2017 Taiwan Financial Holdings ANNUAL REPORT

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Letter to Shareholders

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

The businesses of the Taiwan Financial Holdings (TFH) Group continued to grow steadily last year, thanks to the tremendous efforts of management and staff. The group's consolidated earnings after tax in 2017 totaled NT$7,363 million, which was above budget target. Observers gave the TFH high marks for its outstanding performance. In addition, in an effort to meet the business challenges posed by globalization and the continued advancement in digital technology, and to seize upon business opportunities generated by financial deregulation, the TFH proactively complied with government policies by promoting the financing of innovative industries, green energy, and infrastructure projects. The group also continued supporting Fintech patent R&D work and expanding its overseas financial services network in order to boost financial innovation and improve services.

As part of its efforts to build up a stronger international presence, the Bank of Taiwan Co., Ltd. (BOT) methodically pursued a two-track approach based on the government's New Southbound Policy and its policy of developing Taiwan as a global financial center. In 2017, the Bank obtained FSC approval to set up six representative offices in Ho Chi Minh City, Bangkok, Jakarta, Manila, the US Silicon Valley, and Frankfurt. The office in Silicon Valley that opened for business on December 15 fits in very nicely with the government's Asia Silicon Valley initiative. The Bank opened its Bangkok office on January 11, 2018 and a Sydney Branch on January 16, 2018. These moves all represent milestones in the Bank's international expansion plans. BOT has also strengthened strategic tie-ups with overseas financial services firms by signing MOUs for business cooperation with Sumitomo Mitsui Banking Corporation (SMBC) and Deutsche Bank, thus enhancing international exchanges and building up a cross-border financial services platform in order to provide better financial services to Taiwanese firms operating throughout the world.

Maintaining a dual focus on stability and innovation, TFH continued to provide high-quality financial services, for which it won widespread praise once again in 2017. BOT had a banner year for awards: (a) claimed top market share in Taiwan among lead arrangers and syndicate managers for the sixth

Chairman Joseph Jye-Cherng Lyu

President Austin Chan

consecutive year; (b) received the Joint Credit Information Center's Golden Quality Award and Golden Security Award for information security management and credit reporting for the fourth consecutive year; and (c) won the Reader's Digest Trusted Brand Asia survey GOLD Award in the Bank category for the 12th straight year. In addition, BankTaiwan Life Insurance Co.,Ltd. (BTLI) coordinated with government policy by promoting microinsurance, and for the fourth consecutive year was singled out by the Financial Supervisory Commission as an "Outstanding Provider of Microinsurance." Meanwhile, BTLI and BankTaiwan Insurance Brokers Co.,Ltd. (BTIB) received recognition at the Insurance Faith, Hope & Love (FHL) Awards for "best fulfillment of corporate social responsibility" and "best insurance professionalism," respectively, while in Excellence magazine's 2017 "Best Securities Firm Awards," BankTaiwan Securities Co.,Ltd. (BTS) received a "Best Risk Management Award" and a "Best Sustainable Business Award."

Besides seeking to optimize business performance, the TFH Group also bears responsibility as a state-owned enterprise to demonstrate social concern and promote community service, and it works hard to fulfill this obligation. The group raised the level of its corporate social responsibility activities to the realm of culture and the arts. Activities carried out in 2017 included the 2017 Bank of Taiwan Arts Festival and the Bank of Taiwan Awards for Economic and Financial Research to solicit academic papers to foster the development of artistic talent as well as the tremendous pool of innovative economic and financial expertise that exists in Taiwan. TFH strives to reflect public interest concerns in product design. It has joined forces with the Taiwan Guide Dog Association, for example, to issue the Guide Dog Affinity Card, which over the past 11 years has generated over NT$30 million in cashback donations to the Association for use in training guide dogs and creating an endowment for the establishment of a school. The Group has also cooperated with the Christian Tribune Foundation in announcing plans to issue The Lord is My Shepherd affinity card, which generates cashback donations to support community service activities. In addition, to support the government's policy of assisting the needy, TFH provides charitable trusts, microinsurance and other such products and services, and donates to many different groups for the needy to support their enrollment in microinsurance programs. In these and other such undertakings, TFH hopes to do its part to serve others and inject some positive energy into Taiwanese society.

This year's annual report provides information on the TFH Group's 2017 operating results, the 2018 business plan, development strategies, the effect of external competition, legislative developments, and overall economic conditions.

I. Operating Results for 2017

1. Organizational Change

As of the end of 2017, Taiwan Financial Holding Co., Ltd. (TFH) had three subsidiaries, namely, Bank of Taiwan Co., Ltd. (BOT), BankTaiwan Life Insurance Co., Ltd. (BTLI), and BankTaiwan Securities Co., Ltd. (BTS).

2. Results of Implementation of Business Plan and Operating Strategy

The Taiwan Financial Holdings Group achieved outstanding operating revenues. The group's consolidated earnings after tax in 2017 totaled NT$7,363 million, or 125.31% of the target, and consolidated earnings per share (EPS) after tax hit NT$0.82. After factoring out the burden shouldered by the group in supporting government policy, the consolidated earnings after tax in 2017 would be NT$15,537 million, and EPS after tax would be NT$1.73. The group actually achieved return on assets (ROA) of 0.32%, and return on equity (ROE) of 5.56%.

The group's core subsidiary, BOT, achieved earnings after tax of NT$10,404 million, exceeding the annual budget target. Performance was excellent in every line of business, and BOT remained the industry leader in deposits and loans as well as the gold and trust businesses. Moreover, it succeeded in its "Triple 100 Billion" initiative, i.e. a plan to: (1) attract new US Dollar deposits equivalent to NT$100 billion; (2) act as lead bank for syndicated loan deals worth a combined total of NT$100 billion; and (3) extend a total of NT$100 billion in special low-interest loans to finance the renovation or rebuilding of hazardous and dilapidated buildings. The Bank has already achieved 43.56% of the market shares of syndicated loans and remained the first place of Mandated Lead Arranger(MLA) and Bookrunner of syndicated loan. In addition to actively growing its business, the bank also paid close attention to risk management, posting an NPL ratio of 0.29% and a coverage ratio of 497.80%. The quality of BOT's loan assets is thus quite good.

BTLI achieved gross premiums of NT$42.56 billion, or 130.51% of its annual budget target. However, BTLI suffered negative margins and foreign exchange losses due to the sharp appreciation of the NT Dollar versus the US Dollar and mainland China's Renminbi, as well as a continued climb in the cost of foreign exchange hedging. These factors resulted in an after-tax loss of NT$3,034 million. In order to improve its business operations, BTLI has drawn up measures to rework its product mix, control foreign exchange gains and losses, and improve capital allocations. In addition, BTLI has continuously improved its professional services, with its 13- and 25-month persistency rates both remaining above 98.9%, still the highest in the industry.

BTS achieved net profit after tax of NT$208 million, exceeding the annual budget target. It continued to strengthen its information security mechanism and electronic trading platform, took pragmatic measures to promote its business, and worked to strengthen its position in capital markets. With foreign entities upping their investments over the course of 2017 in Taiwanese stocks, the average daily trading for the year came to NT$138 billion, which contributed to faster profit growth at brokerages. The company's underwriting and dealing business developed steadily.

3. Budget Implementation, Revenues, Expenditures and Profits

Unit: NT$ million

Name	Earnings after Tax	Budget	Achievement rate(%)	EPS (NT$dollar)	ROA(%)	ROE(%)
TFH	7,363	5,876	125.31	0.82	0.14	2.64
Factoring out the Burden of Supporting Government Policy	15,537	-	-	1.73	0.32	5.56
BOT	10,404	6,775	153.56	1.10	0.21	3.69
Factoring out the Burden of Supporting Government Policy	18,578	-	-	1.96	0.41	6.59
BTLI	-3,034	-560	-	-1.35	-0.85	-30.12
BTS	208	180	115.56	0.69	2.08	5.78

Note: The burden of supporting government policy is mainly the preferential interest deposits for pensions and veteran benefits afforded by BOT.

4. Research and Development

(1) TFH

TFH has developed a set of group-wide business and development strategies, which it is seeking to achieve by making improvements to the group's accounting, internal control, risk management, and information systems in a way that will enhance synergies within the group. TFH also sharpens the professional skills of employees by dispatching them to receive education and training.

(2) BOT

BOT conducts and publishes over 100 different specialist reports to present its research on economic and financial conditions at home and abroad, country risk ratings, updates on key domestic industries, and other such topics. The Bank also arranges for employees to attend overseas training activities and engage in self-directed research, which have yielded hundreds of research reports.

(3) BTLI

BTLI carried out a research project that focused on sanctions imposed by the Financial Supervisory Commission on life insurers, taking these as a point of departure for examining the effectiveness of measures to improve the three lines of defense in internal controls. The ultimate purpose was to find ways to improve the three lines of defense and to devise solutions that are compliant with the supervisory authorities' regulations.

(4) BTS

BTS is working to overhaul the architecture of its securities information management network in order to improve the following: (a) securities trading platform; (b) information monitoring; (c) network security and detection of server vulnerabilities; (d) Web app firewalls; and (e) DDoS flow cleaning for Internet trading circuits. The purpose is to provide customers with a fast, stable, and secure trading environment.

II. Business Plans for 2018

1.Business Strategies and Major Operating Policies

(1) Prepare for capital increase by using the national real estate that was originally held by the bank subsidiary of the Company but subsequently returned to the national treasury by means of making of gift as contribution payment for capital increase of the Company; and bolster capital and operations.

(2) Use innovative digital technologies, create forward-looking financial services.

(3) Build up global presence, develop markets in Southeast Asia, and expand overseas businesses.

(4) Quantify management to achieve business efficiency, improve group-wide operating performance.

(5) Make integrated use of group resources, create synergies.

(6) Boost professional development; build up group's core professional skills.

(7) Strengthen the three lines of defense in internal controls, ensure sustainable development.

(8) Reap greater benefits from corporate governance, fulfill corporate social responsibility.

2.Business Targets

Unit: NT$ 1,000 (Forex: USD$1,000)

Company Name	Major Operation Category	Operation Budget Targets
BOT	Deposits	3,533,288,000
	Loans	2,309,000,000
	Foreign Exchange	338,081,000
BTLI	First Year Premium	9,107,174
	Renewal Premium	39,827,914
	Gross Premium	48,935,088
BTS	Brokerage Income	805,760,000
	Underwriting Income	1,500,000
	Dealing Income	2,610,000

III. Development Strategies

TFH intends to build up the group's advantages of scale, expand business scope, ensure soundness, practice superior management, and fulfill its corporate social responsibility in order to consolidate its position as an industry leader. With these aims in mind, TFH acts in accordance with its 5P competitive strategies:

1. People-Centered

Make use of the group's cross-disciplinary training resources; develop outstanding young talent; enhance the group's management capabilities; establish disciplined and logical systems; provide flexible salary systems; build cohesion among employees; bolster professional development; and enhance the group's growth potential.

2. Portfolio-Sound

Support government policy through lending activities; step up efforts to solicit loan business for home purchases and renovation of old, hazardous buildings; capitalize on a large number of deposit accounts to develop niche products with potential; expand foreign currency funding channels; and consolidate position as a leader in the foreign exchange market.

3. Performance-Driven

Flexibly use a performance-driven approach to strengthen strategic partnerships; make skillful use of the group's stellar reputation as a state-owned company; trade actively in the market for Formosa Bonds; and enhance the group's innovative service capabilities to provide convenient, value-added services and expand the range of services provided.

4. Prospection-Oriented

Seek opportunities to act as lead bank for international syndicated loan deals; build up experience doing business overseas; increase profit growth; strengthen cooperative partnerships with leading banks; strengthen cross-border service platforms; and work to become the leading bank of Taiwanese banks.

5. Principle-Based

Take a principle-based approach; work to achieve sound compliance and AML/CFT systems; strengthen risk monitoring; continue taking an interest in groups for the needy and donating to their causes; promote microinsurance and charitable trusts; and fulfill the group's corporate social responsibility on a variety of different levels.

IV. The Effect of External Competition, the Legal Environment, and the Overall Business Environment

In light of the continued efforts of the competent authorities to strengthen laws and regulations related to anti-money laundering and combating of terrorism financing (AML/CFT), the TFH Group will continue to strengthen its AML-related compliance and internal control systems by establishing a group-wide AML/CFT guidance team and setting up an information system to integrate customer information so it can be more easily accessed and monitored. The idea is to create sound and fully fleshed-out group-wide AML/CFT procedures, and to do a better job of tracking the AML/CFT performance of all group subsidiaries.

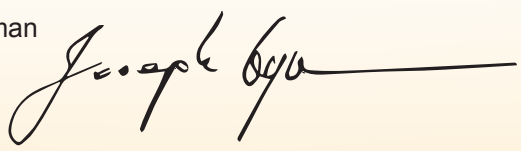
The consensus view among all international forecasting bodies is that global economic growth will continue to accelerate in 2018, but the economic, trade, and monetary policies of the world's major powers will have an uncertain impact on global financial markets. TFH will continue overseeing its subsidiaries to ensure that they implement prudent investment strategies and do a good job of managing interest rate and currency risks.

V. Credit Ratings

Acting on its commitment to stable business management, the TFH Group has long cultivated Taiwan's domestic financial market, and international credit rating agencies give the group high marks for its financial strength and operating performance. All of the TFH group's subsidiaries received the highest credit ratings granted to any firm in their respective industries.

Company Name	Rating Company	Assigned Rating		Outlook	Rating Date
		Long-term	Short-term		
TFH	Taiwan Ratings	twAAA	twA-1+	Stable	2016.12
	Standard & Poor's	S&PA+	S&PA-1	Stable	2016.12
BOT	Taiwan Ratings	twAAA	twA-1+	Stable	2017.10
	Standard & Poor's	S&PA+	S&PA-1	Stable	2017.10
	Moody's	Aa3	P-1	Stable	2017.11
BTLI	Taiwan Ratings	twAAA	-	Stable	2017.9
	Standard & Poor's	S&PA+	-	Stable	2017.9
BTS	Taiwan Ratings	twAA+	twA-1+	Stable	2017.6

Acting in line with its goals of "sinking deep roots in Taiwan while building a global presence and engaging in sustainable business practices," the TFH Group will actively seek to expand its businesses while implementing its internal control and legal compliance systems and strengthening group-wide risk management mechanisms. Our hope is that, with a concerted effort by all employees, each line of business will "make a difference" and build TFH into a financial holding company known for its excellence in the "5Rs"—ratings, relationships, risk management, returns, and reputation. If we can do this, we will be able to provide our customers with high-quality services, contribute profits to the national treasury, and provide our society with stable financial services. And we do believe that we can make it happen!

Chairman 

President

Company Profile

I. Date of Establishment: 1st January 2008

II. Brief History

1. M&A and Related Subsidiaries

On 1st January 2008, TFH was established (in accordance with the provisions of the Financial Holding Company Act, the Company Act, and other applicable laws and regulations) as Taiwan's first state-owned financial holding company by the Bank of Taiwan Co.,Ltd. (BOT) through a share swap. On the following day (2nd January), the Bank of Taiwan spun off its life insurance and securities businesses to create group subsidiaries BankTaiwan Life Insurance Co.,Ltd. (BTLI) and BankTaiwan Securities Co.,Ltd. (BTS), thus bringing into existence Taiwan's first wholly government-owned financial holding company, with three wholly owned subsidiaries. In order to expand the scope of business operations, BOT established BankTaiwan Insurance Brokers Co., Ltd. (BTIB) as a subsidiary in 2013.

