Individual Financial Statements of Recent Years, and Independent Auditors' Report

Independent Auditor's 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, 2017 and 2016, the statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2017 and 2016, 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 of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with the "Regulations Governing the Preparation of Financial Reports by Public Banks" and the "Regulations Governing the Preparation of Financial Reports by Securities Firms".

Basis for Opinion

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

Emphasis of Matter

In accordance with the Audit Act and other governmental regulations of Taiwan, the financial statements of the Bank are required to be examined and certified by the Ministry of Audit (the "MoA"). The financial statements of the Bank as of, and for year ended 2015 were restated to reflect the adjustments made by the MoA. For further information, please see Note 16(b).

Other Matter

As stated in Note 6(j), we have not audited the financial statements of Hua Nan Financial Holdings Co., Ltd. and Tai Yi Real Estate Co., Ltd. The Bank recognized its investments in Hua Nan Financial Holdings Co., Ltd. and Tai Yi Real Estate Co., Ltd. under equity method amounting to \$34,887,145 thousand and \$33,771,463 thousand, respectively, constituting 0.71% and 0.71% of the total assets as of December 31, 2017 and 2016, respectively; and its shares of investment profits in associates accounted for using equity method amounting to \$2,559,751 thousand and \$2,994,036 thousand, respectively, constituting 22.74% and 15.46% of the related income before income tax for the year ended December 31, 2017 and 2016, respectively. Those financial statements were audited by other auditors, whose reports have been furnished to us, and our review, insofar as it relates to the amounts included for those companies, is based solely on the reports 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, 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. The assessment of loans impairment

Please refer to Note 4(1) "Impairment of assets" for related accounting policy, Note 5(a) "Assessments of loans impairment" for the uncertainty of accounting estimation and assumptions, and Note 6(g) "Loans and discounts, net" for the details of the assessment of loans impairment.

Description of key audit matters

When conducting credit business, the Bank shall assess whether there is any indication that loans may be impaired because the Bank will assume credit risk if loans are not repaid. The Bank first assesses the impairment loss of loans in accordance with IAS 39, and such amount of allowance for doubtful accounts shall not be lower than the amount calculated in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non performing/Non accrual Loans". When the Bank, individually or collectively, assesses its impairment loss of loans according to IAS 39, the uses of assumptions, such as effective interest rates, recovery rates and future cash flows, involved the exercise of judgment which usually have significant impacts on the results. In addition, the Bank recognized its loans and allowance for doubtful accounts of \$2,318,081,105 thousand and \$33,041,862 thousand, respectively, as of December 31, 2017. These accounts are material to the Bank. Therefore, the assessment of loans impairment 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) testing the internal control procedures over credit operations, and inspecting the meeting minutes of both the Board of Directors and the Assets and Liabilities Management Committee regarding credit business; (ii) executing substantive analytical procedure and analyzing the structure and movement of loans; (iii) inspecting whether the process of determining parameters were conducted in accordance with the related internal guidelines, as well as evaluating the reasonableness of adjusting the parameters; (iv) executing the retrospective testing of last year's allowance for doubtful accounts which had already been recognized; (v) checking the accuracy of allowance for doubtful accounts calculated in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non performing/Non accrual Loans"; (vi) assessing whether the disclosures appropriately reflected the Bank's exposure to credit risk.

2. The valuation of financial instruments

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

Description of key audit matters

Of the financial instruments measured at fair value through profit and loss and other comprehensive income held by the Bank, other than those that fair value can be observed in an open market, fair value of the financial instruments classified as level 2 and 3 in the fair value hierarchy shall be calculated via models. The parameters of modeling inputs often involved the exercise of judgment and the uses of different valuation techniques and assumptions that may generate significant different results. The financial assets and liabilities measured at fair value held by the Bank as of December 31, 2017 amounted to \$1,539,773,204 thousand and \$94,838,173 thousand, respectively. Among them, the financial assets and liabilities measure at fair value other than those classified as level 1 were \$1,133,224,669 thousand and \$35,090,915 thousand, respectively. The amounts are material to the Bank. 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 the accounting policy on fair value of financial instruments measurement and disclosure, as well as testing the controls over the investment cycle and related financial reporting process, including initial recognition, subsequent measurement and disclosure; (ii) sampling of the financial instruments measured at fair value with an active market to test whether the prices are appropriate and accurate; (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 fair value information is disclosed in accordance with the International Financial Reporting Standards.

3. The assessment of impairment of financial assets

Please refer to Note 4 (1) "Impairment of assets" for related accounting policy, Note 5 (c) "The assessment of impairment of financial assets" for the uncertainty of accounting estimation and assumptions, and Note 6(h) "Available-for-sale financial assets, net", Note 6(i) "Held-to-maturity financial assets, net" and Note 6(k) "Other financial assets, net" for the details of the assessment of impairment of financial assets.

Description of key audit matters

When assessing whether there is any indication that financial assets other than measured at fair value through profit or loss may be impaired, the Bank relies on management for considering all kinds of observable data to determine whether objective evidence of impairment exists on the reporting date. If there is such evidence exists, then the Bank shall calculate the amount of impairment loss by further estimating the future cash flow and effective interest rate or current market return. The decision involved the exercise of judgment and the financial assets of \$1,303,230,688 thousand should be included in the scope of test of impairment as of December 31, 2017. The amount 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 and obtaining the Bank's self assessment report of impairment; (ii) testing the Bank's procedures on the assessment of impairment of financial assets and related internal controls; (iii) testing the accuracy and adequacy of management's assessment of impairment of financial assets; (iv) assessing the reasonableness of the Bank's conclusions of whether to recognized an impairment loss based on our understanding, and the evidence we have collected from other audit procedures.

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 "Regulations Governing the Preparation of Financial Reports by Securities Firms", and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance (including members of the Audit Committee) are responsible for overseeing the Bank'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 Bank of Taiwan'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 Bank of Taiwan 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 investment in other entities accounted for using the equity method to express an opinion on this financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal 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, 2017 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 auditor's report are Yen-Ling Fang and Feng-Hui Lee.

