

**BANK OF TAIWAN AND SUBSIDIARY****Consolidated Financial Statements****With Independent Auditors' Report  
For the Years Ended December 31, 2020 and 2019**

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## Table of contents

Contents	Page
1. Cover Page	1
2. Table of Contents	2
3. Independent Auditors' Report	3
4. Consolidated Balance Sheets	4
5. Consolidated Statements of Comprehensive Income	5
6. Consolidated Statements of Changes in Equity	6
7. Consolidated Statements of Cash Flows	7
8. Notes to the Consolidated Financial Statements	
(1) Organization and Business Scope	8~9
(2) Financial statements authorization date and authorization process	9
(3) New Standards, Amendments and Interpretations Adopted	10~13
(4) Significant accounting policies	13~33
(5) Significant Accounting Judgments, Estimations, Assumptions, and Sources of Estimation Uncertainty	33~35
(6) Explanation of Significant Accounts	35~75
(7) The Fair Value Information of Financial Instruments	76~84
(8) Financial Risk Management	84~150
(9) Capital Management	150~154
(10) Related-party Transactions	154~161
(11) Pledged Assets	162
(12) Commitments and Contingencies	162~165
(13) Profitability	165~166
(14) Losses Due to Major Disasters	166
(15) Subsequent events	166
(16) Other	166~170
(17) Notes to Disclosure Items	
(a) Information on Significant Transactions	171~172
(b) Information on Investees	172
(c) Information on Investment in Mainland China	172~173
(18) Segment Information	173~174



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## 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 the Bank and subsidiary”) and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of other auditors (please refer to Other Matter paragraph), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the the Bank and subsidiary as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks and with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China (“FSC”).

### Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements of Financial Institutions by Certified Public Accountants, Ruling No. 10802731571 issued by the FSC and the auditing standards generally accepted in Republic of China in 2020. 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 and its subsidiary 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 for our opinion.

### Emphasis of Matter

In accordance with the auditing regulations in Taiwan, the financial statements of the Bank and subsidiary are required to be audited by the Ministry of Audit (the “MoA”). The financial statement for the financial year ended December 31, 2019 has been audited and approved by the MoA. The adjustments made by the MoA are reflected in the financial statement. For further information, please see note 16(b). Our opinion is not modified in respect of this matter.



## Other Matter

As stated in note 6(j) of the consolidated financial statements, we did not audit the financial statements of Hua Nan Financial Holdings Co., Ltd. and Tai Yi Real Estate Co., Ltd. of investments in associates accounted for using equity method of the Bank and subsidiary amounting to NT\$40,232,245 thousand and NT\$40,082,169 thousand as of December 31, 2020 and 2019, respectively, constituting 0.75% and 0.78% of the related consolidated total assets; nor the related shares of investment profit in associates accounted for using equity method of NT\$1,841,523 thousand and NT\$3,391,427 thousand for the years then ended, respectively, constituting 5.39% and 8.04% of the related consolidated net revenue. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts includes above, is based solely on the report of the other auditors.

We have also audited the separated financial statements of Bank of Taiwan as of 2020 and 2019, 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, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

### 1. The assessment of impairment of financial assets

Please refer to Note 4(l) “Impairment of assets” for related accounting policy, Note 5(c) “The evaluation of financial asset impairments” for the uncertainty of accounting assumptions and estimations, and Note 8 “Financial risk management ” for the details of the evaluation of financial asset impairments.

#### Description of key audit matters

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

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

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



## 2. The valuation of financial instruments

Please refer to Note 4(f) “Financial instrument” for related accounting policy, Note 5(b) “The fair value valuation of non-active market or non-quoted financial instruments” for major sources of uncertainty for assumptions and estimation, and Note 7 “The fair value and fair value hierarchy of the financial instruments” for the details of valuation of financial instruments.

### Description of key audit matters

The Bank and subsidiary hold the value of financial assets and liabilities, which shall calculated by a model are classified as level 2 and level 3 expect for which shall calculated by an observable for active market are classified as level 1. The parameters of inputs which often involve the exercise of judgment in valuation process. The valuation of financial instruments may be misstated due to the use difference of valuation techniques and assumptions. The amount of financial asset and liabilities the Bank and subsidiary hold as of December 31, 2020 were significant. Therefore, the valuation of financial instruments has been identified as a key audit matter in our audit.

### How the matter was addressed in our audit

Our main audit procedures included (i) reviewing accounting policy about the fair value of financial instruments measurement and disclosure, and performing an assessment over the investment cycle of its initial recognition, subsequent measurement and disclosures on financial statement (ii) for the financial instruments measured at fair value with active market, sampling test of prices are quoted in an active market (iii) sampling to test whether the fair value of the financial instruments measured at fair value without an active market are appropriate by re-calculating and obtaining the quoted price from counter parties or independent third parties, as well as appointing our valuation specialists to assess the reasonableness of the models and parameters the Bank used when deemed necessary (iv) assessing whether the disclosure of financial instruments in accordance with International Financial Reporting Standards.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Bank and subsidiary’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 and subsidiary or to cease operations, or has no realistic alternative but to do so.

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



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

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and subsidiary'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 and subsidiary'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 and subsidiary 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, 2020 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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



KPMG

Taipei, Taiwan (Republic of China)  
March 19, 2021

#### Notes to Readers

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



**BANK OF TAIWAN AND SUBSIDIARY**  
**Consolidated Balance Sheets**  
**December 31, 2020 and 2019**  
**(Expressed in Thousands of New Taiwan Dollars)**

		<b>December 31, 2020</b>		<b>December 31, 2019</b>				<b>December 31, 2020</b>		<b>December 31, 2019</b>	
<b>Assets</b>		<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Liabilities and Equity</b>		<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
11000	Cash and Cash Equivalents (note 6(a), 8 and 10)	\$ 154,091,204	3	144,312,808	3						
11500	Placement with Central Bank and Call Loans to Banks (note 6(b), 8, 10 and 11)	593,466,945	11	560,586,872	11	21000	Deposits of Central Bank and other banks (note 6(r), 8 and 10)	\$ 268,447,708	5	229,253,533	5
12000	Financial Assets Measured at Fair Value through Profit or Loss (note 6(c), 7, 8 and 10)	326,438,433	6	244,193,929	5	21500	Due to the central bank and banks (note 6(b) and (s))	15,849,400	-	-	-
12100	Financial Assets Measured at Fair Value through Other Comprehensive Income (note 6(d), (q), 7, 8 and 11)	991,067,914	18	1,013,078,126	20	22000	Financial Liabilities Measured at Fair Value through Profit or Loss (note 6(t), 7, 8 and 10)	32,337,278	1	60,283,847	1
12200	Debt Investments Measured at Amortized Cost (note 6(i), (q), 7, 8 and 11)	156,093,052	3	177,206,775	3	22300	Hedging Derivative Financial Liabilities, net (note 6(e), 7 and 8)	49,894	-	25,537	-
12300	Hedging Derivative Financial Assets, net (note 6(e), 7 and 8)	-	-	1,071	-	22500	Bills and Bonds Sold under Repurchase Agreements (note 6(f) and 8)	6,418,088	-	21,564,871	-
13000	Receivables, net (note 6(g), 8 and 10)	53,456,959	1	58,510,274	1	23000	Payables (note 6(u), 8 and 10)	41,653,884	1	43,850,744	1
13200	Current Income Tax Assets (note 8)	2,104,471	-	1,126,655	-	23200	Current Income Tax Liabilities (note 8)	1,096,367	-	1,291,140	-
13500	Loans and Discounts, net (note 6(h), 8 and 10)	2,869,204,520	53	2,676,141,224	52	23500	Deposits and Remittances (note 6(v), 8 and 10)	4,172,738,840	78	3,971,785,851	78
15000	Investments under Equity Method, net (note 6(j))	41,133,323	1	41,109,486	1	24000	Financial Bonds Payable (note 6(w) and 8)	24,999,085	-	24,998,820	-
15500	Other Financial Assets, net (note 6(g), (k), (q), 8 and 10)	37,763,270	1	40,158,445	1	25500	Other Financial Liabilities (note 6(x) and 8)	924,671	-	962,539	-
18500	Property and Equipment, net (note 6(l), (q) and 8)	139,164,955	3	138,128,918	3	25600	Provision (note 6(y), (z) and 8)	420,237,839	8	361,821,599	8
18600	Right-of use assets (note 6(m))	1,447,075	-	1,603,487	-	26000	Lease Liabilities (note 6(aa) and 8)	1,323,312	-	1,479,132	-
18700	Investment Property (note 6(n))	15,238,207	-	15,238,207	-	29300	Deferred Tax Liabilities (note 6(ad) and 8)	18,360,527	-	18,233,421	-
19000	Intangible Assets, net (note 6(o) and 8)	980,867	-	873,797	-	29500	Other Liabilities (note 6(ac), 8 and 10)	11,216,748	-	10,694,256	-
19300	Deferred Tax Assets (note 6(ad))	632,057	-	903,797	-		<b>Total liabilities</b>	<u>5,015,653,641</u>	<u>93</u>	<u>4,746,245,290</u>	<u>93</u>
19500	Other Assets, net (note 6(p), (q), 8 and 10)	16,514,844	-	11,556,583	-		<b>Equity attributable to owners of parent (note 6(ae)):</b>				
						31101	Capital stock	109,000,000	2	109,000,000	2
						31500	Capital surplus	108,453,043	2	108,453,043	2
							<b>Retained earnings:</b>				
						32001	Legal reserve	47,616,203	1	44,692,790	1
						32003	Special reserve	40,538,707	1	36,640,733	1
						32005	Unappropriated retained earnings	22,802,920	-	20,372,849	-
								<u>110,957,830</u>	<u>2</u>	<u>101,706,372</u>	<u>2</u>
						32500	Other equity	54,733,582	1	59,325,749	1
							<b>Total equity</b>	<u>383,144,455</u>	<u>7</u>	<u>378,485,164</u>	<u>7</u>
<b>Total assets</b>		<u>\$ 5,398,798,096</u>	<u>100</u>	<u>5,124,730,454</u>	<u>100</u>	<b>Total liabilities and equity</b>		<u>\$ 5,398,798,096</u>	<u>100</u>	<u>5,124,730,454</u>	<u>100</u>

See accompanying notes to consolidated financial statements.

**BANK OF TAIWAN AND SUBSIDIARY**  
**Consolidated Statements of Comprehensive Income**  
**For the years ended December 31, 2020 and 2019**  
**(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Common Share)**

		2020		2019		Change
		Amount	%	Amount	%	%
<b>Revenue and income:</b>						
41000	Interest income (note 6(af) and 10)	\$ 54,051,970	158	66,034,226	157	(18)
51000	Less: Interest expense (note 6(af) and 10)	(26,564,755)	(78)	(39,355,028)	(93)	(32)
	<b>Net interest income (note 6(af))</b>	<b>27,487,215</b>	<b>80</b>	<b>26,679,198</b>	<b>64</b>	<b>3</b>
<b>Non-interest income, net</b>						
49100	Service fees ,net (note 6(ag) and 10)	4,832,319	14	5,174,087	12	(7)
49200	Gain (loss) on financial assets or liabilities measured at fair value through profit or loss (note 6(ah) and 10)	56,523,035	166	48,786,406	116	16
49310	Realized gains from financial assets measured at fair value through other comprehensive income (note 6(ai))	3,545,905	10	3,580,638	8	(1)
49600	Foreign exchange gain (loss) (note 6(aj) and 10)	(4,406,124)	(13)	(203,841)	-	(2,062)
49700	Provision of impairment loss on assets (note 6(l) and (q))	(33,992)	-	(1,350)	-	(2,418)
49750	Share of profit (loss) of associates and joint ventures accounted for using equity method (note 6(j))	1,699,269	5	3,394,623	8	(50)
49837	Premiums loss (note 6(ak))	1,634,164	5	(1,160,160)	(3)	241
49843	Sales income (note 6(p) and (ak))	846,871	2	500,387	1	69
48054	Subsidized income from government (note 6(ak) and 16(c))	7,784,351	23	8,774,387	21	(11)
49898	Excess preferential interest expenses (note 6(g) and (ak))	(8,470,186)	(25)	(8,781,651)	(21)	4
49871	Provisions for policyholders' reserve premium (note 6(ak))	(57,438,873)	(167)	(45,358,797)	(108)	(27)
49899	Excess interest expenses (note 6(aa), (ak) and 10)	132,462	-	786,916	2	(83)
	<b>Net Revenue</b>	<b>34,136,416</b>	<b>100</b>	<b>42,170,843</b>	<b>100</b>	<b>(19)</b>
58200	<b>Bad debt expense and reserve for guarantees (note 6(h))</b>	<b>310,089</b>	<b>1</b>	<b>7,345,228</b>	<b>17</b>	<b>(96)</b>
<b>Expenses: (note 16(a))</b>						
58500	Employee benefits expenses (note 6(z), (al) and 10)	13,528,451	40	13,144,881	31	3
59000	Depreciation and amortization expenses (note 6(am))	1,717,538	5	1,638,135	4	5
59500	Other general and administrative expenses (note 6(an) and 10)	6,237,727	18	6,831,443	16	(9)
	<b>Total Expenses</b>	<b>21,483,716</b>	<b>63</b>	<b>21,614,459</b>	<b>51</b>	<b>(1)</b>
	<b>Profit from continuing operations before tax</b>	<b>12,342,611</b>	<b>36</b>	<b>13,211,156</b>	<b>32</b>	<b>(7)</b>
61003	Less: Income tax expenses (note 6(ad))	827,431	2	1,820,743	4	(55)
	<b>Net profit</b>	<b>11,515,180</b>	<b>34</b>	<b>11,390,413</b>	<b>28</b>	<b>1</b>
65000	<b>Other comprehensive income:</b>					
65200	<b>Components of other comprehensive income that will not be reclassified to profit or loss</b>					
65201	Losses on remeasurements of defined benefit plans (note 6(ac))	(1,047,137)	(3)	(1,568,890)	(4)	33
65205	Change in fair value of financial liability attributable to change in credit risk of liability	23,007	-	(299,554)	(1)	108
65204	Unrealized gains from investments in equity instruments measured at fair value through other comprehensive income	(4,779,758)	(14)	16,242,122	39	(129)
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	(112,220)	-	832,580	2	(113)
65220	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-	-
	Components of other comprehensive income that will not be reclassified to profit or loss	(5,916,108)	(17)	15,206,258	36	(101)
65300	<b>Components of other comprehensive income (loss) that will be reclassified to profit or loss</b>					
65301	Exchange differences on translation of foreign financial statements	(1,084,186)	(3)	(445,785)	(1)	(143)
65308	Unrealized gains (losses) from investments in debt instruments measured at fair value through other comprehensive income	1,066,457	3	821,721	2	30
65306	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	(111,518)	-	213,814	1	(152)
65320	Income tax related to components of other comprehensive income that will be reclassified to profit or loss (note 6(ad))	10,534	-	30,302	-	(65)
	Components of other comprehensive income that will be reclassified to profit or loss	(139,781)	-	559,448	2	(125)
65000	<b>Other comprehensive income</b>	<b>(6,055,889)</b>	<b>(17)</b>	<b>15,765,706</b>	<b>38</b>	<b>(138)</b>
	<b>Total comprehensive income</b>	<b>\$ 5,459,291</b>	<b>17</b>	<b>27,156,119</b>	<b>66</b>	<b>(80)</b>
	<b>Basic earnings per share(In dollars) (note 6(ao))</b>	<b>\$ 1.06</b>		<b>1.15</b>		

See accompanying notes to consolidated financial statements.

**BANK OF TAIWAN AND SUBSIDIARY**  
**Consolidated Statements of Changes in Equity**  
**For the years ended December 31, 2020 and 2019**  
**(Expressed in Thousands of New Taiwan Dollars)**

	Equity attributable to owners of parent												Total equity
							Other equity interest						
							Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Change in fair value of financial liability attributable to change in credit risk of liability	Gains (losses) on financial instruments for hedging	Other comprehensive income reclassified by applying overlay approach	Total	
Share capital	Retained earnings												
Ordinary shares	Capital surplus	Legal reserve	Special reserve	Undistributed earnings	Total								
Balance at January 1, 2019	\$ 95,000,000	80,453,043	42,037,924	33,103,998	17,619,742	92,761,664	(650,811)	42,375,680	192,515	4,193	(7,239)	41,914,338	310,129,045
Appropriation and distribution of retained earnings:													
Legal reserve appropriated	-	-	2,654,866	-	(2,654,866)	-	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	3,539,881	(3,539,881)	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(800,000)	(800,000)	-	-	-	-	-	-	(800,000)
Reversal of special reserve	-	-	-	(3,146)	3,146	-	-	-	-	-	-	-	-
Other changes in capital surplus:													
Net income for the period	-	-	-	-	11,390,413	11,390,413	-	-	-	-	-	-	11,390,413
Other comprehensive income	-	-	-	-	(1,639,655)	(1,639,655)	(699,412)	18,370,191	(301,751)	(238)	36,571	17,405,361	15,765,706
Total comprehensive income	-	-	-	-	9,750,758	9,750,758	(699,412)	18,370,191	(301,751)	(238)	36,571	17,405,361	27,156,119
Capital increase based on land pricing	14,000,000	28,000,000	-	-	-	-	-	-	-	-	-	-	42,000,000
Disposal of investments in equity instruments designated at fair value through other comprehensive income													
-	-	-	-	-	(6,050)	(6,050)	-	6,050	-	-	-	6,050	-
Balance at December 31, 2019	109,000,000	108,453,043	44,692,790	36,640,733	20,372,849	101,706,372	(1,350,223)	60,751,921	(109,236)	3,955	29,332	59,325,749	378,485,164
Appropriation and distribution of retained earnings:													
Legal reserve appropriated	-	-	2,923,413	-	(2,923,413)	-	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	3,897,974	(3,897,974)	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(800,000)	(800,000)	-	-	-	-	-	-	(800,000)
Net income for the period	-	-	-	-	11,515,180	11,515,180	-	-	-	-	-	-	11,515,180
Other comprehensive income	-	-	-	-	(1,090,906)	(1,090,906)	(1,457,046)	(3,541,734)	23,007	32	10,758	(4,964,983)	(6,055,889)
Total comprehensive income	-	-	-	-	10,424,274	10,424,274	(1,457,046)	(3,541,734)	23,007	32	10,758	(4,964,983)	5,459,291
Disposal of investments in equity instruments designated at fair value through other comprehensive income													
-	-	-	-	-	(372,816)	(372,816)	-	372,816	-	-	-	372,816	-
Balance at December 31, 2020	\$ 109,000,000	108,453,043	47,616,203	40,538,707	22,802,920	110,957,830	(2,807,269)	57,583,003	(86,229)	3,987	40,090	54,733,582	383,144,455

See accompanying notes to consolidated financial statements.



**BANK OF TAIWAN AND SUBSIDIARY**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2020 and 2019**  
**(Expressed in Thousands of New Taiwan Dollars)**

	2020	2019
<b>Cash flows from (used in) operating activities:</b>		
Profit before tax	\$ 12,342,611	13,211,156
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	1,422,486	1,373,149
Amortization expense	346,220	313,388
Expected credit loss	310,089	7,345,228
Interest expense	26,564,755	39,355,028
Interest income	(54,051,970)	(66,034,226)
Dividend income	(7,905,140)	(8,047,396)
Net change in other provisions	57,517,060	45,358,089
Share of profit of associates and joint ventures accounted for using equity method	(1,699,269)	(3,394,623)
Loss on disposal of property and equipment	27,748	57,881
Impairment loss (Reversal profit) on financial assets	32,526	(981)
Impairment loss on non-financial assets	1,466	2,331
<b>Total adjustments to reconcile profit</b>	<b>22,565,971</b>	<b>16,327,868</b>
<b>Changes in operating assets and liabilities:</b>		
Decrease in due from the central bank and call loans to banks	(2,048,699)	(1,445,740)
Increase in financial assets measured at fair value through profit or loss	(82,853,097)	(9,965,223)
(Increase) decrease in financial assets measured at fair value through other comprehensive income	(11,415,864)	140,166,397
Decrease (increase) in investments in debt instruments measured at amortised cost	12,769,459	(8,723,585)
Decrease in financial assets for hedging	1,071	40,622
Decrease in receivables	1,525,067	2,494,367
Increase in discounts and loans	(193,366,892)	(126,391,557)
Decrease in other financial assets	2,395,175	5,881,738
Increase in other assets	(2,023,287)	(2,913,765)
Increase in deposits from the central bank and banks	39,194,175	7,497,394
(Decrease) increase in financial liabilities measured at fair value through profit or loss	(27,946,569)	9,729,530
Increase in financial liabilities for hedging	24,357	12,564
Decrease in notes and bonds issued under repurchase agreement	(15,146,783)	(3,513,176)
Increase (decrease) in payables	3,074,187	(2,898,419)
Increase (decrease) in deposits and remittances	200,952,989	(53,953,251)
Increase in provisions for employee benefits	907,582	1,387,543
Decrease in other liabilities	(124,441)	(176,928)
<b>Total adjustments</b>	<b>(51,515,599)</b>	<b>(26,443,621)</b>
Cash outflow generated from operations	(39,172,988)	(13,232,465)
Interest received	57,583,784	65,974,873
Dividends received	9,356,834	7,734,668
Interest paid	(31,835,537)	(38,395,725)
Income taxes paid	(1,601,174)	(1,384,557)
<b>Net Cash flows from (used in) operating activities</b>	<b>(5,669,081)</b>	<b>20,696,794</b>
<b>Cash flows from (used in) investing activities:</b>		
Acquisition of property and equipment	(1,933,440)	(793,968)
Proceeds from disposal of property and equipment	1,102	-
Increase in refundable deposits	(833,283)	-
Decrease in refundable deposits	-	236,713
Acquisition of intangible assets	(451,750)	(422,202)
<b>Net cash flows used in investing activities</b>	<b>(3,217,371)</b>	<b>(979,457)</b>
<b>Cash flows from (used in) financing activities:</b>		
Increase in due to the central bank and banks	15,849,400	-
Increase in guarantee deposits received	646,933	3,120,758
Payment of lease liabilities	(577,142)	(602,258)
Increase in other financial liabilities	-	283,696
Decrease in other financial liabilities	(37,868)	-
Cash dividends paid	(2,925,912)	(800,000)
<b>Net cash flows from (used in) financing activities</b>	<b>12,955,411</b>	<b>2,002,196</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(1,412,030)</b>	<b>(654,258)</b>
<b>Net increase in cash and cash equivalents</b>	<b>2,656,929</b>	<b>21,065,275</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>922,531,490</b>	<b>901,466,215</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 925,188,419</b>	<b>922,531,490</b>
<b>Composition of cash and cash equivalents:</b>		
Cash and cash equivalents reported in the statement of financial position	\$ 154,091,204	144,312,808
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	217,017,313	186,167,478
Other items qualifying for cash and cash equivalents under the definition of IAS 7	554,079,902	592,051,204
<b>Cash and cash equivalents at end of period</b>	<b>\$ 925,188,419</b>	<b>922,531,490</b>

See accompanying notes to consolidated financial statements.

## **BANK OF TAIWAN AND SUBSIDIARY**

### **Notes to the Consolidated Financial Statements**

#### **For the years ended December 31, 2020 and 2019**

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

#### **(1) Organization and Business Scope**

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

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

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

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

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

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

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

The assets of the Bank have continuously increased through revaluations of its legal and special reserve over the period since the Government provided the capital for the establishment of the Bank. After the currency revolution in June 1949, the Government approved \$5 million as the Bank's capital in May 1950; \$100 million in May 1954; \$300 million in August 1963; \$600 million in September 1967; \$1 billion in May 1973; \$2 billion in September 1977; \$4 billion in September 1980; \$8 billion in November 1982; \$12 billion in May 1990; \$16 billion in April 1992; \$22 billion in December 1994; \$32 billion in August 1998; \$48 billion in September 2002; \$53 billion in July 2007; \$45 billion in January 2008; \$70 billion in November 2010; \$95 billion in October 2014 and \$109 billion in September 2019 .

(Continued)

## **BANK OF TAIWAN AND SUBSIDIARY**

### **Notes to the Consolidated Financial Statements**

As the Bank is funded 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, 2020, in addition to the Department of Planning, Department of Corporate Finance, Department of Credit Management, Department of Loan Management, Department of Wealth Management, Department of Circulation, Department of Public Treasury, Department of Risk Management, Department of Business, Department of International Banking, Department of Trusts, Department of Electronic Banking, Department of Consumer Finance, Department of Treasury, Department of Real Estate Management, Department of Procurement, Department of Domestic Operations, Department of Government Employees Insurance, Department of Precious Metals, Department of Credit Analysis, Department of General Affairs, Secretariat, Department of Human Resources, Department of Ethics, Department of Accounting, Department of Economic Research, Department of Information Management, Department of Cyber Security, Department of Compliance, Board Secretariat, Department of Auditing Board of Directors and Training Institute. There were 163 domestic branches, 1 offshore banking unit, 11 overseas branches, 1 subbranch (in Shanghai Jiading), 9 representative offices (in Mumbai, Yangon and Silicon Valley, Bangkok, Frankfurt, Manila, Ho Chi Minh City, Djakarta and Kuala Lumpur).

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

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

The consolidated financial statements as of December 31, 2020 include the accounts of the Bank and subsidiary (hereby referred as the Bank and subsidiary).

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

The Bank appointed certified public accountant to audit and certify the consolidated financial statements in accordance with Article 49.3 in the Banking Act. The consolidated financial statements were authorized for issue by the Audit Committee and the Board of Directors on March 19, 2021.

(Continued)



**BANK OF TAIWAN AND SUBSIDIARY**  
**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 details of impact on the Bank and subsidiary’s adoption of the new amendments beginning January 1, 2020 are as follows:

- (i) Amendments to IFRS 16 “COVID-19-Related Rent Concessions”

As a practical expedient, a lessee may elect not to assess whether a rent concession that meets certain conditions is a lease modification, rather any changes in lease liability are recognized in profit or loss. The amendments have been endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) in July 2020, earlier application from January 1, 2020 is permitted. Related accounting policy is explained in Note 4(i).

The Bank and subsidiary has elected to apply the practical expedient for all rent concessions that meet the criteria beginning January 1, 2020, with early adoption. No adjustment was made upon the initial application of the amendments. The amounts recognized in profit or loss for the year ended December 31, 2020 was \$18,570 thousand.

- (ii) Other amendments

The following new amendments, effective January 1, 2020, do not have a significant impact on the Bank and subsidiary’s consolidated financial statements:

- Amendments to IFRS 3 “Definition of a Business”
- Amendments to IFRS 9, IAS39 and IFRS7 “Interest Rate Benchmark Reform”
- Amendments to IAS 1 and IAS 8 “Definition of Material”

- (b) The impact of IFRS issued by the FSC but not yet effective

The Bank and subsidiary’s adoption of the new amendments, effective for annual period beginning on January 1, 2021, are expected to have the following impacts:

- (i) Amendments to IFRS 9, IAS39, IFRS7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform – Phase 2

The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS7, IFRS 4 and IFRS 16 relating to:

- 1) Change in basis for determining cash flows

The amendments will require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability.

(Continued)

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

On December 31, 2020, the Bank and subsidiary has \$29,542 million bond and \$97,231 million loans and discounts sterling LIBOR. Notional \$1,754 million of derivative financial assets will be subject to LIBOR reform.

2) Hedge accounting

The amendments provide exceptions to the hedge accounting requirements in the following areas.

- Allow amendment of the designation of a hedging relationship to reflect changes that are required by the reform.
- When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the reform, the amount accumulated in the cash flow hedge reserve will be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.
- When a group of items is designated as a hedged item and an item in the group is amended to reflect the changes that are required by the reform, the hedged items are allocated to sub-groups based on the benchmark rates being hedged.
- If an entity reasonably expects that an alternative benchmark rate will be separately identifiable within a period of 24 months, it is not prohibited from designating the rate as a non-contractually specified risk component if it is not separately identifiable at the designation date.

On December 31, 2020, the Bank and subsidiary possessed notional 1,754 thousand derivative financial instruments sterling LIBOR for fair value hedges. The Bank and subsidiary expected to apply the amendments related to hedge accounting when LIBOR be replaced in interest rate benchmark reform.

3) Disclosure

The amendments will require the Bank and subsidiary to disclose additional information about the entity's exposure to risks arising from interest rate benchmark reform and related risk management activities.

4) Transition

The Bank and subsidiary plans to apply the amendments from January 1, 2021. Application will not impact amounts reported for 2020 or prior periods.

(ii) Other amendments

The following amendments are not expected to have a significant impact on the Bank and subsidiary's consolidated financial statements.

- Amendments to IFRS 4 "Extension of the Temporary Exemption from Applying IFRS 9"

(Continued)

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

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

The following new and amended standards, which may be relevant to the Bank and subsidiary, have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

<b>Standards or Interpretations</b>	<b>Content of amendment</b>	<b>Effective date per IASB</b>
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture.	Effective date to be determined by IASB
IFRS 17 "Insurance Contracts"	<p>The new standard of accounting for insurance contracts contain recognition, measurement, presentation and disclosure of insurance contracts issued, and the main amendments are as follows:</p> <ul style="list-style-type: none"> <li>• Recognition: the beginning of the coverage period of the group of contracts, the date when the first payment from a policyholder in the group becomes due and when the group becomes onerous shall recognize a group of insurance contracts it issues from the earliest.</li> <li>• Measurement: on initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. For subsequent measurement, the entity shall estimate the cash flows, discount rates and the adjustment for non-financial risk.</li> <li>• Presentation and disclosure: the presentation of insurance revenue is based on the provision of service pattern and investment components excluded from insurance revenue.</li> </ul>	January 1, 2023

(Continued)



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

Standards or Interpretations	Content of amendment	Effective date per IASB
Amendments to IFRS 17 “Insurance Contracts”	<p>The fundamental principles introduced when the Board first issued IFRS 17 in May 2017 remain unaffected. The amendments are designed to:</p> <ul style="list-style-type: none"> <li>• reduce costs by simplifying some requirements in the Standard ;</li> <li>• make financial performance easier to explain; and</li> <li>• ease transition by deferring the effective date of the Standard to 2023 and by providing additional relief to reduce the effort required when applying IFRS 17 for the first time.</li> </ul>	January 1, 2023

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

The Bank and subsidiary does not expect the following other new and amended standards, which have yet to be endorsed by the FSC, to have a significant impact on its consolidated financial statements:

- Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”
- Amendments to IAS 16 “Property, Plant and Equipment—Proceeds before Intended Use”
- Amendments to IAS 37 “Onerous Contracts—Cost of Fulfilling a Contract”
- Annual Improvements to IFRS Standards 2018-2020
- Amendments to IFRS 3 “Reference to the Conceptual Framework”
- Amendments to IAS 1 “Disclosure of Accounting Policies”
- Amendments to IAS 8 “Definition of Accounting Estimates”

**(4) Significant accounting policies:**

**(a) Statement of compliance**

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

(Continued)

## BANK OF TAIWAN AND SUBSIDIARY

### Notes to the Consolidated Financial Statements

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

The financial statements of 2019 have been certified by the MoA; hence, the opening balances in consolidated balance sheets of 2020 are according to the audited year-end balances of 2019. Please refer to Note 16(b) for the government audit adjustments.