2. Major quantities of shares belonging to directors and shareholders who hold greater than a 10% stake in the company are transferred: None

3. Any material change in managerial control, operating methods or type of business: None

4. Any other matters of material significance that could affect shareholders' equity: None

1. Chairman Joseph Jye-Cherng Lyu
2. President Austin Chan
3. Senior Executive Vice President Hong-Chi Chang
4. Senior Executive Vice President Yi Lin
5. Senior Executive Vice President & General Auditor Li-Shieu Tsai
6. Senior Executive Vice President & Chief Compliance Officer Su-Lan Lin

People-Centered

Vigorously implement people-centered business management, build up human resources

Corporate Governance

I. Organization

II. Directors, Supervisors and General Managers

III. Implementation of Corporate Governance

IV. CPA Information

V. The company's chairman, general manager, or any managerial officer in charge of finance or accounting matters has held a position at the accounting firm of its certified public accountant or at an affiliated enterprise of such accounting firm in 2017

VI. Any transfer of equity interests and/or pledge of or change in equity interests by a director, supervisor, managerial officer, or shareholder with a stake of more than 10 percent during 2017

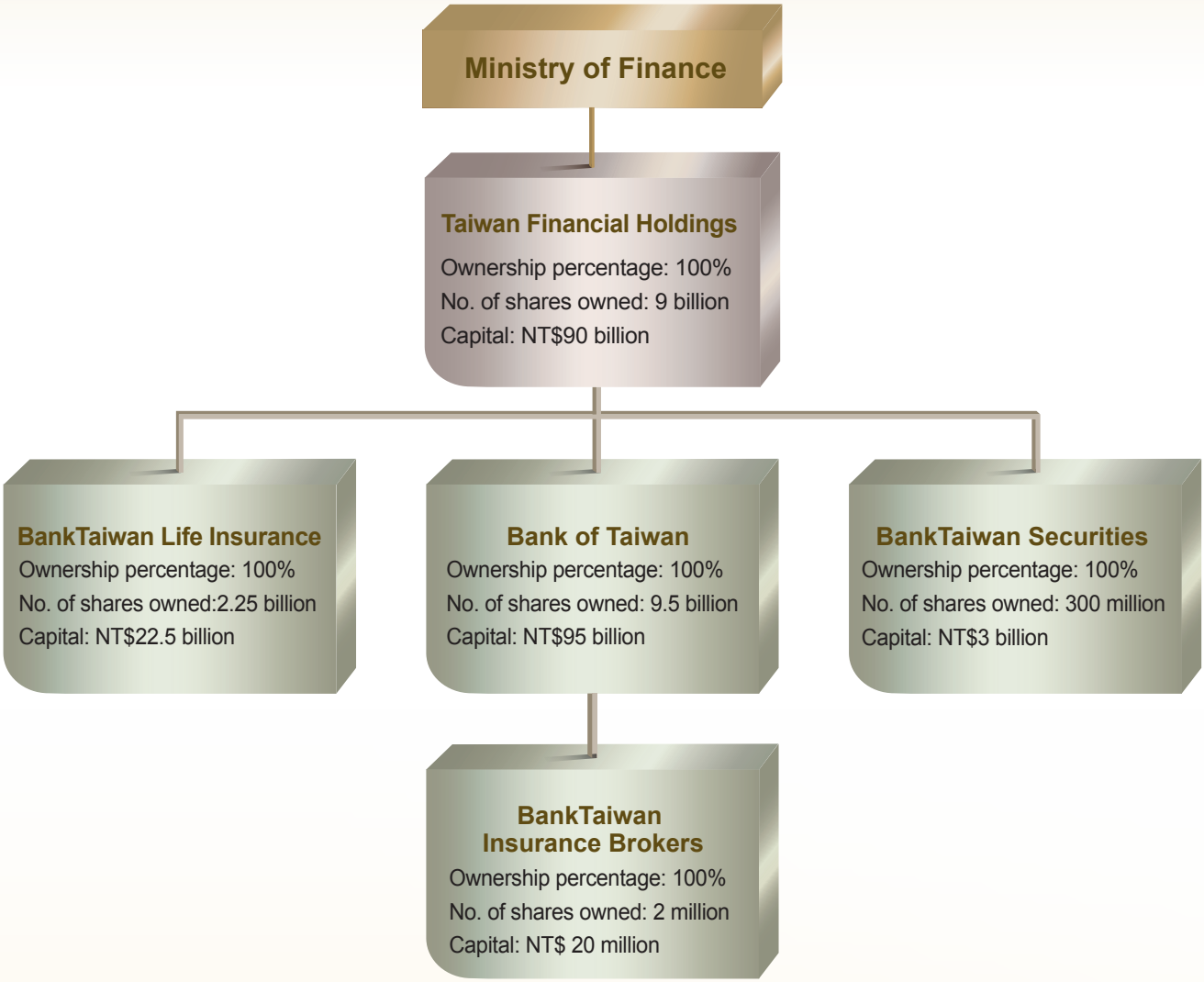
VII. Among the company's 10 largest shareholders any one is a related party or a relative within the second degree of kinship of another

VIII. The total number of shares and total equity stake held in any single enterprise by the company, its directors and supervisors, managers, and any companies controlled either directly or indirectly by the company

Corporate Governance

I. Organization

1. Chart of Relations within the TFH Group



2. Organization Chart

3. Function of Major Departments

(1) Auditing Department

Sets up and implements internal audit systems, oversees and evaluates the performance of internal audit systems at subsidiaries, reports regularly to the governance level on the status of implementation of internal audits, and helps to evaluate whether internal controls are working effectively.

(2) Compliance Department

Plans, administers, and implements legal compliance systems; provides assistance and liaison for the handling of litigious and non-litigious matters; administers legal cases, contracts, and corporate bylaws; administers the Group's AML/CFT plan.

(3) Business Development Department

Plans for organizational development, business strategies, investing activities; handles integrated marketing, corporate image promotion and preparation of the annual report.

(4) Administration Department

Administers personnel, payroll, ethics matters, general affairs, purchasing, cashier operations, document management; takes charge of public relations, meetings of board of directors/audit committee and corporate governance.

(5) Risk Management Department

In charge of: management of company risk policies and systems; management of group risk limits and group capital adequacy ratios; monitoring and control of credit extensions or other transactions with interested parties of the group; and handling of the company's credit rating.

(6) Financial Management Department

Manages groupwide financial affairs and evaluations of corporate performance; manages investment operations; plans and implements groupwide budgets, year-end accounts, and accounting systems.

(7) Information Management Department

Implements the development of groupwide information systems; plans and administers resource integration and shared platform security maintenance.

The Bank of Taiwan signed an MOU for cooperation with Sumitomo Mitsui Financial Group (SMFG).

II. Directors, Supervisors and General Managers

1. Directors and Supervisors

Dec. 31, 2017

Title	Name	Gender	Date Elected	Date First Elected	Principal Work Experience and Academic Qualifications	Positions Held Currently in Financial Holdings Company and Other Companies
Chairman	Jopesh Jye-Cherng Lyu	male	Aug. 31, 2016	Aug. 31, 2016	Master of Management, Kellogg School, Northwestern University Minister without Portfolio, Executive Yuan Minister, Ministry of Finance Board of Director, Central Bank of the Republic of China Chairman of the Board, Mega Financial Holdings Co., Ltd. & Mega International Commercial Bank Co., Ltd. Chairman , Bank of Taiwan Co., Ltd. President & CEO, Land Bank of Taiwan Co., Ltd. Vice Chairman, State-owned Enterprise Commission, Ministry of Economic Affairs Vice President, Bank of New York, New York Headquarter Chairman of the Board, The Bankers Association of the Republic of China Chairman of the Board, The Bankers Association of Taiwan Board Director, Taiwan Stock Exchange Corporation (TWSE) Board Director, Taiwan Futures Exchange Cooperation (TAIFEX) Board Director & Vice President, Chunghwa Telecom Co., Ltd. Board Director, China Steel Cooperation Co., Ltd. Distinguished Chair Professor, School of Management, National Sun Yat-Sen University Adjunct Professor, School of Technology Management, National Tsing Hua University	Chairman, Bank of Taiwan Co., Ltd. Chairman of the board, The Bankers Association of the Republic of China Board Director, Taiwan Stock Exchange Corporation (TWSE) Board Director, Taiwan Futures Exchange Corporation (TAIFEX) Board Director, Taiwan External Trade Development Council (TAITRA) Managing Director, The Bankers Association of Taipei Distinguished Chair Professor, School of Management, National Sun Yat-Sen University Adjunct Professor, School of Technology Management, National Tsing Hua University
Independent Director	Miao-Ling Chen	female	Aug. 31, 2016	Aug. 31, 2016	Ph.D. in Commerce, Keio University, Japan Professor, Department of Finance, National Sun Yat-sen University Chairperson, Department of Finance, National Sun Yat-sen University Listing Evaluation Committee for Taiwan Stock Exchange Co., Ltd Director, Taiwan Small Business Integrated Assistance Foundation	Professor, Department of Finance, National Sun Yat-sen University Director of Audit Committee, Taiwan Financial Holding Co., Ltd. Listing Evaluation Committee for Taiwan Stock Exchange Co., Ltd Director, Taiwan Small Business Integrated Assistance Foundation Independent Director, BankTaiwan Securities Co., Ltd.
Independent Director	Jin-Ji Chen	male	Aug. 31, 2016	Aug. 31, 2016	Ph.D., Department of Industrial Economics, Tamkang University MSc (Research), London School of Economics Professor & Chairman, Department of Business Administration, CTBC Financial Management College Director of the Institute of Finance Management, CTBC Financial Management College Independent Director, Fubon Financial Holding Co., Ltd. Independent Director, Fubon Insurance Co., Ltd. Independent Director, Fubon Life Insurance Co., Ltd. Director-General, Yunlin County Government Finance Bureau	Professor & Chairman, Department of Business Administration, CTBC Financial Management College Director of the Institute of Finance Management, CTBC Financial Management College Committee Member of Audit Committee, Taiwan Financial Holding Co., Ltd. Independent Director, BankTaiwan Life Insurance Co., Ltd. Independent Director, AIR ASIA Company Limited
Independent Director	Ming-Fang Tsai	male	Sep. 19, 2017	Sep. 19, 2017	Ph.D. in Industrial Economics, National Central University Professor, Department of Industrial Economics and Economics, Tamkang University Independent Director, First-Aviva Life Insurance Co., Ltd.	Professor, Department of Industrial Economics and Economics, Tamkang University Director, Grand Cathay Venture Capital Co., Ltd. Committee Member of Audit Committee, Taiwan Financial Holding Co., Ltd. Independent Director, BankTaiwan Securities Co., Ltd.

Title	Name	Gender	Date Elected	Date First Elected	Principal Work Experience and Academic Qualifications	Positions Held Currently in Financial Holdings Company and Other Companies
Director	Austin Chan	male	Aug.31, 2016	Aug.31, 2016	S.J.D., National Chengchi University Director General of the Banking Bureau of the Financial Supervisory Commission Director General of the Bureau of Agriculture Finance, Council of Agriculture, Executive Yuan Chief Secretary, Financial Supervisory Commission Director-General, Dept. of Legal Affairs, Financial Supervisory Commission Deputy Director General, Department of Commerce, MOEA Director, Bank of Taiwan Co., Ltd. Director, Taiwan Cooperative Bank Co., Ltd.	Assistant Professor, National Chengchi University Assistant Professor, Soochow University Director, BankTaiwan Life Insurance Co., Ltd.
Director	Tina E-Dawn Chen	female	Aug.31, 2016	July 28, 2014	B.A in Banking, National Chengchi University Assistant Director General, Dept. of Economic Research, Central Bank of the Republic of China (Taiwan) Deputy Director General, Dept. of Economic Research, Central Bank of the Republic of China (Taiwan) Supervisor, Taiwan Cooperative Bank Co., Ltd. Supervisor, Taiwan Cooperative Financial Holdings Co., Ltd.	Director General, Dept. of Banking, Central Bank of the Republic of China (Taiwan) Member, Central Government Debt Service Fund Committee, MOF Member, Mobilization of Financial Resources Preparatory Business Meeting , MOF Member, Committee for Planning and Promoting ,Utilization of Long-Term Funding, National Development Council, Executive Yuan Editorial Board Member, Small and Medium Enterprises White Paper, Ministry of Economic Affairs
Director	Ching-Hua Lee	female	Aug.31, 2016	June 16, 2016	Master of Business Administration, National Chengchi University Director-General, National Taxation Bureau of the Northern Area, Ministry of Finance Director-General, National Tax Administration of Northern Taiwan Province, Ministry of Finance Chief Secretary, Ministry of Finance Deputy Director-General, National Taxation Agency, Ministry of Finance	Director-General, Taxation Administration, Ministry of Finance
Director	San-Quei Lin	male	Aug.31, 2016	June 30, 2016	Master of Labor and Industrial Relations, College of Social Science, Michigan State University, USA Chairperson, Institute of Labor, Occupational Safety and Health, Ministry of Labor Director-General, Bureau of Employment and Vocational Training, Council of Labor Affairs, Executive Yuan Deputy Director, Economic Division, Taipei Representative Office in EU Deputy Director, Bureau of Employment and Vocational Training, Council of Labor Affairs, Executive Yuan Director, Council of Labor Affairs, Executive Yuan	Executive Deputy Minister, Ministry of Labor
Director	Kung-Cheng Lin	male	Aug.31, 2016	June 23, 2016	Ph.D. in Economics, Iowa State University. Director of Finance Department, Chiayi City Government Associate Professor & Chairman, Department of Finance, Hsiuping University of Science and Technology Associate Professor, Department of Public Finance, Feng Chia University Associate Professor & Chairman, Department of Public Finance and Taxation, National Taichung University of Science and Technology	Associate Professor of Department of Public Finance and Dean of General Affairs, National Taipei University
Director	Hsiao-Ling Chen	female	Aug.31, 2016	June 6, 2016	Master in Economics, National Taiwan University Deputy Director, National Treasury Administration, Ministry of Finance Section Chief, National Treasury Administration, Ministry of Finance	Director, National Treasury Administration, Ministry of Finance