KPMG

Taipei, Taiwan (Republic of China) March 20, 2018

BANK [®]F TAIWAN 2017 ANNUAL REPORT

<u>%</u> 5				-		82	-		9		·	95	2	7	-	,	·	7	·	5	100
December 31, 2016 Amount % 227,596,814	6,709,063	144,195	11,337,914	41,495,209	610,261	3,874,447,418	24,998,082	748,855	283,367,966	18,173,159	6,924,444	4,496,553,380	95,000,000	80,453,034	34,201,365	22,686,273	18,820,340	75,707,978	23,288,296	274,449,308	4,771,002,688
<u>%</u> 4	-		-	-		80	-		9		÷	94	2	7	-	-	$\left \cdot \right $	2	$\left \cdot \right $	9	100
December 31, 2017 Amount %	35,030,435	60,480	33,906,120	42,248,261	506,359	3,941,518,628	24,998,316	842,822	314,774,236	18,130,057	8,506,000	4,639,543,098	95,000,000	80,453,043	39,246,685	29,383,528	15,930,139	84,560,352	29,091,376	289,104,771	\$ 4,928,647,869

(English Translation of Financial Statements and Report Originally Issued in Chinese) Bank of Taiwan

Balance Sheets

December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

Placement with Central Bank and Call Loans to Banks Financial Assets Measured at Fair Value through Profit or Loss

Assets Cash and Cash Equivalents Hedging Derivative Financial Assets, Net

Available-for-Sale Financial Assets, Net Held-to-Maturity Financial Assets, Net Investments under Equity Method, Net

Current Income Tax Assets Loans and Discounts, Net

Receivables, Net

Other Financial Assets, Net Property and Equipment, Net

Investment Property, Net Intangible Assets, Net Deferred Tax Assets

Other Assets, Net

December 31, 2017	017	December 31, 2016	016		
Amount § 158 343 054	%[Amount 122 308 626	%	21000	Liabilities and Equity Denovice of Control Bonk and other hanks
	n	070,066,771	ŋ	00017	Deposits of Central Darin and Otter Darins
675,504,410	14	687,235,976	14	22000	Financial Liabilities Measured at Fair Value through Profit or Loss
236,519,757	5	212,560,998	4	22300	Hedging Derivative Financial Liabilities, Net
22,759	,	21,221	,	22500	Bills and Bonds Sold under Repurchase Agreements
59,237,166	-	63,288,567	-	23000	Payables
1,160,916	,	761,713		23200	Current Income Tax Liabilities
2,285,039,243	46	2,274,236,504	48	23500	Deposits and Remittances
1,135,942,401	23	1,037,841,339	22	24000	Financial bonds payable
144,060,765	ŝ	138,812,328	3	25500	Other Financial Liabilities
36,594,041	-	35,497,450	-	25600	Provision
75,603,497	7	76,578,794	7	29300	Deferred Tax Liabilities
96,340,880	7	96,691,099	2	29500	Other Liabilities
15,238,207		15,238,207	,		Total liabilities
708,629		802,989		31101	Capital stock
163,217		293,925		31500	Capital surplus
8,168,927		8,742,952			Retained earnings:
				32001	Legal reserve
				32003	Special reserve
				32005	Unappropriated retained earnings
				32500	Other equity
					Total equity

Total assets

Total liabilities and stockholders' equity

(English Translation of Financial Statements and Report Originally Issued in Chinese)

BANK OF TAIWAN

Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

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

		2017		2016		
		Amount	%	Amount	%	Change %
41000	Revenue and income:	\$ 59 105 478	170	50 402 705	122	(1)
41000 51000	Interest income Less: Interest expense	• • • • • • • • • • • • • • • • • • • •	179 (102)	59,402,785	132 (75)	(1)
51000	*	(33,583,762)		(33,367,745)		
	Net interest income	25,521,716	77	26,035,040	57	(2)
40100	Non-interest income, Net	1.016.005		5 100 500	10	(0)
49100	Service fees, Net	4,816,095	15	5,123,733	12	(6)
49200	Gain (loss) on financial assets or liabilities measured at fair value through profit or loss	31,513,696	96	16,322,868	37	93
49300	Realized gain (loss)on available-for-sale financial assets	3,013,653	9	2,131,822	5	41
49600	Foreign exchange gain (loss)	(3,249,634)	(10)	(457,893)	(1)	(610)
45000	Reversal of impairment losses	(1,913)	-	27,659	-	(107)
49750	Share of profit (loss) of associates and joint ventures accounted for using equity method	2,806,886	8	16,721,663	38	(83)
49837	Premiums loss	(1,445,511)	(4)	(7,092,220)	(16)	80
49843	Sales income	455,670	1	542,536	1	(16)
48054	Subsidized income from government	10,452,705	32	13,754,258	31	(24)
49898	Excess preferential interest expenses	(11,005,334)	(33)	(10,776,632)	(24)	(2)
49871	Provisions for policyholders' reserve premium, Net	(30,214,824)	(92)	(18,843,200)	(42)	(60)
49899	Excess interest expenses	277,074	1	1,024,100	2	(73)
	Net Revenue	32,940,279	100	44,513,734	100	(26)
58200	Bad debt expense and reserve for guarantees	(1,685,005)	<u>(5</u>)	(5,183,736)	(12)	(67)
	Expenses:					
58500	Employee benefits expenses	(11,982,202)	(36)	(11,918,381)	(27)	1
59000	Depreciation and amortization expenses	(1,100,306)	(3)	(1,103,835)	(2)	-
59500	Other general and administrative expenses	(6,915,570)	(21)	(6,936,219)	(16)	-
	Total Expenses	(19,998,078)	(60)	(19,958,435)	(45)	-
	Operating Income, Net	11,257,196	35	19,371,563	43	(42)
	Net income before income tax	11,257,196	35	19,371,563	43	(42)
61003	Income Tax Expenses	(853,606)	(3)	(1,717,506)	(4)	50
Net inco	ne	10,403,590	32	17,654,057	39	(41)
Other co	mprehensive income:					
Comp	onents of other comprehensive income that will not be reclassified to profit or loss					
Ga	ins (losses) on remeasurements of the defined benefit plans	(962,992)	(3)	(744,381)	(2)	(29)
Ch	ange in fair value of financial liability attributable to change in credit risk of liability	(49,185)	-	-	-	-
Sh	ares of other comprehensive income of associates and joint ventures accounted for using equity					
	method	(91,561)	-	(105,554)	-	13
Inc	ome tax related to components of other comprehensive income that will not be reclassified to					-
	profit or loss					
1	Total items that will not be reclassified to profit or loss	(1,103,738)	(3)	(849,935)	(2)	(30)
	onents of other comprehensive income that may be subsequently reclassified to profit or loss					
-	change difference arising on translation of foreign operation	(1,437,837)	(4)	(468,214)	(1)	(207)
	realized gains (losses) on available-for-sale financial assets	7,119,853	22	4,003,761	9	78
	are of other comprehensive income of associates and joint ventures accounted for using equity	195,022	1	(309,797)	(1)	163
	method, components of other comprehensive income that will be reclassified to profit or loss		-	(2003,000)	(-)	
Inc	ome tax related to components of other comprehensive income that will be reclassified to profit	(20,417)	-	(27,844)		27
inc	or loss	(20,417)	<u> </u>	(27,044)		27
	Components of other comprehensive income that will be reclassified to profit or loss	5,856,621	19	3,197,906	7	83
	mprehensive income (net amount after tax)	4,752,883	19	2.347.971	5	102
	nprehensive income (net amount after tax)	\$ 15,156,473	48	2,347,971	<u>5</u> 44	(24)
i otai col		¢ 13,130,473	1.10	20,002,028		(24)
	Basic earnings per share	ð	1.10		1.86	