(b) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Bank and subsidiary. The financial statements of its subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

Name of Investor	Name of Subsidiary	Principal activities	Shareholdings		Note
			December 31, 2020	December 31, 2019	
Bank of Taiwan	BankTaiwan Insurance Brokers ("BTIB")	Life and Property insurance broker	100.00 %	100.00 %	

(c) Basis of preparation

(i) Basis of measurement

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

- 1) Financial instruments measured at fair value through profit or loss (including derivative financial instruments);
- 2) Financial assets measured at fair value through other comprehensive income;
- 3) Derivative financial instruments designated as hedges which are measured at fair value;
- 4) The defined benefit assets are recognized as plan assets, plus unrecognized past service costs and unrecognized actuarial loss, less the unrecognized actuarial gain and the present value of the defined benefit obligation.

(Continued)

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

(ii) Functional and presentation currency

The functional currency of the Bank's and subsidiary's entities are determined based on the primary economic environment in which the entities operate. The consolidated financial statements are presented in New Taiwan Dollars, the functional currency of the Bank. All financial information represented in New Taiwan Dollars has been rounded to the nearest thousand..

(d) Foreign currency

(i) Foreign currency transactions

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

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

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

- 1) equity instruments measured at fair value through other comprehensive income;
- 2) a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- 3) qualifying cash flow hedges to the extent the hedge is effective.

(ii) Foreign operations

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

(Continued)

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

However, if the foreign operation is a non-wholly owned subsidiary, then the relevant proportion of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Bank and subsidiary dispose of any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Bank and subsidiary dispose of only part of investment in an associate or 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 planned nor likely in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

(e) Cash and cash equivalents

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

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

(f) Financial instruments

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

(i) Financial assets

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

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

(Continued)



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

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

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

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

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

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

- 2) Fair value through other comprehensive income (“FVOCI”)

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

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

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

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

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

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

(Continued)

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

3) Fair value through profit or loss (“FVTPL”)

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

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

4) Business model assessment

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

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

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

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

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

(Continued)

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

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

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

6) Derecognition of financial assets

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

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

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

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

2) Equity instrument

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

3) Compound financial instruments

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

(Continued)

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

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

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

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

4) **Financial liabilities**

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

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

5) **Derecognition of financial liabilities**

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

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

6) **Offsetting of financial assets and liabilities**

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

7) **Financial guarantee contracts**

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

(Continued)



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

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

(iii) Derivative financial instruments and hedge accounting

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

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

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

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

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

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

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

(g) Investments in associates

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

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

(Continued)

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

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

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

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

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

(h) Property and equipment

(i) Recognition and measurement

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

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

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

(ii) Reclassification to investment property

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

(iii) Subsequent cost

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

(iv) Depreciation

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

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

(Continued)

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

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

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

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

(i) Lease

(i) Identifying a lease

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

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

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

(Continued)



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

(ii) As a lessee

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

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

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

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

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

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

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

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

(Continued)

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

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

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

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

As a practical expedient, the Bank and subsidiary elects not to assess whether all rent concessions that meets all the following conditions are lease modifications or not:

- the rent concessions occurring as a direct consequence of the COVID-19 pandemic;
- the change in lease payments that resulted in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments that affects only those payments originally due on, or before, June 30, 2021; and
- there is no substantive change in other terms and conditions of the lease.

In accordance with the practical expedient, the effect of the change in the lease liability is reflected in profit or loss in the period in which the event or condition that triggers the rent concession occurs.

(iii) As a lessor

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

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

(Continued)

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

(j) Investment property

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

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

(k) Intangible assets

(i) Computer Software

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

(ii) Subsequent Expenditure

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

(iii) Amortization

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

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

Computer software	5 years
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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.

(Continued)



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

(l) Impairment of Assets

(i) Impairment of financial assets

The Bank and subsidiary recognize loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, placement with central bank and call loans to banks, amortized costs, discounts and loans, receivables, loans, margins or security deposits, and other financial assets) and debt investments measured at fair value through other comprehensive income.

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

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

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

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

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

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

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

The Bank and subsidiary categorize and recognize allowance for doubtful accounts according to the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans and subsidiaries' own administration guideline. The Bank and subsidiary use the higher amounts of these two rules above as allowance for doubtful accounts.

(Continued)

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

Period of loans under one year is recognized as short-term; over one year but under seven years is recognized as medium-term; over seven years is recognized as long-term. Loans with fully mortgage, pledge or other legal guarantee object are recognized as secured loans. Non-performing loans refer to loans whose repayment of principal or interest have been overdue for more than 3 months, as well as any loan whose principal debtors and surety have been sued for non-payment or the underlying collateral has been disposed, although the repayment of principal or interest have not been overdue for more than 3 months. All non-performing loans shall be transferred to non-accrual loans account item within six months after the end of the payment period. However, those restructured loans to be performed in accordance with the agreement shall not be subject to this restriction. Interest shall not be accrued to non-performing loans that are transferred to non-accrual loans account item. 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 audited by auditing department, and then be authorized by the general manager and the Board of Managing Directors / Directors. Also, the audit committee shall be notified. If the write-off is authorized by the Board of Managing Directors, it should be reported to the Board of Directors for future reference additionally. When recovering non-accrual loans, the Bank should credit account "allowance for doubtful accounts."

(ii) Impairment loss of non financial assets

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

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

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

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

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

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

(Continued)

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

(m) Provision

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

(n) Other reserves

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

(o) Revenue and expense recognition

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

- (i) Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary operating activities of an entity when those inflows result in increases in equity, other than increase relating to contributions from equity participants.
- (ii) The amount of revenue arising on a transaction is usually determined by agreement between the entity and the buyer or user of the asset. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity. Revenue shall be recognized when all of the following criteria have been satisfied:
  - 1) the seller has transferred to the buyer the significant risks and rewards of ownership.
  - 2) it is probable that the economic benefits associated with the transaction will flow to the seller
  - 3) the costs incurred or to be incurred in respect of the transaction can be measured reliably,
  - a) the seller retains neither continuing managerial involvement to degree usually associated with ownership nor effective control over the goods sold, and

(Continued)

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

- 4) the amount of revenue can be measured reliably.
  - 5) Except for the financial assets and liabilities at fair value through profit and loss, the interest revenue and interest expense caused by the interest-bearing financial assets or liabilities are calculated by effective interest method. For loans and receivables, the Bank and subsidiary shall consider the materiality principle to decide to measure the interest by agreed interest rate or effective interest rate.
- (iii) Service fee income and expense
- 1) The service fee income arising from offering loan service or other services shall be recognized in the accounting period in which the services are rendered.
  - 2) The service fee or expense arising from the loan service shall be amortized in the service period or taken into account for calculating the effective interest of loans and receivables in accordance with the materiality principle.
- (iv) Dividend revenue: it shall be recognized if and only if the Bank and subsidiary have right to receive the dividend revenue.
- (v) According to the "Civil Servant and Teacher Insurance Act", if GESSI experiences a loss, the loss before May 31, 1999 would be covered by the Ministry of Finance; and the loss after that date would be covered by an adjustment of the insurance premium.
- (vi) Revenue and expense that relate to the same transaction or other event are recognized simultaneously; this process is commonly referred to as the matching of revenue and expense.
- (p) Employee benefit
- (i) Short-term employee benefit
 

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

The grant of employees' pension compromise: a) the contributions made by the Bank at the rate from 4% to 8.5% of the employee's monthly wage (depending on the employee's 'salary point' and service period before the Labor Standards Act was applied) and the contributions made by the employee at the rate of 3% of his or her monthly wage under Article 9 and Article 8, respectively, of the aforementioned regulations. (The Bank ceased to continue the contributions mentioned above after the Labor Standards Act was applied.) The Bank also contributed 3% of the total amount of the wages as reserve. ;b) the contributions calculated based on the employee's monthly wage and service period (after May 1, 1997) in accordance with Article 41 and the related regulations set forth in the Labor Standards Act. All the contributions are made to the fund managed by the Pension Supervision Committee for future payments.

(Continued)

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

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 of the Bank and subsidiary use the projected unit credit method to calculate the present value of the defined benefit obligation and the current service cost. The present value of the defined benefit obligation is the projected future cash flow discounted by the market yields at the end of the reporting period on the bonds that have maturity dates approximating the terms of the obligation and that are denominated in the same currency in which the benefits are expected to be paid. Remeasurements of the net defined benefit liability (asset) include (a) actuarial gains or losses, (b) return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset), and (c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset). The amounts recognized in other comprehensive income will not be reclassified subsequently to profit or loss. The Bank and subsidiary could transfer the amounts recognized in other comprehensive income to equity. The Bank and subsidiary decided to recognize remeasurements of the defined benefit plan to retained earnings; actuarial gains or losses for practical experience or actuarial assumptions changes recognize to other comprehensive income immediately. Prior period servicing costs should recognize in profit or loss immediately. Defined benefit plan pension for period adopts pension cost rate determined by actuarial assumptions at prior reporting date and is calculated based on fiscal year. The pension also makes the adjustments to reflect significant market volatility, significant curtailment and settlement, or other significant nonrecurring matter after reporting date.

5) The oversea branches of the Bank abide by the foreign government's regulations.

(iii) Preferential interest deposits

1) The Bank and subsidiary provide their employees the preferential interest deposits, including that for current employees and retired employees. The difference between the preferential interest rate and the market rate are the employee benefit.

(Continued)



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

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

(q) Income tax

In accordance with the Article 49 of the Financial Holding Company Act and the Income Tax Act, the TFH has elected to jointly file a profit-seeking enterprise income tax return since 2009. To file a joint return, each domestic subsidiary shall separately handle its own tax matters and then report the results to its parent company. Therefore, the Bank measures its income tax liabilities separately according to the IAS 12 "Income Tax" and then report them to the TFH for tax filing.

The Bank is a government-owned enterprise by the Ministry of Finance, so its income tax liabilities shall be calculated based on the amount audited by the Minister of Audit. In addition, according to the Tai Cai Shui No. 910456521 issued by Ministry of Finance on October 30, 2002, the Bank and its parent company, the TFH, who files a consolidated tax return are 100% owned by the government and hence it is not required to calculate and file the tax on the undistributed earnings or profits.

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.

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years.

(Continued)

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

The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflect uncertainty related to income taxes, if any.

Deferred tax assets and liabilities are offset if the following criteria are met:

- (i) the Bank and subsidiary have a legally enforceable right to set off current tax assets against current tax liabilities; and
- (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - 1) the same taxable entity; or
  - 2) different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(r) Earnings per share

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

(s) Operating segments

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

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

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

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

(Continued)

## BANK OF TAIWAN AND SUBSIDIARY

### Notes to the Consolidated Financial Statements

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is as follows:

(a) Judgment of whether the Bank and subsidiary have substantive control over its investees

The Bank and subsidiary hold 21.37% of the outstanding voting shares of Tang Eng Iron Works Co., Ltd., 21.26% of Hua Nan Financial Holdings Co., Ltd., 17.84% of Taiwan Fire & Marine Insurance Co., Ltd., 16.21% of Taiwan Business Bank and 10.01% of Taiwan Stock Exchange Corporation and is the single largest shareholder of the investee. Although the rest of the above-mentioned company's shares are not concentrated within specific shareholders, the Bank and subsidiary still cannot obtain more than half of the total number of the above-mentioned company's directors, and it also cannot obtain more than half of the voting rights at a shareholders' meeting. Therefore, it is determined that the Bank and subsidiary have no control on above of company and it is determined that whether the Bank and subsidiary have significant influence by holding over 20% of shares.

(b) The fair value valuation of non-active market or non-quoted financial instruments

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

(c) The valuation of financial assets impairments

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

(d) Income tax

The Bank and subsidiary need to pay income tax for various countries. When estimating the globe income tax, the Bank 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.

(Continued)

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

(e) Payments to defined contribution retirement benefit plans

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

(6) Explanation of Significant Accounts:

(a) Cash and Cash Equivalents

	December 31, 2020	December 31, 2019
Cash on hand	\$ 13,254,296	12,143,159
Foreign currency on hand	14,339,317	13,515,714
Notes and checks for clearing	4,641,210	4,456,443
Placement with banks	121,875,661	114,038,219
Cash in transit	-	178,426
Less: Allowance for bad debts—placement with banks	(19,280)	(19,153)
Total	<u>\$ 154,091,204</u>	<u>144,312,808</u>

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

	December 31, 2020	December 31, 2019
Cash and cash equivalents in consolidated balance sheets	\$ 154,091,204	144,312,808
Placement with the Central Bank of R.O.C. and other banks that meet the definition of cash and cash equivalents in IAS 7	217,017,313	186,167,478
Securities purchased under agreements to resell that meet the definition of cash and cash equivalents in IAS 7	554,079,902	592,051,204
Total	<u>\$ 925,188,419</u>	<u>922,531,490</u>

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

(Continued)

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

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

	December 31, 2020	December 31, 2019
Call loans to banks	\$ 177,294,860	164,756,870
Less: allowance for doubtful accounts—call loans to banks	107,101	88,767
Deposit reserve—account A and account B	119,322,908	97,220,751
Deposit reserve—foreign—currency deposits	751,888	696,546
Deposits in Central Bank—oversea branches	1,892,003	4,513,352
Deposits in Central Bank	294,312,387	293,488,120
Total	<u>\$ 593,466,945</u>	<u>560,586,872</u>

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, 2020 and 2019, 60% of the reserve deposits collected on behalf of a government institution amounting to \$5,112,387 thousand and \$4,288,120 thousand, respectively, were deposited in the Central Bank and their use is restricted according to the regulations.

For the purpose of coordinating with the Covid-19 relief package from the Central Bank and alleviating the economic impact, the bank and subsidiary applied to the Central Bank for project loans guaranteed by deposit reserve- account B. The amount been drawn down as of December 31, 2020, please refer to note 6(s).

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

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

	December 31, 2020	December 31, 2019
Financial assets designated at fair value through profit or loss	\$ 18,125,821	18,906,332
Add: Valuation adjustment	903,754	455,136
Subtotal	19,029,575	19,361,468
Financial assets mandatorily measured at fair value through profit or loss	205,469,695	170,511,365
Add: Valuation adjustment	101,939,163	54,321,096
Subtotal	307,408,858	224,832,461
Total	<u>\$ 326,438,433</u>	<u>244,193,929</u>

(Continued)



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

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

	December 31, 2020	December 31, 2019
Foreign government bonds, corporate bonds, financial bonds and others	\$ 18,125,821	18,906,332
Add: Valuation adjustment	903,754	455,136
Total	<u>\$ 19,029,575</u>	<u>19,361,468</u>

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

	December 31, 2020	December 31, 2019
Commercial papers	\$ 33,549,681	29,557,348
Foreign government bonds	-	89,235
Corporate bonds	408,389	715,023
Convertible bonds	2,264,583	2,152,504
Stocks and beneficiary certificates	169,189,399	137,937,498
Foreign exchange call options	1,950	3,063
Currency futures	5,195	5,154
Commodity futures	50,498	51,540
Add: Valuation adjustment—Non derivative financial instruments	90,361,456	43,681,091
Valuation adjustment—Foreign exchange call options	(248)	3,790
Valuation adjustment—Cross currency swaps	87,349	29,767
Valuation adjustment—Swaps	10,074,816	9,204,550
Valuation adjustment—Asset swaps	1,244,816	1,240,176
Valuation adjustment—Interest rate swaps	496	51,026
Valuation adjustment—Forward foreign exchange	177,934	113,844
Valuation adjustment—fixed-rate commercial papers	(7,456)	(3,148)
Total	<u>\$ 307,408,858</u>	<u>224,832,461</u>

(Continued)

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

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

	December 31, 2020	December 31, 2019
Foreign exchange call options	\$ 498,163	980,913
Swaps	440,324,029	479,981,365
Interest rate swaps	281,000	15,173,142
Forward foreign exchange	8,542,598	12,064,801
Fixed-rate commercial papers	800,000	200,000
Asset swaps	14,303,927	43,366,828
Cross currency swaps	1,086,400	1,086,400
Total	<u>\$ 465,836,117</u>	<u>552,853,449</u>

- (v) For details of the valuation of the financial assets measured at fair value through profit or loss, please see note 7, "The Fair Value and Fair Value Hierarchy of the Financial Instruments".
- (vi) Profit and loss on investments, please refer to note 6(ah).
- (vii) As of December 31, 2020, the Bank's and subsidiary's financial assets at fair value through profit or loss neither served as a guarantee or collateral, nor were they pledged.

(d) Financial Assets at Fair Value through Other Comprehensive Income

	December 31, 2020	December 31, 2019
Debt instruments measured at fair value through other comprehensive income:		
Negotiable certificates deposits	\$ 666,115,000	718,770,000
Government bonds	49,830,499	54,402,969
Foreign government bonds, corporate bonds, financial bonds, and NCDs	87,410,468	79,659,961
Financial bonds	22,419,235	17,718,644
Corporate bonds	70,228,610	45,389,607
Financial asset securitization beneficiary certificates	-	250,716
Add: Valuation adjustment	2,661,929	1,602,351
Subtotal	<u>898,665,741</u>	<u>917,794,248</u>
Equity instruments measured at fair value through other comprehensive income:		
Stocks	40,176,972	38,479,456
Add: Valuation adjustment	52,225,201	56,804,422
Subtotal	<u>92,402,173</u>	<u>95,283,878</u>
Total	<u>\$ 991,067,914</u>	<u>1,013,078,126</u>

(Continued)

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

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

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

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

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

- 1) During the years ended December 31, 2020 and 2019, the dividends of \$3,184,423 thousand and \$3,184,773 thousand, respectively, related to equity investments at fair value through other comprehensive income held on the years then ended December 31, 2020 and 2019, were recognized; the dividend of \$116,007 thousand and \$109,193 thousand related to the investments derecognized during the years ended December 31, 2020 and 2019, respectively, were recognized.
- 2) As of December 31, 2020 and 2019, the Bank and subsidiary sold its equity instruments measured at fair value through other comprehensive income as a result of adjustment in investment position and portfolio management. The equity instruments sold had a fair value of \$2,808,112 thousand and \$2,756,836 thousand the Bank and subsidiary realized a (loss) gain of \$(200,536) thousand and \$90,146 thousand, which was already included in other comprehensive income. The (loss) gain has been transferred to retained earnings.

(iii) Profit and loss on investments, please refer to 6(aj).

(iv) As of December 31, 2020, the Bank's and subsidiary's financial assets at fair value through other comprehensive income were used as collateral, please refer to 11.

(e) Hedging Derivative Financial Instruments

The details of hedging derivatives financial assets were as follows:

	December 31, 2020	December 31, 2019
Fair value hedges:		
Interest rate swap	\$ -	1,071

The details of hedging derivatives financial liabilities were as follows:

	December 31, 2020	December 31, 2019
Fair value hedges:		
Interest rate swap	\$ 49,894	25,537

(Continued)

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

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.

Hedged Item	Designated Hedging Instruments	Hedging Investments	
		Fair Value	
		December 31, 2020	December 31, 2019
USD financial bonds	Interest rate swap	\$ (49,771)	(22,055)
USD corporate debts	"	(123)	(2,849)
USD government debts	"	-	438

The net loss of hedging instruments for the years ended December 31, 2020 and 2019 amounted to \$44,188 thousand and \$58,149 thousand, respectively. The net gains of hedged items embedded in hedging instrument for the years ended December 31, 2020 and 2019 amounted to \$23,952 thousand and \$53,890 thousand, respectively.

(f) Bills and Bonds Sold under Repurchase Agreements

The details of bonds and bills sold under repurchase agreements were as follows:

	December 31, 2020	December 31, 2019
Bills and bonds sold under repurchase agreements:		
Commercial papers	\$ 29,984	29,973
Government bonds	4,451,906	19,744,196
Financial bonds	1,936,198	1,790,702
Total	<u>\$ 6,418,088</u>	<u>21,564,871</u>

(Continued)

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

(g) Receivables, Net

	December 31, 2020	December 31, 2019
Notes receivable	\$ 634	4,722
Accounts receivable	963,393	1,100,258
Long-term receivables—payment on behalf of the government	15,592,889	16,350,219
Accrued revenues	1,139,543	1,121,473
Interests receivable	11,081,853	14,613,667
Premiums receivable	110,495	139,660
Tax refund receivable	510	-
Acceptance notes receivable	2,258,954	1,188,566
Accounts receivable factoring without recourse	9,753,258	12,132,076
Others—replenishment of national treasury	8,034,163	7,362,748
Others—undelivered spot exchanges	-	585
Other—ATM temporary receipts, payments and interbank differences	2,076,853	2,291,552
Others—FX Swaps	68,342	1,709,202
Others—pending settlement	2,035,870	414
Others—others	467,353	625,849
Subtotal	53,584,110	58,640,991
Less: allowance for doubtful accounts	127,151	130,717
Total	<u>\$ 53,456,959</u>	<u>58,510,274</u>

In accordance with Executive Yuan Tai-79-JEN-Cheng-SZU-tsu No. 14525, and regulations of Retired Civil Servants Lump-sum Retirement Payment and Old-age Benefits and Preferential Interest Deposits which excess preferential interest expenses recognized as Excess interest expenses of Non-interest income, net were \$5,931,823 thousand and \$6,375,883 thousand, respectively, due to executing the government premium savings policy.

As of the year ended December 31, 2020 and 2019, the Bank had paid the following premium savings interest expenses on behalf of the government:

	December 31, 2020	December 31, 2019
Long-term receivables	\$ 15,592,889	16,350,219
Short-term advances (booked under other financial assets, net)	35,259,584	37,867,323
Total	<u>\$ 50,852,473</u>	<u>54,217,542</u>

(Continued)



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

(h) Loans and Discounts, Net

	December 31, 2020	December 31, 2019
Discounts and export / import negotiations	\$ 2,460,383	2,044,282
Overdrafts	14,957,375	16,254,366
Secured overdrafts	1,166,349	492,292
Short-term loans	672,839,134	642,288,572
Short-term secured loans	95,902,506	97,906,746
Accounts receivable financing	113,974	128,708
Accounts receivable secured financing	3,397	5,138
Medium-term loans	566,538,267	551,295,477
Medium-term secured loans	309,652,912	256,957,025
Long-term loans	161,650,023	155,857,007
Long-term secured loans	1,085,390,709	994,900,665
Non-performing loans	3,195,394	3,154,429
Subtotal	2,913,870,423	2,721,284,707
Less: allowance for doubtful accounts	44,665,903	45,143,483
Total	<u>\$ 2,869,204,520</u>	<u>2,676,141,224</u>

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

	2020	2019
Bad debts	\$ 239,706	7,289,887
Provisions for guarantee liabilities	77,477	59,273
Provision for loan commitment liabilities	(2,574)	4,075
Provision for other liabilities	(4,520)	(8,007)
Total	<u>\$ 310,089</u>	<u>7,345,228</u>

As of December 31, 2020 and 2019, the amounts of loans and receivables on which the interests stopped to accrue were \$3,199,386 thousand and \$3,158,657 thousand, respectively, which were booked under loans and discounts— non-performing loans and other financial assets—overdue receivables. As of December 31, 2020 and 2019, the non accrued interests were \$195,791 thousand and \$210,538 thousand, respectively.

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

(Continued)

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

(i) Financial Assets Measured at Amortized Cost

	December 31, 2020	December 31, 2019
Negotiable certificates deposits	\$ 1,304,570	1,305,899
Commercial papers	23,259,650	36,894,248
Government bonds	76,322,371	76,136,339
Foreign government bonds, corporate bonds, financial bonds, and NCDs	33,535,027	40,840,868
Financial bonds	13,541,436	15,061,457
Corporate bonds	<u>8,170,111</u>	<u>7,011,071</u>
	156,133,165	177,249,882
Less: accumulated impairment	<u>(40,113)</u>	<u>(43,107)</u>
	<u><u>\$ 156,093,052</u></u>	<u><u>177,206,775</u></u>

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

- (i) During 2020 and 2019, the Bank and subsidiary haven't deposited financial assets measured at amortized cost.
- (ii) As of December 31, 2020, the Bank's financial assets measured at amortized cost were not used as collateral, please refer to 11.

(j) Investments Accounted for Using Equity Method, net

Associates	December 31, 2020		December 31, 2019	
	Amount	Percentage of Ownership (%)	Amount	Percentage of Ownership (%)
Hua Nan Financial Holdings Co., Ltd.	\$ 40,210,042	21.23	40,060,693	21.23
Tang Eng Iron Works Co., Ltd.	901,078	21.37	1,027,317	21.37
Tai Yi Real Estate Management Co., Ltd.	22,203	30.00	21,476	30.00
	<u><u>\$ 41,133,323</u></u>		<u><u>41,109,486</u></u>	

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

	2020	2019
Hua Nan Financial Holdings Co., Ltd.	\$ (239,753)	1,035,818
Tang Eng Iron Works Co., Ltd.	<u>16,015</u>	<u>10,576</u>
Total	<u><u>\$ (223,738)</u></u>	<u><u>1,046,394</u></u>

(Continued)

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

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

	<u>2020</u>	<u>2019</u>
Hua Nan Financial Holdings Co., Ltd.	\$ 1,837,155	3,387,382
Tang Eng Iron Works Co., Ltd.	(142,254)	3,196
Tai Yi Real Estate Co., Ltd.	<u>4,368</u>	<u>4,045</u>
Total	<u>\$ 1,699,269</u>	<u>3,394,623</u>

- (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:

Associate(s)	The relationship with the Bank	Principal operating place/registration country	The percentage of shareholding interests and voting rights	
			December 31, 2020	December 31, 2019
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:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Hua Nan Financial Holdings Co., Ltd.	\$ 49,808,454	56,857,351

1) Summarized Financial Information

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Total Assets	\$ 3,101,082,238	2,731,828,227
Total Liabilities	<u>(2,911,678,248)</u>	<u>(2,543,127,570)</u>
Net Assets	<u>\$ 189,403,990</u>	<u>188,700,657</u>
Attributable to the Bank	<u>\$ 40,210,042</u>	<u>40,060,693</u>

(Continued)

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

	<u>2020</u>	<u>2019</u>
Net income	\$ 8,653,178	15,955,368
Other comprehensive income	<u>(1,129,313)</u>	<u>4,879,056</u>
Total comprehensive income	<u>\$ 7,523,865</u>	<u>20,834,424</u>
Attributable to the Bank		
Investment income	\$ 1,837,155	3,387,382
Other comprehensive income	(239,753)	1,035,818

- 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 (losses) gains were \$1,837,155 thousand and \$3,387,382 thousand for the years ended December 31, 2020 and 2019, respectively.

(iv) All other non-individually-significant associates

1) Summarized Financial Information- Attributable to the Bank

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Investment in non-individually-significant associates in aggregate	<u>\$ 923,281</u>	<u>1,048,793</u>

  

	<u>2020</u>	<u>2019</u>
Investment income	\$ (137,886)	7,241
Other comprehensive income	16,015	10,576

(v) Collateral

No investment in associates was used as collateral of December 31, 2020.

(Continued)

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

(k) Other Financial Assets, net

	December 31, 2020	December 31, 2019
Short-term advances	\$ 37,529,779	40,091,153
Less: allowance for doubtful accounts—short-term advances	39,967	44,363
Remittances purchased	1,454	2,316
Less: allowance for doubtful accounts—remittances purchased	15	23
Overdue receivables	3,992	4,228
Less: allowance for doubtful accounts—overdue receivables	3,992	4,199
Call loans to security subsidiary	252,900	89,970
Less: allowance for doubtful accounts—call loans to security subsidiary	-	(6)
Others	(19,129)	(19,379)
Less: accumulated impairment—others	10	10
Total	<u>\$ 37,763,270</u>	<u>40,158,445</u>

Concerning for the payment of excess preferential interest on behalf of the government, booked under “short-term advances” for December 31, 2020 and 2019, please refer to note 6(g) for further information.