Title	Name	Gender	Date Elected	Date First Elected	Principal Work Experience and Academic Qualifications	Positions Held Currently in Financial Holdings Company and Other Companies
Director	Jan-Lin Wei	male	Aug.31, 2016	Aug.31, 2016	Master of Economics, Soochow University SEVP, Bank of Taiwan Co., Ltd. SEVP, Central Trust of China SVP & General Manager, Dept. of Treasury , Bank of Taiwan Co., Ltd. SVP & General Manager, Dept. of Public Treasury , Bank of Taiwan Co., Ltd. Executive Secretary, Taipei Interbank Money Center, The Bankers Association of R.O.C. Managing Director of Trust Association of R.O.C. Director, Mega Financial Holding Co., Ltd. Supervisor, Mega Financial Holding Co. , Ltd. Supervisor, Taiwan Futures Exchange Co., Ltd. Supervisor, Hua Nan Financial Holdings Co., Ltd. Supervisor, Hua Nan Commercial Bank Co., Ltd. Adjunct Assistant Professor Rank Specialist, Department of Financial Engineering and Actuarial Mathematics, Soochow University	President and Managing Director, Bank of Taiwan Co., Ltd. Director, Taiwan Small Business Integrated Assistance Center Director, Taipei Interbank Money Center, The Bankers Association of the R.O.C. Director, The Bankers Association of the Republic of China Adviser, The Bankers Association of Taipei
Director	Yeong-Yuh Chiang	male	Aug.31, 2016	Aug.31, 2016	Ph. D. in Economics, University of Minnesota Chairman, Dept. of Economics, Chinese Culture University Professor, Dept. of Economics, Chinese Culture University Chairman, Dept. of Money and Banking, National Chengchi University Professor, Dept. of Money and Banking, National Chengchi University Director, Bank of Taiwan Co., Ltd Director General, The Association of Finance and Banking Secretary General, The Association of Finance and Banking	Professor & Chairman, Dept. of Economics, Chinese Culture University Director, First Financial Assets Management Co., Ltd. Director, First Financial Leasing (Chengdu) Ltd. (A subsidiary company of First Financial Assets Management Co., Ltd.)
Director	Shih-Ti Yu	male	Aug.31, 2016	Aug.31, 2016	Ph.D. in Economics, University of Rochester Professor & Chairman, Department of Quantitative Finance, National Tsing Hua University Professor, Department of Applied Economics, National Chiayi University. Professor, Department of Finance, Yuan-Ze University Professor, Department of International Business, WuFeng Institute of Technology.	Professor, Department of Quantitative Finance, National Tsing Hua University Supervisor, Yuanta-Polaris Research Institute
Director	Ying-Wei Peng	male	June 17, 2017	June 17, 2017	Master of Law, National Chengchi University Section Chief, Insurance Bureau, Financial Supervisory Commission, Executive Yuan Section Chief, Dept. of Legal Affairs, Financial Supervisory Commission, Executive Yuan Senior Specialist, Legal Affairs Committee, Ministry of Finance Executive Secretary, Legal Affairs Committee,Ministry of Finance Executive Secretary, Petitions and Appeals Committee, Ministry of Finance	Chief Secretary, Ministry of Finance
Director	Dou-Ming Su	male	June 21, 2017	June 21, 2017	Ph.D. in Economics, University of Southampton, U.K. Assistant Director General, Department of Financial Inspection, Central Bank of the Republic of China (Taiwan) Chief Representative of New York Representative Office of Central Bank of the Republic of China (Taiwan) Assistant Director General, Department of Foreign Exchange, Central Bank of the Republic of China (Taiwan) Senior Economist, Department of Foreign Exchange, Central Bank of the Republic of China (Taiwan)	Deputy Director General, Department of Financial Inspection, Central Bank of the Republic of China (Taiwan)

Note 1: All the directors and supervisors are the MOF's juristic-person representatives.
Note 2: TFH is a state-owned enterprise with its shares 100% owned by MOF.
Note 3: No director is the spouse of, or related within the second degree of kinship to, any head of department, directors and supervisors.
Note 4: The terms of all directors will expire on Aug. 30, 2019.
Note 5: All directors are of R.O.C. nationality.

Major Shareholders of the Institutional Shareholders

Dec. 31, 2017

Name of Institutional Shareholders	Major Shareholders of the Institutional Shareholders
Ministry of Finance	-

Professional Qualifications and Independence Analysis of Directors and Supervisors

Dec. 31, 2017

Name \ Criteria	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria (Notes)										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
	An Instructor or Higher Position in a Department of Commerce, Lawating, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who Has Passed a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Company	Has Work Experience in the Areas of Commerce, Law, Finance, Accounting, or Others Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Joseph Jye-Cherng Lyu	v		v	v		v	v	v	v	v	v	v	MOF holds 100% of shares of TFH and assigned all directors.	0
Miao-Ling Chen	v	v	v	v	v	v	v	v	v	v	v	v		1 (BTS)
Jin-Ji Chen	v		v	v	v	v	v	v	v	v	v	v		2 (BTLI, AirAsia)
Ming-Fang Tsai	v		v	v	v	v	v	v	v	v	v	v		1 (BTS)
Austin Chan	v		v	v		v	v	v	v	v	v	v		0
Tina E-Dawn Chen			v	v	v	v	v	v	v	v	v	v		0
Ching-Hua Lee			v	v	v	v	v		v	v	v	v		0
San-Quei Lin			v	v	v	v	v	v	v	v	v	v		0
Kung-Cheng Lin	v			v	v	v	v	v	v	v	v	v		0
Hsiao-Ling Chen			v	v	v	v	v		v	v	v	v		0
Jan-Lin Wei	v		v	v		v	v	v	v	v	v	v		0
Yeong-Yuh Chiang	v			v	v	v	v	v	v	v	v	v		0
Shih-Ti Yu	v			v	v	v	v	v	v	v	v	v		0
Ying-Wei Peng			v	v	v	v	v		v	v	v	v		0
Dou-Ming Su			v	v	v	v	v	v	v	v	v	v		0

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

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

2. General manager, assistant general managers, and the chiefs of all the company's divisions

Dec. 31, 2017

Position	Name	Gender	Date of Employment	Education and Career	Positions Held with Other Companies
President	Austin Chan	Male	Aug. 31, 2016	S.J.D., National Chengchi University Director General of the Banking Bureau of the Financial Supervisory Commission Director General of the Bureau of Agriculture Finance, Council of Agriculture, Executive Yuan Chief Secretary, Financial Supervisory Commission Director-General, Dept. of Legal Affairs, Financial Supervisory Commission Deputy Director General, Department of Commerce, MOEA Director, Bank of Taiwan Co., Ltd. Director, Taiwan Cooperative Bank Co., Ltd.	Assistant Professor, National Chengchi University Assistant Professor, Soochow University Director, BankTaiwan Life Insurance Co., Ltd.
SEVP	Hong-Chi Chang	Male	Sep. 17, 2012	Master of Agricultural Economics National Chung Hsing University Acting President, Taiwan Financial Holding Co., Ltd. SEVP & General Auditor, Bank of Taiwan Co., Ltd. EVP & General Manager, Head of Training Institute, Bank of Taiwan Co., Ltd. EVP & Secretary General, Bank of Taiwan Co., Ltd. EVP & Secretary General, Land Bank of Taiwan Co., Ltd. VP & Deputy General Manager, Department of Credit Management, Land Bank of Taiwan Co., Ltd. VP & Deputy General Manager, Department of Business, Land Bank of Taiwan Co., Ltd. VP, Department of International Banking, Land Bank of Taiwan Co., Ltd. Inspector, Commission of Finance, Taiwan Provincial Government Section Head, Commission of Finance, Taiwan Provincial Government Director, Mega Bills Finance Co., Ltd. Supervisor, Taiwan Power Company Co., Ltd. Director, Taiwan Life Insurance Co., Ltd. Supervisor, BankTaiwan Securities Co., Ltd.	Senior Executive Vice President, Bank of Taiwan Co., Ltd. Supervisor, Bills Finance Association of the Republic of China Managing Director, Taiwan Business Bank Co., Ltd. Director, BankTaiwan Life Insurance Co., Ltd.
SEVP	Yi Lin	Female	July 18, 2017	B.B.A., National Chung Hsing University President, BankTaiwan Securities Co., Ltd. SEVP, BankTaiwan Securities Co., Ltd. EVP& General Manager, Department of Securities, Bank of Taiwan Co., Ltd.	Committee Member, Financial Holding Business Committee, The Bankers Association of the Republic of China
SEVP & General Auditor	Li-Shieu Tsai	Female	Apr. 16, 2013	M.A. in Finance, Ming Chuan University SVP & Chief Financial Officer, Taiwan Financial Holding Co., Ltd. Director, BankTaiwan Life Insurance Co., Ltd. Supervisor, BankTaiwan Life Insurance Co., Ltd. SVP & General Manager, Business Development Department, Taiwan Financial Holding Co., Ltd. EVP & Secretary General, Taiwan Financial Holding Co., Ltd.	Committee Member, Internal Audit Committee, The Bankers Association of the Republic of China

Position	Name	Gender	Date of Employment	Education and Career	Positions Held with Other Companies
SEVP & Chief Compliance Officer	Su-Lan Lin	Female	Apr. 29, 2015	LL.M., The University of New South Wales LL.M., National Chengchi University EVP & General Manager, Department of Compliance, Bank of Taiwan Co., Ltd. SVP, Bank of Taiwan Co., Ltd.	SEVP & Chief Compliance Officer, Bank of Taiwan Co., Ltd. Committee Member, Financial Regulations and Disciplinary Committee, The Bankers Association of The Republic of China
EVP & Secretary General	Hsiu-Shiang Liu	Female	Nov. 17, 2017	M.B.A., National Chiayi University VP & Deputy Secretary General, Bank of Taiwan Co., Ltd. Assistant Vice President & Senior Auditor, Bank of Taiwan Co., Ltd. VP & Deputy General Manager, Land Bank of Taiwan Co., Ltd.	VP & Deputy Secretary General, Bank of Taiwan Co., Ltd.
EVP & Chief Strategy Officer	Lily Lee	Female	July 27, 2017	M.A. in International Trade, National Chengchi University SVP & Chief Risk Officer, Taiwan Financial Holding Co., Ltd. SVP & General Manager, Department of Risk Management, Bank of Taiwan Co., Ltd. VP & Deputy General Manager, Department of Domestic Operations, Bank of Taiwan Co., Ltd. VP & Deputy General Manager, Department of Risk Management, Bank of Taiwan Co., Ltd.	Director, BankTaiwan Securities Co., Ltd. Teammate of Risk Management, Financial Holding Business Committee, The Bankers Association of the Republic of China
EVP & Chief Administration Officer	Man-Yi Chu	Female	July 27, 2017	M.A. in Business Administration, National Taiwan University SVP & Chief Strategy Officer, Taiwan Financial Holding Co., Ltd. SVP & Chief Information Officer, Taiwan Financial Holding Co., Ltd. SVP & General Manager, Administrative Department, Taiwan Financial Holding Co., Ltd. Supervisor, BankTaiwan Securities Co., Ltd. SVP & Deputy General Manager, Information Management Office, Bank of Taiwan Co., Ltd. SVP & General Manager, Department of Information Management, Central Trust of China	Director, BankTaiwan Life Insurance Co., Ltd.
EVP & Chief Financial Officer	Kuo-Yung Chang	Male	June 19, 2017	M.A. in Business Administration, National Taiwan University EVP & General Manager, Accounting Section, Financial Management Department, Taiwan Financial Holding Co., Ltd. AVP & Assistant General Manager, Accounting Office, Bank of Taiwan Co., Ltd. Senior Banking Officer & Assistant General Manager, Department of Accounting, Central Trust of China	
EVP & Chief Information Officer	Yeung-Rong Ju	Male	Apr. 27, 2017	M.S., Computer Science, Asian Institute of Technology EVP &General Manager, Department of Electronic Banking, Bank of Taiwan Co., Ltd. AVP & Deputy General Manager, Department of Information Management, Bank of Taiwan Co., Ltd.	SVP & General Manager, Department of Information, Bank of Taiwan Co., Ltd. Director, Financial eSolution Co., Ltd. Director, Banking Automation Committee, The Bankers Association of the Republic of China Committee Member, Certificate Policy Management Committee, The Bankers Association of the Republic of China Committee Member, Financial Technology Consulting Committee, Taiwan Financial Services Roundtable Co., Ltd.

Note 1: TFH is a state-owned enterprise with its shares 100% owned by MOF.
Note 2: No senior official is the spouse of, or related within the second degree of kinship to, any general manager.
Note 3: All the senior officials are of R.O.C. nationality.

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

(1) Remuneration of Directors

Unit: NT$1,000 ; %

Title	Name	Remuneration								Ratio of Total Remuneration (A+B+C+D) to Net Income After Tax (%)		Relevant Remuneration Received by Directors Who are Also Employees								Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income After Tax (%)		Reinvested Enterprises other than TFH's Subsidiary
		Base Compensation (A)		Severance Pay (B)		Bonus to Directors (C)		Allowances (D) (Note)				Salary, Bonuses, and Allowances (E)		Severance Pay (F)		Employee Bonus (G)						
		TFH	Companies in the Consolidated Financial Statements	TFH	Companies in the Consolidated Financial Statements	TFH	Companies in the Consolidated Financial Statements	TFH	Companies in the Consolidated Financial Statements	TFH	Companies in the Consolidated Financial Statements	TFH	Companies in the Consolidated Financial Statements	TFH	Companies in the Consolidated Financial Statements	TFH		Companies in the Consolidated Financial Statements		TFH	Companies in the Consolidated Financial Statements	
																Cash	Stock	Cash	Stock			
Director	Joseph Jye-Cherng Lyu	None	3,588	171	171	None		3,192	3,343	0.046	0.097	2,889	6,464	168	329	None				0.087	0.189	None
Director	Austin Chan																					
Director	Tina E-Dawn Chen																					
Director	Kuei-Chou Huang																					
Director	Hsiao-Ling Chen																					
Director	Ching-Hua Lee																					
Director	Kung-Cheng Lin																					
Director	San-Quei Lin																					
Director	Jan-Lin Wei																					
Director	Shih-Ti Yu																					
Director	Yeong-Yuh Chiang																					
Director	Ying-Wei Peng																					
Director	Dou-Ming Su																					
Independent Director	Miao-Ling Chen																					
Independent Director	Jin-Ji Chen																					
Independent Director	Jiunn-Rong Chiou																					
Independent Director	Ming-Fang Tsai																					
In addition to the disclosures made above, what other compensation was received by company directors during the most recent fiscal year for services (e.g. services rendered as an advisor with non-employee status) to any company listed in the financial reports: None.																						

Note:1.Joseph Jye-Cherng Lyu was appointed on 2016.8.31. The NT$240,000 owed to Mr. Lyu as compensation for concurrent service as a TFH director in 2017 was all paid into the national treasury. Mr. Lyu did not receive it.

2.Austin Chan was appointed on 2016.8.31. The NT$240,000 owed to Mr. Chan as compensation for concurrent service as a TFH director in 2017 was all paid into the national treasury. Mr. Chan did not receive it.

3.Tina E-Dawn Chen was appointed on 2014.7.28.

4.Kuei-Chou Huang was appointed on 2015.7.16, and was discharged on 2017.6.21.

5.Hsiao-Ling Chen was appointed on 2016.6.6.

6.Ching-Hua Lee was appointed on 2016.6.16.

7.Kung-Cheng Lin was appointed on 2016.6.23.

8.San-Quei Lin was appointed on 2016.6.30.

9.Jan-Lin Wei, Shih-Ti Yu, Miao-Ling Chen, and Jin-Ji Chen were appointed on 2016.8.31.

10.Yeong-Yuh Chiang was appointed on 2016.8.31. The NT$240,000 owed to Mr. Chiang as compensation for concurrent service as a TFH director in 2017 was all paid into the national treasury. Mr. Chiang did not receive it.

11.Jiunn-Rong Chiou was appointed on 2016.8.31, and was discharged on 2017.9.7.

12.Ying-Wei Peng was appointed on 2017.6.17.

13.Dou-Ming Su was appointed on 2017.6.21.

14.Ming-Fang Tsai was appointed on 2017.9.19.