See accompanying notes to financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese) BANK OF TAIWAN Statements of Changes in Equity For the years ended December 31, 2017 and 2016 (Expressed in Thousands of New Taiwan Dollars)

Total 254,847,280 (1,010)(400,000)(500,000)17,654,057 10,403,590 4,752,883 20,002,028 274,449,308 2,347,971 15,156,473 Total 20,104,001 5,803,08023,288,296 3,184,295 3,184,295 5,803,080Change in fair value of financial liability attributable to change in credit risk of flability 22,552 (53,540) (13,611) (13,611) 8,941 (53, 540)Other equity interest Gains (losses) on effective portion of cash flow (4,206)4.278 919 3.919 8,197 Unrealized gains 3,884,715 ,664,503 3,884,715 22,784,276 (losses) on available-for-sale financial assets 18.899.561 .664.503 Exchange differences on translation of foreign financial (690,728) (690,728) 1,803,677) ments 1.177.610 486,882 (1,803,677) (400,000)(500,000)(1,019)(1,050,197)Total 59,290,245 (836, 324)17,654,057 16,817,733 75,707,978 10,403,590 9,353,393 (1,019)Deficit yet to be compensated 7,953,744 10,403,590 (3, 172, 078)(400,000)(6,727,093) (500,000)(2, 379, 059)(836,324) (5,045,320)29,838 (1,050,197)17,654,057 18,820,340 16,817,733 9,353,393 **Retained earnings** (29, 838)3,172,078 22,686,273 6,727,093 Special reserve . Legal reserve 31,822,306 34,201,365 5,045,320 2,379,059 Capital surplus 80.453.034 80,453,034 Ordinary shares 95,000,000 95,000,000 Changes in equity of associates and joint ventures accounted for using Appropriation and distribution of retained earnings: Appropriation and distribution of retained earnings: Other comprehensive income (loss) for the period Other comprehensive income (loss) for the period Reversal of special reserve-sale of land Balance at December 31, 2016 Special reserve appropriated Special reserve appropriated Legal reserve appropriated Legal reserve appropriated **Balance at January 1, 2016** Total comprehensive income Total comprehensive income equity method Cash dividends Cash dividends Net income Net income

289,104,77

29,091,376

(44, 599)

3,991

30,448,779

(1,316,795)

84,560,352

15,930,139

29,383,528

39,246,685

80,453,043

95,000,000

Balance at December 31, 2017

BANK ®F TAIWAN 2017 ANNUAL REPORT

(English Translation of Financial Statements and Report Originally Issued in Chinese)

BANK OF TAIWAN

Statements of Cash Flows

For the years ended December 31, 2017 and 2016 (Expressed in Thousands of New Taiwan Dollars)