(l) Property and Equipment, net

Changes in the cost, depreciation, and impairment of the properties and equipments of the Bank and subsidiary for the years ended December 31, 2020 and 2019 were as follows:

	Land and Land improvements	Buildings	Machineries and equipments	Transport equipments	Miscellaneous equipments	Leasehold improvements	Constructions in progress and prepayments for equipments	Total
Cost:								
Balance at January 1, 2020	\$ 128,108,627	14,998,523	6,053,849	1,109,780	956,975	850,317	395,359	152,473,430
Additions	-	23,296	791,852	110,598	31,293	7,859	968,542	1,933,440
Disposals	(1,325)	(118,235)	(229,129)	(92,326)	(60,754)	(483)	-	(502,252)
Reclassification	-	322,616	35,081	2,490	23,646	12,724	(424,378)	(27,821)
Effect of change in exchange rates	-	-	(7,041)	(1,790)	(2,072)	(6,584)	-	(17,487)
Balance at December 31, 2020	<u>\$ 128,107,302</u>	<u>15,226,200</u>	<u>6,644,612</u>	<u>1,128,752</u>	<u>949,088</u>	<u>863,833</u>	<u>939,523</u>	<u>153,859,310</u>
Balance at January 1, 2019	\$ 86,136,374	14,802,184	5,840,176	1,085,817	959,457	820,099	735,744	110,379,851
Additions	42,000,000	8,610	490,380	80,897	24,870	20,790	168,421	42,793,968
Disposals	(27,747)	(118,764)	(376,306)	(67,971)	(39,563)	(18,839)	-	(649,190)
Reclassification	-	306,493	101,637	11,537	12,772	31,111	(508,806)	(45,256)
Effect of change in exchange rates	-	-	(2,038)	(500)	(561)	(2,844)	-	(5,943)
Balance at December 31, 2019	<u>\$ 128,108,627</u>	<u>14,998,523</u>	<u>6,053,849</u>	<u>1,109,780</u>	<u>956,975</u>	<u>850,317</u>	<u>395,359</u>	<u>152,473,430</u>

(Continued)



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

	Land and Land improvements	Buildings	Machineries and equipments	Transport equipments	Miscellaneous equipments	Leasehold improvements	Constructions in progress and prepayments for equipments	Total
<b>Accumulated depreciation:</b>								
Balance at January 1, 2020	\$ 14,966	7,391,523	4,465,588	818,129	782,645	745,577	-	14,218,428
Depreciation	-	306,011	413,071	49,480	29,507	35,900	-	833,969
Disposal	-	(118,084)	(207,944)	(90,677)	(56,214)	(483)	-	(473,402)
Effect of change in exchange rates	-	-	(4,194)	(1,226)	(1,596)	(5,261)	-	(12,277)
Balance at December 31, 2020	<u>\$ 14,966</u>	<u>7,579,450</u>	<u>4,666,521</u>	<u>775,706</u>	<u>754,342</u>	<u>775,733</u>	<u>-</u>	<u>14,566,718</u>
Balance at January 1, 2019	\$ 14,966	7,219,833	4,429,699	840,946	789,984	733,527	-	14,028,955
Depreciation	-	290,294	388,861	44,210	28,669	33,413	-	785,447
Disposal	-	(118,604)	(351,624)	(66,684)	(35,481)	(18,839)	-	(591,232)
Effect of change in exchange rates	-	-	(1,348)	(343)	(527)	(2,524)	-	(4,742)
Balance at December 31, 2019	<u>\$ 14,966</u>	<u>7,391,523</u>	<u>4,465,588</u>	<u>818,129</u>	<u>782,645</u>	<u>745,577</u>	<u>-</u>	<u>14,218,428</u>
<b>Accumulated impairment:</b>								
Balance at January 1, 2020	\$ 126,084	-	-	-	-	-	-	126,084
Reversal of impairment loss	1,553	-	-	-	-	-	-	1,553
Balance at December 31, 2020	<u>\$ 127,637</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>127,637</u>
Balance at January 1, 2019	\$ 124,869	-	-	-	-	-	-	124,869
Reversal of impairment loss	1,215	-	-	-	-	-	-	1,215
Balance at December 31, 2020	<u>\$ 126,084</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>126,084</u>
<b>Carrying amounts:</b>								
December 31, 2020	<u>\$ 127,964,699</u>	<u>7,646,750</u>	<u>1,978,091</u>	<u>353,046</u>	<u>194,746</u>	<u>88,100</u>	<u>939,523</u>	<u>139,164,955</u>
January 1, 2019	<u>\$ 85,996,539</u>	<u>7,582,351</u>	<u>1,410,477</u>	<u>244,871</u>	<u>169,473</u>	<u>86,572</u>	<u>735,744</u>	<u>96,226,027</u>
December 31, 2019	<u>\$ 127,967,577</u>	<u>7,607,000</u>	<u>1,588,261</u>	<u>291,651</u>	<u>174,330</u>	<u>104,740</u>	<u>395,359</u>	<u>138,128,918</u>

The Bank and subsidiary conducted revaluations of land and buildings for many times over the past years, and the latest time was in December, 2011. As of December 31, 2020 and 2019, the total revaluation increments for land were \$81,562,920 thousand and \$81,563,186 thousand, respectively. The total revaluation increments for Buildings were \$34,307 thousand, both.

Based on the assessment in December, 2020, the carrying amount of the lands which have indicators of impairment was determined to be \$169,852 thousand higher than its recoverable amount of \$168,299 thousand, wherein an impairment loss of \$1,553 thousand was recognized. In 2019, the carrying amount of the lands which have an indicator of impairment was determined to be \$171,067 thousand lower than its recoverable amount of \$169,852 thousand. Therefore, the amount of \$1,215 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, 2020 and 2019, the Bank's and subsidiary's properties and equipments neither served as guarantees or collaterals, nor they were pledged.

(Continued)

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

(m) Right-of-use assets

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

	Land	Buildings	Machineries and equipment	Transportation equipment	Miscellaneous equipment	Total
Cost:						
Balance at January 1, 2020	\$ 20,489	2,003,774	31,229	97,150	-	2,152,642
Additions	3,648	407,792	6,332	36,667	-	454,439
Disposal	(6,786)	(154,581)	(11)	(21,296)	-	(182,674)
Effect of changes in exchange rates	(14)	(11,378)	(181)	-	-	(11,573)
Balance at December 31, 2020	<u>\$ 17,337</u>	<u>2,245,607</u>	<u>37,369</u>	<u>112,521</u>	<u>-</u>	<u>2,412,834</u>
Balance at January 1, 2019	\$ -	-	-	-	-	-
Effects of retrospective application	11,283	1,690,061	22,219	39,852	52	1,763,467
Balance at January 1, 2019	11,283	1,690,061	22,219	39,852	52	1,763,467
Additions	9,666	346,453	9,122	61,140	-	426,381
Disposal	(460)	(32,740)	(112)	(3,842)	(52)	(37,206)
Balance at December 31, 2019	<u>\$ 20,489</u>	<u>2,003,774</u>	<u>31,229</u>	<u>97,150</u>	<u>-</u>	<u>2,152,642</u>
Accumulated depreciation and impairment losses:						
Balance at January 1, 2020	\$ 4,494	505,824	6,340	32,497	-	549,155
Depreciation	5,080	537,935	8,939	36,563	-	588,517
Disposal	(1,960)	(144,292)	(11)	(21,296)	-	(167,559)
Effect of changes in exchange rates	(3)	(4,313)	(38)	-	-	(4,354)
Balance at December 31, 2020	<u>\$ 7,611</u>	<u>895,154</u>	<u>15,230</u>	<u>47,764</u>	<u>-</u>	<u>965,759</u>
Balance at January 1, 2019	\$ -	-	-	-	-	-
Depreciation	4,941	539,950	6,420	36,339	52	587,702
Disposal	(451)	(32,826)	(73)	(3,842)	(52)	(37,244)
Effect of changes in exchange rates	4	(1,300)	(7)	-	-	(1,303)
Balance at December 31, 2019	<u>\$ 4,494</u>	<u>505,824</u>	<u>6,340</u>	<u>32,497</u>	<u>-</u>	<u>549,155</u>
Carrying value:						
December 31, 2020	<u>\$ 9,726</u>	<u>1,350,453</u>	<u>22,139</u>	<u>64,757</u>	<u>-</u>	<u>1,447,075</u>
December 31, 2019	<u>\$ 15,995</u>	<u>1,497,950</u>	<u>24,889</u>	<u>64,653</u>	<u>-</u>	<u>1,603,487</u>

(n) Investment property

- (i) Changes in the investment properties of the Bank and subsidiary for the year ended 2020 were as follows:

	Land
Cost:	
Balance at December 31, 2020	<u>\$ 15,238,207</u>
Balance at December 31, 2019	<u>\$ 15,238,207</u>
Carrying amounts:	
December 31, 2020	<u>\$ 15,238,207</u>
January 1, 2019	<u>\$ 15,238,207</u>
December 31, 2019	<u>\$ 15,238,207</u>

(Continued)

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

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

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

	December 31, 2020	December 31, 2019
The fair value of investment property	\$ <u>16,301,209</u>	<u>15,219,056</u>

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 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.	<ul style="list-style-type: none"> <li>· The rate of return</li> <li>· Overall capital interest rate</li> </ul>	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>· the rate of return were lower (higher); or</li> <li>· the overall capital interest rate were lower (higher).</li> </ul>

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

- (iii) As of December 31, 2020 the Bank did not provide any investment accounted for using equity method as collaterals for its loans.

(Continued)

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

(o) Intangible Assets

Changes in costs, amortization, and impairment loss of the intangible assets of the Bank and subsidiary for the year ended 2020 and 2019 were as follows:

	<b>Computer software</b>
Costs:	
Balance at January 1, 2020	\$ 4,257,010
Additions	<u>451,750</u>
Balance at December 31, 2020	<u><b>\$ 4,708,760</b></u>
Balance at January 1, 2019	\$ 3,834,808
Additions	<u>422,202</u>
Balance at December 31, 2019	<u><b>\$ 4,257,010</b></u>
Amortization:	
Balance at January 1, 2020	\$ 3,383,213
Amortization for the year	<u>344,680</u>
Balance at December 31, 2020	<u><b>\$ 3,727,893</b></u>
Balance at January 1, 2019	\$ 3,069,872
Amortization for the year	<u>313,341</u>
Balance at December 31, 2019	<u><b>\$ 3,383,213</b></u>
Carrying amounts:	
December 31, 2020	<u><b>\$ 980,867</b></u>
January 1, 2019	<u><b>\$ 764,936</b></u>
December 31, 2019	<u><b>\$ 873,797</b></u>

(p) Other Assets

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Foreclosed collaterals and residuals taken over, net	\$ 1,009,493	1,079,309
Advance payments	9,941,404	7,711,657
Operating guarantee deposits and settlement funds	10,000	10,000
Refundable deposits	2,298,172	1,464,889
Temporary Payments and Suspense Accounts	2,859,185	573,883
Inventories	396,343	716,557
Others	<u>247</u>	<u>288</u>
Total	<u><b>\$ 16,514,844</b></u>	<u><b>11,556,583</b></u>

(i) Foreclosed collaterals and residuals taken over, net

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Foreclosed collaterals and residuals taken over	<u><b>\$ 1,009,493</b></u>	<u><b>1,079,309</b></u>

(Continued)

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

(ii) Advance payments

	December 31, 2020	December 31, 2019
Prepaid expenses	\$ 118,573	260,863
Prepaid interests	9,777	9,968
Business tax carry forward	678	810
Other prepayment—Interbank Fund Transfer Special Accounts	7,602,154	7,380,247
Other prepayments	84,310	59,769
Prepaid official dividends	2,125,912	-
Total	<u>\$ 9,941,404</u>	<u>7,711,657</u>

(iii) Inventories

	December 31, 2020	December 31, 2019
Inventories	<u>\$ 396,343</u>	<u>716,557</u>

There were no effects on the cost of goods sold derived from the inventory write-off or reversal for the year ended 2020 and 2019.

(q) Impairment

For the year ended 2020 and 2019, the movements of the accumulated impairment were as follows:

	2020	2019
Beginning balance	\$ 263,990	261,916
Impairment loss recognized for the current period	33,992	1,350
Other	(5,419)	724
Ending balance	<u>\$ 292,563</u>	<u>263,990</u>

Details of accumulated impairment were as follows:

	December 31, 2020	December 31, 2019
Financial assets at fair value through other comprehensive income	\$ 119,768	89,278
Financial assets measured at amortized cost	40,113	43,107
Other financial assets	10	10
Property and equipment	127,637	126,084
Other assets	5,035	5,511
Ending balance	<u>\$ 292,563</u>	<u>263,990</u>

(Continued)

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

(r) Deposits of Central Bank and other banks

	December 31, 2020	December 31, 2019
Deposits from Central Bank	\$ 11,755,517	11,296,302
Deposits from banks—others	48,799,116	50,127,068
Postal deposits transferred	77,090	77,090
Bank overdrafts	865,759	2,062,798
Call loans from bank	206,950,226	165,690,275
Total	<u>\$ 268,447,708</u>	<u>229,253,533</u>

(s) Loans to Central Bank and banks

	December 31, 2020	December 31, 2019
Loans to Central Bank	<u>\$ 15,849,400</u>	<u>-</u>

(t) Financial Liabilities Measured at Fair Value through Profit or Loss

(i) Details of financial liabilities measured at fair value through profit or loss were as follows:

	December 31, 2020	December 31, 2019
Financial liabilities held for trading	\$ 2,811	4,148
Add: valuation adjustment	17,770,162	14,080,348
Subtotal	<u>17,772,973</u>	<u>14,084,496</u>
Financial liabilities designated as fair value through profit or loss	13,207,000	44,985,000
Add: valuation adjustment	1,357,305	1,214,351
Subtotal	<u>14,564,305</u>	<u>46,199,351</u>
Total	<u>\$ 32,337,278</u>	<u>60,283,847</u>

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

(iii) Financial liabilities held for trading

	December 31, 2020	December 31, 2019
Foreign exchange options premium	\$ 2,811	4,148
Add: valuation adjustment		
Foreign exchange options premium	(1,106)	2,702
Swaps	15,910,715	13,008,631
Interest rate swaps	959,737	429,439
Forward foreign exchanges	177,307	94,477
Asset swaps	636,341	515,732
Cross currency swaps	87,168	29,367
Total	<u>\$ 17,772,973</u>	<u>14,084,496</u>

(Continued)

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

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

	December 31, 2020	December 31, 2019
Financial bonds	\$ 13,207,000	44,985,000
Add: valuation adjustment	1,357,305	1,214,351
Total	<u>\$ 14,564,305</u>	<u>46,199,351</u>

The Bank has been approved by the FSC on August 23, 2016, and November 21, 2017 to issue USD \$1.5 billion of 2017-1 Senior Unsecured Financial Bonds, denominated in U.S. dollar. The financial bonds amounted to USD \$4.7 billion are outstanding in 2020.

The details of the financial bonds were as follow:

Name of bond	Conditions				Bond		
	Beginning date	Maturity date	Coupon rate	Face value	Type	Amount	
						December 31, 2020	December 31, 2019
2017-1 Senior unsecured financial bonds-A	2017/04/07	2147/04/07	0 %	USD \$500 million	Senior unsecured financial bond	\$ -	14,995,000
2017-1 Senior unsecured financial bonds-B	2017/04/07	2147/04/07	0 %	USD \$380 million	Senior unsecured financial bond		11,396,200
2018-1 Senior unsecured financial bonds-A	2018/02/26	2148/02/26	0 %	USD \$150 million	Senior unsecured financial bond		4,498,500
2018-1 Senior unsecured financial bonds-B	2018/02/26	2148/02/26	0 %	USD \$470 million	Senior unsecured financial bond	13,207,000	14,095,300
Valuation adjustment						1,357,305	1,214,351
						\$ 14,564,305	46,199,351

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

The Bank exercised call option on 26 Febuary and 7 April, 2020 respectively. The Bank repurchased bond A issued in 2018 and bond B issued in 2017.

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

	December 31, 2020	December 31, 2019
Foreign exchange options premium	\$ 551,500	1,001,177
Swaps	651,796,330	731,913,091
Interest rate swaps	19,010,754	21,898,329
Forward foreign exchanges	21,371,462	10,609,694
Asset swaps	2,259,240	6,784,488
Cross currency swaps	1,086,400	1,086,400
Total	<u>\$ 696,075,686</u>	<u>773,293,179</u>

(Continued)



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

(u) Payables

	December 31, 2020	December 31, 2019
Accounts payables	\$ 5,542,682	5,561,791
Receipts under custody	884,192	1,562,797
Accrued expenses	2,927,291	2,818,928
Other tax payables	427,945	484,268
Interests payables	10,115,243	15,386,026
Banker's acceptances payables	2,265,741	1,194,544
Payables to representative organizations	612,917	829,639
Construction payables	2,197	946
Accounts payables—non-recourse factoring	281,542	375,438
Other payables—undelivered spot exchange	874	3
Other payables—collection bills	2,702,515	2,337,855
Other payables—payments awaiting transfer	8,144,868	9,003,123
Other payables—ATM temporary receipts, payments and inter branch differences	2,377,220	2,590,082
Other payables—foreign exchange awaiting transfer	736,863	740,078
Other payables—amounts awaiting settlement	3,915,606	314,769
Other payables—overdue accounts	229,270	199,043
Other payables—checking accounts	102,673	119,600
Other payables—collection	7,724	19,571
Other payables—others	376,521	312,243
Total	<u>\$ 41,653,884</u>	<u>43,850,744</u>

(v) Deposits and Remittances

	December 31, 2020	December 31, 2019
Cheques deposits	\$ 41,081,024	39,428,865
Government deposits	330,759,861	310,980,305
Demand deposits	500,763,909	402,224,212
Time deposits	658,472,401	683,596,685
Remittances	712,444	554,595
Savings account deposits:		
Demand savings deposits	1,084,523,034	939,345,417
Staff accounts	14,328,338	15,284,296
Club saving deposits	508,863	608,632
Non-drawing time savings deposits	421,309,465	417,758,369
Interest withdrawal on principal deposited	779,880,569	795,291,873
Staff time deposits	10,603,005	9,174,191
Preferential Interest deposits	329,795,927	357,538,411
Total	<u>\$ 4,172,738,840</u>	<u>3,971,785,851</u>

(Continued)

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

(w) Financial Bonds Payable

Name of bond	Condition			Bond		
	Beginning date	Maturity date	Interest rate	Type	Amount	
					December 31, 2020	December 31, 2019
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		(915)	(1,180)
Total					\$ 24,999,085	24,998,820

(x) Other Financial Liabilities

	December 31, 2020	December 31, 2019
Appropriated loan funds	\$ 11,263	16,474
Principal from structured products	913,408	946,065
Total	<u>\$ 924,671</u>	<u>962,539</u>

(y) Provision

	December 31, 2020	December 31, 2019
Employee benefit obligations	\$ 19,639,870	18,732,288
Guarantee reserve	1,030,971	953,505
Reserve for government employees insurance	399,177,462	341,738,589
Loan commitments reserve	16,279	19,224
Others	373,257	377,993
Total	<u>\$ 420,237,839</u>	<u>361,821,599</u>

(z) Provisions — Employee benefits

	December 31, 2020	December 31, 2019
Recognized in Consolidated Balance Sheet:		
Defined benefit plan	\$ 13,454,113	12,545,041
Employees preferential interest	6,181,508	6,181,930
Three Chinese festival bonus	4,249	5,317
Total	<u>\$ 19,639,870</u>	<u>18,732,288</u>

(Continued)

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

(i) BOT

1) Defined contribution plans

The Bank have established the defined contributions plans in accordance with the provision of the Labor Pension Act since July 1, 2005. The Bank allocates 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 \$3,042 thousand and \$2,870 thousand for the years ended December 31, 2020 and 2019, respectively.

2) Defined benefit plans

The Bank has 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 allocates 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 is 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 \$1,297,169 thousand and \$1,284,129 thousand as of December 31, 2020 and 2019, respectively. The Bank expects to contribute \$973,157 thousand to the account within one year after the balance date.

(Continued)

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

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

Defined Benefit Plans	12.10 year
Employee care bonuses during the three Chinese festivals	12.10 year

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

	December 31, 2020	December 31, 2019
Present value of the defined benefit obligations	\$ 21,805,955	20,731,922
Less: fair value of the plan assets	(8,349,910)	(8,189,461)
Recognized liabilities for the defined benefit obligations	<u>\$ 13,456,045</u>	<u>12,542,461</u>

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

	2020	2019
Defined benefit obligation at January 1	\$ 20,731,922	18,988,352
Current service costs	829,104	771,916
Interest expense	155,490	208,872
Remeasurements of the defined benefit plans of other Comprehensive Income		
— Changes in actuarial gains and losses in financial assumptions	126,094	790,963
— Experience adjustments	1,028,246	836,215
Past service cost	-	565
Contributed by the participant of the plan	1,060	-
Benefit payments	(1,065,961)	(864,961)
Defined benefit obligation at December 31	<u>\$ 21,805,955</u>	<u>20,731,922</u>

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

	2020	2019
Fair value of plan assets at January 1	\$ 8,189,461	7,866,695
Interest revenue	61,421	86,534
remeasurements of defined benefit plans of other comprehensive income		
— Return on plan assets	102,624	61,259
Contribution made by the Bank	985,518	957,093
Benefit payments	(989,114)	(782,120)
Fair value of plan assets at December 31	<u>\$ 8,349,910</u>	<u>8,189,461</u>

(Continued)

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

d) Expense recognized in profit or loss

	<b>2020</b>	<b>2019</b>
Current service cost	\$ 829,104	771,916
Net interest of defined benefit obligations	94,069	122,338
Total	<u>\$ 923,173</u>	<u>894,254</u>

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

The Bank's re-measurement of the net defined benefit liability (asset) recognized in other comprehensive income for the years ended December 31, 2020 and 2019, was as follows:

	<b>2020</b>	<b>2019</b>
Accumulated amount at January 1	\$ (6,162,067)	(4,596,149)
Recognized during the period	(1,051,716)	(1,565,918)
Accumulated amount at December 31	<u>\$ (7,213,783)</u>	<u>(6,162,067)</u>

f) Portfolio analysis of plan asset

	<b>2020</b>	<b>2019</b>
Bonds instruments	\$ 3,010,731	2,800,867
Others	5,339,179	5,388,594
Total	<u>\$ 8,349,910</u>	<u>8,189,461</u>

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

g) Actuarial assumptions

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Discount rate	0.70 %	0.75 %
Assets expected rate of return	0.70 %	0.75 %
Future of salary increases	2.00 %	2.00 %

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

(Continued)

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

h) Sensitivity analysis

The followings would be the impacts on the present value of defined benefit obligations as of December 31, 2020 and 2019 if the actuarial assumptions had changed:

<b>Impacts on the present value of the defined benefit obligation</b>			
	<b>Actuarial assumption changes(%)</b>	<b>Actuarial assumption increase</b>	<b>Actuarial assumption decrease</b>
December 31, 2020			
Discount rate			
Defined benefit plans	0.25%	\$ 21,128,038	22,448,072
Employee care bonus during the three Chinese festivals	0.25%	4,209	4,291
Salary increase rate	0.50%	22,973,592	20,721,440
December 31, 2019			
Discount rate			
Defined benefit plans	0.25%	20,096,990	21,323,896
Employee care bonus during the three Chinese festivals	0.25%	5,264	5,373
Salary increase rate	0.50%	19,735,333	21,800,791

The aforementioned sensitivity 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 sensitivity analysis.

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

3) Employee preferential interest plan

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

(Continued)

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

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

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

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Fair value of the Employees preferential interest plan	\$ 6,181,508	6,181,930
Limit of assets adjustment	-	-
Recognized liabilities for the defined benefit obligations	<u>\$ 6,181,508</u>	<u>6,181,930</u>

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

	<b>2020</b>	<b>2019</b>
Present value of employees preferential interest plan at January 1	\$ 6,181,930	6,220,165
Interest expense	247,277	248,807
Actuarial gains and losses in current period	1,780,417	1,650,337
Contributed by the participant of the plan	3,654	-
Benefit paid by the plan	<u>(2,031,770)</u>	<u>(1,937,379)</u>
Present value of employees preferential interest plan at December 31	<u>\$ 6,181,508</u>	<u>6,181,930</u>

- c) Expense recognized in profit or loss

	<b>2020</b>	<b>2019</b>
Net interest of employees preferential deposit	\$ 247,277	248,807
Actuarial gains and losses in current period	<u>1,780,417</u>	<u>1,650,337</u>
Total (booked under employee benefits expense, note 6(ah))	<u>\$ 2,027,694</u>	<u>1,899,144</u>

(Continued)



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

d) Actuarial assumptions

	<b>2020</b>	<b>2019</b>
Discount rates of the employee preferential interest	4.00 %	4.00 %
Return on deposit	2.00 %	2.00 %
Pension preferential ratios deposit for withdrawal	1.00 %	1.00 %
The probability of changes in the policy of employee preferential interest plan	50.00 %	50.00 %
Rate of same type deposit offered to general customers	1.165 %	1.165 %

e) Sensitivity analysis

The followings would be the impacts on the present value of defined benefit obligations as of December 31, 2020 and 2019 if the actuarial assumptions had changed:

<b>Impacts on the present value of the defined benefit obligation</b>			
	<b>Actuarial assumption changes(%)</b>	<b>Actuarial assumption increase</b>	<b>Actuarial assumption decrease</b>
December 31, 2020			
Discount rate	0.25%	\$ 6,073,600	6,293,110
December 31, 2019			
Discount rate	0.25%	6,074,285	6,293,283

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

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

f) Future cash flow of Employees preferential interest plan

The Bank monitors and reviews the contributions to employee preferential interest plan annually to ensure the ability of payments. Within one year after the financial statement date, the Bank expects to contribute \$1,798,166 thousand to the plan.

(Continued)

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

(ii) The subsidiary, BTIB

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

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

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Present value of the defined benefit obligations	\$ 59,266	58,452
Fair value of the plan assets	(56,949)	(50,555)
Net liabilities (assets) of the defined benefit obligations	<u>\$ 2,317</u>	<u>7,897</u>

The retirement, indemnity and severance of BTIB certified staff are complied with the "Guideline of Indemnity and Severance of Financial and Insurance Enterprise Employees". Pension payments to staffs that the year of service before designated to apply to "Labor Standards Act" (as of May 1, 1997) are complied with the Article 41-1 and are separately appropriated wages of 4%~8.5% into mandatory pension contribution (defined contribution), according to the different monthly salary grade regulated by the Article 9. However, it is stopped contributing to mandatory pension contribution and the contributed part shall be retained after applying to "Labor Standards Act"; pension payments to labors that the year of service after applying to "Labor Standards Act" is calculated by the related regulations of "Labor Standards Act". When employees retire, they will be paid using their pension fund and mandatory pension contribution.

a) Composition of plan assets

The labor pension reserve consigned to "Labor Retirement Fund Supervisory Committee" by BTIB amounted to \$56,949 thousand at the end of the reporting period.

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

BTIB movements in present value of the defined benefit obligations for the years ended December 31, 2020 and 2019, was as follows:

	<b>2020</b>	<b>2019</b>
Defined benefit obligation at January 1	\$ 58,452	50,448
Current service costs and interest	5,419	5,032
Remeasurements of the defined benefit plans in other comprehensive income		
— Actuarial gains and losses in demographic changes in assumptions	(4,605)	2,972
Defined benefit obligation at December 31	<u>\$ 59,266</u>	<u>58,452</u>

(Continued)

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

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

BTIB movements of fair value of defined benefit plan assets for the years ended December 31, 2020 and 2019, was as follows:

	<u>2020</u>	<u>2019</u>
Fair value of plan assets at January 1	\$ 50,555	47,525
Remeasurements of defined benefit plans in other comprehensive income		
— Return on plan assets(not including current interest)	(26)	-
Contribution made by the Bank	5,861	2,392
Interest revenue	559	638
Fair value of plan assets at December 31	<u>\$ 56,949</u>	<u>50,555</u>

d) Expense recognized in profit or loss

BTIB expense recognized in profit or loss at December 31, 2020 and 2019 , was as follows:

	<u>2020</u>	<u>2019</u>
Current service cost	\$ 4,787	4,371
Net interest of the defined benefit obligations(assets)	73	23
	<u>\$ 4,860</u>	<u>4,394</u>

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

BTIB re-measurement of net defined benefit liability (asset) recognized in other comprehensive income for the years ended December 31, 2020 and 2019, was as follows:

	<u>2020</u>	<u>2019</u>
Accumulated amount at January 1	\$ 5,895	2,924
Recognized during the period	(4,579)	2,971
Accumulated amount at December 31	<u>\$ 1,316</u>	<u>5,895</u>

f) Actuarial assumptions

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

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Discount rate	0.51 %	1.08 %
Future of salary increases	3.00 %	3.00 %

(Continued)

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

The expected payment made by BTIB to the defined benefit plans within one year after the reporting date is \$4,860 thousand.

Weighted average duration of the defined contribution plan is 14.64 year.

g) Sensitivity analysis

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

The followings could impact the present value of the defined benefit obligations as of December 31, 2020 and 2019 if the actuarial assumptions change as follows:

	<b>Impacts on the defined benefit obligation</b>	
	<b>Increase 0.5%</b>	<b>Decrease 0.5%</b>
December 31, 2020		
Discount rate	55,551	63,423
Future of salary increases	62,783	56,045
December 31, 2019		
Discount rate	54,900	62,413
Future of salary increases	61,447	55,691

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

There were no changes in the method and assumptions used in the preparation of sensitivity analysis for 2020 and 2019.

2) Employee preferential interest plan

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

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

(Continued)

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

3) Defined contribution plans

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

(aa) Lease liabilities

The Bank's lease liabilities were as follow:

	December 31, 2020	December 31, 2019
Carrying amounts	\$ <u>1,323,312</u>	<u>1,479,132</u>

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

The amounts recognized in profit or loss were as follows:

	2020	2019
Interest on lease liabilities	\$ <u>16,687</u>	<u>19,459</u>
Variable lease payments not included in the measurement of lease liabilities	\$ <u>2,398</u>	<u>2,333</u>
Expenses relating to short-term leases	\$ <u>1,906</u>	<u>2,993</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	\$ <u>1,651</u>	<u>1,231</u>
Covid-19-related rent concessions (recognized as other income)	\$ <u>(18,570)</u>	<u>-</u>

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

	2020	2019
Total cash outflow for leases	\$ <u>583,097</u>	<u>608,815</u>

(i) Real estate leases

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

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

(ii) Other leases

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

(Continued)

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

(ab) Operating lease

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

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

	December 31, 2020	December 31, 2019
Less than one year	\$ 151,654	151,451
One to two years	80,570	115,015
Two to three years	19,741	54,715
Three to four years	7,351	10,183
Four to five years	2,378	1,682
Total undiscounted lease payments	<u>\$ 261,694</u>	<u>333,046</u>

The Bank provided the lessees deferred rent payment and rent concessions in accordance with the government's policy for Covid-19 pandemic. As of December 31, 2020, the amount of deferred rent payment and rent concessions is \$8,401 thousand and \$87,852 thousand respectively.