Remuneration Brackets

Bracket	Name of Directors			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	TFH	Companies in the Consolidated Financial Statements	TFH	Companies in the Consolidated Financial Statements
Under NT$2,000,000	Joseph Jye-Cherng Lyu Austin Chan Tina E-Dawn Chen Kuei-Chou Huang Hsiao-Ling Chen Ching-Hua Lee Kung-Cheng Lin San-Quei Lin Jan-Lin Wei Shih-Ti Yu Yeong-Yuh Chiang Ying-Wei Peng Dou-Ming Su Miao-Ling Chen Jin-Ji Chen Jiunn-Rong Chiou Ming-Fang Tsai	Austin Chan Tina E-Dawn Chen Kuei-Chou Huang Hsiao-Ling Chen Ching-Hua Lee Kung-Cheng Lin San-Quei Lin Jan-Lin Wei Shih-Ti Yu Yeong-Yuh Chiang Ying-Wei Peng Dou-Ming Su Miao-Ling Chen Jin-Ji Chen Jiunn-Rong Chiou Ming-Fang Tsai	Joseph Jye-Cherng Lyu Tina E-Dawn Chen Kuei-Chou Huang Hsiao-Ling Chen Ching-Hua Lee Kung-Cheng Lin San-Quei Lin Jan-Lin Wei Shih-Ti Yu Yeong-Yuh Chiang Ying-Wei Peng Dou-Ming Su Miao-Ling Chen Jin-Ji Chen Jiunn-Rong Chiou Ming-Fang Tsai	Tina E-Dawn Chen Kuei-Chou Huang Hsiao-Ling Chen Ching-Hua Lee Kung-Cheng Lin San-Quei Lin Shih-Ti Yu Yeong-Yuh Chiang Ying-Wei Peng Dou-Ming Su Miao-Ling Chen Jin-Ji Chen Jiunn-Rong Chiou Ming-Fang Tsai
NT$2,000,000 ~ NT$5,000,000		Joseph Jye-Cherng Lyu	Austin Chan	Joseph Jye-Cherng Lyu Austin Chan Jan-Lin Wei
NT$5,000,000 ~ NT$10,000,000				
NT$10,000,000 ~ NT$15,000,000				
NT$15,000,000 ~ NT$30,000,000				
NT$30,000,000 ~ NT$50,000,000				
NT$50,000,000 ~ NT$100,000,000				
Over NT$100,000,000				
Total (Unit: NT$1,000)	3,363	7,102	6,420	13,895

TFH Chairman Joseph Jye-Cherng Lyu (6th from left) and President Austin Chan (5th from left) held a press conference with senior executives from the Group's subsidiaries to mark the upcoming Year of the Dog.

(2) Compensation of President and Senior Executive Vice President

Unit: NT$1,000 ; %

Title	Name	Salary (A)		Severance Pay (B)		Bonuses and Allowances (C)		Employee Bonus (D)				Ratio of Total Compensation (A+B+C+D) to Net Income After Tax (%)		Reinvested Enterprises other than TFH's Subsidiary
		The Company	Companies in the Consolidated Financial Statements	The Company	Companies in the Consolidated Financial Statements	The Company	Companies in the Consolidated Financial Statements	The Company		Companies in the Consolidated Financial Statements		The Company	Companies in the Consolidated Financial Statements	
								Cash	Stock	Cash	Stock			
President	Austin Chan	4,401	7,598	358	614	1,724	3,787	None				0.088	0.163	144
SEVP	Hong-Chi Chang													
SEVP (appointed on 2017.7.18)	Yi Lin													
SEVP (retired on 2017.1.5)	Yu-Chih Liu													
SEVP & General Auditor	Li-Shieu Tsai													
SEVP & Chief Compliance Officer	Su-Lan Lin													

Remuneration Bracket

Bracket	Name of President and Executive Vice Presidents	
	TFH	Reinvested Enterprises
Under NT$2,000,000	Hong-Chi Chang ; Yi Lin ; Yu-Chih Liu ; Su-Lan Lin	Yi Lin ; Yu-Chih Liu
NT$2,000,000 ~ NT$5,000,000	Austin Chan ; Li-Shieu Tsai	Austin Chan ; Hong-Chi Chang ; Li-Shieu Tsai ; Su-Lan Lin
NT$5,000,000 ~ NT$10,000,000		
NT$10,000,000 ~ NT$15,000,000		
NT$15,000,000 ~ NT$30,000,000		
NT$30,000,000 ~ NT$50,000,000		
NT$50,000,000 ~ NT$100,000,000		
Over NT$100,000,000		
Total (Unit: NT$1,000)	6,484	12,000

4. Separately compare and describe total remuneration, as a percentage of net income stated in the consolidated financial reports, as paid by the company and by each other company included in the consolidated financial statements during the past 2 fiscal years to directors, supervisors, general managers, and assistant general managers, and analyze and describe remuneration policies, standards, and packages, the procedure for determining remuneration, and its linkage to operating performance and future risk exposure:

TFH is a state-owned company with its shares 100% owned by MOF. This item is not applicable. Compensation standards governing the compensation paid to directors (TFH has no supervisors), presidents, and vice-presidents are adopted in accordance with the applicable regulations of the Executive Yuan and the Ministry of Finance.

III. Implementation of Corporate Governance

1. Board of Directors

A total of 17 meetings of the Board of Directors were held in 2017. Director attendance was as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate(%) (Note)	Remarks
Chairman	Joseph Jye-Cherng Lyu	17	0	100.00	Appointed on 2016.8.31 Required attendance: 17 times
Director	Tina E-Dawn Chen	17	0	100.00	Appointed on 2014.7.28 Reappointed on 2016.08.31 Required attendance: 17 times
Director	Kuei-Chou Huang	8	0	100.00	Appointed on 2015.7.16 Resigned on 2017.06.21 Required attendance: 8 times
Director	Ching-Hua Lee	15	2	88.24	Appointed on 2016.6.16 Reappointed on 2016.08.31 Required attendance: 17 times
Director	Yeong-Yuh Chiang	15	2	88.24	Appointed on 2016.8.31 Required attendance: 17 times
Director	Jan-Lin Wei	15	2	88.24	Appointed on 2016.8.31 Required attendance: 17 times
Director	Shih-Ti Yu	14	3	82.35	Appointed on 2016.8.31 Required attendance: 17 times
Director	Hsiao-Ling Chen	17	0	100.00	Appointed on 2016.6.6 Reappointed on 2016.08.31 Required attendance: 17 times
Director	Kung-Cheng Lin	15	2	88.24	Appointed on 2016.6.23 Reappointed on 2016.08.31 Required attendance: 17 times
Director	San-Quei Lin	14	3	82.35	Appointed on 2016.6.30 0Reappointed on 2016.08.31 Required attendance: 17 times
Director	Austin Chan	16	1	94.12	Appointed on 2016.8.31 Required attendance: 17 times
Director	Ying-Wei Peng	8	1	88.89	Appointed on 2017.6.17 Required attendance: 9 times
Director	Dou-Ming Su	9	0	100.00	Appointed on 2017.6.21 Required attendance: 9 times
Independent Director	Miao-Ling Chen	17	0	100.00	Appointed on 2016.8.31 Required attendance: 17 times
Independent Director	Jiunn-Rong Chiou	11	1	91.67	Appointed on 2016.8.31 Resigned on 2017.09.07 Required attendance: 12 times
Independent Director	Jin-Ji Chen	14	3	82.35	Appointed on 2016.8.31 Required attendance: 17 times
Independent Director	Ming-Fang Tsai	5	0	100.00	Appointed on 2017.09.19 Required attendance:5 times

Other mentionable items:

1. The dates of meetings, sessions, contents of motions, all independent directors' opinion and the Company's response to independent directors' opinion should be specified, if there are (1) circumstances referred to in Article 14-3 of Securities and Exchange Act or (2) resolutions of the directors' meetings objected to by independent directors or subject to qualified opinion and recorded or declared in writing: None.
2. If there is directors' avoidance of motions in conflict of interest, the directors' names, contents of motions, causes for avoidance and voting should be specified: None.
3. Evaluation of targets for strengthening of the functions of the board (ex: the establishment of Audit Committee, or improve information transparency) during 2017:

(1) The TFH Board of Directors has an Audit Committee, a Strategic Development Committee, and a Risk Management Committee.

(2) To increase transparency, the Ministry of Finance once again contracted a fair and impartial outside institution to audit the TFH by conducting documentary reviews focusing on four key aspects: information transparency; management operations; functions of the board of directors; and stakeholder interests and corporate social responsibility. The audit resulted in an overall score of 91.9 points, thus highlighting the fact that TFH has taken concrete steps to implement corporate governance, and the results have been outstanding.

(3) Board members attend professional development coursework related to corporate governance matters upon appointment or during the course of their term on the board, in accordance with the provisions of the "Securities and Exchange Act" and the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies." Moreover, board members have many different specialties and are thus able to implement a diverse range of policies.

Note: The actual ratio of attendance (%) is calculated as the ratio (%) of the number of Board of Directors meetings attended to the total number held during the term in office.

2. The state of operations of the Audit Committee

A total of 9 Audit Committee meetings were held in 2017. Independent Director attendance was as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%) (Note)	Remarks
Independent Director	Miao-Ling Chen	9	0	100	Appointed on 2016.8.31 Required attendance: 9 times
Independent Director	Jiunn-Rong Chiou	6	0	100	Appointed on 2016.8.31 Resigned on 2017.09.07 Required attendance: 6 times
Independent Director	Jin-Ji Chen	8	1	88.89	Appointed on 2016.8.31 Required attendance: 9 times
Independent Director	Ming-Fang Tsai	2	1	66.67	Appointed on 2017.9.19 Required attendance: 3 times

Other mentionable items:

1. The dates of meetings, sessions, contents of motions, resolutions of Audit Committee and the Company's response to Audit Committee's opinion should be specified, if there are :

   (1) Circumstances referred to in Article 14-5 of Securities and Exchange Act: The organizational rules of the TFH Audit Committee were adopted in compliance with Article 14-5 of the "Securities and Exchange Act." The details of these rules are all set in accordance with applicable legislation, so no special resolution regarding the committee's organizational rules was ever put before the board.

   (2) Resolutions which were not approved by the Audit Committee but were approved by two thirds or more of all Directors: None.
2. If there is Independent Directors' avoidance of motions in conflict of interest, the Independent Directors' names, contents of motions, causes for avoidance and voting should be specified: None
3. Communication between the Independent Directors, internal auditing authorities and CPAs (including major items, mode and results of discussion about the Company's finance and business)

   (1) Communication with internal auditing authorities was carried out as follows to reinforce TFH's internal auditing work:

   A: A report on auditing work for the second half of 2016

   B: Internal Control Statement in 2016

   C: Results of 2016 evaluation of internal audit operations at subsidiaries BOT, BTLI and BTS.

   D: A report on auditing work for the first half of 2017

   E: Auditing work plan for 2018

   F: Examination opinions from the report on the Financial Supervisory Commission's 2017 full scope examination of TFH, and a description of what TFH has done to implement orally requested corrective actions.

   G: Audit opinions following special audits of three TFH subsidiaries, and a description of what has been done to implement corrective actions.

   (2) Communication with CPAs was carried out through the submission of the following document to reinforce the content of the Company's external auditing work:

   A: Key audit items set out in the TFH 2016 consolidated financial report.

   B: Consolidated financial reports of 2016

   C: The financial report for every quarter of 2017

Note: The members of the 2nd Audit Committee are serving terms that began from Aug. 31, 2016. In 2017, the Audit Committee met six times in regular session and three times in extraordinary session.

3. Corporate Governance Execution Status and Deviations from "Corporate Governance Best-Practice Principles for Financial Holding Companies"

TFH discloses information on finance, business, and corporate governance on the company's own website (http:// www.twfhc.com.tw) and the Market Observation Post System (MOPS) website (http:// mops.twse.com.tw).

4. The state of the company's implementation of corporate governance, and the departure from the Corporate Governance Best-Practice Principles.

Matters Evaluated	Implementation Status		
	Y	N	Summary Description
1.Shareholding Structure & Shareholders' Rights			
(1) Has the Company adopted internal procedures for the handling of shareholder suggestions, questions, disputes, and litigation? Does the Company act in accordance with such procedures?	v		TFH currently has only one institutional shareholder: Ministy of Finance (MOF). TFH properly handles all instructions and suggestions from the MOF in accordance with legal requirements.
(2) Does the Company know the identities of the main controlling shareholders, and of the ultimate controlling shareholder?	v		TFH is a state-owned company, with its shares 100% owned by MOF. The Government is the ultimate controlling shareholder.
(3) Has the Company established a risk management mechanism and "firewall" between the Company and its affiliates? Is it implementing them?	v		TFH has adopted administrative rules, risk management policies and guidelines, and rules governing credit extensions or other transactions with interested parties of the group. These rules, policies, and guidelines clearly delineate the managerial powers and responsibilities of TFH and its subsidiaries. Each subsidiary also has its own independent risk management unit.
2.Composition and Responsibilities of the Board of Directors			
(1) In addition to the Remuneration Committee and the Audit Committee, is the Company willing to establish other function-specific committees?	v		1. TFH is a state-owned company, with its shares 100% owned by MOF. The directors and employees' salary points are handled in accordance with regulations issued by The Executive Yuan and the Ministry of Finance, and it does not have a Remuneration Committee. 2. TFH established an Audit Committee on 2013.8.31 to strengthen its internal audit work, legal compliance, and risk management. 3. In order to strengthen management decision-making processes, TFH has established Strategic Development Committee and Risk Management Committee.
(2) Does the Company carry out regular evaluations of CPA independence?	v		Before TFH retains its attesting CPA in accordance with the Government Procurement Act, it has to report the CPA to the Audit Committee and the Board of Directors for discussion and agreement, then files the CPA hiring selection with the Audit Committee for recordation. After that, the CPA is hired.
3. Is the Company a TWSE/TPEx listed company? If so, does the Company set up a full- (or part-) time corporate governance unit or personnel to be in charge of corporate governance affairs and designate a senior officer to be in charge of supervision?	v		TFH is a public company. It does not have a special unit or officer that specializes in the management of corporate governance matters, but it does assign responsibility for corporate governance matters to its Administration Department.
4. Has the Company established a communication channel with interested parties ?	v		1. TFH periodically discloses financial and operating information as well as material information on its own website and on the Market Observation Post System (MOPS) website of the Taiwan Stock Exchange, where interested parties may find it. 2. TFH maintains a mailbox for complaints and suggestions on its website, and assigns personnel to handle suggestions or disputes raised by stakeholders. Its internal website also contains a Chairperson's Mailbox and President's Interchange as channels for employee suggestions and communication.
5.Information Disclosure			
(1) Has a corporate website been established to disclose information regarding the Company's financial, business, and corporate governance status?	v		TFH discloses relevant and reliable information on Market Observation Post System (MOPS) website,TFH also established website to regularly discloses information on finance, business, and corporate governance.