2017 2016 Cash flows from (used in) operating activities : Net income before income tax \$ 11,257,196 19,371,563 Adjustments : Adjustments to reconcile profit 779,809 Depreciation expense 788.281 Amortization expense 366,975 360,743 1,685,005 5,183,736 Provision for bad debt expense 33,583,762 33,367,745 Interest expense (59,105,478) (59,402,785) Interest income Dividend income (7,342,219) (6,419,120) Net change in other provisions 30,213,909 18,843,004 (3,430) Reversal of impairment loss on inventory 59 (2,806,886) (16,721,663) Share of profit of associates and joint ventures accounted for using equity method Loss (gain) on disposal of property and equipment 160,942 31,493 Impairment loss on non-financial assets (reversal of impairment loss on non-financial assets) 1,913 (27,659) Total adjustments to reconcile profit (2,462,209) (23,999,655) Changes in operating assets and liabilities : Changes in operating assets: (Increase) decrease in placement with Central Bank and call loans to banks (32,592,172) 50,381,710 (40,268,377) Increase in financial assets measured at fair value through profit or loss (15,213,726) Increase in hedging financial assets (1,538)(5,251)Decrease in receivables 7,950,664 8,729,565 (12,308,842) 107,195,573 (Increase) decrease in loans and discounts (95,360,473) 51,457,029 (Increase) decrease in available-for-sale financial assets (26,005,419) Decrease (increase) in held-to-maturity financial assets 1,460,149 (Increase) decrease in other financial assets (111,670) 2.638.627 Decrease (increase) in other assets 947,394 (774,960) (145,230,214) 153,348,497 Total changes in operating assets Changes in operating liabilities : (Decrease) increase in deposits of Central Bank and other banks (8,575,430)2,171,297 28,321,372 Increase (decrease) in financial liabilities measured at fair value through profit or loss (32,515,412) Decrease in hedging financial liabilities (83,715) (99,772) Increase (decrease) in bills and bonds sold under repurchase agreements 22,568,206 (4,998,705) (Decrease) increase in payables (479,112) 768,793 67,071,210 36,595,550 Increase in deposits and remittances 372,920 Increase in employee benefit obligations 965,211 (Decrease) increase in other liabilities (471,702) 377,722 Total changes in operating liabilities 109,316,040 2,672,393 Total changes in operating assets and liabilities (35,914,174) 156,020,890 Total adjustments (38,376,383) 132,021,235 Cash inflow (outflow) generated from operations (27, 119, 187)151,392,798 Interest received 59,704,895 63,195,425 Dividends received 4.704.534 4.072.374 (32,351,364) Interest paid (34,836,721) Income taxes paid (1,269,105) (882,942) Net cash flows from operating activities 3,669,773 182,940,934 Cash flows from (used in) investing activities : Proceeds from disposal of investments accounted from using equity method 187,907 (604,018) (757,041) Acquisition of property and equipment (147,506) Increase in refundable deposits (373,488) (272,555) Acquisition of intangible assets (309,959) Decrease (increase) in other financial assets 1,086,967 (10,325,950) Net cash flows used in investing activities (163,094) (11,352,549) Cash flows from (used in) financing activities : Increase in guarantee deposits received 2,053,258 Decrease in guarantee deposits received (408,646) 93,967 Increase in other financial liabilities Decrease in other financial liabilities (1,036,575) Cash dividends paid (500,000) (400,000) Net cash flows from (used in) financing activities 1,647,225 (1,845,221)Effect of exchange rate changes on cash and cash equivalents (1.792.104)(688.837) Net increase in cash and cash equivalents 3,361,800 169,054,327 Cash and cash equivalents at beginning of period ,082,227,792 913,173,465 1,085,589,592 Cash and cash equivalents at end of period 1,082,227,792 Compose of cash and cash equivalents 158,343,054 Cash and cash equivalents reported in the statement of financial position 122,398,626 Due from the Central Bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7 274,645,417 318,969,155 Investments qualifying for cash and cash equivalents under the definition of IAS 7 652,601,121 640,860,011 1,085,589,592 1,082,227,792

Cash and cash equivalents at end of period



Review of Financial Conditions, Operating Results, and Risk Management

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248 VI. Crisis Management Mechanism

Review of Financial Conditions, Operating Results, and Risk Management

I. Analysis of Financial Status

Unit: NT\$1,000

Year	Dec. 31, 2017	Dec. 21, 2016	Cha	nge
Items	Dec. 31, 2017	Dec. 31, 2016	Amount	%
Total Assets	4,928,287,772	4,770,618,889	157,668,883	3.30
Total Liabilities	4,639,183,001	4,496,169,581	143,013,420	3.18
Total Shareholders' Equities	289,104,771	274,449,308	14,655,463	5.34

Note: Consolidated financial reports serve as the accounting basis.

Analysis of changes in increase/decrease ratios:

Both assets and liabilities in 2017 increased from the previous year, mainly because increased funds in the deposits and remittances of liability account and the bank's lending and investment activities caused the discounts and loans and the available-for-sale financial assets of asset accounts to increase from 2016. The shareholders' equities account in 2017 was up from 2016, due mainly to an increase in the retained earnings.

II. Financial Performance

Year	0017	0010	Cha	ange
Items	2017	2016	Amount	%
Net interest income	25,522,073	26,035,482	(513,409)	(1.97)
Non-interest income (net)	7,564,771	18,658,370	(11,093,599)	(59.46)
Net revenue	33,086,844	44,693,852	(11,607,008)	(25.97)
Bad debt expense and reserve for guarantees	1,685,005	5,183,736	(3,498,731)	(67.49)
Operating expenses	20,104,743	20,075,500	29,243	0.15
Net income before tax	11,297,096	19,434,616	(8,137,520)	(41.87)
Income tax expenses	893,506	1,780,559	(887,053)	(49.82)
Net income after tax	10,403,590	17,654,057	(7,250,467)	(41.07)

Note: Consolidated financial reports serve as the accounting basis.

Analysis of changes in increase/decrease ratios:

- 1. The decrease in net income before tax in 2017 compared with 2016 was due mainly to a decrease in the share of income of equityaccounted investees by booking the liquidation gain of Kaohsiung Ammonium Sulfate Co.
- 2. The decrease in net interest income in 2017 compared with 2016 was due to the fact that the decrease in interest income was larger than the decrease in interest expense.
- 3. The decrease in non-interest net income in 2017 compared with 2016 was due to the decrease in the share of income of equityaccounted investees.
- 4. The decrease in bad debt expense and reserve for guarantees in 2017 as compared with 2016 was caused mainly by a decrease in provision for bad loans.
- 5. Income tax expenses for 2017 were less than in 2016, mainly due to a decrease in the net income before tax.

III. Analysis of Cash Flow

1. Liquidity Analysis for the Past Year

(1) Cash Flow Analysis

Unit: NT\$1,000

Unit: NT\$1,000

Year	2017	2016	Cha	inge
Item	2017	2010	Amount	%
Net cash inflow (outflow)	3,361,800	169,054,327	(165,692,527)	(98.01)

The main reasons for the net change were as follows:

Items	Amount
Decrease in net cash inflow from placement with Central Bank and call loans to banks	(82,973,882)
Decrease in net cash outflow from financial assets measured at fair value through profit or loss	25,054,651
Decrease in net cash inflow from receivables	(802,246)
Decrease in net cash inflow from loans and discounts	(119,504,415)
Decrease in net cash inflow from available-for-sale financial assets	(146,817,504)
Decrease in net cash outflow from held-to-maturity financial assets	27,465,568
Decrease in net cash inflow from other financial assets	(2,750,297)
Decrease in net cash outflow from other assets	1,722,299
Decrease in net cash inflow from deposits of Central Bank and other banks	(10,746,727)
Decrease in net cash outflow from financial liabilities measured at fair value through profit or loss	60,836,784
Decrease in net cash outflow from bills and bonds purchased under resell agreements	27,566,911
Decrease in net cash inflow from payables	(1,237,560)
Increase in net cash inflow from deposits and remittances	30,686,936
Increase in net cash inflow from employee benefit obligations	592,291
Decrease in net cash inflow from other liabilities	(849,601)
Increase in net cash inflow from other operating activities	12,485,977
Decrease in net cash outflow from investing activities	11,189,346
Decrease in net cash outflow from financing activities	3,492,209
Others	(1,103,267)
Total	(165,692,527)

Note: Consolidated financial reports serve as the accounting basis.