(ac) Other Liabilities

	December 31, 2020	December 31, 2019
Advance collections	\$ 2,211,407	2,246,494
Guarantee deposits received	7,698,089	7,051,156
Temporary receipt and suspense accounts	34,210	123,548
Other liabilities to be settled	8,239	8,239
Compensation arising from land revaluation	1,264,803	1,264,803
Deferred revenue	-	16
Total	<u>\$ 11,216,748</u>	<u>10,694,256</u>

(Continued)

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

(ad) Income Tax Expenses

(i) Income Tax expenses (benefits)

The income tax expenses for December 31, 2020 and 2019 were as follow:

	<u>2020</u>	<u>2019</u>
Current income tax expense		
Occurred in the current period	\$ 799,041	2,401,035
Current income tax expense from adjustment of prior period	(359,922)	-
Current income tax expense	<u>439,119</u>	<u>2,401,035</u>
Deferred tax expense		
Occurrence and reversal of temporary difference	<u>388,312</u>	<u>(580,292)</u>
Income tax expenses	<u>\$ 827,431</u>	<u>1,820,743</u>

Income tax (expenses) benefits recognized directly in other comprehensive income for 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Gains (losses) on debt instruments measured at fair value through other comprehensive income	<u>\$ 10,534</u>	<u>30,302</u>

The amount of expense (income) tax recognized in other comprehensive income for in 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Profit before tax	<u>\$ 12,342,611</u>	<u>13,211,156</u>
Income tax using the Bank's domestic tax rate (20%)	\$ 2,468,522	2,642,231
Effects of changes in foreign exchange rates	472,312	559,056
Non-deductible profits and losses	(296,408)	255,160
Income exemption	-	(2,568)
Cessation of transfer tax on stocks	(85,691)	(85,298)
Reinvestment gain exemption (dividends)	(967,740)	(1,315,906)
Unrecognized losses from deferred income tax assets in current period	69,907	-
Unrecognized temporary variance	(219,690)	292,105
Under-(Over-)estimation in prior period	(359,922)	-
Income basic tax	344,495	-
Income exemption of Offshore Banking Unit	(598,582)	(495,062)
Others	<u>228</u>	<u>(28,975)</u>
Total	<u>\$ 827,431</u>	<u>1,820,743</u>

(Continued)



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

1) Unrecognized Deferred Tax Assets

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

	December 31, 2020	December 31, 2019
Deductible Temporary Differences	\$ <u>5,438,087</u>	<u>6,052,027</u>

2) Recognised Deferred Tax Assets and Liabilities

Changes in the amount of deferred tax assets and liabilities for December 31, 2020 and 2019 are as follows:

Deferred Tax Assets:

	Fair Value Gains	Others	Total
Balance at January 1, 2020	\$ 200,572	703,225	903,797
Recognized in profit or loss	10,159	(275,814)	(265,655)
Recognized in other comprehensive income	(6,085)	-	(6,085)
Balance at December 31, 2020	\$ <u>204,646</u>	<u>427,411</u>	<u>632,057</u>
Balance at January 1, 2019	\$ 215,644	96,646	312,290
Recognized in profit or loss	16,166	608,085	624,251
Recognized in other comprehensive income	(31,238)	(1,506)	(32,744)
Balance at December 31, 2019	\$ <u>200,572</u>	<u>703,225</u>	<u>903,797</u>

Deferred Tax Liabilities:

	Land Value Increment Tax	Fair Value Gains	Others	Total
Balance at January 1, 2020	\$ 18,072,082	161,967	(628)	18,233,421
Recognized in profit or loss	(670)	122,699	628	122,657
Recognized in other comprehensive income	-	4,449	-	4,449
Balance at December 31, 2020	\$ <u>18,071,412</u>	<u>289,115</u>	<u>-</u>	<u>18,360,527</u>
Balance at January 1, 2019	\$ 18,077,672	113,354	878	18,191,904
Recognized in profit or loss	(5,590)	49,549	-	43,959
Recognized in other comprehensive income	-	(936)	(1,506)	(2,442)
Balance at December 31, 2019	\$ <u>18,072,082</u>	<u>161,967</u>	<u>-</u>	<u>18,233,421</u>

(Continued)

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

- (ii) The Bank's and subsidiary's income tax returns have been audited by the MoA up until 2019 and examined by the National Tax Administration up until 2018.

(ae) Equity

(i) Capital stock

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

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

As of December 31, 2020 and 2019, the Bank's authorized and issued shares of common stocks were 10,900,000 thousand (9,500,000 thousand was under public offering and 1,400,000 thousand was under private placement). The par value of the issued common stocks is \$10.

(ii) Capital surplus

According to the ROC Company Act, the Bank can declare dividend with capital surplus. 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.

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

(iii) Legal reserve

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

(Continued)

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

(iv) Other equity

	Exchange differences on translation of foreign operations	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Change in fair value of financial liability attributable to change in credit risk of liability	Gains (losses) on financial instruments for hedging	Other Comprehensive income reclassified by applying overlay approach	Total
Balance at January 1, 2020	\$ (1,350,223)	60,751,921	(109,236)	3,955	29,332	59,325,749
Exchange differences on translation of foreign operations	(1,457,046)	-	-	-	-	(1,457,046)
Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	-	(3,541,734)	-	-	-	(3,541,734)
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	372,816	-	-	-	372,816
Gains (losses) of associates and joint ventures accounted for using equity method on financial Instruments for hedging	-	-	-	32	-	32
Change in fair value of financial liability attributable to change in credit risk of liability	-	-	23,007	-	-	23,007
Other Comprehensive income reclassified by applying overlay approach	-	-	-	-	10,758	10,758
Balance at December 31, 2020	<u>\$ (2,807,269)</u>	<u>57,583,003</u>	<u>(86,229)</u>	<u>3,987</u>	<u>40,090</u>	<u>54,733,582</u>

(Continued)

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

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

(Continued)

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

(v) Appropriation of earnings

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

- 1) to settle all outstanding tax payable; bFSC.

As

- 2) to offset prior years losses;
- 3) to appropriate 30% as legal reserve;
- 4) special reserve

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

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

- 5) To appropriate dividends.

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

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

- 6) The meeting of Board of Directors held on February 22, 2019 resolved to follow the budget approved by the government and distributed the amount of \$800 million to TFH as dividend for the year 2018.
- 7) The meeting of Board of Directors held on February 21, 2020 resolved to follow the budget approved by the government and distributed the amount of \$800 million to TFH as dividend for the year 2019.

(Continued)

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

(af) Net interest income

	<u>2020</u>	<u>2019</u>
Interest income:		
Loans and discounts	\$ 37,021,424	43,561,302
Placement with Central Bank and call loans to banks	6,654,715	9,331,949
Securities investment	9,225,305	12,200,314
Credit cards	21,288	25,118
Others	<u>1,129,238</u>	<u>915,543</u>
Subtotal	<u>54,051,970</u>	<u>66,034,226</u>
Interest expense:		
Deposits from customers	24,101,476	33,398,484
Deposits of Central Banks and other banks	2,058,763	5,433,135
Loans to Central Banks and other banks	4,542	-
Bonds sold under repurchased agreements	70,780	109,746
Financial bonds	270,694	304,830
Structured deposits	18,394	30,952
Others	<u>40,106</u>	<u>77,881</u>
Subtotal	<u>26,564,755</u>	<u>39,355,028</u>
Net interest income	<u>\$ 27,487,215</u>	<u>26,679,198</u>

(ag) Service fees, net

	<u>2020</u>	<u>2019</u>
Service fees revenue:		
Trust services	\$ 1,061,954	869,191
Custody services	136,498	136,752
Foreign exchange business	173,125	261,573
Credit business	557,047	521,388
Credit card services	139,782	150,827
Deposit, remittance and other services	<u>3,499,082</u>	<u>3,926,866</u>
Subtotal	<u>5,567,488</u>	<u>5,866,597</u>
Service fees expense:		
Trust services	84,799	81,675
Custody services	26,339	19,718
Credit card services	140,506	148,305
Deposit, remittance and other services	<u>483,525</u>	<u>442,812</u>
Subtotal	<u>735,169</u>	<u>692,510</u>
Service fees, net	<u>\$ 4,832,319</u>	<u>5,174,087</u>

(Continued)

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

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

	<u>2020</u>	<u>2019</u>
Gain on financial assets or liabilities measured at fair value through profit or loss:		
Dividend income	\$ 4,720,717	4,862,624
Net interest loss	(105,472)	(1,205,202)
Net gain on disposal	<u>4,322,048</u>	<u>14,865,580</u>
Subtotal	8,937,293	18,523,002
Net gain on valuation	<u>47,585,742</u>	<u>30,263,404</u>
Total	<u><u>\$ 56,523,035</u></u>	<u><u>48,786,406</u></u>

(ai) Realized gains (losses) on financial assets measured at fair value through other comprehensive income

	<u>2020</u>	<u>2019</u>
Dividend income	\$ 3,184,423	3,184,773
Gain on disposal	<u>361,482</u>	<u>395,865</u>
Total	<u><u>\$ 3,545,905</u></u>	<u><u>3,580,638</u></u>

(aj) Foreign exchange gain or loss

	<u>2020</u>	<u>2019</u>
Foreign exchange gains	\$ 7,916,216	8,431,197
Foreign exchange losses	<u>(12,322,340)</u>	<u>(8,635,038)</u>
Total	<u><u>\$ (4,406,124)</u></u>	<u><u>(203,841)</u></u>

(ak) Other non-interest income (expense)

	<u>2020</u>	<u>2019</u>
Premiums income	\$ 23,623,153	23,511,625
Sales revenue	126,012,248	139,418,849
Subsidized income from government	7,784,351	8,774,387
Benefits and claims	(21,988,989)	(24,671,785)
Cost of goods sold	(125,165,377)	(138,918,462)
Provisions for policy holders' reserve premium	(57,438,873)	(45,358,797)
Excess preferential interest expenses	(8,470,186)	(8,781,651)
Others	<u>132,462</u>	<u>786,916</u>
Total	<u><u>\$ (55,511,211)</u></u>	<u><u>(45,238,918)</u></u>

(Continued)



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

(al) Employee benefits expenses

	<b>2020</b>	<b>2019</b>
Salaries	\$ 11,826,246	11,419,798
Labor and health insurances	530,149	527,904
Pensions	958,418	925,957
Remuneration of directors	2,472	2,553
Others	211,166	268,669
Total	<u>\$ 13,528,451</u>	<u>13,144,881</u>

(am) Depreciation and amortization expenses

	<b>2020</b>	<b>2019</b>
Depreciation expenses	\$ 1,371,318	1,324,747
Amortization expenses	346,220	313,388
Total	<u>\$ 1,717,538</u>	<u>1,638,135</u>

(an) Other general and administrative expenses

	<b>2020</b>	<b>2019</b>
Taxes	\$ 2,763,298	3,173,028
Rental expenses	5,955	6,557
Insurance expenses	985,496	989,540
Postage and phone / fax expenses	226,652	219,611
Utilities	175,897	187,604
Supplies expenses	176,131	172,257
Repair and maintenance expenses	405,574	407,422
Marketing expenses	324,732	331,649
Professional service fees	776,991	770,677
Cashes transferring expenses	58,177	220,581
Others	338,824	352,517
Total	<u>\$ 6,237,727</u>	<u>6,831,443</u>

(ao) Earnings per Share

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

	Unit: thousand dollars / thousand shares			
	<b>2020</b>		<b>2019</b>	
	<u>Before-Tax</u>	<u>After-Tax</u>	<u>Before-Tax</u>	<u>After-Tax</u>
Consolidated net income	<u>\$ 12,342,611</u>	<u>11,515,180</u>	<u>13,211,156</u>	<u>11,390,413</u>
Weighted average outstanding shares	<u>10,900,000</u>	<u>10,900,000</u>	<u>9,875,890</u>	<u>9,875,890</u>
Basic earnings per share (In dollars)	<u>\$ 1.13</u>	<u>1.06</u>	<u>1.34</u>	<u>1.15</u>

(Continued)

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

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

(a) Fair value information

(i) Overview

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

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

(ii) The Three-level Definition

1) Level 1

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

2) Level 2

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

3) Level 3

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

(Continued)

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

(b) Measure at fair value measurement

(i) Fair value hierarchy

The fair value of financial instruments is measured on a recurring basis. The fair value hierarchy of financial instruments as of December 31, 2020 and 2019 are as follows:

Financial instruments measured at fair value	December 31, 2020			
	Total	Level 1	Level 2	Level 3
<b><u>Non-derivative financial instruments</u></b>				
Assets:				
Financial assets measured at fair value through profit or loss	\$ 314,803,083	292,394,566	22,210,127	198,390
Financial assets designated as fair value through profit or loss	19,029,575	-	19,029,575	-
Investment in bonds	19,029,575	-	19,029,575	-
Financial assets mandatorily as fair value through profit or loss	295,773,508	292,394,566	3,180,552	198,390
Investments in stocks	141,318,949	141,120,559	-	198,390
Investment in bonds	3,481,232	300,680	3,180,552	-
Others	150,973,327	150,973,327	-	-
Financial assets at fair value through other comprehensive income	991,067,914	740,700,365	226,230,144	24,137,405
Investments in bonds	898,665,741	672,435,597	226,230,144	-
Investment in stocks	92,402,173	68,264,768	-	24,137,405
Liabilities:				
Financial liabilities designated at fair value through profit or loss	14,564,305	-	14,564,305	-
<b><u>Derivative financial instruments</u></b>				
Assets:				
Financial assets measured at fair value through profit or loss	\$ 11,635,350	55,693	11,579,657	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	17,772,973	-	17,772,973	-
Hedging derivatives financial liabilities	49,894	-	49,894	-

(Continued)

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

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

(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.

(Continued)

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

When a quoted price of a financial instrument is timely available in a stock exchange or an OTC market or from brokers, underwriter, industry associations, pricing service organizations and the authorities and the price is often used in an 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 traded 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 adopts 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.

(Continued)

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

2) Credit risk valuation adjustment

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

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

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

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

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

(Continued)

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

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

Reconciliation for fair value measurements categorized in level 3 as of December 31, 2020 and 2019 were as follows:

	<b>Fair value through profit or loss</b>	<b>Fair value through other comprehensive income</b>	
	<b>Non derivative mandatorily measured at fair value through profit or loss (Unquoted equity instruments)</b>	<b>Unquoted equity instruments</b>	<b>Total</b>
Opening balance, January 1, 2020	\$ 195,450	23,099,886	23,295,336
Total gains and losses recognized:			
In profit or loss	2,940	-	2,940
In other comprehensive income	-	1,027,498	1,027,498
Purchased	-	10,021	10,021
Ending Balance, December 31, 2020	<u>\$ 198,390</u>	<u>24,137,405</u>	<u>24,335,795</u>
Opening balance, January 1, 2019	211,200	16,635,610	16,846,810
Total gains and losses recognized:			
In profit or loss	(15,750)	-	(15,750)
In other comprehensive income	-	5,631,721	5,631,721
Purchased	-	832,555	832,555
Ending Balance, December 31, 2019	<u>195,450</u>	<u>23,099,886</u>	<u>23,295,336</u>

- (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 changes in one or more of the parameters or assumptions may lead to a different result.

(Continued)

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

The favorable and unfavorable effects represent the changes in fair value, and the fair value are based on a variety of unobservable inputs calculated using a valuation technique. There are no such effects as of December 31, 2020 and 2019. The analysis only reflects the effects of changes in a single input, and it does not include the inter-relationships with another input.

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

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

Quantified information of significant unobservable inputs was as follows:

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets measured at fair value through profit or loss and Financial assets at fair value through other comprehensive income – Contingent consideration	Comparable company method (Market approach)	<ul style="list-style-type: none"> <li>· P/E ratio</li> <li>· P/B ratio</li> <li>· EV/Operating revenue</li> <li>· EV/EBITDA</li> <li>· EV/Total assets</li> <li>· Liquidity discount rate</li> </ul>	<ul style="list-style-type: none"> <li>· The estimated fair value would increase (decrease) if:</li> <li>· the P/E ratio, P/B ratio, EV/Operating revenue, EV/EBITDA and EV/Total assets were higher (lower);</li> <li>· the liquidity discount rate were lower (higher).</li> </ul>

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

- (i) Fair Value Information

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

Item	Book value	Fair value
<b>December 31, 2020</b>		
Financial Assets		
Financial Assets measured at amortized cost	156,093,052	160,660,795

(Continued)



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

Item	Book value	Fair value
<b>December 31, 2019</b>		
Financial Assets		
Financial Assets measured at amortized cost	177,206,775	179,067,171

(ii) Fair value hierarchy

		<b>December 31, 2020</b>		
		Quoted prices in active markets for identical asset (Level1)	Significant other observable inputs (Level2)	Significant unobservable inputs (Level3)
Assets and liabilities item	Total			
Financial Assets:				
Financial Assets measured at amortized cost	\$ 160,660,795	76,747,568	83,913,227	-

		<b>December 31, 2019</b>		
		Quoted prices in active markets for identical asset (Level1)	Significant other observable inputs (Level2)	Significant unobservable inputs (Level3)
Assets and liabilities item	Total			
Financial Assets:				
Financial Assets measured at amortized cost	\$ 179,067,171	95,636,179	83,430,992	-

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

- 1) 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.

(Continued)

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

3) Financial assets measured at amortized cost

If the quoted prices in active markets are available, the market price is established as the fair value. However, if quoted prices in active markets are not available, the estimated valuation or prices used by competitors are adopted:

- a) If there is quoted price generated by transactions, the recent transaction price and quoted price data is used as the basis for fair value measurement.
- b) If no quoted prices are available, the discounted cash flows are used to estimate fair values.

4) Deposits and Remittances: The Bank considers 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. Their coupon rates are almost equal to the market interest rate, so it is reasonable to using the discounted present values of the expected future cash flow to estimate their fair values. The present values are almost equal to the carrying amounts.

**(8) Financial Risk Management:**

(a) Overview

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

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

(Continued)

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

(b) Risk management structure

The risk management structure of the Bank 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 it to the Board of Directors.
- (iv) Every department should identify, evaluate, and control the risks of new products or business, set related risk management regulations as a guideline, and monitor the risk management to ensure the risk control of entire company.
- (v) All operational units shall comply with the regulations for risk management.

(c) Credit Risk

(i) Causes and definition of credit risk

Credit risk is the risk of financial loss to the Bank if a borrower, issuer or a counterparty to a financial instrument fails to meet its contractual obligations principally due to their credit deterioration or other factors (i.e. disputes between a borrower and its counterparty), including:

- 1) Credit risk from a borrower/issuer refers to the risk that the Bank and subsidiary may suffer from financial losses when the borrower/issuer is not able to meet its contractual obligations due to default, bankruptcy or liquidation.
- 2) Credit risk form counterparties refers to the risk that the Bank and subsidiary may suffer from financial losses when the counterparty is not able to settle the contracts or execute its repayments.
- 3) Credit risk form underlying assets refers to the risk that the Bank and subsidiary may suffer from financial losses when the credit quality of the underlying assets linked by the financial instruments turns vulnerable, which leads to an increase of risk premium, a downgrade of credit rating or a breach of contract.

Credit risk is derived both from on and off balance sheet items. On balance sheet items include loans, placement with banks, call loans to banks, acceptance bills, debt instruments, derivatives, etc. Off balance sheet items include guarantees, acceptances, letter of credits, loan commitments, etc.

(Continued)

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

(ii) Identification and measurement of credit risk

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

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

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

a) Credit assets categories and post-loan management

The Bank has established the “Operational Manual of Evaluating the Impairment of Loans and Receivables” and has classified the credit assets into five categories. Except for normal credit assets that are classified at the first category, the other abnormal credit-rating assets are classified as the second category- requiring attention, the third category- collectable, the fourth category- hard to collect, and the fifth category- impossible to collect by assessing the collaterals and overdue days. In order to reinforce the post-loan management, the Bank sets the “Credit Review and Follow up Evaluations Provision”, the “Review of the Credit Conducted by Managers Provision”, as well as the “Warning Mechanism Provision”, and evaluate and monitor the quality of credit assets regularly. Also, to enhance the management of abnormal credit and to attain the goals of warning and interim monitoring, the Bank reviews their credit cases by sampling cases based on their ratings and check significant credit cases periodically.

b) Internal credit rating

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

i) Corporate Finance

The Bank has established a credit policy under which each new customer is analyzed individually for creditworthiness before the interest rate is offered. The Bank review includes external rating, when available, and in some cases, the information that is publicly available. The clients are classified into two types based on their scorecards, the large-scale enterprise and the medium-scale enterprise. Then they measure their scale, financial and business status, business management and industry characteristic. There are 13 credit ratings, all in all.

(Continued)

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

ii) Consumer Finance

The Bank uses the credit application scorecard and behavior scorecard, both of them have seven grades for the purpose of credit risk evaluation and differential pricing. Unsecured consumer loans are graded based on seven scoring items and are classified into the seventh rating. The Bank would reject those below the lowest scores; others would be reviewed in accordance with related provisions.

2) Due from Banks and Call Loans to Banks

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

3) Investment in debt instruments and financial instrument derivatives

The Bank identifies and manages credit risk of debt instruments by reviewing the external ratings, creditworthiness of bonds, and geographic region of its counterparties. Most of the Bank's derivative contracts with its counterparties are financial institutions with good credit ratings. For those financial institutions whose ratings are not available, the Bank reviews the transactions individually. All the counterparties, including non-financial institutions, are managed based on their lines of credit (including loans at call).

(iii) Measurement of credit risk

1) Categories for credit risk quality

The Bank internally categorize the credit risk into four levels, which are low risk, moderate risk, high risk and impaired risk. The definition of each level is as follows:

- a) Low risk: The issuers or the counterparties are rated as robust or above to fulfill their obligation of the contracts. Even under various negative news or disadvantageous economic conditions, the companies are capable of dealing with the situations.
- b) Moderate risk: The possibility that the issuers or counterparties fulfill their obligation is remote. Operating performance and disadvantageous economic conditions will lower their ability and willingness to fulfill their obligation.
- c) High risk: The possibility that the issuers or counterparties fulfill their obligation is remote and mainly relies on the business environment. Negative news or disadvantageous economic conditions will lower their ability and willingness to fulfill their obligation.
- d) Impaired risk: the counterparties or the target did not perform its obligation according to the contracts, and potential estimated loss to the Bank and subsidiary has reached the standard of impairment.

(Continued)

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

2) Determination on the credit risk that has increased significantly since initial recognition

The Bank and subsidiary determine whether the credit risk of financial instruments applying the impairment requirements in IFRS 9 increased significantly since the initial recognition on each reporting date. For this assessment, the Bank and subsidiary consider the reasonable and supportable information (including forward looking information) which shows that the credit risk has increased significantly since initial recognition.

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

The Bank's and subsidiary's credit business scoring model and risk degree are as follows:

Risk degree	Corporate Finance IRB scoring model	Consumer Finance IRB application/ behavioral scoring model (including credit cards, excluding student loans)	Student Loans behavioral scoring model
Low	1	1	1
	2	2	2
	3	3	
	4		
Moderate	5	4	3
	6	5	4
	7	6	5
	8		6
	9		
	10		
High	11	7	7
	12		8
	13		9
			10

i) Loans and Discounts and credit related receivables

The Bank and subsidiary determine the credit risk of loans and discounts or financing receivables has increased significantly since initial recognition when the financial instrument applying the impairment requirements in IFRS 9 meets the following conditions at each reporting date:

- The borrower's internal or external rating has significantly dropped;
- The borrower's contract payment has been overdue for more than a month but still within 3 months (there are additional 45 days for a borrower who does not have a credit account in the Bank) ;
- The borrower's internal credit level is assessed as " Poor " under post-loan review or alert.

(Continued)

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

ii) Credit Cards

The Bank and subsidiary determine the credit risk of credit card loans has increased significantly since initial recognition when the credit card loans applying the following conditions: The borrower has not used revolving credit facility, but whose internal rating has dropped more than 3 levels, the borrower has used revolving credit facility without overdue, the loans has overdue but within 3 months, or non-conforming assets, excluding assets previously determined as credit risk has increased significantly or credit impairment.

b) Debt investments and placement with central bank and call loans to banks

The Bank and subsidiary follow the table below to determine whether that the credit risk of debt investments or placement with central bank and call loans to banks have increased significantly since initial recognition at each reporting date:

STAGE 1 (credit risk has not significantly increased)	STAGE 2 (credit risk has significantly increased)	STAGE 3 (credit has been impaired)
1. The credit rating of a counterparty is higher than Moody's A3, S&P's A- , Fitch's A- or Taiwan Ratings' twA- at the reporting date. (Note)		
2. The credit rating of a counterparty falling between Moody's A3 and Baa3 or equivalent drops within 4 levels during the period of the transaction date and each reporting date.	Not assessed as Stage 1, but the credit of counterparty is not actually impaired.	Not assessed as Stage 1, but the credit of counterparty has been impaired.
3. The credit rating of a counterparty lower than Moody's Baa3 or equivalent drops 1 level during the period of the transaction date and each reporting date.		

Note: If the credit risk of the credit assets is low, the Bank and subsidiary may consider that the credit risk of debt investments and placement with central bank and call loans to banks has not significantly increased since initial recognition.

(Continued)

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

3) Definitions for default and credit impairment of financial assets

The Bank and subsidiary use the same definitions for default and credit impairment of financial assets. If one or more of the following conditions are met, the Branch determine that the financial assets have been defaulted and credit impaired:

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

i) Loans and discounts and credit related receivables

1. Quantitative indicators

- The borrower's principals or interests have been overdue than 3 months.
- The borrower's internal rating is assessed as the lowest.

2. Qualitative indicators

If there is evidence that the borrower will be unable to pay the contract, or show that the borrower has significant financial difficulties, such as:

- The borrower has requested to postpone the repayment of principles and interests;
- The borrower's internal credit level is assessed as "Terrible" under post loan review or alert;
- The borrower's internal credit level is assessed as " Dangerous" under post loan review or alert;
- The borrower is reported by the Bank due to significant and unfavorable events;
- The borrower is under debt negotiation.

ii) Credit card business

The loan which borrower's payment has been overdue more than 3 months, or is reclassified as non-accrual loans, or was credit-impaired before, or which borrower is dead.

(Continued)



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

- b) Debt investments and placement with central bank and call loans to banks
- i) If there is evidence showing that the borrower will be unable to repay the principal or interests, or that the borrower has significant financial difficulties, such as:
- The issuer has breached the contract, such as a default or delinquency in interest or principal payments;
  - The issuer reorganizes its debt, such as a slash on the interest rate or principals, an exchange of debts, subordination of debt repayment or a postpone in maturity date;
  - The issuer has filed a bankruptcy; or
  - The issuer's rating is optional default or default.
- ii) A combination of individual and independent events may lead to an impairment on financial assets.

If the aforementioned definition of breach of contract and credit impairment applies to all financial assets held by the Bank and subsidiary no longer meets the definition of default and credit impairment for a period of time, it is deemed to return to the state of compliance and is no longer considered defaulted and credit impaired.

The aforementioned definition of breach of contract and credit impairment, and is consistent with the definition used for the purpose of internal credit risk management for financial assets, and is also applied to the relevant impairment assessment model.

4) Write off policy

If there is no realistic prospect of recovery for the financial assets (either partially or in full), the Bank and subsidiary will write off part or full of the financial assets. The indications of financial assets which have no realistic prospect of recovery include:

- a) The loan cannot be recovered in full or in part because the issuers or debtors have dissolved, gone into hiding, reached a settlement, declared bankruptcy, or for other reasons.
- b) The collateral and property of the primary/subordinate debtors or issuers have been appraised at a very low value or become insufficient to repay the loan after the subtraction of senior mortgages; or the execution cost approaches or possibly exceeds the amount that the Bank and subsidiary might collect from the debtors where there is no financial benefit in execution.
- c) The primary/subordinate debtor or an issuer's collateral has failed to sell at successive auctions where the price of such collateral has been successively lowered, and there is no financial benefit to be derived from the Bank's and subsidiary's taking possession of such collateral.

(Continued)

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

- d) More than two years have elapsed since the maturity date of the non performing loans or non accrual loans, and the efforts of collection have failed.
- 5) Amendments of contractual cash flows of financial assets

The contractual cash flows of loans and discounts may be amended due to the borrower's financial difficulties or in order to increase the recovery rate. An amendment may involve an extension of contract period, a change in the timing of repayments or in the interest rate, which may lead to a de-recognition of current financial assets and a re-recognition of the financial assets at fair value, in accordance with the Bank's and subsidiary's policy (Please see note 4(e)).

If the amendments do not lead to a de-recognition, the Bank and subsidiary will determine the credit of financial assets have been impaired and will assess expected credit loss accordingly since debt negotiation or extension is one of the conditions that define whether financial assets are credit-impaired or not.

The Bank and subsidiary assess the possibility of default of the amend financial assets by considering the condition of repayments after the amendment and several related behavior indexes, and re-evaluate whether the amendment has improved or restore the client's ability to make the required loan payments. According to the the Bank's and subsidiary's policy, a borrower cannot be reverted to Stage 1 until the borrower can continuously repay the new contractual amounts for a certain period and shows good payment behaviors.

The Bank and subsidiary will periodically review changes of credit risk after amendments in accordance with related policy.

- 6) Expected credit loss measurement

- a) Adopted methods and assumptions

For the Bank and subsidiary, if the financial assets are of low credit risk or no significant increase in credit risk, the 12 month expected credit losses will be recognized. If the financial assets are significantly increased in credit risk or the credits have been impaired, the expected credit losses for a lifetime will be recognized.

In order to measure expected credit losses, the Bank and subsidiary adopt Probability of default ("PD"), and include Loss given default ("LGD") and Exposure at default ("EAD"), and consider the impact of the time value of money, to calculate the expected credit losses for 12 months and for a lifetime, respectively.

(Continued)

## BANK OF TAIWAN AND SUBSIDIARY

### Notes to the Consolidated Financial Statements

Default probability is how likely the issuer or the counterparty breaches the contract, and the loss given default is the rate of loss due to default by the issuer or the counterparty. The default probability and loss given default used by the Bank and subsidiary, related impairment assessments are based on international credit rating agencies (S&P and Moody's), regularly publish information on default rate and loss given default, or internal historical information and calculate based on current observable data and forward looking general economic information (such as gross domestic production) after adjusting historical data.

The Exposure at default is measured by amortized cost of financial asset.

The estimation techniques or material assumptions made by the Bank and subsidiary to assess expected credit losses have no significant changes during the year.

b) Forward looking information considerations

The Bank and subsidiary take forward looking information into account when judging whether the credit risk of a debt instrument has increased significantly since its initial recognition, and when the expected credit loss is measured.

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

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

ii) Debt investments and placement with central bank and call loans to banks

The Bank and subsidiary evaluate the expected credit loss based on the external rating outlook or observation at the reporting date. If any of an issuer's credit rating granted by Moody's, S&P, Fitch, or Taiwan Rating is "Negative" or "-", the issuer will be determined as negative outlook or negative observation.

1. When the issuer's credit rating outlook is "Negative" or credit rating observation is "-", the Bank and subsidiary use the average of the long-term PD and one level reduced PD.
2. Otherwise, the PD will remain unchanged.

(iv) Management of maximum exposure to credit risk and excessive risk concentration

- 1) In accordance with the Banking Law, there is a credit limitation management for the Bank's person in charge, employees, and any interested party. In respect to credit intensity, the Bank provides credit and investment quota rules for the same enterprise, and industry. The Bank also limits and manages the credit amount for enterprises, groups and every industry.