Matters Evaluated	Implementation Status		
	Y	N	Summary Description
(2) Has the Company established other information disclosure channels (such as setting up an English website, specifically assigning personnel to collect and disclose related information, implementing the spokesperson mechanism, and posting the taped investor conferences on the website)?	v		Other information disclosure channels include: 1. TFH's website has an English page to disclose relevant information. 2. Assigned personnel to periodically collect important financial and business information, and disclose related information on the website. 3. To implement the spokesperson mechanism completely, the Senior Executive Vice-President act as the news spokesperson to exclusively make public comments on major policies and business measures.
6. Does the Company have other important information that would contribute to a better understanding of the Company's corporate governance operations (e.g., including but not limited to employee rights, employee wellness, investor relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, purchasing insurance for directors and supervisors, and donations to political parties, stakeholders, and charity organizations)?	v		1. Employee rights and wellness: (1) TFH is a 100% state-owned financial institution. The interests of its employees are handled in accordance with the provisions of the "Labor Standards Act," other labor legislation, and regulations issued by the competent authorities. (2) The internal website of TFH also contains a Chairperson's Mailbox and President's Interchange as channels for employee suggestions and communication. (3) TFH acts in accordance with applicable requirements by enrolling its employees in insurance and providing them with opportunities to take vacations in Taiwan, receive medical examinations, and attend professional development courses. TFH also has an employee benefits committee that handles related matters. 2. Investor Relations and Rights of Stakeholders: (1) TFH regularly provides its sole shareholder, the Ministry of Finance, with its latest financial information, and maintains strong communications. (2) The TFH website has a special corporate governance section where, among other information, we post the following: Message to Shareholders; Corporate Governance Framework; Corporate Governance Bylaws; Chairperson's Mailbox; President's Interchange; and information on the Board of Directors, the Audit Committee, internal controls, internal audits, and corporate social responsibility. This information helps stakeholders understand the state of corporate governance operations at TFH. 3. Advanced Education for Directors and Supervisors: TFH provides Directors with information on advanced courses related to issues of corporate governance, and arranges for them to attend courses in accordance with the regulations and their individual wishes. In 2017, the number of hours of professional development courses attended by directors satisfied regulatory provisions, under which new directors are required to attend 12 hours, while continuing directors must attend 6 hours each year during their terms. 4. Implementation of Risk Management Policies and Risk Evaluation Measures: Acting pursuant to the provisions of the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries," TFH has adopted the "Taiwan Financial Holding Company Risk Management Policies and Guidelines." The Board of Directors has a subordinate Risk Management Committee that establishes groupwide risk management mechanisms and oversees the corporate governance operations of TFH subsidiaries to ensure sound business development throughout the entire group. 5. Implementation of Customer Relations Policies: TFH has adopted measures to protect the confidentiality of customer information, and its subsidiaries all have customer service hotlines and email addresses that customers can use to raise complaints and suggestions or seek consultation. 6. Purchasing Insurance for Directors and Supervisors: TFH is a 100% state-owned enterprise. All the directors are assigned by the Ministry of Finance. TFH has not purchased liability insurance for its Directors.

Matters Evaluated	Implementation Status		
	Y	N	Summary Description
			7. Donations to Political Parties, Stakeholders, and Charity Organizations: (1)There is no donations to political parties and stakeholders in 2017. (2) Donations to Charity Organizations: a. In 2017, TFH donated NT$2.5 million to the Financial Services Education Charity Fund for the purposes of helping youth from underprivileged families to complete their studies free of worry. b. TFH and its subsidiaries BOT and BTLI jointly donated NT$430,000 to the Bethesda Home for Handicapped Children in Hualien.
7. Please account for how much improvement and what measures the Company has made concerning the company governance assessment result published by the Corporate Governance Center of Taiwan Stock Exchange: TFH is not a TWSE/GTSM listed company, and was not included in the assessed companies.			

Note: There is no deviation of TFH's implementation of corporate governance from the Corporate Governance Best-Practice Principles.

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

TFH has not established a Remuneration Committee.

6. Social Responsibility

Matters Evaluated	Implementation Status		
	Y	N	Summary Description
1.Implementation of Corporate Governance			
(1) Has the Company adopted a corporate social responsibility policy or system? Does the Company review the effectiveness of its implementation thereof?	v		The TFH 2017 business plan incorporates corporate social responsibility into its management policies as an important guiding principle for the group's operating activities.
(2) Does the Company periodically hold social responsibility education and training sessions?	v		TFH held a "Seminar on the Preparation of Corporate Social Responsibility Reports" in 2017, and invited group employees to attend.
(3) Does the Company have a unit (dedicated or otherwise) that is charged with responsibility for promoting corporate social responsibility? Does the board of directors specifically authorize senior management to handle corporate social responsibility matters, and does senior management report back to the board of directors on its handling of such matters?		v	TFH has not yet established a unit (dedicated or otherwise) to handle corporate social responsibility matters. However, the appropriate units do integrate group resources and implement a centralized plan for corporate social responsibility matters.
(4) Has the Company adopted a policy on reasonable remuneration? Are corporate social responsibility matters factored into employee performance evaluations? Are there clear and effective rewards and sanctions?		v	TFH is a 100% state-owned company. As such, its employees' salary points and employee performance evaluations are handled in accordance with regulations issued by the Ministry of Finance. Corporate social responsibility policies are not currently factored into employee performance evaluations.
2.Development of a Sustainable Environment			
(1) Does the Company make efforts to enhance the efficiency of resource utilization, and use recyclable materials with a low environmental burden?	v		Throughout the entire group, TFH recycles all photocopy paper, purchases recycled paper, and uses two-sided printing (and photocopying) to reduce paper consumption.
(2) Has the Company established an appropriate environmental management system that is suited to the characteristics of the financial holdings industry?	v		TFH and the National Development Council are both headquartered in the same building, and we occasionally call meetings to discuss environmental management methods, and TFH carries out follow-up monitoring to track the implementation of what has been discussed.

Matters Evaluated	Implementation Status		
	Y	N	Summary Description
(3) Does the Company pay attention to the impact of climate change on operating activities? Does it prepare greenhouse gas inventory reports? Has it adopted strategies for energy conservation and reduction of carbon and other greenhouse gases?	v		In compliance with the Energy Saving and Carbon Reduction policy, TFH set an annual goal of saving water, electricity and fuel expenditure. Every year, TFH also replaced high electricity-consuming appliances with energy-saving equipment.
3. Community Service Work			
(1) Has the Company adopted policies and procedures in accordance with applicable legislation and international human rights conventions?	v		TFH is a 100% state-owned company. It adopts a variety of different human resources bylaws and handles human resources matters in accordance with applicable regulations adopted by the competent authorities, and uses appropriate management methods and procedures to implement its bylaws and safeguard the lawful interests of employees.
(2) Has the Company established an employee complaint system, including a channel for lodging complaints? Is the system being properly implemented?	v		The internal website of TFH contains a Chairperson's Mailbox and President's Interchange as channels for employee suggestions and communication. These serve as channels for putting forward suggestions. TFH has also set up a Sexual Harassment Complaints Committee and a complaints hotline, and all cases are handled in strict secrecy to safeguard the interests of the complainants.
(3) Does the Company provide a safe and healthy working environment for its employees, and offer them regular safety and health education?	v		TFH subsidizes employees' medical examinations and periodically tests its fire safety equipment to ensure a safe and healthy working environment for all employees.
(4) Has the Company established a channel for periodic communication with employees? Does the Company use reasonable methods to notify employees of operational changes with a potentially major impact upon them?	v		The internal website of TFH contains a Chairperson's Mailbox and President's Interchange as channels for employee suggestions and communication.
(5) Has the Company established a career skills development program for its employees?	v		In order to improve employees' career development abilities, the Company conducts on-the-job trainings for them and sends them to participate in various seminars and conferences. TFH encourage employees to engage in professional and inter-industry diverse learning as required by their own professional fields.
(6) Has the Company adopted consumer protection policies and complaint procedures for its R&D, purchasing, operational, and service processes?	v		Processing of personal information is managed according to requirements of the Financial Holding Company Act and Regulations Governing Cross Selling among Subsidiaries of Financial Holding Company. To protect the secrecy and safety of customers' personal information, the Company has adopted rigorous control mechanisms. And all TFH subsidiaries have customer service hotlines and email addresses that customers can use to raise complaints and suggestions or otherwise communicate their thoughts.
(7) In its marketing and labeling of products and services, does the Company comply with applicable legislation and international standards?		v	According to the Financial Holding Company Act. As required under the provisions of the Financial Holding Company Act, TFH's main lines of business are investing in other enterprises and managing their operations. No marketing and labeling of products and services are provided to public.
(8) Before entering into a business relationship with a supplier, does the Company first consider whether the supplier has previously harmed the environment or the interests of society?	v		TFH handles purchasing matters in compliance with the "Government Procurement Act", environmental protection and labor safety & health legislation, and related legislation. Qualification requirements for suppliers and manufacturers, and the content of contracts, must all be set in accordance with the law.
(9) Do the Company's contracts with major suppliers include a provision that allows for the Company to terminate or rescind at any time if the supplier violates its corporate social responsibility policy in such a manner as to harm the environment or the interests of society?	v		TFH's procurement contracts expressly provide that if a supplier violates environmental protection or labor safety & health legislation, TFH reserves the right to terminate or suspend the contract.

Matters Evaluated	Implementation Status		
	Y	N	Summary Description
4. Strengthening of Information Disclosure Does the Company disclose relevant and reliable information regarding its corporate social responsibility on its own website and the Market Observation Post System (MOPS) website?	v		TFH has disclosed the state of its social responsibility work on its website and annual reports.
5. If the Company has compiled its own corporate social responsibility rules in accordance with the "Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM Listed Companies," please explain their operation and their divergences: TFH is not a TWSE/GTSM listed company, and has not compiled its own corporate social responsibility rules.			
6. Other important information that would aid in understanding the operation of corporate social responsibility: 1. Social Responsibility: As a state-owned financial institution, TFH actively accommodated government policy, helped stabilize the financial order, provided well-designed financial services, participated vigorously in community service activities, fulfilled its responsibility as a corporate citizen, worked to spur Taiwan's national economy, and contributed to the well-being of the nation's people. 2. CSR disclosure: The TFH Group makes very comprehensive CSR disclosures in its annual report in the sections entitled "Corporate Governance" and "An Overview of Operations," and in the special "Corporate Governance" section on the TFH website. As a state-owned financial holding company that is wholly owned by the Ministry of Finance, all directors are the Ministry's juristic-person representatives, and its key public policy objectives are being pursued in support of the government's efforts to stabilize economic order, social stability, and specific social groups. The TFH Group's core subsidiary, BOT, has consistently been guided by the key aims of optimizing Taiwan's financial industry, supporting economic growth, and developing industrial and commercial enterprises, and in that mode has vigorously supported government policy in order to accomplish its assigned mission. In 2017, TFH Group subsidiaries: (a) continued working on contract to the Central Bank to handle ancillary matters pertaining to the issuance of New Taiwan Dollar notes and coins; (b) acted as agent for the public treasury at all levels of government; (c) provided Government Employees Insurance; (d) conducted government procurement business; (e) offered preferential rates for public service pension deposits; and (f) provided loans for major transportation infrastructure projects, industrial and commercial enterprises loans, post-disaster recovery loans, student loans, and preferential home loans. BOT also continued to implement a financing and debt relief program for corporations. The aforementioned policy tasks all served to stabilize society and the economy while maximizing the public interest. 3. In order to fulfill its corporate social responsibility as a state-owned financial institution, TFH conducted various types of policy-driven business, information on all of which can be found via links provided on the BOT website. Examples of such business include student loans and public treasury business at all levels, which BOT conducted as an agent for the government. TFH has also established a services network to meet the needs of customers and to enable all stakeholders to understand the content of the Group's policy-driven businesses and look after their respective interests. 4. Implementation of corporate social responsibility: Hold donation drives to give back to society and awaken public compassion (1) In order to fulfill its corporate social responsibility, TFH continued acting in the spirit of "giving back to the community" by donating NT$2.5 million to the aforementioned Financial Services Education Charity Fund (established by the Taiwan Financial Services Roundtable). (2) TFH and its subsidiaries BOT and BTLI jointly donated NT$430,000 to the Bethesda Home for Handicapped Children in Hualien. (3) The Bank of Taiwan strives to reflect public interest concerns in product design. It has joined forces with the Taiwan Guide Dog Association, for example, to issue the Guide Dog Affinity Card, which over the past 11 years has generated over NT$30 million in cashback donations to the Association for use in training guide dogs and creating an endowment for the establishment of a school.			
7. If the Company's corporate social responsibility reports include passage of certification standards by relevant certification agencies, please explain: None.			

Chairman Joseph Jye-Cherng Lyu invited Taoyuan City Mayor Cheng Wen-Tsan to jointly preside over a community service event, and personally led a group of co-workers from BOT on a visit to a children's home administered by the Reindeer Social Welfare Foundation to show their concern for the children's well-being. The Bank also donated musical instruments and furniture to help improve the learning environment there.

In the first Bank of Taiwan Arts Festival awarding ceremony, the director of National Taiwan Museum of Fine Arts Tsung-Huang Hsiao, TFH Chairman Joseph Jye-Cherng Lyu, Minister of Culture Li-Chiun Cheng, Professor Siou-Ping Liao and BOT president Jan-Lin Wei (second row, first from the left) posed with award winners.

7. Implementation of Ethical Management

Matters Evaluated	Implementation Status		
	Y	N	Summary Description
1. Establishment of Ethical Management Policies and Programs			
(1) Is an ethical management policy clearly expressed in the Company's charter and public documents? Are its board of directors and management committed to vigorous implementation of that policy?	v		TFH expressly sets out a code of ethics for employees in its human resources bylaws, and requires its directors and executive officers to proactively embrace ethical business practices by complying with the "Financial Holding Company Act," the "Securities and Exchange Act," and other applicable legislation.
(2) Has the Company adopted programs for the prevention of unethical behavior? Does each of these programs expressly set out operating procedures and a code of conduct, provide for punishment of unethical behavior, and establish a system for lodging complaints? Are the programs being properly implemented?	v		To ensure ethical corporate management, TFH requires employees at all levels to comply with the "Civil Servant Work Act" and the "Code of Ethics for Civil Servants" as well as the group's own internal rules, including the "Taiwan Financial Holdings Personnel Management Rules," and the "Taiwan Financial Holdings Code of Ethical Conduct for Directors, Supervisors, and Executive Officers." In addition, TFH holds occasional education and training activities focusing on corporate ethics, government ethics, and related matters.
(3) Has the Company adopted preventive measures to ensure that the unethical behaviors set out in Article 7, paragraph 2 of the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" will not occur, and that the Company will not engage in business activities that pose a relatively high risk of unethical conduct?	v		TFH is not a TWSE/GTSM listed company. However, in order to prevent unethical conduct, TFH requires that employees should not have unethical conduct as prohibited in the Ethical Management Principles. Besides, the Company conducts various preventative measures, including: training, discipline requirements, strict implementation of the internal control system, and encouragement to report violation behaviors.
2. Implementation of Ethical Management			
(1) Does the Company evaluate the ethics track record of parties with which it does business? Do the contracts that it enters into with such parties expressly set out provisions governing ethical conduct?	v		TFH conducts its purchasing operations in accordance with the provisions of the "Government Procurement Act." Purchasing contracts include penal provisions that require the supplier to provide compensation if it acts in breach of contract.
(2) Does the Company have a unit (dedicated or otherwise) that reports to the board of directors and is responsible for promoting ethical business practices? If so, does this unit report periodically to the board of directors on the status of its work?	v		TFH has not yet established a unit (dedicated or otherwise) that reports to the Board of Directors and is responsible for promoting ethical business practices. However, to make it easier for all employees to fully understand TFH's corporate culture, which embraces ethical corporate management, it carries out public awareness events as well as education and training activities, has adopted related codes of conduct, and implemented internal control, internal audit, and legal compliance measures to ensure ethical corporate management.
(3) Has the Company adopted a conflict-of-interest policy, and provided an appropriate complaint channel? Is the policy being properly implemented?	v		TFH has adopted the "Taiwan Financial Holdings Work Rules," "Rules of Order for Meetings of the Board of Directors of Taiwan Financial Holdings," and the "Taiwan Financial Holdings Code of Ethical Conduct for Directors, Supervisors, and Executive Officers." These rules require TFH directors, supervisors, and executive officers to conduct their affairs in an honest and ethical manner, taking care to avoid conflicts of interest and to refrain from using their positions for personal profit. TFH employees all sign a confidentiality agreement that imposes an obligation to maintain the confidentiality of all business operations and undisclosed information.
(4) Has the Company established effective accounting and internal control systems designed to achieve ethical management? Does its internal audit unit carry out periodic audits, or if not, does the Company retain a certified public accountant to carry out audits?	v		TFH has established a rigorous accounting system and a dedicated accounting unit. All financial reports are audited by a certifying CPA to ensure the fairness of financial statements, and TFH has established an internal audit system, a self-audit system, a chief compliance officer system, and a risk management system as required by the "Regulations Governing the Implementation of Internal Control and Audit Systems by Financial Holding Companies and Banking Enterprises."
(5) Does the Company periodically hold in-house or out-of-house education and training sessions that focus on business ethics?	v		TFH calls occasional internal meetings to educate employees about ethical best practice as it concerns government ethics, and uses its electronic bulletin board to post related information. The idea is to promote support for a culture of clean and competent behavior, and to arrange for directors to attend outside professional development courses.