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

Linit: NT\$1 000

					01111.11101,000
Beginning Cash	Annual Net Cash	Annual Net Cash Flow from Other	Cash Balance	Remedy for Estima	ted Cash Shortage
Balance (a)	Flow from Operating Activities (b)	Activities (c)	(Shortage) (a)+(b)+(c)	Investment Plan	Financial Management Plan
1,085,589,622	8,824,078	(6,792,073)	1,087,621,627	-	-

2. Cash Flow Analysis for the Coming Year

Note: Consolidated financial reports serve as the accounting basis.

- (1) Cash Flow Analysis
 - a. Operating activities: Due primarily to a net cash inflow produced by 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 in Last 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; 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 2017 amounted to approximately NT\$5.274 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 and Accrued Capital

A. Credit Risk Management System

Year 2017

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 BOT, and reports are submitted to the BOT'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 large exposure, 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; monitoring of asset quality; full allocation of loss provisions; and adequate capital provision
Organizational Framework of Credit Risk Management	The BOT's organizational framework of credit risk management includes the Board of Directors, Risk Management Committee, Department of Risk Management, units in charge of business, and other business units. The Board of Directors is the Bank's supreme policymaking, management and supervision unit and has final responsibility for the Bank's overall risk management. The Risk Management Committee is responsible for the Bank's risk management policy, system, rules, organization, and overall risk assessment, and for supervising and examining revision affairs.
Scope and Characteristics of the Credit Risk Reporting and Measuring System	 Credit Risk Reporting Including the standard system-produced credit risk reports that are submitted to the competent authority, and monthly credit risk monitoring reports. 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.

Items	Contents
Scope and Characteristics of the Credit Risk Reporting and Measuring System	 Credit Risk Measuring System The Bank currently uses the risk standardized 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. 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 or Mitigation Policy, and Strategies and Procedures for Monitoring the Continuing Effectiveness of Hedging and Mitigation Instruments	 Credit Risk Hedging and Mitigation Policy The Bank has established quotas for the concentration of credit risk—by industry, conglomerate, and country, among others. The Bank has established a loan review and follow-up auditing system to strengthen post-loan management, and continuous monitoring of the condition of borrowers. Loan review is carried out within the term of loans in accordance with the review rating, and follow-up auditing is carried out within the term of loans in accordance with the review rating, and follow-up auditing is carried out or important loan cases. 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 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. Strategies and Procedures for Monitoring the Continuing Effectiveness of Hedging and Mitigation Instruments 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. The Bank has set up a collateral management system that can effectively handle its collateral. Analysis and policy readjustments are carried out when necess
Method of Legal Capital Allocation	Standardized Approach

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

Dec. 31, 2017

		Unit: NT\$1,000
Type of Exposure	Exposure Following Risk Mitigation	Accrued Capital
Sovereign Nations	1,768,273,565	196,141
Non-Central Government Public Sector	532,759,080	16,481,038
Banks (Including Multilateral Development Banks)	451,899,419	13,617,460
Enterprises (Including Securities and Insurance Firms)	867,352,976	72,404,277
Retail Loans	394,556,335	20,909,129
Residential Real Estate	566,583,614	23,938,598
Equity Investment	8,495,752	785,857
Other Assets	160,663,467	11,103,526
Total	4,750,584,208	159,436,026

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

A. Securitization Risk Management System

Year 2017

Items	Contents
Securitization Management Strategy and Procedures	 The BOT has not acted as the originator of securitized products, but only as investor. The BOT's management strategy 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."
Securitization Management Organization and Framework	The BOT has not played the role of originator bank, and the risks potentially associated with its investment in securitized products (including credit risk, market risk, liquidity risk, interest rate risk, and operational risk) are controlled in accordance with the organizations and frameworks related to the different categories of risk as well as with the BOT's risk management system and reporting mechanism.
Scope and Characteristics of the Securitization Risk Reporting and Measuring System	The BOT carries out prior evaluation of the risks and benefits associated with investment in securitized products in accordance with the relevant investment rules; evaluates profit and loss on a monthly basis; submits risk reports to the unit in charge, Department of Risk Management, ranking executives, and Investment Commission; and reports regularly to the Risk Management Committee and the Board of Directors.
Method of Legal Capital Allocation	Standardized Approach

B. Status of Securitization

None

C. Securitization Risk Exposure and Accrued Capital (According to the Type of Transactions)

											1	Unit: NT\$1,000
Type of					Traditional			Synth	etic	Total		
	Exposure			Risk E	xposure			Risk Exposure	A		A	Accrued
Bank	Book	Class	Retention or Purchasing	The provision of liquidity facilities	The provision of credit enhancement	credit Subtotal (2) or	Purchasing	Accrued Capital (4)	Risk Accrued Exposure Capital (5)=(1)+(3) (6)=(2)+(4)	Capital	Capital Before Securitization	
Non-	Banking Book	CDO	499,335	0	0	499,335	23,094	0	0	499,335	23,094	
Originating Bank	Trading Book											
	Subtotal		499,335	0	0	499,335	23,094	0	0	499,335	23,094	
	Banking Book											
Originating Bank	Trading Book											
	Subtotal											
Total			499,335	0	0	499,335	23,094	0	0	499,335	23,094	

Dec. 31, 2017

D. Securitized Product Information

a. Summarization of information about investment in securitization products

Dec. 31, 2017

Unit: NT\$1,000

Item	Account	Original Cost	Accumulated Value Income	Accumulated Impairment	Book Value
Asset-Backed Securities (ABS)	130209 Available- for-sale financial assets-noncurrent	500,000	-665	0	499,335