(Continued)

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

- 2) The Bank's Treasury Department, OBU, and foreign branches provide different credit amount according to external credit evaluation and rankings when having a transaction in the currency market or capital market, foreign exchange, new financial instruments transactions and negotiable security transactions.
- 3) To spread the country risks, the Bank allocates different credit amount, based on the ranking of the countries in "Euromoney", to the Financing Department, OBU, and foreign branches. The covered businesses are loan assets and transaction assets (i.e. due and call loans, investment securities, derivatives, and foreign exchanges).

(v) Policies of credit risk deduction

1) Collateral

The Bank has established policy and procedures to mitigate credit risk. Among them, one of the most common ways, is to demand for collateral. In terms of collateral management and valuation, the Bank established policies governing the scope of collateral and related procedures to secure debts. Moreover, the Bank also requires the provisions that secure debts and collateral should be contained within a credit agreement to reduce credit risk by clearly defining the amounts the Bank can cut and the grace periods the bank can offer or even requesting for a prepayment.

Non-credit businesses are not required to collect collateral, depending on the nature of the financial instruments. Only asset-backed securities and other similar financial instruments are required to pledge an asset pool of financial instruments as collateral.

Considering both credit control and business expansion, the Bank shall request collaterals or guarantees to decrease the credit risk. The permitted collaterals and guarantees included mortgages on real estate or properties (i.e., land, building, machinery, car, ship, aircraft, etc.), pledges of securities or other rights (i.e., certificates of deposit; various bonds, or stocks), guarantees provided by the government agencies, banks, or credit guarantee institutions authorized by the government, and any other guarantees or collaterals approved by the Bank.

2) Master netting agreement

The Bank's transactions are usually settled individually without bundling or netting with any other transactions. However, the Bank also enters into netting agreements or chooses to settle net and terminates the deal if the counterparty is in default.

3) Other credits enhancement

The Bank's credit contract contains the term that the Bank is entitled to offset the obligation by claiming the deposits of the borrower who are in default to mitigate credit risk.

(Continued)

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

(vi) The maximum credit exposure to the credit risk of financial assets (without considering the allowance for bad debt, collaterals and guarantees)

1) As of December 31, 2020 and 2019, the amounts of maximum credit risk exposure to the credit risk displayed by credit rating are as follows:

Discounts and loans					
December 31, 2020					
	12 month ECLs	Lifetime ECLs — not impaired	Lifetime ECLs — impaired	Credit impairments of originated or purchased new financial assets — impaired	Total
Credit rating					
Low	\$ 1,000,957,806	15,376	225,668	-	1,001,198,850
Medium	899,667,463	128,571,215	2,595,166	-	1,030,833,844
High	23,794,713	32,392,491	5,671,606	-	61,858,810
Others	808,655,559	471,476	10,851,884	-	819,978,919
Gross carrying amount	2,733,075,541	161,450,558	19,344,324	-	2,913,870,423
Allowance for bad debts	(21,310,143)	(1,721,279)	(4,748,114)	-	(27,779,536)
Impairment recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans				(16,886,367)	(16,886,367)
Total	\$ 2,711,765,398	159,729,279	14,596,210	(16,886,367)	2,869,204,520
Discounts and loans					
December 31, 2019					
	12 month ECLs	Lifetime ECLs — not impaired	Lifetime ECLs — impaired	Credit impairments of originated or purchased new financial assets — impaired	Total
Credit rating					
Low	\$ 930,791,741	17,869	155,942	-	930,965,552
Medium	960,430,171	54,963,853	2,371,916	-	1,017,765,940
High	26,639,778	29,449,744	5,749,253	-	61,838,775
Others	693,302,928	592,129	16,819,383	-	710,714,440
Gross carrying amount	2,611,164,618	85,023,595	25,096,494	-	2,721,284,707
Allowance for bad debts	(21,113,435)	(1,606,276)	(7,150,936)	-	(29,870,647)
Impairment recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans				(15,272,836)	(15,272,836)
Total	\$ 2,590,051,183	83,417,319	17,945,558	(15,272,836)	2,676,141,224

(Continued)

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

Debt instruments measured at fair value through other comprehensive income					
December 31, 2020					
	12 month ECLs	Lifetime ECLs — not impaired	Lifetime ECLs — impaired	Valuation adjustment	Total
Credit rating					
Aaa~Baa3	\$ 894,207,996	-	-	-	894,207,996
Ba1~Ba3	1,249,996	545,820	-	-	1,795,816
Gross carrying amount	895,457,992	545,820	-	-	896,003,812
Allowance for impairment	(100,415)	(19,353)	-	-	(119,768)
Valuation adjustment	-	-	-	2,661,929	2,661,929
Total	<u>\$ 895,357,577</u>	<u>526,467</u>	<u>-</u>	<u>2,661,929</u>	<u>898,545,973</u>
Debt instruments measured at fair value through other comprehensive income					
December 31, 2019					
	12 month ECLs	Lifetime ECLs — not impaired	Lifetime ECLs — impaired	Valuation adjustment	Total
Credit rating					
Aaa~Baa3	\$ 913,067,917	-	-	-	913,067,917
Ba1~Ba3	2,821,595	302,385	-	-	3,123,980
Gross carrying amount	915,889,512	302,385	-	-	916,191,897
Allowance for impairment	(80,477)	(8,801)	-	-	(89,278)
Valuation adjustment	-	-	-	1,602,351	1,602,351
Total	<u>\$ 915,809,035</u>	<u>293,584</u>	<u>-</u>	<u>1,602,351</u>	<u>917,704,970</u>
Debt instruments measured at amortized cost					
December 31, 2020					
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired		Total
Credit rating					
Aaa~Baa3	\$ 143,270,874	-	-		143,270,874
Ba1~Ba3	12,862,291	-	-		12,862,291
Gross carrying amount	156,133,165	-	-		156,133,165
Accumulated impairment	(40,113)	-	-		(40,113)
Total	<u>\$ 156,093,052</u>	<u>-</u>	<u>-</u>		<u>156,093,052</u>
Debt instruments measured at amortized cost					
December 31, 2019					
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired		Total
Credit rating					
Aaa~Baa3	\$ 159,586,690	-	-		159,586,690
Ba1~Ba3	17,663,192	-	-		17,663,192
Gross carrying amount	177,249,882	-	-		177,249,882
Accumulated impairment	(43,107)	-	-		(43,107)
Total	<u>\$ 177,206,775</u>	<u>-</u>	<u>-</u>		<u>177,206,775</u>

(Continued)

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

Letter of Credit Receivables and Guarantee for Trade Receivables December 31, 2020					
	12 month ECLs	Lifetime ECLs — not impaired	Lifetime ECLs — impaired	Impairment recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans	Total
Credit rating					
Low	\$ 67,519,965	-	-	-	67,519,965
Medium	56,425,352	3,107,384	885,353	-	60,418,089
High	85,177	464,112	59,054	-	608,343
Others	10,794,870	428,643	1	-	11,223,514
Gross carrying amount	134,825,364	4,000,139	944,408	-	139,769,911
Allowance for bad debts(Guarantee reserve and other reserve)	(425,959)	(66,713)	(62,802)	-	(555,474)
Impairment recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans				(848,754)	(848,754)
Total	<u>\$ 134,399,405</u>	<u>3,933,426</u>	<u>881,606</u>	<u>(848,754)</u>	<u>138,365,683</u>
Letter of Credit Receivables and Guarantee for Trade Receivables December 31, 2019					
	12 month ECLs	Lifetime ECLs — not impaired	Lifetime ECLs — impaired	Impairment recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans	Total
Credit rating					
Low	\$ 56,314,438	2,345	-	-	56,316,783
Medium	59,114,017	2,592,907	650,649	-	62,357,573
High	91,214	136,774	5,800	-	233,788
Others	6,178,217	350,944	29,352	-	6,558,513
Gross carrying amount	121,697,886	3,082,970	685,801	-	125,466,657
Allowance for bad debts(Guarantee reserve and other reserve)	(358,951)	(11,252)	(99,529)	-	(469,732)
Impairment recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans				(861,766)	(861,766)
Total	<u>\$ 121,338,935</u>	<u>3,071,718</u>	<u>586,272</u>	<u>(861,766)</u>	<u>124,135,159</u>

(Continued)

# BANK OF TAIWAN AND SUBSIDIARY

## Notes to the Consolidated Financial Statements

Loan Commitments December 31, 2020					
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired		Total
Credit rating					
Low	\$ 6,414,418	-	-		6,414,418
Others	154,476,005	203,568	777		154,680,350
Gross carrying amount	160,890,423	203,568	777		161,094,768
Allowance for bad debts (Loan commitments reserve)	(14,385)	(1,474)	(420)		(16,279)
Total	<u>\$ 160,876,038</u>	<u>202,094</u>	<u>357</u>		<u>161,078,489</u>
Loan Commitments December 31, 2019					
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired		Total
Credit rating					
Low	\$ 2,574,360	-	-		2,574,360
Others	420,467,884	227,556	482		420,695,922
Gross carrying amount	423,042,244	227,556	482		423,270,282
Allowance for bad debts (Loan commitments reserve)	(17,118)	(1,817)	(289)		(19,224)
Total	<u>\$ 423,025,126</u>	<u>225,739</u>	<u>193</u>		<u>423,251,058</u>
Accounts Receivable(including other financial assets) December 31, 2020					
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Impairment recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans	Total
Credit rating					
Aaa~Baa3	\$ 6,148,231	-	-	-	6,148,231
Ba1~Caa1	31,459	4,374	77	-	35,910
Others	76,161,851	483,778	134,543	-	76,780,172
Gross carrying amount (Note 1)	82,341,541	488,152	134,620	-	82,964,313
Allowance for bad debts (Note 2)	(37,311)	(6,886)	(77,065)	-	(121,262)
Impairment recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans				(49,852)	(49,852)
Total	<u>\$ 82,304,230</u>	<u>481,266</u>	<u>57,555</u>	<u>(49,852)</u>	<u>82,793,199</u>

Note 1: Restrictive deposit of the Bank amounted \$19,129 thousand and accounts receivable evaluated by simplification method of Department of Government Employees' Insurance amounted \$8,407,922 thousand were not included in the gross carrying amount of this table.

Note 2: Accumulated impairment recognized in restrictive deposit of the Bank amounted \$10 thousand and allowance for impairment evaluated by simplification method of Department of Government Employees' Insurance amounted \$11 thousand were not included in the allowance for bad debts of this table.

(Continued)



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

Accounts Receivable(including other financial assets)					
December 31, 2019					
	12 month ECLs	Lifetime ECLs — not impaired	Lifetime ECLs — impaired	Impairment recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans	Total
Credit rating					
Aaa-Baa3	\$ 7,946,716	-	-	-	7,946,716
Ba1-Caa1	117,303	4,857	91	-	122,251
Others	82,457,816	395,308	170,063	-	83,023,187
Gross carrying amount (Note 1)	90,521,835	400,165	170,154	-	91,092,154
Allowance for bad debts (Note 2)	(33,806)	(9,177)	(79,941)	-	(122,924)
Impairment recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans				(56,358)	(56,358)
Total	\$ 90,488,029	390,988	90,213	(56,358)	90,912,872

Note 1: Restrictive deposit of the Bank amounted \$19,380 thousand and accounts receivable evaluated by simplification method of Department of Government Employees' Insurance amounted \$7,736,495 thousand were not included in the gross carrying amount of this table.

Note 2: Accumulated impairment recognized in restrictive deposit of the Bank amounted \$10 thousand and allowance for impairment evaluated by simplification method of Department of Government Employees' Insurance amounted \$13 thousand were not included in the allowance for bad debts of this table.

- 2) The assets in the balance sheet and off-balance sheet items held as collateral, master netting arrangement and other credit enhancements related information on the financial impact the maximum amount of the violence risk in credit risk shows in the following table :

Unit: In million of TWD				
December 31, 2020	Collateral	General agreement of net amount settlement	Enhancement of other credits	Total
<u>In balance sheet:</u>				
Receivables				
Others	\$ 995	46	3,568	4,609
Loans and discounts	1,413,378	-	1,500,492	2,913,870
Financial assets measured at fair value through profit or loss				
Others	4,714	-	-	4,714
<u>Off-balance sheet</u>				
Irrevocable loan commitments	51	-	161,044	161,095
Standby letters of credit	1,722	-	41,088	42,810
Financial guarantees	9,331	-	87,629	96,960
Total	\$ 1,430,191	46	1,793,821	3,224,058

(Continued)

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

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

The Management believes that the reason why the Bank can continuously manage and minimize the exposure of credit risk to off-balance sheet items is because a stricter review process is adopted, and cases are reviewed regularly in subsequent periods.

- 3) The Bank closely observes the value of collateral for financial instruments, and considers the allowance for impairment of credit-impaired financial assets. Information about credit-impaired financial assets and the value of collateral which may decrease potential loss is shown below:

December 31, 2020				
	Gross carrying amount	Allowance for impairment (Legal reserves was not included)	Exposure amount (Amortized cost)	Fair value of collateral
Impaired financial assets:				
Receivables				
Credit card business	\$ 5,972	4,501	1,471	-
Others	128,648	72,564	56,084	-
Loans and discounts	19,344,324	4,748,114	14,596,210	12,895,755
Total amount of impaired financial assets	<u>\$ 19,478,944</u>	<u>4,825,179</u>	<u>14,653,765</u>	<u>12,895,755</u>
December 31, 2019				
	Gross carrying amount	Allowance for impairment (Legal reserves was not included)	Exposure amount (Amortized cost)	Fair value of collateral
Impaired financial assets:				
Receivables				
Credit card business	\$ 5,999	4,787	1,212	-
Others	146,155	75,154	71,001	9,699
Loans and discounts	25,096,494	7,150,936	17,945,558	9,214,772
Total amount of impaired financial assets	<u>\$ 25,248,648</u>	<u>7,230,877</u>	<u>18,017,771</u>	<u>9,224,471</u>

(Continued)

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

4) Financial assets not applicable for rules of impairment:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Financial assets measured at fair value through profit or loss		
Debt instruments	\$ 173,484,134	142,285,938
Derivative	11,635,350	10,699,762

(vii) Concentration of credit risk

When the transaction of financial instruments is concentrated in a single industry or region, the ability to oblige the contract would be impacted by similar factors, thereby, causing concentration of credit risk.

The credit risk of the Bank is derived from credit, placement with banks, call loans to banks, security investments and so on. Disclosures of concentration of credit risk by industries, regions and collaterals were as follows:

1) Industry

Unit: In million of TWD; %

Industry type	<b>December 31, 2020</b>		<b>December 31, 2019</b>	
	Book Value (Note 1)	%	Book Value (Note 2)	%
Finance and insurance	\$ 1,238,373	28.62 %	1,274,240	30.83 %
Individuals	1,053,085	24.34 %	957,805	23.17 %
Manufacturing	407,193	9.41 %	389,801	9.43 %
Government Agencies	820,618	18.96 %	699,735	16.93 %
Shipping, warehousing and communications	167,670	3.87 %	167,643	4.06 %
Electricity and gas supply	114,998	2.66 %	124,155	3.00 %
Others	525,083	12.14 %	519,823	12.58 %
<b>Total</b>	<b>\$ 4,327,020</b>	<b>100.00 %</b>	<b>4,133,202</b>	<b>100.00 %</b>

Note 1: December 31, 2020

- (1) The carrying amounts include loans (\$2,913,870 million), call loans to banks, overdraft of banks and placement with banks (\$239,572 million), security investments (\$1,173,578 million) and so on. Loans refer to discounts, overdrafts, government overdrafts, secured overdrafts, short-term loans, short-term secured loans, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, import bill advance and nonperforming loans (\$3,195 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.

(Continued)

# BANK OF TAIWAN AND SUBSIDIARY

## Notes to the Consolidated Financial Statements

Note 2: December 31, 2019

- (1) The carrying amounts include loans (\$2,721,285 million), call loans to banks, overdraft of banks and placement with banks (\$220,647 million), security investments (\$1,191,270 million) and so on. Loans refer to discounts, overdrafts, government overdrafts, secured overdrafts, short-term loans, short-term secured loans, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, import bill advance and nonperforming loans (\$3,154 million). Security investments include bonds and stocks. Bonds are measured at fair value. However, the bonds classified as held-to-maturity financial assets or bond investments in non-active market are carried at cost. Equity investments are measure at fair value but those classified as cost of long-term equity investments under the equity method and financial assets carried at cost are measured at cost.
- (2) This table excludes the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

### 2) Region

Areas type	Unit: In million of TWD; %			
	December 31, 2020		December 31, 2019	
	Book Value(Note 1)	%	Book Value(Note 2)	%
Domestic	\$ 3,831,550	88.55 %	3,648,596	88.28 %
Foreign	495,470	11.45 %	484,606	11.72 %
<b>Total</b>	<b>\$ 4,327,020</b>	<b>100.00 %</b>	<b>4,133,202</b>	<b>100.00 %</b>

Note 1: December 31, 2020

- (1) The carrying amounts include loans (\$2,913,870 million), call loans to banks, overdraft of banks and placement with banks (\$239,572 million), security investments (\$1,173,578 million) and so on. Loans refer to discounts, overdrafts, government overdrafts, secured overdrafts, short-term loans, short-term secured loans, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, import bill advance and nonperforming loans (\$3,195 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, 2019

- (1) The carrying amounts include loans (\$2,721,285 million), call loans to banks, overdraft of banks and placement with banks (\$220,647 million), security investments (\$1,191,270 million) and so on. Loans refer to discounts, overdrafts, government overdrafts, secured overdrafts, short-term loans, short-term secured loans, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, import bill advance and nonperforming loans (\$3,154 million). Security investments include bonds and stocks. Bonds are measured at fair value. However, the bonds classified as held-to-maturity financial assets or bond investments in non-active market are carried at cost. Equity investments are measure at fair value but those classified as cost of long-term equity investments under the equity method and financial assets carried at cost are measured at cost.
- (2) This table excludes the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

(Continued)

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

3) Collateral

Unit: In million of TWD; %

Type of collateral	December 31, 2020		December 31, 2019	
	Book Value (Note 1)	%	Book Value (Note 1)	%
Non-secured	\$ 1,321,714	45.37 %	1,270,447	46.69 %
Secured	1,592,156	54.63 %	1,450,838	53.31 %
Guarantee	179,249	6.15 %	140,240	5.15 %
Securities	68,914	2.36 %	74,881	2.75 %
Real estate	1,262,049	43.31 %	1,156,442	42.50 %
Chattel	81,814	2.81 %	79,163	2.91 %
Valuables	130	- %	112	- %
<b>Total</b>	<b>\$ 2,913,870</b>	<b>100.00 %</b>	<b>2,721,285</b>	<b>100.00 %</b>

Note 1: The carrying amounts only contain loans which refer to discounts, overdrafts, government overdrafts, secured overdrafts, short-term loans, short-term secured loans, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, import bill advance and non-performing loans (\$3,195 million at December 31, 2020; \$3,154 million at December 31, 2019).

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

(Continued)

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

(viii) Changes in loss allowance

1) Changes in loss allowance of discounts and loans

- a) As of December 31, 2020 and 2019, the variation of the beginning and ending balances for loss allowance of discounts and loans were as follows:

	2020					
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	The loss allowances measured in accordance with IFRS 9	Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming/Nona ccrual Loans	Total
Beginning balance	\$ 21,113,435	1,606,276	7,150,936	29,870,647	15,272,836	45,143,483
Changes due to financial instruments recognized as at beginning:						
— Transfer to lifetime expected credit losses	(159,475)	224,808	(65,333)	-		-
— Transfer to lifetime ECL not credit impaired	(43,632)	(72,524)	116,156	-		-
— Transfer to 12month expected credit losses	716,436	(624,112)	(92,324)	-		-
— Financial assets that have been derecognized during the period	(2,714,607)	154,187	(1,987,670)	(4,548,090)		(4,548,090)
Originated or purchased new financial assets	2,539,113	264,071	210,185	3,013,369		3,013,369
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans	-	-	-	-	1,613,531	1,613,531
Bad debts written off	(795,893)	-	(1,270,403)	(2,066,296)		(2,066,296)
The recovery of bad debts written off	-	-	1,411,552	1,411,552		1,411,552
Foreign exchange and other movements	654,766	168,573	(724,985)	98,354		98,354
Ending balance	<u>\$ 21,310,143</u>	<u>1,721,279</u>	<u>4,748,114</u>	<u>27,779,536</u>	<u>16,886,367</u>	<u>44,665,903</u>

(Continued)

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

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

(Continued)

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

b) As of December 31, 2020 and 2019, the carrying amounts of discounts and loans were as follows:

	2020			
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Total
Beginning balance	\$ 2,611,164,618	85,023,595	25,096,494	2,721,284,707
— Transfer to lifetime expected credit losses	(114,931,841)	115,396,305	(464,464)	-
— Transfer to lifetime ECL not credit impaired	(5,318,616)	(1,456,074)	6,774,690	-
— Transfer to 12month expected credit losses	27,505,759	(26,918,797)	(586,962)	-
— Financial assets that have been derecognized during the period	(1,125,297,591)	(19,837,339)	(5,711,680)	(1,150,846,610)
Originated or purchased new discounts and loans	1,339,595,063	9,280,474	694,533	1,349,570,070
Bad debts written off	(795,893)	-	(1,270,403)	(2,066,296)
Changes form the amendments not leading to de recognition	-	-	(575)	(575)
Other movements	1,154,042	(37,606)	(5,187,309)	(4,070,873)
Ending balance	<u>\$ 2,733,075,541</u>	<u>161,450,558</u>	<u>19,344,324</u>	<u>2,913,870,423</u>

(Continued)



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

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

(Continued)

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

2) Changes in loss allowance of debt instruments measured at fair value through other comprehensive income

- a) As of December 31, 2020 and 2019, the variation of the beginning and ending balances for loss allowance of debt instruments measured at fair value through other comprehensive income were as follows:

	<b>2020</b>			
	<b>12 month ECLs</b>	<b>Lifetime ECLs</b>	<b>Lifetime ECLs (not purchased or originated credit impaired financial assets)</b>	<b>Total</b>
Beginning balance	\$ 80,477	8,801	-	89,278
Changes due to financial instruments recognized as at beginning:				
— Transfer to lifetime expected credit losses	(865)	865	-	-
— Financial assets that have been derecognized during the period	(14,779)	-	-	(14,779)
Originated or purchased new financial assets	39,635	-	-	39,635
Foreign exchange and other movements	(4,053)	9,687	-	5,634
Ending balance	<u>\$ 100,415</u>	<u>19,353</u>	<u>-</u>	<u>119,768</u>

(Continued)

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

	2019			
	12 month ECLs	Lifetime ECLs	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Total
Beginning balance	\$ 76,773	6,172	-	82,945
Changes due to financial instruments recognized as at beginning:				
— Transfer to lifetime expected credit losses	(602)	602	-	-
— Financial assets that have been derecognized during the period	(19,716)	(6,172)	-	(25,888)
Originated or purchased new financial assets	26,905	-	-	26,905
Foreign exchange and other movements	(2,883)	8,199	-	5,316
Ending balance	<u>\$ 80,477</u>	<u>8,801</u>	<u>-</u>	<u>89,278</u>

(Continued)

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

- b) As of December 31, 2020 and 2019, the carrying amounts of debt instruments measured at fair value through other comprehensive income were as follows:

2020				
	12 month ECLs	Lifetime ECLs	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Total
Beginning balance	\$ 915,889,512	302,385	-	916,191,897
— Transfer to lifetime expected credit losses	(289,806)	289,806	-	-
— Financial assets that have been derecognized during the period	(766,977,547)	-	-	(766,977,547)
Originated or purchased new financial assets	749,720,006	-	-	749,720,006
Other movements	(2,884,173)	(46,371)	-	(2,930,544)
Ending balance	<u>\$ 895,457,992</u>	<u>545,820</u>	<u>-</u>	<u>896,003,812</u>
2019				
	12 month ECLs	Lifetime ECLs	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Total
Beginning balance	\$ 1,039,187,045	1,092,208	-	1,040,279,253
— Transfer to lifetime expected credit losses	(307,664)	307,664	-	-
— Financial assets that have been derecognized during the period	(873,875,408)	(1,092,208)	-	(874,967,616)
Originated or purchased new financial assets	752,464,617	-	-	752,464,617
Other movements	(1,579,078)	(5,279)	-	(1,584,357)
Ending balance	<u>\$ 915,889,512</u>	<u>302,385</u>	<u>-</u>	<u>916,191,897</u>

(Continued)

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

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

- a) As of December 31, 2020 and 2019, the variation of the beginning and ending balances for loss allowance of debt instruments measured at amortized cost were as follows:

	2020			
	12 month ECLs	Lifetime ECLs	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Total
Beginning balance	\$ 43,107	-	-	43,107
— Financial assets that have been derecognized during the period	(16,323)	-	-	(16,323)
Originated or purchased new financial assets	12,752	-	-	12,752
Foreign exchange and other movements	577	-	-	577
Ending balance	<u>\$ 40,113</u>	<u>-</u>	<u>-</u>	<u>40,113</u>

(Continued)

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

2019				
	12 month ECLs	Lifetime ECLs	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Total
Beginning balance	\$ 49,536	-	-	49,536
— Financial assets that have been derecognized during the period	(23,299)	-	-	(23,299)
Originated or purchased new financial assets	20,203	-	-	20,203
Foreign exchange and other movements	(3,333)	-	-	(3,333)
Ending balance	<u>\$ 43,107</u>	<u>-</u>	<u>-</u>	<u>43,107</u>

- b) As of December 31, 2020 and 2019, the carrying amounts of debt instruments measured at amortized cost were as follows:

2020				
	12 month ECLs	Lifetime ECLs	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Total
Beginning balance	\$ 177,249,882	-	-	177,249,882
— Financial assets that have been derecognized during the period	(60,191,933)	-	-	(60,191,933)
Originated or purchased new financial assets	39,947,176	-	-	39,947,176
Other movements	(871,960)	-	-	(871,960)
Ending balance	<u>\$ 156,133,165</u>	<u>-</u>	<u>-</u>	<u>156,133,165</u>

(Continued)

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

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

(Continued)

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

4) Changes in guarantee reserve and other reserve

- a) As of December 31, 2020 and 2019, the variation of the beginning and ending balances for loss allowance of letter of credit receivables and guarantee for trade receivables (guarantee reserve and other reserve) were as follows:

	2020					
	12 month ECLs	Lifetime ECLs	Lifetime ECLs (not purchased or originated credit impaired financial assets)	The loss allowances measured in accordance with IFRS 9	Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming/Nona ccrual Loans	Total
Beginning balance	\$ 358,951	11,252	99,529	469,732	861,766	1,331,498
Changes due to financial instruments recognized as at beginning:						
— Transfer to lifetime expected credit losses	(2,773)	2,773	-	-		-
— Transfer to lifetime ECL not credit impaired	(31)	(641)	672	-		-
— Transfer to 12month expected credit losses	5	(5)	-	-		-
— Financial assets that have been derecognized during the period	(121,666)	(3,527)	(43,860)	(169,053)		(169,053)
Originated or purchased new financial assets	144,480	17,143	7,624	169,247		169,247
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming /Nonaccrual Loans	-	-	-	-	(13,012)	(13,012)
Foreign exchange and other movements	46,993	39,718	(1,163)	85,548		85,548
Ending balance	<u>\$ 425,959</u>	<u>66,713</u>	<u>62,802</u>	<u>555,474</u>	<u>848,754</u>	<u>1,404,228</u>

(Continued)



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

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

(Continued)

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

- b) As of December 31, 2020 and 2019, the carrying amounts of letter of credit receivables and guarantee for trade receivables were as follows:

	2020			
	12 month ECLs	Lifetime ECLs	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Total
Beginning balance	\$ 121,697,886	3,082,970	685,801	125,466,657
— Transfer to lifetime expected credit losses	(891,681)	891,681	-	-
— Transfer to lifetime ECL not credit impaired	(7,501)	(49,970)	57,471	-
— Transfer to 12month expected credit losses	7,724	(7,724)	-	-
— Financial assets that have been derecognized during the period	(53,373,240)	(478,129)	(444,361)	(54,295,730)
Originated or purchased new discounts and loans	67,405,743	561,311	645,497	68,612,551
Other movements	(13,567)	-	-	(13,567)
Ending balance	<u>\$ 134,825,364</u>	<u>4,000,139</u>	<u>944,408</u>	<u>139,769,911</u>

(Continued)

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

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

(Continued)

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

5) Changes in loan commitments reserve

- a) As of December 31, 2020 and 2019, the variation of the beginning and ending balances for loss allowance of loan commitments (loan commitments reserve) were as follows:

	<b>2020</b>			
	<b>12 month ECLs</b>	<b>Lifetime ECLs</b>	<b>Lifetime ECLs (not purchased or originated credit impaired financial assets)</b>	<b>Total</b>
Beginning balance	\$ 17,118	1,817	289	19,224
Changes due to financial instruments recognized as at beginning:				
— Transfer to lifetime expected credit losses	(118)	118	-	-
— Transfer to lifetime ECL not credit impaired	-	(14)	14	-
— Transfer to 12month expected credit losses	2,314	(2,314)	-	-
— Financial assets that have been derecognized during the period	(13,954)	(1,046)	(506)	(15,506)
Originated or purchased new financial assets	11,439	1,082	223	12,744
Foreign exchange and other movements	(2,414)	1,831	400	(183)
Ending balance	<u>\$ 14,385</u>	<u>1,474</u>	<u>420</u>	<u>16,279</u>

(Continued)

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

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

(Continued)

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

b) As of December 31, 2020 and 2019, the carrying amounts of loan commitments were as follows:

<b>2020</b>				
	<b>12 month ECLs</b>	<b>Lifetime ECLs</b>	<b>Lifetime ECLs (not purchased or originated credit impaired financial assets)</b>	<b>Total</b>
Beginning balance	\$ 423,042,244	227,556	482	423,270,282
— Transfer to lifetime ECL not credit impaired	-	(1,762)	1,762	-
— Financial assets that have been derecognized during the period	(279,936,301)	(606,409)	(2,167)	(280,544,877)
Originated or purchased new discounts and loans	17,787,280	584,183	700	18,372,163
Other movements	(2,800)	-	-	(2,800)
Ending balance	<u>\$ 160,890,423</u>	<u>203,568</u>	<u>777</u>	<u>161,094,768</u>
<b>2019</b>				
	<b>12 month ECLs</b>	<b>Lifetime ECLs</b>	<b>Lifetime ECLs (not purchased or originated credit impaired financial assets)</b>	<b>Total</b>
Beginning balance	\$ 414,843,942	239,090	434	415,083,466
— Transfer to lifetime ECL not credit impaired	-	(1,530)	1,530	-
— Financial assets that have been derecognized during the period	(411,783,942)	(638,463)	(2,430)	(412,424,835)
Originated or purchased new discounts and loans	419,982,244	628,459	948	420,611,651
Ending balance	<u>\$ 423,042,244</u>	<u>227,556</u>	<u>482</u>	<u>423,270,282</u>

(Continued)

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

6) Changes in loss allowance of receivables(including other financial assets)

a) As of December 31, 2020 and 2019, the variation of the beginning and ending balances for loss allowance of receivables were as follows:

	2020					
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	The loss allowances measured in accordance with IFRS 9	Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming/Nona accrual Loans	Total
Beginning balance (Note 1)	\$ 33,806	9,177	79,941	122,924	56,358	179,282
Changes due to financial instruments recognized as at beginning:						
— Transfer to lifetime expected credit losses	(528)	730	(202)	-	-	-
— Transfer to lifetime ECL not credit impaired	(144)	(268)	412	-	-	-
— Transfer to 12month expected credit losses	2,405	(2,000)	(405)	-	-	-
— Financial assets that have been derecognized during the period	(23,224)	(4,909)	(40,951)	(69,084)	-	(69,084)
Originated or purchased new financial assets	24,336	4,551	26,911	55,798	-	55,798
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans	-	-	-	-	(6,506)	(6,506)
Bad debts written off	-	(168)	(7,781)	(7,949)	-	(7,949)
The recovery of bad debts written off	-	-	8,068	8,068	-	8,068
Foreign exchange and other movements	660	(227)	11,072	11,505	-	11,505
Ending balance (Note 2)	<u>\$ 37,311</u>	<u>6,886</u>	<u>77,065</u>	<u>121,262</u>	<u>49,852</u>	<u>171,114</u>

Note 1: Accumulated impairment recognized in restrictive deposit of the Bank amounted \$10 thousand and allowance for impairment evaluated by simplification method of Department of Government Employees' Insurance amounted \$13 thousand were not included.