Matters Evaluated	Implementation Status		
	Y	N	Summary Description
3. Whistleblower System			
(1) Has the Company established a whistleblower system that provides for whistleblower incentives? Is there a convenient channel for whistleblowers to raise their concerns? Does the Company assign appropriate personnel who are exclusively tasked with responsibility for interfacing with the persons against whom whistleblowers lodge complaints?	v		TFH and its subsidiaries all maintains a mailbox for complaints and suggestions on its website and assign personnel to process; Its internal website also contains a Chairperson's Mailbox and President's Interchange as channels for employee suggestions and communication.
(2) Has the Company adopted a standard operating procedure and a confidentiality regime for investigations launched in response to whistleblower complaints?	v		TFH has a special email address to accept whistleblower reports. Employees can submit suggestions or complaints via the "Contact Us" box on the TFH website. Its internal website also contains a Chairperson's Mailbox and President's Interchange. Suggestions and complaints are handled by employees expressly charged with responsibility for that task. In handling such matters, they encrypt related information in accordance with rules adopted by TFH pursuant to the "Personal Information Protection Act.
(3) Has the Company adopted measures to protect whistleblowers from retaliation?	v		When the TFH uses the aforementioned email address to handle customer suggestions and complaints, with the customer's consent it always signs a set of "Notifications Required by the Personal Information Protection Act" and respects the interests of all parties to the matter at hand.
4. Strengthening of Information Disclosure Does the Company disclose the content of its ethical best practice standards, and the state of their implementation on its website and the Market Observation Post System (MOPS) website?	v		TFH discloses the state of its business ethics work on its website, the Market Observation Post System (MOPS) website, and its annual reports.
5. Please describe any differences in operations and rules of ethical management regulations that the Company has established in accordance with the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies": TFH is not a TWSE/GTSM listed company, so this item is not applicable.			
6. Other important information that would aid in understanding the Company's ethical management operations (such as the Company's review and revision of ethical management regulations): TFH has adopted the "Taiwan Financial Holdings Code of Ethical Conduct for Directors, Supervisors, and Executive Officers" to encourage employees to abide by ethical standards in their conduct of business matters. This Code of Ethical Conduct has been posted to the TFH website for public inspection.			

8. Disclose how corporate governance best-practice principles which the company adapted are to be searched:

Please refer to Market Observation Post System (http://mops.twse.com.tw) and TFH's website at http://www.twfhc.com.tw (click on "Corporate Governance").

9. Other significant information that will provide a better understanding of the state of the company's implementation of corporate governance: None

10. Internal Control System

(1) Internal Control Statement: Please refer to page 34 and 35 of the Chinese annual report.

(2) Independent Auditors' Report : None

11. Major Resolutions of Board Meetings

(1) Passed by the 8th meeting of the 4th Board of Directors on Feb. 23, 2017

A. KPMG Taiwan's audit of the key audit items set out in the TFH's 2016 consolidated financial report.

B. A motion to hire KPMG Taiwan to audit and attest TFH's 2017 financial and tax records.

(2) Passed by the 9th meeting of the 4th Board of Directors on March 30, 2017

A. TFH's 2016 "Statement on Internal Control" and "Enhancement Items and Improvement Plan for AML/CFT Internal Control System."

B. TFH's 2016 consolidated and head office business report and financial statements, and TFH's 2016 distribution of final earnings.

(3) Passed by the 4th extraordinary meeting of the 4th Board of Directors on June 16, 2017

Ministry of Finance appoints Mr. Ying-Wei Peng to serve from June 17, 2017 as MOF representative on the TFH Board of Directors.

(4) Passed by the 12th meeting of the 4th Board of Directors on June 22, 2017

A. Motion to have MOF representative on TFH Board of Directors, Kuei-Chou Huang, replaced from June 21, 2017 by Mr. Dou-Ming Su.

B. Motion to approve KPMG Taiwan's audit and attestation of TFH's 2016 consolidated and head office business report and financial statements, and 2016 distribution of final earnings.

(5) Passed by the 14th meeting of the 4th Board of Directors on Aug. 31, 2017

TFH's consolidated financial statements for the first half of 2017, audited by KPMG Taiwan.

(6) Passed by the 15th meeting of the 4th Board of Directors on Sep. 28, 2017

Motion to have MOF representative on TFH Board of Directors, independent director Jiunn-Rong Chiou, replaced from September 7, 2017 by Ming-Fang Tsai.

(7) Passed by the 18th meeting of the 4th Board of Directors on Dec. 28, 2017

Motion to invest NT$25 million during 2018 in Taiwan Financial Alliance Urban Renewal Services Co., Ltd.

(8) Passed by the 19th meeting of the 4th Board of Directors on Jan. 25, 2018

MOF approval for resignation of Hua-Chuang Chiu as president of BankTaiwan Life Insurance Co.,Ltd. (BTLI), and for BTLI Chairman Yu-Chih Liu to temporarily step in as acting president from Jan. 9, 2018.

(9) Passed by the 20th meeting of the 4th Board of Directors on Feb. 22, 2018

A. Motion to include 2019 land-backed capital increase in the TFH 2019 budget.

B. Motion to hire KPMG Taiwan to audit and attest TFH's 2018 financial and tax records.

(10) Passed by the 21th meeting of the 4th Board of Directors on Mar. 22, 2018

A. TFH's 2017 consolidated and parent-company-only financial reports, and its 2017 distribution of final earnings.

B. TFH's 2017 "Statement on Internal Control" and "Enhancement Items and Improvement Plan for AML/CFT Internal Control System."

C. Early release of NT$10 billion in funds earmarked in the TFH 2018 budget for a capital increase at BankTaiwan Life Insurance Co. Ltd.

12. Major Issues of Record or Written Statements Made by Any Director or Supervisor Dissenting to Important Resolutions Passed by the Board of Directors: None

13.Resignation or Dismissal of Personnel Related to the Company

March 31, 2018

Title	Name	Date of Appointment	Date of Termination	Reasons for Resignation or Dismissal
SEVP	Yu-Chih Liu	Jan. 16, 2013	Jan. 5, 2017	Applying for Retirement
EVP & Chief Financial Officer	Jen-Chieh Pan	Mar. 2, 2015	June 7, 2017	Relieved of concurrent position as TFH Chief Financial Officer.
Manager of Financial Management Department, Accounting Section	Kuo-Yung Chang	July 1, 2009	June 19, 2017	Promoted to Chief Financial Officer.
SEVP	Hong-Chi Chang	Sep. 17, 2012	Mar. 23, 2018	Relieved of concurrent position as TFH Senior Executive Vice President.

TFH subsidiary Bank of Taiwan and the Taiwan Guide Dog Association held a community service fair highlighting the importance of guide dogs. The opening ceremony at the fair was attended by Deputy Minister of Finance Jain-Rong Su (5th from left), TFH Chairman Joseph Jye-Cherng Lyu (6th from left), and Taiwan Guide Dog Association President Dong Liu (5th from right).

IV. CPA Information

1. Audit Fee

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

Items / Amount	Auditing Fees	Non-Auditing Fees	Total
Under NT$ 2,000,000	V	V	V
NT$2,000,000 ~ NT$4,000,000			
NT$4,000,000 ~ NT$6,000,000			
NT$6,000,000 ~ NT$8,000,000			
NT$8,000,000 ~ NT$10,000,000			
Over NT$10,000,000			

Note: 1. When non-audit fees paid to the certified public accountant, to the accounting firm of the certified public accountant, and/or to any affiliated enterprise of such accounting firm are one quarter or more of the audit fees paid thereto, the amounts of both audit and non-audit fees as well as details of non-audit services shall be disclosed: None

2. When the company changes its accounting firm and the audit fees paid for the fiscal year in which such change took place are lower than those for the previous fiscal year, the amounts of the audit fees before and after the change and the reasons shall be disclosed: None

3. When the audit fees paid for the current fiscal year are lower than those for the previous fiscal year by 15 percent or more, the reduction in the amount of audit fees, reduction percentage, and reason(s) therefor shall be disclosed: None

2. Replacement of CPA

(1) Regarding the former CPA

Replacement Date	Mar. 16, 2018			
Replacement reasons and explanations	Adjustment of Internal Organization in the KPMG Certified Public Accountants. Yen-Ling Fang was replaced with Ling Wu.			
Describe whether the Company terminated or the CPA did not accept the appointment	Parties / Status		CPA	The Company
	Termination of appointment		Not applicable	Not applicable
	No longer accepted (continued) appointment		Not applicable	Not applicable
Other issues (except for unqualified issues) in the audit reports within the last two years	None			
Differences with the company	Yes		Accounting principles or practices	
			Disclosure of Financial Statements	
			Audit scope or steps	
			Others	
	None	V		
	Remarks/specify details			
Other Revealed Matters	None			

(2) Regarding the successor CPA

Name of accounting firm	KPMG Certified Public Accountants
Name of CPA	Ling Wu
Date of appointment	Mar. 16, 2018
Consultation results and opinions on accounting treatments or principles with respect to specified transactions and the company's financial reports that the CPA might issue prior to the engagement	None
Succeeding CPA's written opinion of disagreement toward the former CPA	None

(3) The content of the reply letter from the former certified public accountant: None

V. The company's chairman, general manager, or any managerial officers in charge of finance or accounting matters has held a position at the accounting firm of its certified public accountant or at an affiliated enterprise of such accounting firm in 2017: None

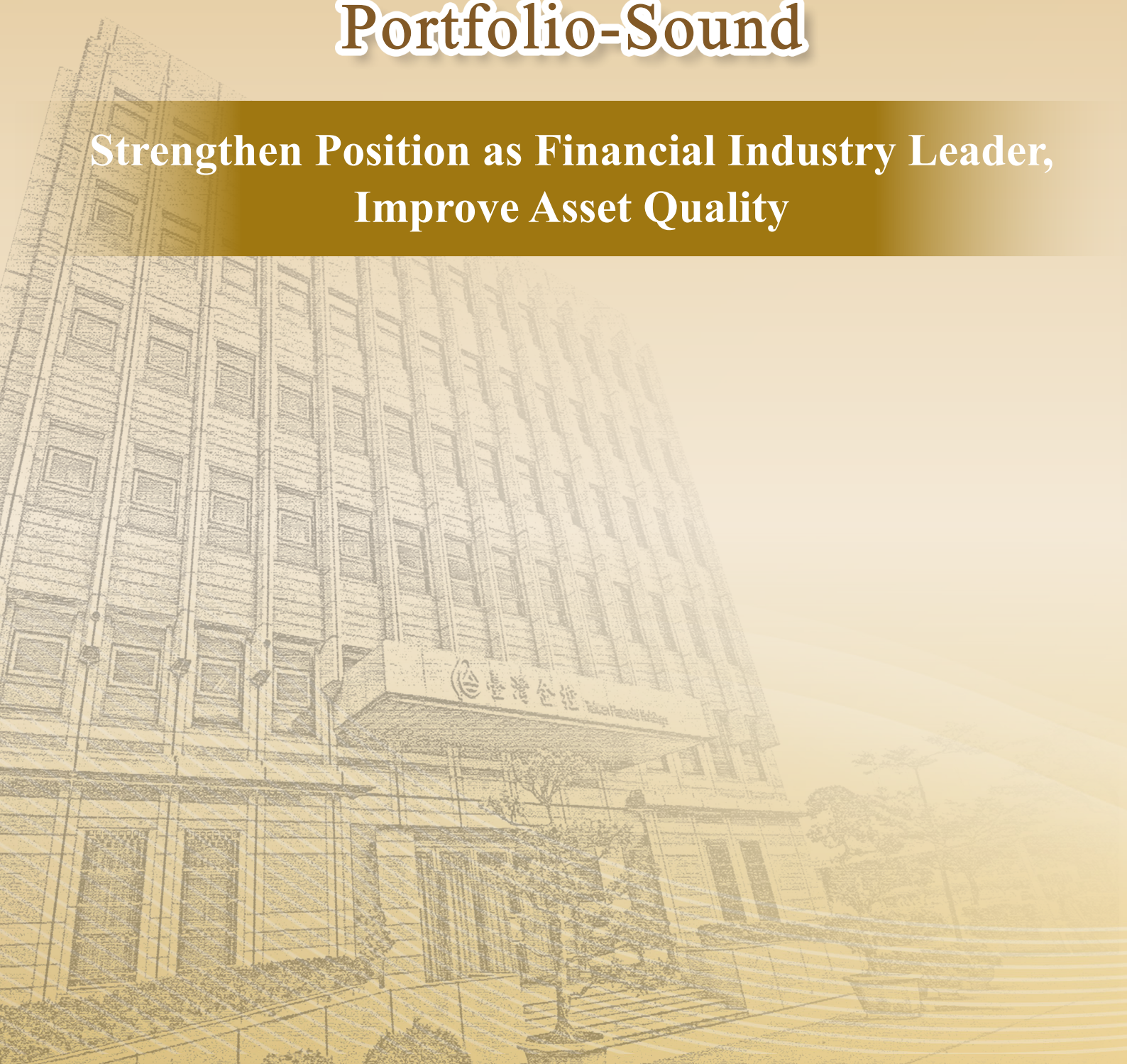
VI. Any transfer of equity interests and/or pledge of or change in equity interests by a director, supervisor, managerial officer, or shareholder with a stake of more than 10 percent during 2017: None