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

													l	Jnit: NT\$1,000
Securities	Account	Currency	lssuer & Place	Trade Date	Maturity Date	Interest Rate	Credit Rating	Repayment	Original Cost	Accumulated Value Income		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.	130209 Available- for-sale financial assets- noncurrent	TWD	The originator, Chailease Finance Co., transferred the property trust to the Land Bank of Taiwan, which was appointed as trustee of the trust asset account for the Chailease 2016 Securitization Special Purpose Trust.	24 Aug. 2016	24 Aug. 2021	1.9%	twAAA Taiwan Ratings	Interest paid monthly; Class A notes scheduled for completion of redemption between 24 Aug. 2019 and 24 Aug. 2021.	500,000	-665	0	499,335	24.60%	 (1) 93 finance leases, NT\$563.16 million (2) 841 installment sales, NT\$ 3,919.46 million (3) 143 conditional sales, NT\$ 490.91 million

Dec. 31, 2017

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

(3) Operational Risk Management System and Accrued Capital

A. Operational Risk Management System

Year 2017

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.
Organizational Framework of Operational Risk Management	 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 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 Auditing (Board of Directors) is the Bank's independent auditing unit, and
	 evaluates the effectiveness, design and implementation of operational risk management. 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.

ltems	Contents
Organizational Framework of Operational Risk Management	5. The units in charge of different areas of business have established business rules and operating manuals in order to distinguish operational risk.6. The different units bank-wide carry out their various businesses in accordance with business rules, operating manuals, and standard operating procedures.
Scope and Characteristics of the Operational Risk Reporting and Measurement System	 Operational Risk Reporting: 1. The Bank convenes meetings of the Risk Management Committee on a regular basis, and bank-wide operational risk management and control reports are submitted. The scope of the reports encompasses the collection, filing, and analysis of incidents of operational risk loss; the establishment of standard operating procedure "SOP" pages on the Bank's internal global information website to provide for retrieval by Bank employees; and various kinds of risk-culture education. These activities are designed to lower operational risk. 2. Any unit that discovers deficiencies in the management mechanism or major operational risk incidents should immediately notify the relevant unit, and the unit in charge of the business concerned carries out review and improvement as well as guidance for the various units. Measurement System: The Bank constantly collects internal loss data (LDC) and has set up an operational loss databank. The Bank is also introducing Operational Risk Control Self-Assessment (RCSA) and Key Risk Indicators (KRI) as tools for measuring operational risk.
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, home 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, 2017

Unit: NT\$1,000

Year	Operating Gross Profit	Accrued Capital
2015	32,041,962	
2016	41,431,531	
2017	29,863,587	
Total	103,337,080	4,914,467



(4) Market Risk Management System and Accrued Capital

A. Market Risk Management System

Year 2017

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.
Organizational Framework of Market Risk Management	 The BOT's organizational framework of 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, system, 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.
Scope and Characteristics of Market Risk Reporting and Measurement	 The Bank's market risk monitoring encompasses all trading units and overall and individual trading procedures for different financial products, and includes changes in position, changes in profit and loss, trading models, and trading targets, all of which should be carried out in accordance with the Bank's quota limits, stop-loss, and over limit disposition rules, and within authorization limits. 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 credit risk, capital requirement, financial instruments quotas and limit exceeding, analysis of the management of risk concentration, and analysis of overseas branches (including the OBU) investment assets portfolio, among others. The Bank currently uses the risk standardized 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 an internal model-based approach (IMA) to market risk into day-to-day risk management processes, the Bank since the first quarter of 2017 has include trading book bonds, foreign exchange spots and forwards, and interest rate swaps in the risk limit management system. It also conducts daily monitoring of VaR as a percentage of portfolio value, and reports its findings once a month. At year-end 2017, the Bank reviewed its method for setting trading book risk limits and switched to the direct use of trading book risks as the limits. It also adopted additional risk limits for the
Market Risk Hedging or Mitigation Policy, and Strategies and Procedures for Monitoring the Continuing Effectiveness of Hedging and Mitigation Instruments	 The BOT's "Operating Rules for Engaging in the Offshore Banking Business" clearly specify the range of trading in the offshore banking business and establish trading limits according to the credit rating and world ranking of counterparties, issuing institutions, and guarantor institutions. The Rules also have strict specifications regarding categories of securities, with trading quotas and stop-loss limits being established for the trading book positions of different units. In accordance with the "Operating Criteria for Derivatives Products, and Internal Control Operating Methods," the Bank uses the following risk-hedging principles to trade in derivative financial products by trading units: (1) Principal and loss quotas are reviewed on a regular basis. (2) Reverse-squaring trading for derivatives positions has been provided for, and can be used for the mutual offsetting of positions, which are listed as net amounts. (3) The market risk of structured derivative financial products is calculated under the principle of decomposition. For products that do not admit of decomposition, positions should be covered in round lots, with no retained positions allowed.
Method of Legal Capital Allocation	Standardized Approach

B. Market Risk Accrued Capital

Dec. 31, 2017

	Unit: NT\$1,000
Risk Category	Accrued Capital
Interest rate risk	2,777,214
Equity security risk	1,899,194
Foreign exchange risk	2,971,167
Option risk	0
Commodity risk	495
Total	7,648,070

(5) Liquidity Risk

The Bank uses two methods to manage liquidity risk: total amount management, and flow management. Total amount management is carried out according to the Central Bank's "Liquidity Reserve Checking Guidelines for Financial Institutions," and liquidity reserves are allocated in reference to fluctuations in the Bank's flow of funds. The implementation of flow management depends on the time of inflow and outflow of funds and is divided into real-time management and medium and long-term management. When the flow of funds reaches a set limit, business units are required to submit a report immediately so as to maintain a grasp of the status of capital and provide for the adoption of advance countermeasures. In addition, a monthly analytic report on the Bank's New Taiwan Dollar and Foreign Currencies funds liquidity risk and interest rate risk is compiled and submitted to the Assets and Liabilities Management Committee and to the Board of Managing Directors quarterly.