Note 2: Accumulated impairment recognized in restrictive deposit of the Bank amounted \$10 thousand and allowance for impairment evaluated by simplification method of Department of Government Employees' Insurance amounted \$11 thousand were not included.

(Continued)

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

	2019					
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	The loss allowances measured in accordance with IFRS 9	Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming/Nona ccrual Loans	Total
Beginning balance (Note 1)	\$ 69,619	12,152	49,008	130,779	48,779	179,558
Changes due to financial instruments recognized as at beginning:						
— Transfer to lifetime expected credit losses	(915)	1,204	(289)	-		-
— Transfer to lifetime ECL not credit impaired	(232)	(439)	671	-		-
— Transfer to 12month expected credit losses	1,483	(1,135)	(348)	-		-
— Financial assets that have been derecognized during the period	(48,230)	(7,284)	(23,025)	(78,539)		(78,539)
Originated or purchased new financial assets	14,893	4,669	50,010	69,572		69,572
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans	-	-	-	-	7,579	7,579
Bad debts written off	(16)	(1,155)	(11,218)	(12,389)		(12,389)
The recovery of bad debts written off	-	-	12,836	12,836		12,836
Foreign exchange and other movements	(2,796)	1,165	2,296	665	-	665
Ending balance (Note 2)	<u>\$ 33,806</u>	<u>9,177</u>	<u>79,941</u>	<u>122,924</u>	<u>56,358</u>	<u>179,282</u>

Note 1: Accumulated impairment recognized in restrictive deposit of the Bank amounted \$11 thousand and allowance for impairment evaluated by simplification method of Department of Government Employees' Insurance amounted \$1,022 thousand were not included.

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

(Continued)



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

b) As of December 31, 2020 and 2019, the carrying amounts of receivables were as follows:

	2020			
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Total
Beginning balance (Note 1)	\$ 90,521,835	400,165	170,154	91,092,154
— Transfer to lifetime expected credit losses	(347,012)	348,431	(1,419)	-
— Transfer to lifetime ECL not credit impaired	(12,170)	(11,306)	23,476	-
— Transfer to 12month expected credit losses	83,620	(81,601)	(2,019)	-
— Financial assets that have been derecognized during the period	(17,535,419)	(367,445)	(87,085)	(17,989,949)
Originated or purchased new discounts and loans	37,785,130	197,499	71,776	38,054,405
Bad debts written off	-	(168)	(7,781)	(7,949)
Other movements	(28,154,443)	2,577	(32,482)	(28,184,348)
Ending balance (Note 2)	<u>\$ 82,341,541</u>	<u>488,152</u>	<u>134,620</u>	<u>82,964,313</u>

Note 1: Restrictive deposit of the Bank amounted \$19,380 thousand and accounts receivable evaluated by simplification method of Department of Government Employees' Insurance amounted \$7,736,495 thousand were not included.

Note 2: Restrictive deposit of the Bank amounted \$19,129 thousand and accounts receivable evaluated by simplification method of Department of Government Employees' Insurance amounted \$8,407,922 thousand were not included.

(Continued)

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

	2019			
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Total
Beginning balance (Note 1)	\$ 97,242,805	839,357	109,727	98,191,889
— Transfer to lifetime expected credit losses	(275,135)	277,042	(1,907)	-
— Transfer to lifetime ECL not credit impaired	(6,068)	(17,484)	23,552	-
— Transfer to 12month expected credit losses	205,241	(203,067)	(2,174)	-
— Financial assets that have been derecognized during the period	(18,229,010)	(685,049)	(63,363)	(18,977,422)
Originated or purchased new discounts and loans	15,236,816	194,197	77,892	15,508,905
Bad debts written off	(16)	(1,155)	(11,218)	(12,389)
Other movements	(3,652,798)	(3,676)	37,645	(3,618,829)
Ending balance (Note 2)	<u>\$ 90,521,835</u>	<u>400,165</u>	<u>170,154</u>	<u>91,092,154</u>

Note 1: Restrictive deposit of the Bank amounted \$19,469 thousand and accounts receivable evaluated by simplification method of Department of Government Employees' Insurance amounted \$7,283,748 thousand were not included.

Note 2: Restrictive deposit of the Bank amounted \$19,380 thousand and accounts receivable evaluated by simplification method of Department of Government Employees' Insurance amounted \$7,736,495 thousand were not included.

(Continued)

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

- c) BOT's department of government employees' insurance adopts simplification method to estimate expected credit losses of receivables (including accrued income, premiums receivable, and other receivable), namely, measures expected credit losses for a life time. For the purpose of measurement, these notes receivables and account receivables are classified based on credit risk characteristics reflected the borrower's ability to meet its contractual obligations. Analysis of receivables held by BOT's department of government employees' insurance at December 31, 2020 and 2019 is shown below:

<b>December 31, 2020</b>			
	<b>Gross amounts of account receivables</b>	<b>Weighted average expected loss rate</b>	<b>Allowance for expected credit loss for a life time</b>
Non-overdue	\$ 8,404,940	0%	-
Overdue less than 30 days	1,841	0%	-
Overdue 31~60 days	252	0%	-
Overdue 61~90days	252	0%	-
Overdue more than 91 days	637	1.73%	11
	<u><u>\$ 8,407,922</u></u>		<u><u>11</u></u>
<b>December 31, 2019</b>			
	<b>Gross amounts of account receivables</b>	<b>Weighted average expected loss rate</b>	<b>Allowance for expected credit loss for a life time</b>
Non-overdue	\$ 7,730,746	0%	-
Overdue less than 30 days	4,430	0%	-
Overdue 31~60 days	622	0%	-
Overdue 61~90days	-	0%	-
Overdue more than 91 days	697	1.87%	13
	<u><u>\$ 7,736,495</u></u>		<u><u>13</u></u>

The movements of allowance for impairment of account receivables held by BOT's department of government employees' insurance:

	<b>2020</b>	<b>2019</b>
Beginning balance	\$ 13	1,022
Impairment recognized (reversed)	(2)	13
Uncollectable amounts written-off	-	(1,022)
Ending balance	<u><u>\$ 11</u></u>	<u><u>13</u></u>

(Continued)

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

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

1) Asset Quality of overdue loans and receivables

December 31, 2020							
Type / Item		Amount of overdue loans ( Note 1 )	Total amount of loans ( Note 2 )	Ratio (%) ( Note 3 )	Allowance for doubtful debt	Coverage ratio(%) ( Note 4 )	
Enterprise	Secured		1,395,397	624,245,704	0.22 %	10,721,105	768.32 %
	Non secured		767,012	1,287,152,232	0.06 %	21,566,562	2,811.76 %
Consumer finance	House mortgage (Note 5)		1,250,192	753,033,939	0.17 %	8,626,906	690.05 %
	Cash card		-	-	- %	-	- %
	Micro credit (Note 6)		16,296	4,896,622	0.33 %	113,811	698.40 %
	Others (Note 7)	Secured	913,134	216,588,331	0.42 %	3,142,790	344.18 %
		Non secured	136,831	27,957,886	0.49 %	494,729	361.56 %
Total			4,478,862	2,913,874,714	0.15 %	44,665,903	997.26 %
			Overdue receivables	Account receivable	Ratio (%)	Allowance for bad debt	Cover ratio
Credit card business			911	880,911	0.10 %	9,480	1,040.56 %
Non-recourse factoring (Note 8)			-	9,753,258	- %	50,050	- %

December 31, 2019							
Type / Item		Amount of overdue loans ( Note 1 )	Total amount of loans ( Note 2 )	Ratio (%) ( Note 3 )	Allowance for doubtful debt	Coverage ratio(%) ( Note 4 )	
Enterprise	Secured		1,577,012	574,952,892	0.27 %	11,346,887	719.52 %
	Non secured		434,118	1,237,329,936	0.04 %	22,380,197	5,155.33 %
Consumer	House mortgage (Note 5)		1,721,662	668,277,103	0.26 %	7,797,529	452.91 %
	Cash card		-	-	- %	-	- %
	Micro credit (Note 6)		25,627	4,364,249	0.59 %	115,839	452.02 %
	Others (Note 7)	Secured	1,030,119	207,608,452	0.50 %	3,013,007	292.49 %
		Non secured	157,037	28,755,789	0.55 %	490,024	312.04 %
Total			4,945,575	2,721,288,421	0.18 %	45,143,483	912.81 %
			Overdue receivables	Account receivable	Ratio (%)	Allowance for doubtful debt	Cover ratio
Credit card business			2,075	889,817	0.23 %	10,639	512.70 %
Non-recourse factoring (Note 8)			-	12,132,076	- %	60,346	- %

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: The carrying amount of discount and premium adjustment was not included in total amount of loans.

Note 3: 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 4: 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 5: 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 6: 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 7: Other consumer banking loans refer to secured or unsecured loans that exclude housing mortgages, cash cards, credit cards and small-scale credit loans.

Note 8: 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.

(Continued)

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

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

Unit: In thousand of TWD

	December 31, 2020		January 1, 2019	
	Excluded NPL	Excluded overdue receivables	Excluded NPL	Excluded overdue receivables
As a result of debt consultation and loans agreement	130	-	218	-
As a result of debt solvency and restart plan	10,641	18,116	15,346	18,676
Total	10,771	18,116	15,564	18,676

3) Concentration of Credit Risk

Unit: In million of TWD; %

December 31, 2020			
Rank	Group Name	Credit Extensions Balance	% of Net Asset Value
1	A company—Rail Transport	50,716	13.24 %
2	B group—Air Transport	55,414	14.46 %
3	C group—Ocean Transport	31,307	8.17 %
4	D group—Air Transport	23,177	6.05 %
5	E group—Retail Sale in Nonspecialized Stores	22,083	5.76 %
6	F group—Real Estate Development Activities	20,558	5.37 %
7	G group—Cable Television	17,332	4.52 %
8	H group—Smelting and Refining of Iron and Steel	16,615	4.34 %
9	I group—Real Estate Development Activities	15,834	4.13 %
10	J group—Manufacture of Made-up Textile Articles	15,459	4.03 %

(Continued)

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

December 31, 2019			
Rank	Group Name	Credit Extensions Balance	% of Net Asset Value
1	A company—Rail Transport	54,250	14.33 %
2	B group—Air Transport	44,755	11.82 %
3	C group—Ocean Transport	31,868	8.42 %
4	D group—Retail Sale in Nonspecialized Stores	19,270	5.09 %
5	E group—Manufacture of Made-up Textile Articles	19,089	5.04 %
6	F group—Smelting and Refining of Iron and Steel	17,919	4.73 %
7	G group—Cable Television	16,511	4.36 %
8	H group—Real Estate Development Activities	13,948	3.69 %
9	I group—Air Transport	13,915	3.68 %
10	J group—Real Estate Development Activities	13,380	3.54 %

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

	December 31, 2020		December 31, 2019	
	Average interest rate (%)		Average interest rate (%)	
	Average		Average	
<b>Interest earnings assets</b>				
Call loans and placement with banks	\$ 228,949,987	1.62	219,739,225	2.65
Placement with Central Bank	422,093,370	0.54	418,045,686	0.70
Financial assets	1,027,593,399	0.81	1,070,713,737	1.01
Negotiation, discounts and total loans	2,813,029,445	1.32	2,733,570,115	1.60
<b>Interest bearing liabilities</b>				
Deposit of Central Bank	14,414,045	-	14,603,311	-
Deposits and call loans from banks	259,989,920	0.65	278,077,443	1.76
Loans to Central Bank and banks	4,492,488	0.10	-	-
Demand deposits	446,321,725	0.10	393,322,729	0.24
Demand savings	1,046,326,287	0.39	1,002,993,486	0.47
Time savings	1,554,787,720	1.30	1,578,862,716	1.48
Time deposits	667,891,086	1.18	682,266,007	1.92
Government deposits	314,278,755	0.12	299,605,555	0.18
Structured products	1,208,970	1.52	1,109,138	2.79
Financial bonds	25,000,000	1.08	25,000,000	1.22

Note: 1. Each average balance is calculated by respectively summing up the daily average balances and then dividing the number of days in the year starting from January to the financial statement date.

2. The balances are derived from the Department of banking, credit cards, trusts and securities.

(Continued)

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

(d) Liquidity Risk

(i) Causes and definition of liquidity risk

The definition for liquidity risk is the Bank encounter difficulty in meeting the obligations with its financial liabilities and causes the losses, for example, a saving account cancels its saving ahead of time, the ways or conditions to call loans to banks drop, creditors' credit become worsen and cause an exceptional condition, financial instruments cannot be financed and etc. The situation mentioned above may reduce the cash flow for lending, trading, and investing activities. In some extreme situation, the poor liquidity position may decrease the level of balance sheet, sale assets, or the possibility of not fulfilling the contractual loan balance. Liquidity risk is containing in the inherent risk of bank operation, and could be affected by a separate industry or whole market's incident, which are included but not only as: credit event, consolidation or merger and acquisition, system shock, and natural disaster.

(ii) Management policies of liquidity risk

- 1) To optimize the structure of assets and liabilities, the Bank set up an Assets and Liabilities Management Committee of which the chairperson is the general manager and the vice chairpersons are the vice general managers to decide the direction of assets and liabilities management, to manage the liquidity portion and interest rate risk, and to review the structure of deposits and loans and so on.
- 2) To enforce the management of liquidity and interest rate risk and maintain suitable liquidity for higher effectiveness of capital and good operations, the Bank set up policies for liquidity and interest rate risk. The assets and Liabilities Management Committee conducts necessary monitoring procedures. The Risk Management Department prepares risk-monitoring reports periodically and reports to the Risk Management Committee and then the Board of Directors.
- 3) Management of liquidity risk
  - a) Maintain liquidity reserve ratio: According to "Liquidity Guidelines for Financial Institutions" published by the Central Bank, the Bank and subsidiary have to maintain the liquidity reserve ratio of deposit balances greater than 15%.
  - b) Short term gap analysis: Calculate 1~10 day and 11~30 day gaps which should be greater than zero.
  - c) Liquidity coverage ratio: calculate their liquidity coverage ratio and report it to the authorities on a monthly basis. In accordance with the "Standards Implementing the Liquidity Coverage Ratio of Banks" announced by FSC and Central Bank, the ratio shall be higher than 100%.
  - d) Net stable funding ratio: Calculate their net stable funding ratio and report it to the authorities on a monthly basis. In accordance with the "Standards Implementing the Net Stable Funding Ratio of Banks" announced by FSC and Central Bank, the ratio shall be higher than 100%.

(Continued)

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

- e) Foreign currency gap management: Make sure the ratio of accumulated capital liquidity gap to each currency assets of the major foreign currencies of the Bank and subsidiary measured for every month and every term under one year between  $\pm 50\%$  and  $\pm 40\%$ .
- f) Fund management: Utilize the Assets and Liabilities Management Information System to analyze the gaps of assets and liabilities and the change of the structure. Allocate appropriate fund and adjust the fund structure according to financial status. For TWD fund management, the bank maintains appropriate cash and cashable securities on hand, draw up notice about TWD fund management and request every unit to notify on significant cash transactions, analyze the gaps for maturity amount of purchased bills, bonds and call loans to control the fund trend and decrease the liquidity risk. For foreign currencies, manage the financial gap of actual amount received on due date and payment in a year by using the maturity method.
- g) Establish “Bank of Taiwan operational crisis management plan” to prevent and response quickly to the crisis.

(iii) Maturity date analysis of non derivative financial assets and liabilities

These tables represent the cash outflow analysis of non derivative financial liabilities of the Bank's major currencies according to the unexpired term of the contracts. The disclosed amounts are presented on the basis of contract cash flows, so some disclosed items are not correspond to the accounts in the financial statements. These tables don't include BankTaiwan Insurance Brokers.

Maturity analysis of assets and liabilities (United State Dollars)

Unit: In thousand USD						
December 31, 2020	1~30days	31~90days	91~180days	181day~1year	Over one year	Total
Cash and placement with banks	649,039	43,550	16,550	11,550	235	720,924
Call loans to banks and overdrafts	1,665,000	2,099,500	663,000	466,000	-	4,893,500
Investment securities	50,870	156,209	207,351	245,115	2,117,674	2,777,219
Loans (including overdue loans)	1,071,973	386,606	368,622	691,592	3,347,536	5,866,329
Interest receivables and income receivables	8,972	10,936	5,612	1,212	18,823	45,555
Other expired items	10,787,797	8,809,923	3,085,572	4,927,100	4,695,331	32,305,723
Total major matured capital inflow	14,233,651	11,506,724	4,346,707	6,342,569	10,179,599	46,609,250

  

December 31, 2020	1~30days	31~90days	91~180days	181day~1year	Over one year	Total
Deposits from banks, bank overdrafts, and call loans from bank	3,507,512	669,000	30,000	-	-	4,206,512
Demand deposits	1,192,451	1,492,902	2,239,352	-	1,146,345	6,071,050
Time deposits	3,191,428	3,189,924	2,294,969	3,226,778	25	11,903,124
Borrowings	-	-	-	-	600,000	600,000
Interest payables	16,010	15,935	6,846	2,363	40,456	81,610
Loan Commitments	119,772	116,432	240,224	370,385	490,965	1,337,778
Equities	-	-	-	-	(10,328)	(10,328)
Other expired items	3,966,245	5,873,037	1,944,822	2,767,931	8,534,943	23,086,978
Total major matured capital outflow	11,993,418	11,357,230	6,756,213	6,367,457	10,802,406	47,276,724

(Continued)



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

Maturity analysis of assets and liabilities (New Taiwan Dollars)

Unit: In thousand TWD

December 31, 2020	1~30days	31~90days	91~180days	181day~1year	Over one year	Total
Cash and placement with banks	70,677,167	206,382,844	73,806,749	70,376,742	46,162,910	467,406,412
Call loans to banks and overdrafts	705,000	10,000	-	-	-	715,000
Investment securities	656,981,820	57,273,286	74,730,426	203,126,898	257,519,307	1,249,631,737
Loans (including overdue loans)	224,887,312	249,983,315	261,184,099	415,266,191	1,547,696,191	2,699,017,108
Interest receivables and income receivables	3,400,518	2,436,309	1,530,815	1,299,624	93,706	8,760,972
Other expired items	87,844,413	149,517,745	42,295,956	113,281,990	272,331,539	665,271,643
Total major matured capital inflow	1,044,496,230	665,603,499	453,548,045	803,351,445	2,123,803,653	5,090,802,872

December 31, 2020	1~30days	31~90days	91~180days	181day~1year	Over one year	Total
Deposits from banks, bank overdrafts, and call loans from bank	90,804,900	5,487,873	8,221,475	15,548,087	6,289,463	126,351,798
Demand deposits	64,588,026	47,330,378	44,425,626	60,316,331	1,492,017,559	1,708,677,920
Time deposits	358,793,424	243,879,116	292,614,371	727,865,082	140,291,962	1,763,443,955
Bills and bonds sold under repurchase agreements	1,301,008	1,905,146	1,275,737	-	-	4,481,891
Borrowings	12,196,425	2,562	2,892	3,405	25,002,379	37,207,663
Interest payables	4,564,277	598,344	1,247,997	628,495	307,725	7,346,838
Loan Commitments	78,778,890	157,403,615	236,182,505	472,365,010	596,931,239	1,541,661,259
Equities	-	-	-	-	381,326,311	381,326,311
Other expired items	250,679,316	216,387,444	81,886,484	139,638,886	132,159,141	820,751,271
Total major matured capital outflow	861,706,266	672,994,478	665,857,087	1,416,365,296	2,774,325,779	6,391,248,906

Maturity analysis of assets and liabilities (United State Dollars)

Unit: In thousand USD

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

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

(Continued)

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

Maturity analysis of assets and liabilities (New Taiwan Dollars)

Unit: In thousand USD

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

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

(iv) Maturity analysis of derivatives

Unit: In thousand of TWD

December 31, 2020 Derivative financial instruments	1. Overdue less than 1 month	2. Overdue 1 to 3 months	3. Overdue 3 to 6 months	4. Overdue 6 months to 1 year	5. Overdue 1 to 5 years	6. Overdue more than 5 years	Total
Financial assets and liabilities measured at fair value through profit or loss, Derivative instruments (Foreign exchange)							
Foreign exchange outflow	15,166,530	11,634,833	2,094,399	634,673	16,377	-	29,546,812
Foreign exchange inflow	15,244,908	11,730,220	2,094,399	634,673	16,377	-	29,720,577
Financial assets and liabilities measured at fair value through profit or loss, Derivative instruments (Interest)							
Foreign exchange outflow	258,485,962	365,676,449	125,133,665	195,775,581	217,884	21,075,000	966,364,541
Foreign exchange inflow	239,688,766	336,478,392	106,498,712	191,491,978	603,955	4,346,859	879,108,662
Hedging derivative financial instruments (Interest)							
Foreign exchange outflow	-	9,444	18,024	-	-	-	27,468
Foreign exchange inflow	-	3,884	8,382	-	-	-	12,266

Unit: In thousand of TWD

December 31, 2019 Derivative financial instruments	1. Overdue less than 1 month	2. Overdue 1 to 3 months	3. Overdue 3 to 6 months	4. Overdue 6 months to 1 year	5. Overdue 1 to 5 years	6. Overdue more than 5 years	Total
Financial assets and liabilities measured at fair value through profit or loss, Derivative instruments (Foreign exchange)							
Foreign exchange outflow	9,840,477	9,448,269	2,071,580	766,000	201,192	-	22,327,518
Foreign exchange inflow	10,023,135	9,498,981	2,139,416	790,015	201,192	-	22,652,739
Financial assets and liabilities measured at fair value through profit or loss, Derivative instruments (Interest)							
Foreign exchange outflow	210,855,823	449,604,048	271,949,337	124,996,618	3,611,166	-	1,061,016,992
Foreign exchange inflow	201,111,370	454,297,984	278,779,509	134,182,065	3,247,741	-	1,071,618,669
Hedging derivative financial instruments (Interest)							
Foreign exchange outflow	1,758	15,148	21,696	-	-	-	38,602
Foreign exchange inflow	1,793	12,314	20,291	-	-	-	34,398

(Continued)

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

(v) Maturity analysis of off-balance sheet items

If the off-balance credit items of the Bank are classified as “Under One Year”, “One to Five Years” and “Above Five Years”, the maturity analysis of both off-balance items and lease agreements and capital expenditures are disclosed together.

Unit: In thousand of TWD

December 31, 2020	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year	Total
Irrevocable loan commitment	1,000,000	147,829,055	-	3,580,000	8,481,368	160,890,423
Irrevocable credit card commitment	10,124	227	2,154	6,516	185,326	204,347
Unused letter of credit	20,880,799	1,883,170	7,136,617	11,194,802	1,714,330	42,809,718
Guarantee receivables	54,225,850	7,974,770	5,943,350	8,618,925	20,197,296	96,960,191
Total	76,116,773	157,687,222	13,082,121	23,400,243	30,578,320	300,864,679

Unit: In thousand of TWD

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

(vi) Maturity analysis of lease agreements and capital expenditures

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

December 31, 2020	Less than 1 year	1-5 years	Over 5 years	Total
Lease agreements				
Lease liabilities	(491,595)	(804,664)	(27,053)	(1,323,312)
Lease income	151,654	110,040	-	261,694
Total	(339,941)	(694,624)	(27,053)	(1,061,618)

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

(vii) Disclosures required by the “Regulations Governing the Preparation of Financial Reports by Public Banks”

1) Maturity analysis of assets and liabilities (New Taiwan Dollars) (excluding BankTaiwan Insurance Brokers)

December 31, 2020

Unit: In thousand of TWD

	Total	Amount for each remaining period to maturity					
		Less than 10 days	11-30 days	31-90 days	91-180 days	181-365 days	Over 1 year
Major matured capital inflow	\$ 5,090,802,872	526,085,674	518,410,556	665,603,499	453,548,045	803,351,445	2,123,803,653
Major matured capital outflow	6,391,248,906	472,735,095	388,971,171	672,994,478	665,857,087	1,416,365,296	2,774,325,779
Capital gap	(1,300,446,034)	53,350,579	129,439,385	(7,390,979)	(212,309,042)	(613,013,851)	(650,522,126)

(Continued)

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

December 31, 2019

Unit: In thousand of TWD

	Total	Amount for each remaining period to maturity					
		Less than 10 days	11~30 days	31~90 days	91~180 days	181~365 days	Over 1 year
Major matured capital inflow	\$ 4,895,473,013	556,635,559	456,027,147	664,335,212	505,464,174	762,127,172	1,950,883,749
Major matured capital outflow	6,520,037,051	477,798,626	301,701,912	796,178,062	781,202,184	1,445,214,437	2,717,941,830
Capital gap	(1,624,564,038)	78,836,933	154,325,235	(131,842,850)	(275,738,010)	(683,087,265)	(767,058,081)

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

December 31, 2020

Unit: In thousand of USD

	Total	Amount for each remaining period to maturity				
		Less than 30 days	31~90 days	91~180 days	181~365 days	Over 1 year
Major matured capital inflow	\$ 46,609,250	14,233,651	11,506,724	4,346,707	6,342,569	10,179,599
Major matured capital outflow	47,276,724	11,993,418	11,357,230	6,756,213	6,367,457	10,802,406
Capital gap	(667,474)	2,240,233	149,494	(2,409,506)	(24,888)	(622,807)

December 31, 2019

Unit: In thousand of USD

	Total	Amount for each remaining period to maturity				
		Less than 30 days	31~90 days	91~180 days	181~365 days	Over 1 year
Major matured capital inflow	\$ 44,193,004	10,814,477	12,298,696	8,329,879	4,782,713	7,967,239
Major matured capital outflow	45,175,188	9,519,232	10,963,187	8,422,281	6,009,130	10,261,358
Capital gap	(982,184)	1,295,245	1,335,509	(92,402)	(1,226,417)	(2,294,119)

(e) Market risk

(i) Causes and definition of market risk

Market risk means the changes in market price that lead to the fair value and future cash flow volatility risk of the held financial instruments, even if it is not included in the financial statements. The risk factors usually refer to interest rate, exchange rate, equity investment and price. When the factors change, the Bank's net operating income and the value of investment portfolio will have volatility risk.

The main market risks of the Bank is interest rate risk, exchange rate risk and equity investment risk. The main position of interest rate risk includes transactions with conditions, bonds, securities investments, interest rate swaps and so on. The main position of exchange risks includes forward exchange, foreign exchange swaps, FX options and so on. The main position of equity investment risk includes stocks, funds, stock market index futures and so on.

(ii) Management policies of market risk

The Bank sets up market risk management regulations and policies according to the risk management strategies approved by the Board of Directors, the Basel Accord and government regulations. The Bank decide the quota of investments and stop-loss point for financial instruments by types and characteristics in order to identify, assess, measure and monitor various risks of investment.

(Continued)

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

(iii) Procedures of market risk management

1) Identification

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

2) Measurement

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

3) Monitor and Report

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

(iv) Management policies of trading book risk

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

1) Policy and Procedure

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

(Continued)

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

2) Valuation Policy

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

3) Measurement Method

- a) Monitoring the trading book of risk exposure including stocks, funds, bonds, spot exchanges, forward exchanges, rate swap, option, future contracts, etc. Checking the ratio of risk exposure with total investment everyday and reporting monthly.
- b) The Bank conducts stress test every quarter under unfavorable economic scenarios which are set up risk factors: equity securities, interest rate, foreign exchange and commodities, setting the scene to calculate possible impacts by inputting different on profit or loss of each risk factor.
- c) Check the market price every month.
- d) Prepare the risk monitor report to chief director and put it on the Bank's website as reference.

(v) Interest rate risk management for trading book

1) Definition of interest rate risk

The interest rate risk means the changes of interest rate that lead to the fair value changes or loss. The main products include securities related to interest rate and derivatives.

2) Procedures of interest rate risk management

The Bank sets 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 also uses the DV01 to monitor the influence of interest risk.