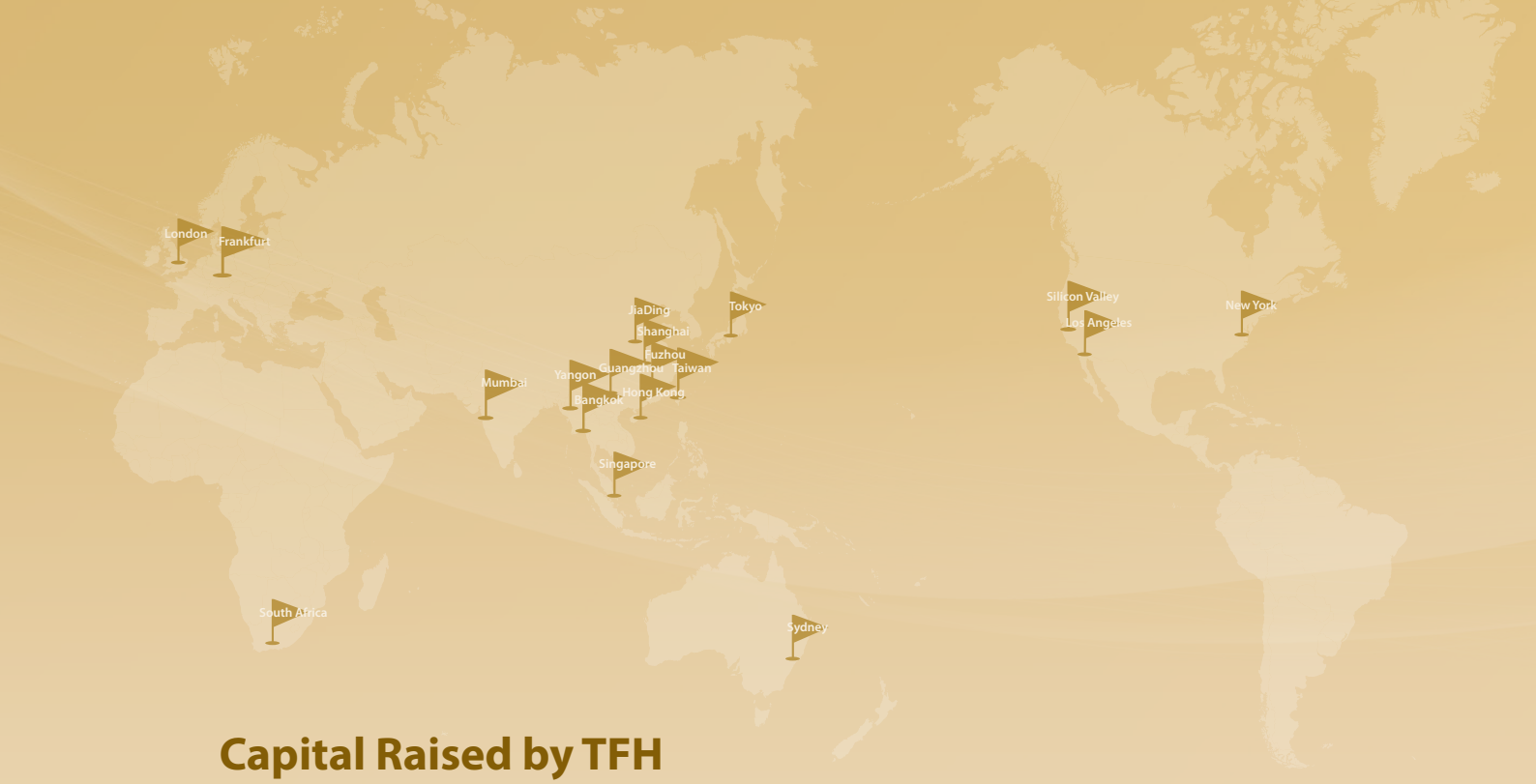
VII. Among the company's 10 largest shareholders any one is a related party or a relative within the second degree of kinship of another: None

VIII. The total number of shares and total equity stake held in any single enterprise by the company, its subsidiaries, its directors and supervisors, managers, and any companies controlled either directly or indirectly by the company: None

Portfolio-Sound

Strengthen Position as Financial Industry Leader, Improve Asset Quality





Capital Raised by TFH

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Capital Raised by TFH

I. Capital and Shares

1. Source of Capital

Date	Issue price	Authorized Capital		Paid-in Capital		Remarks	
		No. of Shares	Dollar Amount	No. of Shares	Dollar Amount	Source of Share Capital	Other
January 2008	NT$10	9 Billion	NT$90 Billion	9 Billion	NT$90 Billion	Share Swap	See Note

Note: The date of record for the share swap with BOT was 1st January 2008. The transaction was approved by MOF on 30th August 2007 (Letter No. Tai-Cai-Ku 09600381390) and by FSC on 6th December 2007 (Letter No. Jin-Guan-Yin (II) 09620007790).

2. Shareholder Structure, Dispersion of Ownership and List of Principal Shareholders:

TFH is a state-owned financial holding company, with its shares 100% owned by MOF.

3. Share Prices, Net Worth Per Share, Earnings Per Share, Dividends Per Share and Related Information (for the past two fiscal years) :

Unit: NT dollars; shares

Item \ Year			2016	2017	2018.3.31
Price Per Share	High		-	-	-
	Low		-	-	-
	Average		-	-	-
Net Worth Per Share	Before Distributions		30.27	31.80	32.99
	After Distributions		30.27	31.80	32.99
Earnings Per Share	Weighted Average Issued Shares		9,000,000,000	9,000,000,000	9,000,000,000
	Earnings Per Share(after tax)		1.65	0.82	0.21
Dividends Per Share	Cash Dividends		-	-	-
	Bonus shares	Dividends Out of Earnings	-	-	-
		Dividends Out of Capital Reserve	-	-	-
	Cumulative Undistributed Dividends		-	-	-
Return Analysis	Price/Earnings Ratio		-	-	-
	Price-to-Dividend Ratio		-	-	-
	Cash Dividend Yield		-	-	-

Note1: TFH is a state-owned enterprise. Our stock is not exchange-listed, so there is no data for market capitalization or return analysis.
Note2: Figures for 2016 are approved by the National Audit Office; figures for 2017 are CPA approved; figures for 2018 through March 31 have been reviewed by CPA.

4. Dividend Policy and its Implementation

(1) Dividend Policy

Under the provisions of TFH's articles of incorporation, if earnings remain after closing of the annual accounts, TFH is required after paying its income taxes that year to first offset any deficit from previous fiscal years before setting aside 10% to legal reserve. In addition, TFH must also

set aside an additional 40% to 60% of after-tax income, along with an amount equal to the figure recorded to shareholders equity under "Unrealized Losses on Financial Instruments," to special reserves. If further earnings still remain, they are aggregated with cumulative undistributed earnings from the preceding fiscal year and distributed in accordance with the provisions of applicable laws and regulations.

Unless and until the accumulated legal reserve equals TFH's authorized capital, the maximum earnings distribution that may be paid out in the form of cash shall not exceed 15% of authorized capital. If there are no earnings, TFH shall not distribute cash dividends or bonuses; provided, however, that if its legal reserve exceeds 50% of its paid-in capital, TFH may distribute the excess in the form of cash dividends and bonuses.

(2) Dividend Distributions in 2017:

The TFH Group's audited after-tax earnings for 2017 were first used to offset a charge to the "Other comprehensive income (loss)" account, which had been made due to a remeasurement loss on defined benefit plans. Part of what remained after this offset was allocated to legal reserve and special reserve, and the rest was retained, per Executive Yuan approval, as undistributed earnings. However, in accordance with Article 51 of Taiwan's Government Auditing Act, the earnings reported in the TFH Group's annual accounts are subject to the final approval of the Ministry of Audit. The TFH Group's annual accounts for 2017 are still under review by the Ministry of Audit, therefore the actual amount to be distributed as cash dividends cannot be determined until after Ministry of Audit has finished its review.

5. Effect upon business performance and earnings per share of any stock dividend distribution proposed or adopted at the most recent shareholders' meeting: None

6. Employee and Director compensation: None

7. Share repurchases: None

II. Issuance of Corporate Bonds: None

III. Issuance of Preferred Shares: None

IV. Issuance of Global Depositary Receipts: None

V. Issuance of Employee Stock Warrants: None

VI. Mergers and Acquisitions: None

VII. Comments on Implementation of Capital Allocation Plan: None

An Overview of Operations

Operations of TFH and its subsidiaries are briefly described as follows:

I. Business Activities

1. Scope of Business

(1) TFH

(A) Main Lines of Business

Its main lines of business, as required under the provisions of the Financial Holding Company Act, are investing in other enterprises and managing their operations.

(B) Types of Business

Item \ Year	2017	
	Dollar Amount (NT$1,000)	Share of Total (%)
Share of profit of subsidiaries, associates and joint ventures accounted for using equity method	7,577,862	99.97
Other Operating Revenues	2,401	0.03
Total Revenues and Gains	7,580,263	100

(C) Future Development Plan for New Financial Products and Services:

Please refer to 2018 Business Plan.

(2) BOT

(A) Main Lines of Business

In addition to conducting ordinary banking business in accordance with the provisions of the Banking Act, BOT complies with government policy by handling ancillary matters pertaining to the distribution of New Taiwan Dollar notes and coins. It also acts as an agent for the public treasury at all levels of government, administers the special high-interest deposits for recipients of public service and military pensions, handles policy-based loans and student loans, manages policy-based purchasing and tariff-rate quota allocations, operates the government employees insurance fund and the retiree insurance fund, and engages in other lines of business as may be approved by the competent authorities.

(B) Types of Business

Item \ Year	2017	
	Dollar Amount (NT$1,000)	Share of Total (%)
Net Interest Income	25,522,073	77.14
Net Fee Income	5,178,019	15.65
Financial Assets and Liabilities at Fair Value Through Profit or Loss	31,513,696	95.25
Realized Gains (Losses) on Available-for-Sale Financial Assets	3,013,653	9.11
Investment Gains/Losses Recognized Under the Equity Method	2,612,076	7.89
Foreign Exchange Gains/Losses	-3,249,634	-9.82
Schedule of Asset Impairment Losses, and Gains on Reversal of Impairment	-1,913	-0.01
Schedule of Other Net Non-Interest Income/Losses	-31,501,126	-95.21
Net Earnings	33,086,844	100.00

(C) Future Development Plan for New Financial Products and Services:

Please refer to 2018 Business Plan.

(3) BTLI

(A) Main Lines of Business

Offers personal insurance, insurance for men serving alternative military service, and other lines of business as may be approved by the competent authorities.

(B) Types of Business

Item \ Year	2017	
	Dollar Amount (NT$1,000)	Share of Total (%)
Personal Life Insurance Premium Income	39,172,813	92.05
Personal Injury Insurance Premium Income	103,874	0.24
Personal Health Insurance Premium Income	913,598	2.15
Personal Annuity Insurance Premium Income	2,198,961	5.17
Group Life Insurance Premium Income	31,010	0.07
Group Injury Insurance Premium Income	109,632	0.26
Group Health Insurance Premium Income	25,700	0.06
Reinsurance Assumed Premium Income	-	-
Gross Premium Income	42,555,588	100.00

(C) Future Development Plan for New Financial Products and Services:

Please refer to 2018 Business Plan.

(4) BTS

(A) Main Lines of Business

Engages in: securities brokering, dealing, and underwriting; offers margin trading services and short selling services, and futures introducing broker services; provides advisory services in connection with the offering and issuance of securities; acts as an agent for matters related to the aforementioned lines of business; and handles other lines of business as may be approved by the competent authorities.

(B) Types of Business

Item \ Year	2017	
	Dollar Amount (NT$1,000)	Share of Total (%)
Securities Brokerage and Underwriting Income	421,603	60.17
Interest Income	165,931	23.68
Gain from Disposal of Securities	60,262	8.60
Gain on Financial Assets or Liabilities Measured at Fair Value through Profit or Loss	9,719	1.39
Net Gains on Writing of Call (Put) Warrants	-1,464	-0.21
Dividend Income	27,495	3.92
Net Gains (Losses) on Derivatives	5,878	0.84
Other Operating Revenues	11,302	1.61
Total	700,726	100.00

(C) Financial products and services to be launched in future:

Please refer to 2018 Business Plan.

2. 2018 Business Plan

(1) TFH

(A) Expand our global presence: Comply with the New Southbound Policy, build up an international business network

Comply with the government's New Southbound Policy; rely primarily on the Bank of Taiwan to implement strategies; methodically pursue a two-track approach based on the government's New Southbound Policy and its policy of developing Taiwan as a global financial center; actively apply to set up additional overseas business locations; cooperate with international financial institutions; develop international services.

(B) Business Development: Comply with government policy, provide financing to support industrial activity

Comply with government policies by promoting the financing of innovative industries, green energy, and infrastructure projects; focus on urban renewal and renovation of hazardous and dilapidated buildings, achieve residential justice; support the Long-term Care 2.0 Plan by promoting retirement trusts, long-term care insurance, disabled care insurance, and other products designed to meet the needs of senior citizens.

(C) Services innovation: Closely monitor FinTech trends, develop forward-looking financial services

Stock up on FinTech patents; optimize functionality of mobile and online banking services; develop mobile payment services; develop forward-looking, value-added, user-friendly integrated digital financial services; step up implementation of information security management; provide customers with the best possible services.

(D) Legal Compliance: Bring operations in line with international rules; abide by statutory and self-regulatory requirements

Bring operations in line with international rules; continue improving coordination, cooperation, and exchange mechanisms pertaining to the three lines of defense in effective risk management and control; ensure effective implementation of internal controls and internal audits; oversee implementation by subsidiaries of AML/CFT-related internal control and reporting operations; carry out legal compliance education and training; abide by financial industry self-regulatory rules; build a positive corporate culture.

(E) Bolster capital: Plan asset-backed capital increases, improve business development capacity

Set up diversified channels for bolstering the regulatory capital of subsidiaries; use state-owned real estate (originally owned by the BOT but later donated to the national treasury) to back a BOT capital increase; allocate budget funds for, and follow regular procedures in implementing, capital increase operations. The purpose of these undertakings is to strengthen BOT's business development capacity

(F) Risk Management: Strengthen risk management, improve group's asset quality

Improve management of credit, market, operational, and legal risks; manage interested-party transactions, large exposures, and risk concentrations; improve tracking of early credit warning signs; carry out asset evaluations, credit reviews, and follow-up evaluations; institute a stronger mechanism for management of capital allocations; maintain an appropriate balance between risks and returns; ensure high asset quality.

(G) Talent Cultivation: Vigorously implement people-centered business management, cultivate personnel with diverse abilities

Respond to the need for universal banking and innovative development by practicing people-centered business management, strengthening personnel training, and carrying out the Young Management Development Program and the Training Program for International Financial Professionals; cultivate talent with mastery of a diverse range of core skills; bolster professional development; and enhance the group's growth potential.

(H) Social Responsibility: Maintain positive concern for social well-being, put financial expertise to work in support of community service

Incorporate the group's financial expertise into the design of credit cards, disaster relief loans, charitable trusts, and whole life insurance products in order to show positive concern for social well-being; promote the development of green finance; support cultural and creative industries, arts, culture, sports, environmental protection activities, and other community service activities; and continue carrying out financial and economic forums to promote academic exchange in the financial field.

At an event held to mark the launch of the "Lord is my Shepherd" affinity card, Chairman Joseph Jye-Cherng Lyu (3rd from right) and CEO of Chinese Christian Tribune Zhong-Xin Cheng (3rd from left) hold a facsimile of the card along with other guests.