A. New Taiwan Dollar-Denominated Maturity Date Structure

Dec. 31, 2017

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	4,662,121,436	739,299,500	529,571,609	545,439,286	473,784,961	586,757,497	1,787,268,583			
Major outflows of matured funds	6,220,177,857	255,400,881	381,292,536	760,860,621	756,668,519	1,357,513,594	2,708,441,706			
Period gap	-1,558,056,421	483,898,619	148,279,073	-215,421,335	-282,883,558	-770,756,097	-921,173,123			

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,	2017
	•••	

Unit: US\$ 1,000 Amounts by Time Remaining before Maturity Items Total 181 days-0-30 days 31-90 days 91-180 days Over one year one year Major inflows of 51,904,325 9,480,751 11,092,430 5,574,245 2,871,724 22,885,175 matured funds Major outflows of 8,087,184 51,904,325 11,034,343 4,763,223 4,422,098 23,597,477 matured funds Period gap 0 -1,553,5923,005,246 811,022 -1,550,374-712,302

Note: The table includes USD Amounts held in the head office, the domestic and overseas branches, and Offshore Banking Branch.

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

The Bank will remain attentive to the influence of major government financial and economic policies, and will provide appropriate responses in a timely fashion so as to lower the impact on its financial operations. In addition, the BOT Department of Compliance will collect information on legal provisions related to the Bank's businesses and forward it in a timely manner to the related business units with instructions to comply with legislative amendments and to act as quickly as possible to develop response plans or suggest revisions to the Bank's operating rules and bylaws so as to abide by the law, ensure legal compliance, and reduce operational risk.

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

- (1) In response to domestic deregulation and Fintech innovation, BOT continued promoting digitalized financial services.
 - A. BOT continued drawing up plans to launch personalized online banking. The plans entail the use of responsive web technology and personalized services in combination with Big Data CRM to provide optimum web pages.
 - B. BOT's online banking system now allows customers to apply online to use the Taiwan Pay mobile payments app.
 - C. The hand gesture passwords and biometrics supported by smart mobile devices make identity verification and rapid logon to mobile banking apps possible.
 - D. BOT will continue working with the Financial Information Service Co. and Taiwan Mobile Payments Co. to jointly promote the Taiwan Pay mobile payments app.

- E. BOT's online banking and mobile banking systems use the application programming interface (API) of the e-Bill National Payment Network to achieve expanded functionality, enabling customers to access direct debit billing records and pay bills.
- F. BOT has designed mobile financial services so that senior corporate management can use smart phone apps to access billing records, examine the data, and authorize payments. This makes it possible to quickly track funds movements, make business decisions, and authorize payments.
- G. The Bank established a Big Data database and a customer behavior data mining model and, relying on a CRM system database, used business intelligence analysis and other such tools to develop various lines of business.
- H. BOT has designed a "Cash Inbound" function for its tuition and school fees payment portal. This function enables mainland Chinese students who are studying in Taiwan to use the mainland's Alipay service to pay tuition and fees.
- I. The Bank is drawing up plans for an online calculator function for unsecured loan amounts and interest rates. This simplifies the loan application process for customers, improves the efficiency of services and marketing management, and increases customer satisfaction.
- J. The Bank has launched a 24-hour smart fee payment machine. A customer with a printed bill in hand can swipe the barcode or input the account number, then use a bank card or cash to pay the fee amount.
- K. BOT has established an integrated queueing system for its business locations. A customer can access the system via the Internet to make an appointment, take a number, or check what number was last called.
- L. To support the e-confirmation blockchain developed by the Financial Information Service Company, BOT is developing an automated system that financial institutions can use to check on requests for confirmation of balances. This blockchain service ensures the privacy and undeniability of digital certificates and digital signatures, and establishes a single format for all confirmation forms.
- M. In response to the rise of the social media age, BOT is developing a system that enables customers to use three different channels—an interactive Web-based chat site, LINE, or Facebook Messenger—to interact via voice with a consultation system that employs artificial intelligence to process and respond to naturally spoken language.

- (2) In response to changes in industry, and paying due attention to the need for both lending growth and risk control, the Bank has taken the following measures:
 - A. Control of the Bank's exposure to any single industry

The Bank has responded to changes in industry by establishing limits on loans to different industries, and has annually adjusted limits on lending to particular industries.

B. Enhanced ability to track industrial development trends

Each month, the Bank collects information on conditions in 13 different sectors (DRAM chips; display panels; solar power; LED; desktop and notebook computers; semiconductors; data storage media; printed circuit boards; communications equipment; Apple and mobile phone supply chains; telecoms operators; the Internet of Things; and cultural and creative industries), and provides the information to units throughout the bank for their reference. In addition, the Bank also provides colleagues in the company with information on production and sales in 11 different sectors (electronics and semiconductors; information; green industry; etc.), the status of individual manufacturers, future prospects, and important breaking news.

C. Enhancement of credit examiner professionalism

The Bank regularly invites experts from industry, government, academia, and research institutes to share their insights on the latest trends in key industries. Meanwhile, the Bank has purchased training videos from the Industrial Technology Research Institute, the Institute for Information Industry, and other research organizations. Employees can view these videos to learn about current conditions in industry. In addition, the BOT from time to time dispatches employees to take part in industrial seminars held by research institutions in order to stay abreast of the latest trends in industry.

4. Impact of Changes on the Bank's Image, and Countermeasures

The Bank makes efforts to expand its businesses and achieve the budget targets. In addition, the Bank treats customers with sincerity, always puts the customer's interests first, and provides unmatched safeguards for customers' wealth. The Bank works actively to enhance its service quality by simplifying operating procedures and participates actively in numerous public-benefit activities. This earned several awards for the Bank, including: recognized by the Financial Supervisory Commission as a "Top Bank Provider of Property Trusts for Senior Citizens and Persons with Mental and Physical Disabilities" and an "Outstanding Bank Lender to Innovative Enterprises"; the winner of the Gold Award in the Reader's Digest Trusted Brands survey in the "Banking" and "Online Financial Services" categories; the number one financial holding company or bank on 2017 Cheers magazine's list of the "Most Attractive Employer for Young Generation"; honored by Business Today magazine with

Best Product Award and Best Financial Advisor Service Award on the basis of its Wealth Management Bank Survey; Golden Quality Award and Golden Security Award by the Joint Credit Information Center; "Direct Guarantee Outstanding Performance Award" and "Young Entrepreneur Assistance Award" from the Ministry of Economic Affairs; and the number one lead arranger and book runner for syndicated loans in Taiwan.