(Continued)

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

(vi) Interest rate risk management for banking book

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

1) Strategy

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

2) Management procedure

In order to adapt the economic financial environment changes and to fulfill the capital requirement, the Bank conducts different pricing management strategies, such as adopting variable or fixed interest rate, and use financial futures, foreign exchange swaps, interest rate swaps to manage the interest rate sensitivity gap. To adjust the interest rate sensitivity gap properly, the risk management department monitors the ratio of interest rate sensitivity assets to interest rate sensitivity liabilities, the ratio of TWD capital gap to equity and the interest rate sensitivity gap of foreign exchange, and report monthly to the Risk Management Committee and Board of Directors.

3) Measurement method

The Bank uses the “Assets and Liabilities Management Information System” to identify interest rate sensitivity assets and liabilities and analyses the maturity gap and changes of maturity structure as the basis of interest rate risk management and pricing strategies. They also make proper financial transfer and adjust the capital structure to lower the liquidity risk and increase the profit.

(vii) Exchange rate risk management

1) Definition of exchange rate risk

The exchange rate risk refers to the profit or loss resulted from two different currencies transferred at different times. The Bank's exchange rate risk is derived from exchange, forward exchange, FX swaps, cross currency swaps, and foreign exchange options. Because the Bank squares customer's position every day, the exchange rate does not have any significant risk.

2) Management procedures and measurement method of exchange rate risk

To control the exchange rate risk, the Bank sets different quotas and stop-loss point for employees with different levels and have annual total loss quota to control the loss in a tolerable range.

The Bank conducts stress testing. The simulated situations are  $\pm 3\%$  changes of exchange rate for every currency. The relevant statements are disclosed at sensitivity analysis.

(Continued)

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

(viii) Equity security risk management

1) Definition of equity security risk

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

2) The intention of equity security price risk management

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

3) Procedure of equity security price risk management

The Bank sets different investment quotas by industries, enterprises and groups. They use the  $\beta$  value to measure the influence of systematic risk monthly and monitor the risk value of equity securities and unrealized profit/loss ratio every day. The stop-loss point mechanism is approved by the security investment committee and executed by the risk management department.

4) Measurement method

The control of the equity security price risk is based on the unrealized gain (loss) ratio,  $\beta$  value and the aforementioned investment limitations.

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

(ix) Market risk valuation technique

1) Interest rate risk sensitivity

The Bank assume that other factors did not change and the yield curve of the whole world moves upward by 100 bps at December 31, 2020 and 2019. Under this assumption, the income after tax will decrease \$22 million and increase \$56 million, respectively; the other comprehensive income will decrease \$9,440 million and \$6,164 million, respectively. If the yield curve moves downward by 100 bps, the income after tax will increase \$359 million and decrease \$55 million, respectively; the other comprehensive income will increase \$10,994 million and \$6,583 million, respectively.

2) Exchange rate risk sensitivity

The Bank assumed that other factors did not change and the foreign currency to New Taiwan Dollars exchange rate appreciated by 3% at December 31, 2020 and 2019. Under this assumption, the income after tax will increase \$731 million and \$796 million, respectively.

If the exchange rate depreciates by 3%, the income after tax will decrease \$731 million and \$796 million, respectively.

(Continued)



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

3) Equity security price risk sensitivity

The Bank assumes that other factors did not change and the market prices of the equity securities increase by 15% at December 31, 2020 and 2019. Under this assumption, the income after tax will increase \$6,789 million and \$6,524 million, respectively; the other comprehensive income will increase \$13,860 million and \$14,293 million, respectively.

If the market prices decreases by 15 %, the income after tax will decrease \$6,789 million and \$6,524 million, respectively; the other comprehensive income will decrease \$13,860 million and \$14,293 million, respectively.

4) Sensitivity analysis is as follows:

Unit: In million of TWD

December 31, 2020			
Main risk	Range of changes	Amount Influence	
		Equity	Gain or loss
Interest rate risk	Interest rate curve rise 100BPS	(9,440)	(22)
Interest rate risk	Interest rate curve fall 100BPS	10,994	359
Exchange rate risk	Other foreign currency/ TWD rise 3%		731
Exchange rate risk	Other foreign currency / TWD fall 3%		(731)
Price of equity stock risk	Price of equity stock rise 15 %	13,860	6,789
Price of equity stock risk	Price of equity stock fall 15 %	(13,860)	(6,789)

Unit: In million of TWD

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

(Continued)

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

(x) Information of currency risk concentrate

Net position of major foreign currencies

Unit: In thousand of stated currencies

<b>December 31, 2020</b>		
	<b>Amount in original currency</b>	<b>Amount in New Taiwan Dollars</b>
USD	567,668	15,951,471
CNY	1,348,071	5,830,407
JPY	3,040,387	828,505
GBP	18,471	708,363
KRW	19,211,904	497,588

Unit: In thousand of stated currencies

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

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.

(Continued)

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

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, 2020 and 2019, respectively.

Unit: In thousand of TWD

<b>December 31, 2020</b>			
<b>Assets</b>	<b>USD to TWD</b>	<b>Other currencies to TWD</b>	<b>Total TWD</b>
Cash and cash equivalents	\$ 47,246,340	53,085,629	100,331,969
Placement with Central Bank and call loans to banks	111,831,023	67,286,366	179,117,389
Financial assets measured at fair value through profit or loss	99,710,455	29,240,366	128,950,821
Financial assets measured at fair value through other comprehensive income	32,572,049	70,384,866	102,956,915
Debt investments measured at amortized cost	18,222,554	15,301,926	33,524,480
Receivables, net	8,052,455	3,521,651	11,574,106
Current income tax assets	31,472	177,942	209,414
Loans and Discounts, net	131,603,948	80,357,192	211,961,140
Other financial assets, net	254,290	19,545	273,835
Property and equipment, net	77,037	44,222	121,259
Intangible assets, net	33,712	3,602	37,314
Deferred income tax assets, net	113,879	72,605	186,484
Other assets, net	32,197,916	(27,341,128)	4,856,788
<b>Total assets</b>	<b>\$ 481,947,130</b>	<b>292,154,784</b>	<b>774,101,914</b>

(Continued)

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

<b>December 31, 2020</b>			
<b>Liabilities</b>	<b>USD to TWD</b>	<b>Other currencies to TWD</b>	<b>Total TWD</b>
Deposits of Central Bank and banks	\$ 100,690,134	41,405,775	142,095,909
Loans to Central Bank and banks	3,653,000	-	3,653,000
Financial liabilities measured at fair value through profit or loss	14,325,459	499,922	14,825,381
Hedging derivatives financial liabilities	-	49,894	49,894
Bills and bonds sold under repurchase agreement	-	1,936,197	1,936,197
Payables	8,004,100	(2,148,043)	5,856,057
Current income tax liabilities	101,764	54,613	156,377
Deposits and remittances	459,862,029	241,116,354	700,978,383
Other financial liabilities	816,581	96,827	913,408
Provisions	2,752	12,376	15,128
Deferred income tax liabilities	-	26,617	26,617
Other liabilities	147,429,369	55,610,597	203,039,966
<b>Total liabilities</b>	<b>\$ 734,885,188</b>	<b>338,661,129</b>	<b>1,073,546,317</b>

(Continued)

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

<b>December 31, 2019</b>			
<b>Assets</b>	<b>USD to TWD</b>	<b>Other currencies to TWD</b>	<b>Total TWD</b>
Cash and cash equivalents	\$ 40,602,495	49,070,591	89,673,086
Placement with Central Bank and call loans to banks	95,523,436	67,808,331	163,331,767
Financial assets measured at fair value through profit or loss	81,265,493	23,293,167	104,558,660
Financial assets measured at fair value through other comprehensive income	25,979,446	68,738,961	94,718,407
Debt investments measured at amortized cost	23,927,802	17,031,776	40,959,578
Hedging derivative financial assets	-	1,071	1,071
Receivables, net	11,226,412	1,734,035	12,960,447
Current income tax assets	77,765	63,288	141,053
Loans and Discounts, net	124,070,454	100,190,607	224,261,061
Other financial assets, net	92,562	20,195	112,757
Property and equipment, net	85,094	58,388	143,482
Intangible assets, net	12,485	3,804	16,289
Deferred income tax assets, net	126,667	66,699	193,366
Other assets, net	38,944,892	(37,262,879)	1,682,013
<b>Total assets</b>	<b>\$ 441,935,003</b>	<b>290,818,034</b>	<b>732,753,037</b>
<b>December 31, 2019</b>			
<b>Liabilities</b>	<b>USD to TWD</b>	<b>Other currencies to TWD</b>	<b>Total TWD</b>
Deposits of Central Bank and other banks	\$ 64,126,309	70,769,063	134,895,372
Financial liabilities measured at fair value through profit or loss	45,722,494	152,587	45,875,081
Hedging derivatives financial liabilities	-	25,537	25,537
Bills and bonds sold under repurchase agreement	-	1,790,702	1,790,702
Payables	7,431,896	1,789,738	9,221,634
Current income tax liabilities	10,001	123,997	133,998
Deposits and remittances	423,630,859	241,217,178	664,848,037
Other financial liabilities	380,155	565,910	946,065
Provisions	4,854	17,982	22,836
Deferred income tax liabilities	-	19,312	19,312
Other liabilities	133,362,499	41,542,081	174,904,580
<b>Total liabilities</b>	<b>\$ 674,669,067</b>	<b>358,014,087</b>	<b>1,032,683,154</b>

(Continued)

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

(xi) Disclosures required by the Regulations Governing the Preparation of Financial Reports by Public banks

1) Interest rate sensitivity assets and liabilities analysis (New Taiwan Dollars)

Unit: In thousand of TWD

December 31, 2020					
Item	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest rate sensitive assets	\$ 1,636,841,392	1,919,353,973	110,682,820	390,287,876	4,057,166,061
Interest rate sensitive liabilities	459,380,994	3,069,596,452	285,899,290	100,133,343	3,915,010,079
Interest rate sensitive gap	1,177,460,398	(1,150,242,479)	(175,216,470)	290,154,533	142,155,982
Net worth					381,326,311
Ratio of interest rate sensitive assets to liabilities (%)					103.63
Ratio of interest rate sensitive gap to net worth (%)					37.28

Unit: In thousand of TWD

December 31, 2019					
Item	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest rate sensitive assets	\$ 1,682,531,290	1,712,946,163	156,966,532	309,160,967	3,861,604,952
Interest rate sensitive liabilities	457,257,294	2,933,664,471	246,325,207	87,470,984	3,724,717,956
+Interest rate sensitive gap	1,225,273,996	(1,220,718,308)	(89,358,675)	221,689,983	136,886,996
Net worth					375,466,219
Ratio of interest rate sensitive assets to liabilities (%)					103.68
Ratio of interest rate sensitive gap to net worth (%)					36.46

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 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 New Taiwan Dollars).

2) Assets and liabilities interest rate sensitivity analysis (United State Dollars)

Unit: In thousand of USD

December 31, 2020					
Item	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest rate sensitive assets	\$ 30,943,340	4,113,223	6,541,285	1,182,685	42,780,533
Interest rate sensitive liabilities	20,870,413	9,972,468	6,124,378	470,589	37,437,848
Interest rate sensitive gap	10,072,927	(5,859,245)	416,907	712,096	5,342,685
Net worth					(10,329)
Ratio of interest rate sensitive assets to liabilities (%)					114.27
Ratio of interest rate sensitive gap to net worth (%)					(51,725.09)

(Continued)

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

Unit: In thousand of USD

December 31, 2019					
Item	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest rate sensitive assets	\$ 29,245,574	6,754,671	4,912,995	994,744	41,907,984
Interest rate sensitive liabilities	19,341,698	10,012,659	5,449,048	1,541,441	36,344,846
Interest rate sensitive gap	9,903,876	(3,257,988)	(536,053)	(546,697)	5,563,138
Net worth					(59,401)
Ratio of interest rate sensitive assets to liabilities (%)					115.31
Ratio of interest rate sensitive gap to net worth (%)					(9,365.39)

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

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

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

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

(f) Other risks

(i) Operational risk and legal risk

The Bank has identified, measured and monitored operational risk and legal risk and also disclosed qualitative and quantitative information in accordance with the “Information of the Capital Adequacy and the Risk Managements” and the FSC’s requirements.

According to the “The Explanations and Formats of Calculation of Bank’s Self- Owned Capital and Risk-Weighted Assets,” operation risks is the risk of a change in value caused by the fact that actual losses, incurred for inadequate or failed internal processes, people and systems, or from external events (including legal risk), differ from the expected losses. As legal risk is part of the operational risk, where it involves legal risk to be reported together with the operation risk to the appropriate management level.

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

(Continued)

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

(ii) Compliance risks

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

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

(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 18 members in the center.

2) Setting up AML/CFT Committee

The Bank sets up "Legal Compliance, Anti-Money Laundering and Combating Terrorism Financing Committee (AML/CFT Committee)" according to the "Regulations for Legal Compliance, Anti-Money Laundering and Combating Terrorism Financing Committee, Bank of Taiwan". The President is the Chairperson, and the Chief Compliance Officer is the Vice President of the committee. The managers of the 18 other departments also serve as the committee members. The AML/CFT Committee is responsible for examining and supervising AML/CFT related affairs.

(Continued)



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

3) Optimizing AML/CFT managerial mechanisms

- a) In order to strengthen the Bank's AML/CFT managerial mechanisms, the Bank has already engaged independent third parties to exam the effectiveness of its AML/CFT managerial mechanism since 2017. The Bank would then engage another external consultants to assist the Bank for improvement if necessary. The external consultants should also participate and provide suggestions in the establishment of the Bank's AML/CFT information systems.
- b) The consulting engagement is divided into three stages, including "Anti-Money Laundering and Combating Terrorism Financing System Difference analysis", "Anti-Money Laundering and Combating Terrorism Financing Managerial System Improvement and Optimization", and "Managerial System Operation". By analyzing the differences between the Bank's current AML/CFT operation and the regulatory requirements all over the world, the consulting engagement focuses on mitigating the differences, optimizing the mechanisms, and re-examing the effectiveness of the optimized managerial mechanisms to ensure the perfectness of the systems.

4) Setting up and optimizing AML/CFT information systems

According to the Regulations Governing Anti-Money Laundering Art. 9.1., financial institutions should gradually integrate customer information and transaction data into information systems, for the purpose of enhancing its capability of account and transaction monitoring. The Bank will strengthen its policies and procedures regarding ongoing monitoring over accounts and transactions by applying risk-based approach and the assistance of information systems. In order to verify the effectiveness of the systems, consultants were hired to conduct independent tests, provide recommendations for setting transaction monitoring thresholds, and continuously optimize the system.

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

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

6) Training responsible officers and supervisors

- a) In order to respond to the announcement of the amendments to AML/CFT related regulations and to enhance the employees' understanding of related regulations, the Bank engaged external expert to hold orientation training for the Bank's responsible officers and supervisors. The Bank also held seminars and invited professional lecturer to discuss the amendments to AML/CFT related regulations and patterns for the Board of Directors, General President, and responsible officers or supervisors.

(Continued)

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

- b) To propagate “Money Laundering Control Act” and related regulations, the Bank recorded AML/CFT online courses, and required all employees to finish the online courses. The Bank also drew up “Understanding AML Q&A”, and held online exam about the Q&A. The Bank required all its employees to read the Q&A thoroughly and finish the online exam so as to improve their knowledge on AML related regulations.
- 7) Reporting the properties (including its related interests and their locations) designated by the Counter-Terrorism Financing Act and suspicious transactions to Investigation Bureau, the Ministry of Justice.
- 8) Updating personal information of customers

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

- (g) Transfer of financial assets—transferred financial assets without overall derecognition

The transferred financial assets of the Bank and subsidiary that are not qualified for de-recognition in the daily operation are mainly debt securities under repurchase agreements or equity securities under lending agreements. The right to receive cash flow is transferred and reflects the associated liabilities to repurchase transferred financial assets at a fixed price in the future period, the Bank and subsidiary cannot use, sell or pledge these transferred financial assets during the valid transaction period. However, since the Bank and subsidiary still bear the interest rate risks and credit risks, transferred financial assets are not completely derecognized. Analysis of financial assets without overall derecognition and the associated liabilities are as follows:

<u>Type of financial assets</u>	<u>December 31, 2020</u>				
	<u>Carrying amount of the transferred financial assets</u>	<u>Carrying amount of the Financial liability</u>	<u>Fair value of transferred financial assets</u>	<u>Fair value of financial liabilities</u>	<u>Fair value net position</u>
Financial asset measured at fair value through profit or loss					
Under repurchase agreements \$	29,972	29,984	29,972	29,984	(12)
Financial asset measured at fair value through other comprehensive income					
Under repurchase agreements	3,998,900	4,451,906	3,998,900	4,451,906	(453,006)

(Continued)

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

December 31, 2019					
Type of financial assets	Carrying amount of the transferred financial assets	Carrying amount of the Financial liability	Fair value of transferred financial assets	Fair value of financial liabilities	Fair value net position
Financial asset measured at fair value through profit or loss					
Under repurchase agreements	\$ 29,964	29,973	29,964	29,973	(9)
Financial asset measured at fair value through other comprehensive income					
Under repurchase agreements	19,308,726	19,744,196	19,308,726	19,744,196	(435,470)

(h) Offsetting of financial assets and financial liabilities

The Bank and subsidiary hold financial instruments which meet Section 42 of the IAS 32 endorsed by FSC. Therefore, the financial instrument will be offset on the balance sheet.

Although the Bank and subsidiary do not engage in transactions that meet the offsetting condition in IFRSs, they have signed the net settlement contracts of similar agreements with counterparties, such as global master repurchase agreement, global securities lending agreement and similar repurchase agreement or reverse-repurchase agreement. If both parties choose to net settle, the abovementioned executable net settlement contracts or similar agreements will be allowed to be settled in net amount after offsetting the financial assets and financial liabilities. Otherwise, the transaction will be settled in gross amount. However, if one party defaults, the other party could opt for net settling.

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

December 31, 2020						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
	Total recognized financial assets	Total recognized financial liabilities offsetting on the balance sheet	Net amount of financial assets on the balance sheets	Relevant amount not offset on the balance sheet (d)		
	(a)	(b)	(c)=(a)-(b)	Financial instrument (note)	Cash received as collaterals	Net amount (e)=(c)-(d)
Financial assets						
Derivative	\$ 11,587,077	-	11,587,077	1,581,354	3,844,838	6,160,885
financial assets						

(Continued)

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

December 31, 2020

Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
Financial liabilities	Total recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheet (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheet (d)		
				Financial instrument (note)	Pledged cash Collaterals	Net amount (e)=(c)-(d)
Derivative financial liabilities	\$ 17,802,321	-	17,802,321	1,528,827	808,226	15,465,268

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

December 31, 2019

Financial assets under offsetting or general agreement of net amount settlement or similar norms						
Financial assets	Total recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheet (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheet (d)		
				Financial instrument (note)	Cash received as collaterals	Net amount (e)=(c)-(d)
Derivative financial assets	\$ 10,590,840	-	10,590,840	994,022	2,462,130	7,134,688

December 31, 2019

Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
Financial liabilities	Total recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheet (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheet (d)		
				Financial instrument (note)	Pledged cash Collaterals	Net amount (e)=(c)-(d)
Derivative financial liabilities	\$ 14,093,157	-	14,093,157	983,646	425,334	12,684,177

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

**(9) Capital Management:**

**(a) The Target and Procedure of capital management**

The Target of capital management is to achieve the authority's requirements for the BIS Capital Adequacy Ratio and to improve the efficiency of capital usage through capital management procedures.

The Bank consider the short-term and long-term capital demand, operating plans and the lowest requirement to the BIS ratio to draft the capital plan. The Bank conducts the stress testing, the simulation analysis periodically, consider the external conditions and other factors, such as potential risks, environment changes of the financial market and other events that will affect the risk tolerable ability to ensure the Bank can maintain sufficient capital while unfavorable events and significant changes to the market occur.

(Continued)

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

(b) The definition and regulations of capital

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

The term "Ratio of Regulatory Capital to Risk-weighted Assets" shall mean Common Equity Ratio, Tier 1 Capital Ratio, and Total Capital Adequacy Ratio. Except computing the Bank's own ratios, it also calculates the ratios using the consolidated financial information according to the IFRS 10. All mentioned ratios should be in conformity with article 5 of the regulations.

(c) Regulatory Capital

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

(i) The term "Net Tier 1 Capital" shall mean the aggregate amount of net Common Equity Tier 1 and net additional Tier 1 Capital.

- 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

(Continued)

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

- 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 Financial asset measured at fair value through other comprehensive income, as well as operational reserves and loan-loss provisions.
- 7) The cumulative perpetual preferred stock and its capital stock premium, cumulative perpetual subordinated debts, convertible subordinated debts, long-term subordinated debts, and the non-perpetual preferred stock and its capital stock premiums which are issued by banks' subsidiaries, and are not directly or indirectly held by banks.

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

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

The government regulations are formulated in accordance with the Basel Accord. The followings are the content of the Basel Accord and the implementation of the Bank.

(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 uses 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 uses 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 uses the Standardized Approach.

(Continued)

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

(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 reports 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 has offered the “Information of the Capital Adequacy and the Risk Managements” in our website to disclose the qualitative data and the quantitative data.

(d) Capital adequacy ratio

Analyze Items			Year	December 31, 2020	December 31, 2019
Eligible  capital	Common stock capital			288,306,427	260,398,368
	Other tier 1 capital			-	-
	Tier 2 capital			40,361,717	37,174,652
	Eligible capital			328,668,144	297,573,020
Risk assets  weighted  assets	Credit  risk	Standardized approach		2,062,969,129	1,955,604,546
		Internal rating based approach		-	-
		Securitization		-	-
	Operational  risk	Basic indicator approach		-	-
		Standardized approach/Alternative standardized approach		64,279,938	63,628,550
		Advance measurement approach		-	-
	Market  risk	Standardized approach		70,603,450	82,580,325
		Internal models approach		-	-
	Total risk weighted assets				2,197,852,517
Capital adequacy ratio				14.95 %	14.16 %
Common stock based capital ratio				13.12 %	12.39 %
Tier 1 risk based capital ratio				13.12 %	12.39 %
Leverage ratio				5.46 %	5.08 %

(Continued)

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

Note 1: The calculation of eligible capital, risk-weighted assets, and the total amount of risk exposure shall follow the Regulations Governing the Capital Adequacy and Capital Category of Banks, and Calculation of Equity Capital and Risk Assets.

Note 2: The annual report shall disclose the current and preceding period of BIS ratio. The semi-annual report (beside the current and preceding period) shall disclose the information one year before.

Note 3: The table shall disclose the calculation formula as follows:

1. Equity Capital = shareholders' equity + other tier 1 capital + tier 2 capital
2. Risk-weighted assets = credit risk-weighted assets + (capital requirement for operational risk + capital requirement for market risk) × 12.5
3. Capital adequacy ratio = equity capital / internal models approach
4. Common stock - based capital ratio = shareholders' equity / total risk weighted assets
5. Tier 1 risk based capital ratio = (shareholders' equity + Other tier 1 capital) / weighted risk
6. Leverage ratio = tier 1 capital / total risk exposure

Note 4: The table may choose not to disclose in Q1 and Q3 financial report.

- (e) Stress test: In addition to the FSC's requirement regarding the stress test to be conducted by the Bank, the Bank also establishes its own stress test policy based on global environment and economic situations. The testing includes the average common equity ratio, the first class capital ratio, the capital adequacy ratio, and the leverage ratio, calculated by the Bank under different assumptions of scenarios, which had been approved by the Bank's Board of Directors and risk management committee.

**(10) Related-party Transactions:**

- (a) Name of related party and relationship

Name	Relationship
Taiwan Financial Holding Co., Ltd.	Parent company of the Bank and subsidiary
BankTaiwan Life Insurance Co., Ltd.	Wholly-owned subsidiary of Taiwan Financial Holding Co., Ltd.
BankTaiwan Securities Co., Ltd.	Wholly-owned subsidiary of Taiwan Financial Holding Co., Ltd.
Hua Nan Financial Holdings Co., Ltd.	Investee company of the Bank under the equity method
Tang Eng Iron Works Co., Ltd.	Investee company of the Bank under the equity method
Tai Yi Real Estate Management Co., Ltd.	Investee company of the Bank under the equity method
Taiwan Business Bank Co., Ltd.	Related- Party
Land Bank of Taiwan	Related- Party
The Export-Import Bank of the Republic of China	Related- Party
Cathy United Bank	Related- Party

(Continued)



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

Name	Relationship
Chang Hwa Bank	Related- Party
Deutsche Bank Taipei Branch	Directors, supervisors, managers and their relatives up to the second degree, affiliates and so on (no longer a related party since September 2nd., 2019)
Others	Directors, supervisors, managers and their relatives up to the second degree, affiliates and so on

(b) Key Management Personnel Compensation

The related information about the salaries and bonus for the key management personnel for the years ended December 31, 2020 and 2019 were as follows:

	2020	2019
Short-term employee benefits	\$ <u>16,694</u>	<u>16,237</u>

(c) Other related-party transactions

(i) Call loans to bank

	December 31, 2020			
	Highest balance	Ending balance	Interest rate range (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	\$ 10,216,070	<u>3,437,000</u>	0.12~3.25	<u>36,207</u>

  

	December 31, 2019			
	Highest balance	Ending balance	Interest rate range (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	\$ 18,372,412	<u>2,023,490</u>	0.17~3.25	<u>59,275</u>

(ii) Receivables

	December 31, 2020		December 31, 2019	
Name	Amount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holding Co., Ltd.	\$ 5,087	0.01	6,213	0.01
BankTaiwan Life Insurance Co., Ltd.	60,616	0.11	36,809	0.06
BankTaiwan Securities Co., Ltd.	62	-	-	-
Total	<u>\$ -</u>	<u>-</u>	<u>43,022</u>	<u>0.07</u>

(Continued)

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

(iii) Other assets

Name	December 31, 2020		December 31, 2019	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holding Co., Ltd.	\$ 2,125,912	12.87	-	-
BankTaiwan Life Insurance Co., Ltd.	\$ 5,962	0.04	5,887	0.05
BankTaiwan Securities Co., Ltd.	14	-	14	-
Total	<u>\$ 2,131,888</u>	<u>12.91</u>	<u>5,901</u>	<u>0.05</u>

(iv) Securities lending (classified as other financial assets)

Name	December 31, 2020		December 31, 2019	
	Amount	Percentage of account balance	Amount	Percentage of account balance
BankTaiwan Securities Co., Ltd.	<u>\$ 252,900</u>	<u>0.67</u>	<u>-</u>	<u>-</u>

(v) Deposits of banks

Name	December 31, 2020		December 31, 2019	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Hun Nan Financial Holdings Co., Ltd.	<u>\$ 193,429</u>	<u>0.40</u>	<u>291,259</u>	<u>0.58</u>

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

	December 31, 2020			
	Highest balance	Ending balance	Interest rate range (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$ 13,215,700	<u>927,300</u>	0.10~2.90	<u>6,449</u>

  

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

(Continued)

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

## (vii) Deposits

Name	December 31, 2020		December 31, 2019	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holding Co., Ltd.	\$ 1,056,093	0.03	198,724	0.01
BankTaiwan Life Insurance Co., Ltd.	\$ 8,587,023	0.21	6,335,035	0.16
BankTaiwan Securities Co., Ltd.	991,509	0.02	252,990	0.01
Hua Nan Financial Holdings Co., Ltd.	352,059	0.01	366,176	0.01
Tang Eng Iron Works Co., Ltd.	149,901	-	674	-
Tai Yi Real Estate Management Co., Ltd.	67	-	-	-
Total	<u>\$ 11,136,652</u>	<u>0.27</u>	<u>7,153,599</u>	<u>0.19</u>

## (viii) Payables

Name	December 31, 2020		December 31, 2019	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holding Co., Ltd.	\$ 12	-	5	-
BankTaiwan Life Insurance Co., Ltd.	\$ 118	-	5,888	0.01
BankTaiwan Securities Co., Ltd.	10	-	51	-
Total	<u>\$ 140</u>	<u>-</u>	<u>5,944</u>	<u>0.01</u>

## (ix) Other liabilities

Name	December 31, 2020		December 31, 2019	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holding Co., Ltd.	\$ 2,807	0.03	2,762	0.03
BankTaiwan Life Insurance Co., Ltd.	\$ 493	-	493	-
BankTaiwan Securities Co., Ltd.	1,794	0.02	1,794	0.02
Total	<u>\$ 5,094</u>	<u>0.05</u>	<u>5,049</u>	<u>0.05</u>

## (x) Interest income

Name	2020		2019	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holding Co., Ltd.	\$ 166,428	0.31	207,025	0.31
BankTaiwan Securities Co., Ltd.	675	-	573	-
Total	<u>\$ 167,103</u>	<u>0.31</u>	<u>207,598</u>	<u>0.31</u>

(Continued)

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

(xi) Interest expense

Name	2020		2019	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holding Co., Ltd.	\$ 386	-	391	-
BankTaiwan Life Insurance Co., Ltd.	20,010	0.08	32,614	0.08
BankTaiwan Securities Co., Ltd.	406	-	764	-
Total	<u>\$ 20,802</u>	<u>0.08</u>	<u>33,769</u>	<u>0.08</u>

(xii) Service fee income

Name	2020		2019	
	Amount	Percentage of account balance	Amount	Percentage of account balance
BankTaiwan Life Insurance Co., Ltd.	\$ 391,035	7.02	618,722	10.55
BankTaiwan Securities Co., Ltd.	4,998	0.09	3,366	0.06
Total	<u>\$ 396,033</u>	<u>7.11</u>	<u>622,088</u>	<u>10.61</u>

(xiii) Service fee expense

Name	2020		2019	
	Amount	Percentage of account balance	Amount	Percentage of account balance
BankTaiwan Securities Co., Ltd.	<u>\$ 16,107</u>	<u>2.19</u>	<u>5,879</u>	<u>0.85</u>

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

Name	2020		2019	
	Amount	Percentage of account balance	Amount	Percentage of account balance
BankTaiwan Life Insurance Co., Ltd.	\$ 396,750	0.70	1,134,250	2.32
BankTaiwan Securities Co., Ltd.	(2,499)	-	(3,400)	(0.01)
Total	<u>\$ 394,251</u>	<u>0.70</u>	<u>1,130,850</u>	<u>2.31</u>

(Continued)

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

(xv) Other non-interest income (expense)

Name	2020		2019	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holding Co., Ltd.	\$ 29,968	(0.05)	26,623	(0.06)
BankTaiwan Life Insurance Co., Ltd.	33,623	(0.06)	38,329	(0.08)
BankTaiwan Securities Co., Ltd.	30,411	(0.05)	30,582	(0.07)
Total	<u>\$ 94,002</u>	<u>(0.16)</u>	<u>95,534</u>	<u>(0.21)</u>

(xvi) Other general and administrative expense

Name	2020		2019	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holding Co., Ltd.	<u>\$ 571</u>	<u>0.01</u>	<u>621</u>	<u>0.01</u>

(xvii) Loans

December 31, 2020							
Category	House holder amount or name of related party	Highest balance in current period	Ending balance	Status of performance		Type of collateral	Differences in transaction terms between related and non related parties
				Performing loans	Non-performing loans		
Consumer loans	33 households	16,997	11,392	11,392	-	None	None
House mortgages	212 households	869,019	764,252	764,252	-	Land and buildings	None
Call loans to banks	Land Bank of Taiwan	12,624,650	7,624,650	7,624,650	-	None	None
Call loans to banks	Hua Nan Financial Holdings Co., Ltd.	1,405,000	1,405,000	1,405,000	-	None	None
Call loans to banks	Taiwan Business Bank Co., Ltd.	3,520,500	2,958,500	2,958,500	-	None	None
Call loans to banks	Cathy United Bank	1,124,000	1,124,000	1,124,000	-	None	None
Call loans to banks	The Export-Import Bank of the Republic of China	2,550,000	-	-	-	None	None
Call loans to banks	BankTaiwan Securities Co., Ltd.	252,900	252,900	252,900	-	None	None
Short-term loans	Taiwan financial Holding Co., Ltd.	25,200,000	-	-	-	None	None
Short-term loans	Taiwan financial Holding Co., Ltd.	24,600,000	24,600,000	24,600,000	-	None	None
Short-term secured loans	BankTaiwan Securities Co., Ltd.	550,000	-	-	-	Government (or financial institutions) guarantee	None
Secured overdrafts loans	Tang Eng Iron Works Co., Ltd.	16,430	-	-	-	Land and factory	None
Short-term secured loans	Tang Eng Iron Works Co., Ltd.	1,467,281	900,000	900,000	-	Land and factory	None
Medium-term secured loans	Tang Eng Iron Works Co., Ltd.	1,300,000	100,000	100,000	-	Land and factory	None

(Continued)

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

December 31, 2019							
Category	House holder amount or name of related party	Highest balance in current period	Ending balance	Status of performance		Type of collateral	Differences in transaction terms between related and non related parties
				Performing loans	Non-performing loans		
Consumer loans	24 households	12,193	8,665	8,665	-	None	None
House mortgages	211 households	883,375	720,660	720,660	-	Land and buildings	None
Call loans to banks	Land Bank of Taiwan	8,000,000	4,498,500	4,498,500	-	None	None
Call loans to banks	Hua Nan Financial Holdings Co., Ltd.	15,000,000	-	-	-	None	None
Call loans to banks	Taiwan Business Bank Co., Ltd.	1,220,200	599,800	599,800	-	None	None
Call loans to banks	Cathy United Bank	11,500,000	-	-	-	None	None
Call loans to banks	The Export-Import Bank of the Republic of China	3,754,000	-	-	-	None	None
Call loans to banks	Chang Hwa Bank	8,000,000	-	-	-	None	None
Short-term loans	Taiwan financial Holding Co., Ltd.	25,200,000	25,200,000	25,200,000	-	None	None
Short-term secured loans	BankTaiwan Securities Co., Ltd.	500,000	-	-	-	Government (or financial institutions) guarantee	None
Secured overdrafts loans	Tang Eng Iron Works Co., Ltd.	88,431	41,119	41,119	-	Land and factory	None
Short-term secured loans	Tang Eng Iron Works Co., Ltd.	100,000	100,000	100,000	-	Land and factory	None
Short-term secured loans	Tang Eng Iron Works Co., Ltd.	1,500,000	900,000	900,000	-	Land and factory	None
Medium-term secured loans	Tang Eng Iron Works Co., Ltd.	1,800,000	1,200,000	1,200,000	-	Land and factory	None

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, 2020						
Name of related party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Balance sheet	
					Account name	Amount
BankTaiwan Life Insurance Co., Ltd.	Swap agreement	2017.08.04~2021.08.12	35,410,361	(142,618)	Valuation adjustment of financial liabilities measured at fair value through profit or loss - swap	(688,893)

(Continued)

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

December 31, 2019						
Name of related party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Balance sheet	
					Account name	Amount
BankTaiwan Life Insurance Co., Ltd.	Swap agreement	2010.08.20~2020.12.11	43,656,372	138,905	Valuation adjustment of financial assets measured at fair value through profit or loss - swap	(722,419)

(xix) Lease

Between January 2015 and July 2020, the Bank rented several buildings from its related enterprise, BTLI, to be used as its branch office. A 4~5 year lease contract was signed, in which the rental fee was determined based on nearby office rental rates. The total value of the contract was \$222,704 thousand. For the year ended December 31, 2020 and 2019, the Bank recognized the amount of \$1,308 thousand and \$842 thousand as interest expense ; \$42,722 thousand and \$36,686 thousand as depreciation expense, respectively. As of December 31, 2020 and 2019, the balance of lease liabilities amounted to \$127,639 thousand and \$97,983 thousand , respectively.

In January 2017, the Bank rented a building from its related enterprise, BTLI, to be used as its branch office. A 3 year lease contract was signed, in which the rental fee was determined based on nearby office rental rates. The total value of the contract was \$259 thousand. For the year ended December 31, 2020 and 2019, the Bank recognized the amount of \$2 thousand as interest expense and \$85 thousand as depreciation expense for both years. As of December 31, 2020 and 2019, the balance of lease liabilities amounted to \$86 thousand and \$171 thousand , respectively..

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

(Continued)

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

**(11) Pledged Assets:**

<u>Pledged assets</u>	<u>Purpose of pledge</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Deposits in Central Bank-time deposits	Payment and settlement systems of Central Bank	\$ 20,000,000	20,000,000
Financial assets measured at fair value through other comprehensive income—bonds	Guarantee deposit for provisional seizure against defaulted loans and others	386,700	527,300
Financial assets measured at fair value through other comprehensive income—bonds	Operating deposit for securities investment trust and consulting, and bond payment settlement reserves	195,985	182,534
Financial assets measured at amortized cost—bonds	Guarantee deposits for trust business compensation reserve	450,000	450,000
Financial assets measured at fair value through other comprehensive income—negotiable certificate	Payment and settlement systems of Central Bank	27,400,000	27,400,000
		<u>\$ 48,432,685</u>	<u>48,559,834</u>

**(12) Commitments and Contingencies:**

(a) Commitments and contingencies

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Trust liabilities	\$ 657,837,239	653,305,882
Marketable securities held as custodian	2,572,066,361	2,524,269,729
Goods held in custody	28,356,345	32,879,791
Contract guarantee on behalf of counter parties	1,521,700	1,221,551
Traveler's checks held on consignment	-	659,643
Consignment collection	44,815,836	47,409,273
Issuance of New Taiwan Dollars	2,606,478,684	2,449,257,937
Trustee on behalf of lenders	542,324,116	527,631,902
Registered government bonds for sale	710,642,400	715,195,300
Registered short-term bills for sale	130,135,667	210,582,786
Consigned sales of securities	700,000	-
Consigned sales of goods	1,236,718	872,556
Guarantees	96,960,192	85,887,465
Letters of credit	42,809,717	39,579,192
<b>Total</b>	<u>\$ 7,435,884,975</u>	<u>7,288,753,007</u>

(Continued)



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

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

<u>Trust assets</u>	<u>December 31, 2020</u>		<u>December 31, 2019</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Deposits				
Deposits in BOT	\$ 26,397,242	4	36,138,913	6
Deposits in other banks	2,678	-	2,381	-
Short term investment				
Investment in funds	154,052,922	24	165,849,799	25
Investment in bonds	283,839,910	43	281,239,879	43
Common stock investment–marketable securities	51,167,835	8	48,761,636	7
Receivables				
Interest receivable	2,010,872	-	1,865,932	-
Cash dividend receivable	2,975	-	669	-
Receivables from trading securities	1,815,147	-	198,510	-
Receivables from forward contracts	1,157,610	-	3,133,135	1
Real estate				
Land	20,752,015	3	20,361,587	3
Buildings	203,384	-	160,332	-
Construction in progress	9,616,090	2	4,502,672	1
Marketable securities under custody	106,818,559	16	91,090,437	14
Total of trust assets	<u>\$ 657,837,239</u>	<u>100</u>	<u>653,305,882</u>	<u>100</u>

(Continued)

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

Trust liabilities	December 31, 2020		December 31, 2019	
	Amount	%	Amount	%
Payables				
Payables from trading securities	\$ 97,584	-	147,101	-
Payables from forward contracts	1,190,750	-	3,184,450	1
Payables from management fee	4,697	-	4,541	-
Payables from supervision fee	551	-	438	-
Other payables	741	-	716	-
Tax payable	37	-	583	-
Securities held in custody payable	106,818,559	16	91,090,437	14
Trust capital				
Money trust	392,188,665	60	407,904,771	62
Marketable securities trust	241,020	-	135,482	-
Real estate investment trust	32,973,760	5	27,146,753	4
Other reserve and accumulated income				
Accumulated loss	129,238,423	20	118,938,177	18
Foreign currency translation	(25,828,514)	(4)	(13,592,880)	(2)
Deferred unrealized income	(213,437)	-	(292,012)	-
Current income	21,124,403	3	18,637,325	3
Total of trust liabilities	<u>\$ 657,837,239</u>	<u>100</u>	<u>653,305,882</u>	<u>100</u>

Note: Including fund and bond investments of the offshore branch amounting to \$313,872 thousand and \$275,887 thousand as of December 31, 2020 and 2019, respectively.

Details of trust	December 31, 2020	December 31, 2019
Deposits		
Deposits in the Bank	\$ 26,397,242	36,138,913
Deposits in other banks	2,678	2,381
Short term investment		
Investment in funds	154,052,922	165,849,799
Investment in bonds	283,839,910	281,239,879
Common stock investment-- marketable securities	51,167,835	48,761,636
Real estate		
Land	20,752,015	20,361,587
Buildings	203,384	160,332
Construction in progress	9,616,090	4,502,672
Marketable securities under custody	106,818,559	91,090,437
Total	<u>\$ 652,850,635</u>	<u>648,107,636</u>

(Continued)

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

<b>Income statement for assets under trust</b>		<b>2020</b>	<b>2019</b>
Trust revenue			
Capital interest revenue	\$	11,436,071	12,048,903
Cash dividend revenue		1,374,915	2,230,135
Donation revenue		142,678	206,183
Realized capital gain – shares		11,163	90,558
Realized capital gain – fund		1,735,827	1,872,047
Unrealized capital gain – fund		5,995	4,061
Realized capital gain – bond		3,639,496	2,380,482
Realized gain on property exchange		523,174	139,013
Income from beneficiary certificates		4,048,996	4,127,919
Realized foreign exchange gains		-	189,100
Other revenue		-	477
Total trust revenue		<u>22,918,315</u>	<u>23,288,878</u>
Trust expense			
Capital management fee		481,523	363,590
Tax expense		3,793	(3,671)
Supervisory fee		1,013	517
Storage fee		14,398	15,542
Commission fee		196	97
Donation cost		771,081	833,961
Unrealized capital loss – shares		391,720	3,397,745
Realized loss on property exchange		-	-
Realized foreign exchange losses		104,619	-
Other expense		25,569	43,772
Total trust expense		<u>1,793,912</u>	<u>4,651,553</u>
Net income	\$	<u><u>21,124,403</u></u>	<u><u>18,637,325</u></u>

**(13) Profitability:**

Item		December 31, 2020		December 31, 2019	
		Before adjusting	After adjusting	Before adjusting	After adjusting
Return on total assets (Note 6)	Before income tax	0.23	0.38	0.26	0.42
	After income tax	0.22	0.36	0.22	0.38
Return on net worth (Note 7)	Before income tax	3.24	4.80	3.84	5.69
	After income tax	3.02	4.58	3.31	5.16
Profit margin		33.73		27.01	

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.

(Continued)

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

Note 4: Income before (after) income tax is the income for the whole year of 2019 and 2018.

Note 5: The above profitability ratios are at annual rates.

Note 6: Return on total assets — after adjusting means assets excluding the short-term advances and long-term receivables resulted from government policies, and the assets of government employees insurance department; it also refers to income before (after) tax, plus, excess preferential interest expense. (If return on total assets- after adjusting at December 31, 2020 means assets excluding the assets of government employees insurance department and the income before and after tax, plus, excess preferential interest expense and interest revenue from the advance resulted from government policies, the adjusted return on total assets before (after) tax are 0.38% and 0.37%.)

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, 2020 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 4.92% and 4.70%.)

**(14) Losses Due to Major Disasters: None.**

**(15) Subsequent events:**

The Bank funded \$270,000 thousand (be divided into 4 periods by 3:3:2:2) to participate in building national-loan guarantee fund in accordance with the rule Yuan Tai Jing No.1090033692 issued by Executive Yuan on November 2, 2020. This event was authorized by the Board of Directors on November 6, 2020. The Bank signed a loan guarantee agent contract with the Export-Import Bank of the Republic of China on January 25, 2021, and has appropriated \$81,000 thousand to this fund. The Bank will be able to use this fund for guarantee of related credit loans in national major economic policy.

According to the contract, if the fund was insufficient, the Bank might have the obligation to fill up the fund. However, it's uncertain whether this circumstance will occur, and also the amount cannot be measured reliably.

**(16) Other:**

- (a) The employee benefit expenses, depreciation, depletion and amortization, categorized by function, were as follows:

By function By nature	2020			2019		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits expenses						
Salaries	67,561	11,826,246	11,893,807	61,699	11,419,798	11,481,497
Labor and health insurances	107,538	530,149	637,687	110,399	527,904	638,303
Pensions	3,421	958,418	961,839	3,105	925,957	929,062
Director and supervisor compensation payment	-	2,472	2,472	-	2,553	2,553
Others	2,538,363	211,166	2,749,529	2,405,768	268,669	2,674,437
Depreciation expenses	51,168	1,371,318	1,422,486	48,402	1,324,747	1,373,149
Amortization expenses	-	346,220	346,220	-	313,388	313,388

The number of employees for the years ended December 31, 2020 and 2019 were 8,280 and 8,316, respectively. And among them, directors without employee position were 13 and 12, respectively.

(Continued)

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

(b) Financial Statements Audited adjustment

The accounting records as at and for the year ended December 31, 2019, 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, 2019:

<b>Balance Sheet</b>	<b>As Previously Reported December 31, 2019</b>	<b>Adjustments — Increase (Decrease)</b>	<b>As Audited by the MoA, December 31, 2019</b>
<b>Assets</b>			
Investment accounted for using equity method	\$ 41,109,560	(74)	41,109,486
Current income tax assets	993,628	133,027	1,126,655
Deferred tax assets	875,458	28,339	903,797
<b>Liabilities</b>			
Current income tax liabilities	1,360,931	(69,791)	1,291,140
Deferred tax liabilities	18,235,065	(1,644)	18,233,421
<b>Stockholders' equity</b>			
Unappropriated retained earnings	20,140,122	232,727	20,372,849
<b>Income statement</b>	<b>As Previously Reported 2019</b>	<b>Adjustments — Increase (Decrease)</b>	<b>As Audited by the MoA, 2019</b>
Share of profit of associates and joint ventures accounted for using equity method	\$ 3,394,697	(74)	3,394,623
Profit before tax	13,211,230	(74)	13,211,156
Income tax expense	2,053,544	(232,801)	1,820,743
Net income	11,157,686	232,727	11,390,413

(Continued)

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

Revised entries by the MoA in 2019 were as follows:

Item	Adjustment accounts	Amount revised by the MoA		Explanation of revision by the MoA
1.	Share of profit of associates and joint ventures accounted for using equity method Investment accounted for using equity method	\$ 74	74	MoA adjusted Investment accounted for using equity method of Hua Nan Financial Holdings Co., Ltd.
2.	Income tax expense  Current income tax assets Current income tax liabilities	\$ 11,168  133,027	144,195	The accountant of Hong Kong branch adjusted taxable income.
3.	Disposal loss of property Other revenue	\$ 5,715	5,715	The accountant of Tokyo branch adjusted recovery cost of lease.
4.	Deferred income tax assets Current income tax liabilities	\$ 417	417	MoA adjusted taxable income.
5.	Current income tax liabilities Deferred income tax assets Deferred income tax liabilities Income tax expense	\$ 214,403 27,922 1,644	243,969	MoA adjusted taxable income.

(Continued)

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

(c) Supplementary information for government employees' insurance department

(i) Balance sheets

	<b>Government employees' insurance department</b>	
	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Cash and cash equivalents	\$ 59,585,616	58,135,335
Financial assets measured at fair value through profit or loss	255,253,346	179,707,321
Debt investments measured at amortized cost	74,887,928	94,907,557
Receivables, net	9,028,504	8,519,617
Other financial assets, net	15	-
Property and equipment, net	17,006	4,647
Intangible assets, net	22,490	11,635
Other assets, net	610,971	551,592
Total assets	<u>\$ 399,405,876</u>	<u>341,837,704</u>
	<b>Government employees' insurance department</b>	
	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Payables	\$ 228,413	96,653
Provisions	399,177,462	341,738,589
Other liabilities	1	2,462
Total liabilities	<u>\$ 399,405,876</u>	<u>341,837,704</u>

(Continued)

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

(ii) Income statement

	<b>Government employees' insurance department</b>	
	<b>2020</b>	<b>2019</b>
Net interest income	\$ 2,305,583	2,644,359
Service fee expenses	(28,432)	(16,498)
Gain (loss) on financial assets and liabilities at fair value through profit or loss	52,303,816	38,867,938
Foreign exchange gain (loss)	(6,318,070)	(3,521,667)
Impairment loss of assets	2,737	4,504
Premium income	23,623,153	23,511,625
Government subsidy	7,784,351	8,774,387
Insurance payments	(21,988,989)	(24,671,785)
Provision for insurance premium reserve	(57,438,873)	(45,358,797)
Miscellaneous expense	(91,714)	(88,718)
Miscellaneous revenue	10,498	12,465
Net revenue	<u>164,060</u>	<u>157,813</u>
Bad debt expenses and reserve for guarantees	<u>(537)</u>	<u>2,240</u>
Employee benefits	137,129	130,413
Depreciation and amortization expenses	10,167	4,378
Other general and administrative expenses	<u>17,301</u>	<u>20,782</u>
	<u>164,597</u>	<u>155,573</u>
Net income	\$ <u>-</u>	<u>-</u>

Note: According to Government Employees and School Staff Insurance Act, if GESSI experiences a loss, the loss before May 30, 1999, would be covered by the Ministry of Finance; and the loss after that date would be covered by an adjustment of the insurance premium. Besides, according to the same Act, the expenses to carry on government employees and school staff insurance are subsidized by the budget designated by the Ministry of Civil Service.

- (d) Ruling No. 10400177950 issued on August 19, 2015, by the FSC, the Bank, has obtained approval from the competent authority to engage in the business of electronic payment institutions. The Bank opened the business in 2016 and according to Article 4 of the Regulations Governing the Organization and Administration of Sinking Fund Established by Electronic Payment Institutions, in first year the Bank should appropriate the amount of \$500 thousand for its dedicated sinking fund account, in which the Bank had already appropriated the full amount into its account in May 2017. The Bank's fee income generated from electronic payment business for year for the years ended December 31, 2020 and 2019 were \$0 thousand and \$60 thousand, respectively. There were no interest revenue and other revenue in December 31, 2020 and 2019.

(Continued)



## BANK OF TAIWAN AND SUBSIDIARY

### Notes to the Consolidated Financial Statements

#### (17) Notes to Disclosure Items:

##### (a) Information on Significant Transactions:

Following the principle of financial report for public bank, the disclosure of information on significant transaction of the Bank and subsidiary were as follow:

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

(In Thousands of New Taiwan Dollars)

Number	Name of Company	Name of the counter-party	Existing relationship with the counter-party	State of transaction			
				Account name	Amount	Terms of trading	Percentage of the total consolidated revenues or total assets
0	Bank of Taiwan	BankTaiwan Insurance Brokers	1	Deposits	156,701	Same as regular transaction	- %
1	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Placement with banks	156,701	"	- %
0	Bank of Taiwan	BankTaiwan Insurance Brokers	1	Cheques deposits	204,900	"	- %
1	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Placement with banks	204,900	"	- %
0	Bank of Taiwan	BankTaiwan Insurance Brokers	1	Other receivables	71,747	"	- %
1	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Other payables	71,747	"	- %
0	Bank of Taiwan	BankTaiwan Insurance Brokers	1	Service fees revenue	722,971	"	2.12 %
1	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Service fees expenses	722,971	"	2.12 %
0	Bank of Taiwan	BankTaiwan Insurance Brokers	1	Miscellaneous revenues	508	"	- %
1	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Administrative expense	508	"	- %
0	Bank of Taiwan	BankTaiwan Insurance Brokers	1	Refundable deposits	808	"	- %
1	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Guarantee deposits paid	808	"	- %
0	Bank of Taiwan	BankTaiwan Insurance Brokers	1	Miscellaneous revenue	15,264	"	0.04 %
1	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Operating expenses	15,264	"	0.04 %
0	Bank of Taiwan	BankTaiwan Insurance Brokers	1	Interest payables	127	"	- %
1	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Interest receivables	127	"	- %
0	Bank of Taiwan	BankTaiwan Insurance Brokers	1	Interest expenses	338	"	- %
1	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Interest incomes	338	"	- %

(Continued)

# BANK OF TAIWAN AND SUBSIDIARY

## Notes to the Consolidated Financial Statements

Number	Name of Company	Name of the counter-party	Existing relationship with the counter-party	State of transaction			
				Account name	Amount	Terms of trading	Percentage of the total consolidated revenues or total assets
0	Bank of Taiwan	BankTaiwan Insurance Brokers	1	Other operating revenue	4,839	"	0.01 %
1	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Right-of-use assets	9,602	"	- %
1	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Lease liabilities	9,713	"	- %
1	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Interest expense	138	"	- %
1	BankTaiwan Insurance Brokers	Bank of Taiwan	2	Depreciation expense	4,730	"	0.01 %

Note 1: Number is based on the following rules:

- 1) The parent company is 0.
- 2) Subsidiaries are numbered by company from 1.

Note 2: The relation with trader is numbered as follow:

- 1) The parent company to its subsidiary is 1.
- 2) The subsidiary to its parent company is 2.

Note 3: The transactions mention above have already write-off when building the financial report.

(ix) Other significant transactions that may have substantial influence upon the decisions made by financial report users: None

(b) Information on Investees:

The followings are the information on investees during 2020:

(In Thousands of New Taiwan Dollars)

(in thousands of New Taiwan Dollars)										
Name of the investee	Investee Location	Major Operation	% of shares	Original investment amount	Gain(Loss) recognized during the period	Held by the bank and related party at year-end				Notes
						Shares		Subtotal		
								Shares	% of Shares	
Hua Nan Financial Holdings Co., Ltd.	Taipei	Financial Holding	21.23 %	40,210,042	1,837,155	3,223,189	-	3,223,189	25.07 %	
Tang Eng Iron Works Co., Ltd.	Kaohsiung	Iron Industry	21.37 %	901,078	(142,254)	74,802	-	74,802	21.37 %	
Tai Yi Real Estate Management Co., Ltd.	Taipei	Real Estate Service	30.00 %	22,203	4,368	1,500	-	1,500	30.00 %	
BankTaiwan Insurance Brokers Co., Ltd.	Taipei	Insurance Brokers	100.00%	378,869	68,259	2,000	-	2,000	100.00%	note 3

Note 1: The shares held or to be held by The Bank or its directors, supervisors, president, vice president and investees held by the affiliates as defined in the Company Act shall be included.

Note 2: 1) The shares to be held shall mean the shares acquired upon conversion, as hypothesized, of equity securities purchased or contracted for derivative products concluded (not yet converted to equity) in accordance with the trading terms and conditions and The Bank's intent to link with the reinvested enterprise's equity for the purpose of reinvestment provided in Article 74 of the Act.

2) The "equity securities" referred to in the preceding paragraph shall mean the valuable securities referred to in Paragraph 1 of Article 11 of the Securities and Exchange Law Enforcement Rules, e.g. convertible corporate bond and warrant.

3) The "derivative products" referred to in the preceding paragraph shall comply with the definition of derivative products referred to in Statement of Financial Accounting Standards No. 34, e.g. stock option.

Note 3: This transaction had been written off when preparation the consolidated financial statements.

(c) Information on Investment in Mainland China:

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

(In Thousands of New Taiwan Dollars)

Investee Company	Main Business	Total Amount of Paid-in Capital	Investment types (Note1)	Accumulated outflow of Investment from Taiwan as of January 1, 2020	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2020	Net income from investee	% of shares	Equity in the Earnings (gains) (Note2)	Carrying value as of December 31, 2020	Accumulated inward remittance of earnings as of December 31, 2020
					Outflow	Regain						
Bank of Taiwan, Shanghai Branch	Banking business	4,325,000 CNY1,000,000	(3)	4,325,000 CNY1,000,000	-	-	4,325,000 CNY1,000,000	520,254	100.00%	520,254	5,915,537	-
Bank of Taiwan, Guangzhou Branch	Banking business	4,325,000 CNY1,000,000	(3)	4,325,000 CNY1,000,000	-	-	4,325,000 CNY1,000,000	230,056	100.00%	230,056	4,799,972	-
Bank of Taiwan Fuzhou Branch	Banking business	4,325,000 CNY1,000,000	(3)	4,325,000 CNY1,000,000	-	-	4,325,000 CNY1,000,000	209,934	100.00%	209,934	4,609,661	-

Note 1: Three types of investments are as follows:

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

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

(Continued)

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

(ii) Limitation on investment in Mainland China:

Unit: In thousands of TWD

Current period of accumulate investment amount remitting from Taiwan	The rationed investing amount approved by Investment Commission, MOEA	The regulation announced by Investment Commission, MOEA rationed investing amount
12,975,000	12,975,000	229,886,673

- (d) Subsidiaries lending to other parties, guarantees and endorsements for other parties, securities held as of December 31, 2020, securities for which purchase or sale amount for the period exceed \$300 million or 10% of the Bank's paid-in capital, and trading in derivative financial instruments: None.

**(18) Segment Information:**

- (a) Bank department: include transacting deposit, loan, and foreign exchange; dispatching, managing, performing TWD and foreign currency; investing in securities, and analyzing, managing interest for loan and deposit, and etc.
- (b) Government employees' insurance department: include managing government employees' insurance business; auditing insurance, cash settlement, and issue business; analyzing, managing, and taking statistics of government employees' insurance business, and etc.
- (c) Department of Procurement: include managing government institutions, public schools, and public enterprises' centralized purchasing business; being agency of government institutions, public schools, and public enterprises for inter-entity supply contract, and etc.
- (d) Department of Precious Metals: include managing gold, silver, precious metals and analyzing customs duty; gold, silver and precious metals intermediary trading, planning, marketing, training, settlement, risk management, assuring and etc.
- (e) BankTaiwan Insurance Broker: operation businesses include insuring personal, property insurance, related services, and the business approved by the authority which related to insurance broker.

	2020						
	Bank department	Department of Government Employees Insurance	Department of Procurement	Department of Precious Metals	BankTaiwan Insurance Brokers	Reconciliation and elimination	Total
Interest income	\$ 51,745,234	2,305,583	3	1,150	338	(338)	54,051,970
Less: interest expense	26,565,093	-	-	-	138	(476)	26,564,755
Interest income, net	25,180,141	2,305,583	3	1,150	200	138	27,487,215
Non-interest income, net	15,700,381	45,960,051	368,169	1,020	199,050	(68,259)	62,160,412
Other non-interest income	(8,031,179)	(48,101,574)	(11,907)	655,044	(984)	(20,611)	(55,511,211)
Net revenue	32,849,343	164,060	356,265	657,214	198,266	(88,732)	34,136,416
Bad debt expenses and reserve for guarantees	(310,626)	537	-	-	-	-	(310,089)
Operating expenses	(21,017,225)	(164,597)	(114,074)	(95,344)	(112,978)	20,502	(21,483,716)
Continuing operating income before income tax	\$ 11,521,492	-	242,191	561,870	85,288	(68,230)	12,342,611
Continuing operating income after income tax	\$ 10,711,119	-	242,191	561,870	68,230	(68,230)	11,515,180
<b>Total assets</b>	<b>\$ 5,083,803,140</b>	<b>399,405,876</b>	<b>2,456,043</b>	<b>1,845,520</b>	<b>480,292</b>	<b>(89,192,775)</b>	<b>5,398,798,096</b>
<b>Total Liabilities</b>	<b>\$ 4,701,462,742</b>	<b>399,405,876</b>	<b>2,213,852</b>	<b>1,283,653</b>	<b>101,535</b>	<b>(88,814,017)</b>	<b>5,015,653,641</b>

(Continued)

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

	2019						
	Bank department	Department of Government Employees Insurance	Department of Procurement	Department of Precious Metals	Bank/Taiwan Insurance Brokers	Reconciliation and elimination	Total
Interest income	\$ 63,375,552	2,644,359	15	14,300	410	(410)	66,034,226
Less: interest expense	39,355,438	-	-	-	192	(602)	39,355,028
Interest income, net	24,020,114	2,644,359	15	14,300	218	192	26,679,198
Non-interest income, net	24,945,854	35,334,277	412,001	(128,074)	333,772	(167,267)	60,730,563
Other non-interest income	(7,787,798)	(37,820,823)	(22,511)	412,231	(1,024)	(18,993)	(45,238,918)
Net revenue	41,178,170	157,813	389,505	298,457	332,966	(186,068)	42,170,843
Bad debt expenses and reserve for guarantees	(7,342,988)	(2,240)	-	-	-	-	(7,345,228)
Operating expenses	(21,150,580)	(155,573)	(110,831)	(90,771)	(125,589)	18,885	(21,614,459)
Continuing operating income before income tax	\$ 12,684,602	-	278,674	207,686	207,377	(167,183)	13,211,156
Continuing operating income after income tax	\$ 10,904,052	-	278,674	207,686	167,184	(167,183)	11,390,413
Total assets	\$ 4,781,125,423	341,837,704	2,520,539	1,934,694	546,167	(3,234,073)	5,124,730,454
Total Liabilities	\$ 4,403,126,619	341,837,704	2,241,865	1,727,008	108,849	(2,796,755)	4,746,245,290