5. Expected Benefits from, Risks Relating to and Response to Merger and Acquisition Plans

None

6. Expected Benefits from, Risks Relating to and Response to Operating Channel Expansion Plans

Since the addition of more business locations can expand the deposit, loan, remittance, and wealth management businesses while increasing stable customer sources, the Bank will continuously evaluate the feasibility of setting up new business locations, in light of economic conditions and the development of commerce and industry in different areas, and will provide customers with diversified services to establish a stronger competitive niche and tap into synergies.

BOT has been taking proactive steps in recent years to expand its overseas presence and accelerate its development of markets throughout Asia. The Bank is very carefully planning its expansion strategy and choosing appropriate lines of business in its overseas operations. With this in mind, it holds periodic business update meetings to keep abreast of progress in efforts to train employees for international business operations, market its multinational businesses, establish compliance systems, and deploy information systems. Measures are taken as necessary to prepare for potential operational risks.

7. Risks Arising from the Concentration of Business, and Countermeasures

The Bank's main source of income is from interest income, and changes in interest rates have a relatively large influence on the Bank's income. To reduce the risk caused by interest-rate fluctuations, the Bank will monitor changes in interest rates continuously, closely adjust the structure of its assets and liabilities, and increase the ratio of fee and commission income.

VI. Crisis Management Mechanism

In regard to latent or present crisis, 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 the following:

- 1. A "BOT Emergency Response Manual."
- 2. The "BOT Crisis Reporting Rules."
- 3. A "BOT Operation Crisis Response Countermeasures."
- 4. A "BOT Operations Non-Interruption Plan."
- 5. A BOT Crisis Reporting System.
- 6. An Emergency Reporting System for headquarters and branches.



Special Disclosure

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I. Information on Affiliated Enterprises

Special Disclosure

I. Information on Affiliated Enterprises

1. The Bank's Subsidiaries (Dec. 31, 2017)

Bank of Taiwan

Shareholding 100%

BankTaiwan Insurance Brokers Co., Ltd.

2. Basic Data of the Bank's Subsidiaries

Dec. 31, 2017

Unit: NT\$1,000

Enterprise Name	Establishment Date	Address	Paid-in Capital	Major Operations
BankTaiwan Insurance Brokers Co., Ltd.	Jan. 23, 2013	4F., No.49, Sec. 1, Wuchang St., Zhongzheng Dist., Taipei City	20,000	Life Insurance Agency Property Insurance Agency

3. Information of Chairperson, Directors, Supervisors and President of the Bank's Subsidiaries

Mar. 31, 2018

	Position	Company Name and Depresentative	Shareholding		
Enterprise Name	POSILION	Company Name and Representative	Shares	%	
BankTaiwan Insurance Brokers Co., Ltd.	Chairperson Director Director Supervisor President	Bank of Taiwan Legal Representative:Hsieh, Fu-Deng Legal Representative:Kang, Fan Legal Representative:Ku, Chao-Chu Legal Representative:Juan, Ching-Hwa Kang, Fan	2,000,000	100%	

4. Operation Overview of the Bank's Subsidiaries

Dec. 31, 2017

								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	489,753	255,059	234,694	1,676,090	235,587	194,809	97.4



Directory of Head Office and Branches

- 252 I. Domestic Business Units
- 252 II. Overseas Units

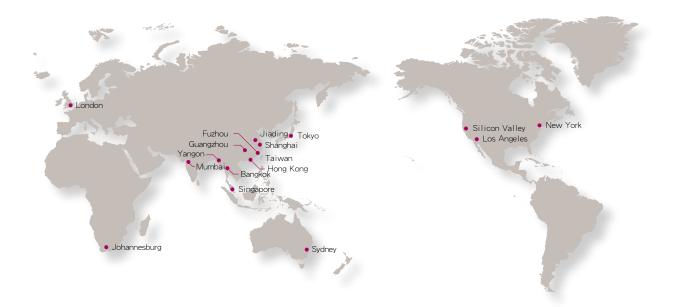
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Directory of Head Office and Branches

I. Domestic Business Units

Please refer to BOT website: http://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	ВКТШНКНН
Singapore Branch	80 Raffles Place #28-20 UOB Plaza 2 Singapore 048624	65-6536-5536	65-6536-8203	BKTWSGSG
Tokyo Branch	7F, Fukoku Seimei Building, 2-2 Uchisaiwaicho 2-Chome Chiyoda-Ku, Tokyo 100-0011, Japan	813-3504-8881	813-3504-8880	BKTWJPJT
South Africa Branch	11, Cradock Ave. Rosebank 2196, Johannesburg, South Africa	27-11-880-8008	27-11-447-1868 27-11-447-1750	BKTWZAJJ
London Branch	Level 5, City Tower, 40 Basinghall Street, London EC2V 5DE, UK	44-20-7382-4530	44-20-7374-8899	BKTWGB2L
Shanghai Branch	30F, No.1788, Nan-Jing West Rd., Jing-An District, Shanghai, China 200040	86-21-3256-9900	86-21-3256-9477	BKTWCNSH
Guangzhou Branch	Guangzhou International Finance Center, Unit 04-06, 24F, No 5, Zhujiang Xi Road, Zhujiang NewTown, Tian He District, Guangzhou, Guangdong Province, China	86-20-8367-3000	86-20-8883-1933	BKTWCN22
Fuzhou Branch	Suite 3908, 39F, Sheng Long Building, No.1, Guangming South Road, Taijiang District, Fuzhou City, Fujian Province, China	86-591-8361-3189	86-591-2830-1020	BKTWCNBF
Sydney Branch	Suite 10.02, Level 10, Chifley Tower, 2 Chifley Square, Sydney NSW 2000, Australia	61-280515300	61-289374530	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 ext.2001, 2002	95-1-371993	-
Silicon Valley Representative Office	75E. Santa Clara St., San Jose, CA 95113, U.S.A.	1-626-3833898	1-213-6296610	_
Bangkok Representative Office	Unit 3, 22th Floor, AIA Sathorn Tower, 11/1 South Sathorn Road, Yannawa, Sathorn, Bangkok 10120, Thailand	66-2-046-4926	66-2-046-4924	-



BANK OF TAIWAN

Chairman

Joseph byu







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