(2) BOT

(A) Support the government's New Southbound Policy, develop overseas markets

Continue observing political and economic conditions in Asian nations and assessing their market access policies; promote lines of business geared to comply with the government's New Southbound Policy; proactively seek to sign MOUs for cooperation with international financial institutions; seek to take part in high-quality international syndicated loans.

(B) Expand credit business, enhance profitability

Build up lending relationships with large blue-chip corporations; step up efforts to lend to small and medium businesses and consumers; implement early credit warning system; strengthen credit reviews and follow-up evaluations; carry out accurate valuations of credit assets; monitor changes in customer creditworthiness; maintain quality of credit assets.

(C) Facilitate the government's pension reform effort, optimize deposit structure

Support the government's pension reform program by gradually adjusting preferential interest rates paid out on public employee retirement savings deposits, and by reducing time deposits as a share of total deposits, thus cutting the cost of funds; and actively develop wealth management business to improve deposit structure and increase fee income.

(D) Increase quantity and quality of credit card business, increase operating revenues

Continue promoting the Guide Dog Affinity Card; do more to put professional expertise to work for community service; promote the Titanium Business Travel Card; improve special credit card services for VIP travelers; issue an I-Pass affinity card that includes the money card function of the I-Pass Card, and is compatible with EMV contactless smart card readers, thus offering greater convenience and bringing in more acquiring business.

Following the earthquake of February 6, 2017 in Tainan, BOT took concrete action to show its concern and support for rebuilding and urban renewal efforts there by signing a Letter of Intent with the Tainan City Government to support urban renewal projects involving the Wei Guan Building and the East Ward Dazhi Market.

(E) Strengthen funds management and capital allocations, improve capital efficiency

Strengthen funds management and capital allocations to make more efficient use of free capital; make flexible use of hedging instruments to manage investment risks; enhance investment returns by taking steps to ensure better performance from personnel seconded as directors or supervisors at investee companies.

(F) Build up a comprehensive range of digital financial services, stock up on FinTech patents

Provide a diverse range of financial services by planning the launch of personalized online banking, a 24-hour self-service smart fee payment system, intelligent customer service systems, integrated digital banking services, and the Taiwan Pay cloud-based payment service; continue carrying out innovative R&D work; stock up on FinTech patents.

(G) Launch diverse range of financial planning products, generate increased fee income

Provide customers with wide range of choices by building up our product line-up and launching many different types of competitive financial planning products; implement a business advisory mechanism and do more to help TFH business units promote their wealth management businesses; strengthen tracking and guidance with respect to selected business activities, conduct target management, and generate increased fee income.

(H) Strengthen professional development, enhance business development capabilities

Establish a TFH Group training platform; provide a high-quality cross-disciplinary training environment; train personnel for upper management positions; improve the managerial and international financial expertise of senior management personnel.

(I) Improve AML/CFT mechanisms, strengthen legal compliance

Establish a strong compliance culture by instilling a heightened compliance consciousness among all employees and improving compliance operations at overseas branches; set up a Money Laundering Prevention Center under the Department of Compliance to coordinate and oversee AML/CFT operations; further flesh out the group's internal AML/CFT rules.

(J) Strengthen cybersecurity, improve quality of information services

Implement business promotion plans by setting up information systems for each of the group's businesses; ensure cybersecurity by overhauling, expanding, and upgrading existing operating systems and improving network architecture.

(K) Strengthen corporate governance and fulfill our corporate social responsibility

Comply with the Corporate Governance Best-Practice Principles for Banks to implement corporate governance, exercise sound internal audits, conduct ethics oversight, strengthen management mechanisms, carry out corporate credit operations in line with the spirit of the Equator Principles, and help the disadvantaged and support school groups.

(3) BTLI

(A) Product research and development

Seek to balance sales structure, achieve business stability, reduce negative margins, and improve the fair value of insurance liabilities by continuing to develop a diverse range of insurance products tailored to specifically targeted niches, including: long-term installment-premium protection-type life insurance products; mortgage life insurance; US Dollar-denominated policies; and health insurance.

(B) Business promotion

Strengthen the marketing guidance capabilities of the insurance consulting (IC) team in order to help the banking channel improve sales of various niche products; draw up marketing plans and incentive measures to enhance cooperation with large insurance brokerages and agencies; step up training to better familiarize staff at correspondence offices with products and marketing; plan marketing campaigns and adopt incentive measures.

(C) Customer service

Continue strengthening the training of BTLI employees in underwriting, claim settlement, and customer service operations; rework our insurance policy administration workflows; install information systems to automate tasks now performed manually; improve e-services by providing policyholders with a wider range of online functions for checking policy information and making premium payments, thus improving the quality and efficiency of customer services.

(D) Capital allocations

Devise an asset allocation plan (on the basis of liability structures, cash flows, and durations within segment assets) to ensure proper matching of assets and liabilities; step up investments in high-yield instruments issued by stable companies, and carry out technical trading of carefully selected high-quality individual stocks to earn capital gains; respond to exchange rate fluctuations by flexibly adjusting currency hedging ratios, holding periods, and hedging instruments, and by making appropriate use of non-currency assets for hedge purposes, thus reducing hedging costs; continue carrying out assessments to identify real estate with investment potential in order to raise the share of real estate in our investment portfolio and earn higher investment returns.

(E) Human resources

Carry out training for supervisory personnel to build up a corps of high-level managerial talent and improve their core management skills; improve employees' professional skills and managerial abilities by actively cultivating skills for the full range of different core business operations (e.g. portfolio investing, sales and marketing, actuarial operations, and product design) and dispatching personnel to attend international conferences and workshops.

(F) Risk management

Regularly monitor and control capital adequacy ratios, quickly identify reasons for changes and the impact thereof, in order to prepare response measures; promote and implement risk management in line with the "Risk Management Best-Practice Principles for Insurers," and utilize qualitative and quantitative measurement techniques to ensure the soundness of risk management mechanisms; implement an own risk and solvency assessment (ORSA) mechanism to strengthen capital management.

(G) AML/CFT

Improve AML/CFT operations by: overseeing efforts at all units to implement internal AML/CFT rules; using information systems to produce AML/CFT transaction reports; assigning customer risk grades and improving transaction monitor capability; and hiring an outside professional consultant to help improve our AML/CFT systems.

(H) Corporate governance

Continue improving management regulations, monitoring mechanisms, and other corporate governance frameworks; fully disclose material corporate governance information; improve the transparency and completeness of the company's corporate governance.

(4) BTS

(A) Securities brokerage business

Conduct frequent client visits and investor conferences to attract more trading orders from institutional investors; improve the company's mobile trading and e-trading platforms, and increase the stability and efficiency of the trading order system; continue working together with BankTaiwan Insurance Brokers Company and BankTaiwan Life Insurance to promote insurance business and provide customers with excellent financial products to choose from.

(B) Securities underwriting business

Use the group's resources, its integrated marketing platform, and an integrated services model to seek underwriting and related business so as to provide a full range of corporate capital raising services; actively participate in the issuance of straight corporate bonds, both as underwriter and advising underwriter; continue engaging in business exchanges with peer firms to identify opportunities for cooperation in business development.

(C) Securities dealing business

Improve capital efficiency through better analysis of financial industry conditions, rigorous control of investment risks, selection of blue-chip investment instruments, and optimization of investment strategies and asset portfolio allocations; and reduce risks while achieving stable profits through the continued use of hedging transactions and risk control models.

(D) Internal management

Improve the company's management performance by strengthening corporate governance, legal compliance, AML/CFT, risk management, internal audit, and internal control systems; implement employee training and actively dispatch employees to take part in ongoing professional development courses to keep abreast new financial industry developments and trends, thus contributing to business expansion.

(E) Information security controls

Respond to the latest developments in information security technology and cybersecurity threats by adopting stricter requirements with B-level responsibility for cyberthreat prevention; coordinate with the group's information security control measures by actively developing an authorization and access control mechanism, and by setting up a system for managing access to sensitive information on personal computers; fine-tune information security protection measures and improve cyber defense capability.

3. Short-term and Long-term Business Development Plans

(1) TFH

(A) Short-term business development plan

Establish a strong home base in Taiwan and strengthen our investment and financing businesses; make flexible use of an integrated marketing system, spur diversification of business at all TFH subsidiaries; seize business opportunities connected with government policies, spur groupwide profit growth; develop forward-looking financial services, provide customers with a high-quality service experience; maintain legal compliance, improve internal audit and internal control mechanisms; use state-owned real estate to back a capital increase, bolster capital, and ensure stable management; implement risk management, ensure high asset quality; train more effectively, cultivate employees with core skills; put financial expertise to work for community service, fulfill corporate social responsibility.

(B) Long-term business development plan

Act in line with 5P (People-centered, Portfolio-sound, Performance-driven, Prospection-oriented and Principle-based) business operating policy and 5S (Scale, Scope, Soundness, Superior Management and Social Responsibility) competitive strategies, accurately identify trends and the direction of government policy; build a global business network and make skillful use of financial technology; work to achieve better operating results; create a solid capital base; implement risk management and legal compliance; seek sustainable and sound development of the group; build up TFH as the nation's flagship financial holding company.

(2) BOT

(A) Short-term business development plan

In order to continue expanding markets and increasing profits, BOT improve the AML/CFT operations, strengthen legal compliance, implement business innovation while building a digital network and mobile banking services, and promote financing business to support urban renewal, the development of key innovative industries, and the New Southbound Policy. At the same time, the Bank will make skillful use of the Group's resource integration and marketing platform to reap the synergies of cross-selling.

TFH Chairman Joseph Jye-Cherng Lyu (4th from left), Deputy Governor of Bank of Thailand Mrs. Ruchukorn Siriyodhin (3rd from right), and the representative of Taipei Economic and Cultural Office in Thailand Mr. Tung Chen-yuan (3rd from left) presided over a ceremony to mark the opening of the BOT Bangkok Representative office.

(B) Long-term business development plan

In line with its vision of "building a leading bank, and embarking on global markets," the Bank will continue strengthening its international presence while facilitating the government's New Southbound Policy by seizing upon business opportunities in "the age of the Asian economy," and by offering government policy-driven loans. Toward that end, BOT will plan and operate many different lines of business, and join hands with the industrial community to create economic and social value for Taiwan.

(3) BTLI

(A) Short-term business development plan

Coordinate with government policy by developing protection-type insurance products; continue improving the fair value of insurance liabilities in order to meet the requirements of the International Financial Reporting Standards; gradually reduce negative margins to ensure safe and sound management of the company.

(B) Long-term business development plan

Continue working to transform business management, maintaining a dual focus on both the business and financial aspects; quickly adjust asset/liability structure by further strengthening the development and sales of niche products; improve asset quality and reduce the impact of unforeseen financial market conditions in order to stabilize overall investment performance and achieve the mid- to long-term goals of reducing negative margins and improving the company's profitability.

(4) BTS

(A) Short-term business development plan

Work through the TFH cross-selling platform to actively expand the customer base, increase our brokerage business market share, and grow our margin trading business; maintain close contact with industry in order to obtain underwriting business opportunities; coordinate with the bank's corporate finance business and underwriting-related business services to establish relationships with companies and strengthen our ability to win business deals; actively take advantage of BOT's guarantee business to handle the issuance of straight corporate bonds and expand underwriting-related lines of business; gradually expand scope of investments and increase profits.

(B) Long-term business development plan

Continue growing our securities brokerage clientele, increase the share of business accounted for by institutional clients, and increase market share; find more opportunities to act as lead underwriter or co-underwriter of secondary public offerings and provide related financial consulting services; increase the size of capital allocations, and achieve better capital efficiency; hone financial engineering expertise, and launch new types of financial products.

II. Cross-Selling

1. Cross-selling synergies

(1) The group will continue integrating marketing resources to support achievement of the group's strategic goal of creating business synergies. The 2017 Plan for Integrated Marketing among Group Subsidiaries covered the six principal business lines of corporate finance & bulk collections, wealth management, life insurance, investment of life insurance funds, securities brokerage, and securities underwriting. We will make use of BOT's highly developed channel resources and huge client base to tap into the synergies of cross-selling. Quantifiable items sold via the cross-selling platform contributed NT$848 million to the Group's profits in 2017.

(2) To coordinate with the FSC's decision to expand the range of securities products that can be cross-sold at a financial holding company's various business locations, the TFH Group obtained approval to begin opening securities margin trading accounts at BOT's cross-selling business counters from June 1, 2017. This will facilitate efforts to diversify business operations and earn greater returns through cross-selling of securities.

2. Resource integration and cost reductions

TFH continued to promote its groupwide shared operating platforms project; effectively integrated and used logistics resources; and used shared operating platforms for eight major shared business operations (information operations, education and training, legal affairs, property management, community service promotions, purchasing operations, financial and economic information exchange, and human resource exchange) to reap greater benefits from centralized management and professional specialization. Our logistics platform handled 3,511 cross-subsidiary operations in 2017, reducing measurable operating costs over the course of the year by NT$37 million, thus reducing operating costs by tapping into group synergies.

Chairman Joseph Jye-Cherng Lyu graced the official opening of the BOT Silicon Valley Representative Office.

III. Production and Marketing Situation

TFH is a financial holding company. Its lines of business entail investing in other enterprises and managing their operations. The primary source of operating revenues is investment income. The following is a description of the markets in which TFH subsidiaries operate, and an overview of each subsidiary's business operations:

1. BOT

(1) Business operations area

All of BOT's financial products are marketed to customers through business branches and internet. At the end of March 2018, the BOT's business units included 163 domestic branches and 1 Offshore Banking Branch, 16 overseas units (including New York Branch, Los Angeles Branch, London Branch, Hong Kong Branch, Singapore Branch, Tokyo Branch, South Africa Branch, Shanghai Branch, Guangzhou Branch, Fuzhou Branch, Sydney Branch, Shanghai JiaDing Sub-Branch, Mumbai Representative Office, Yangon Representative Office, American Silicon Valley Representative Office, and Bangkok Representative Office)

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

FSC statistics show that as of end-December 2017, Taiwan had 38 domestic banks with 3,417 branch units. This translates to 26.59 branch units per 100,000 population, which means that Taiwan still has an over banking problem. Competition in the industry is fierce.

(3) Business targets

Unit: NT$1,000; (Forex: USD$1,000)

Major Operation Category	2018 Budget Target
Deposits	3,533,288,000
Loans	2,309,000,000
Foreign Exchange	338,081,000

(4) Positive and negative factors for future development

(A) Positive factors

a. Solid reputation as a reliable state-owned bank with ethical business practices: BOT has the highest credit rating of all domestic banks; with a solid operating base, it enjoys the trust of the public. The Bank's huge customer base facilitates efforts to solicit new business.

b. Long history, extensive network of business locations, large customer base: BOT enjoys a No. 1 position in scale of deposits and loans, leadership among local banks in total assets and shareholders' equity, and a solid operating strength.

c. BOT is a subsidiary of Taiwan Financial Holdings, the resource-sharing platform of which reinforces the operation of the primary and cross-sales systems, and realizes the synergies of business integration.

d. BOT serves as the cover bank for RMB cash in the Taiwan area and the settlement bank for the NT dollar in mainland China. This advantage facilitates the development of RMB-related businesses.

(B) Negative factors

a. As a state-owned company, BOT has a personnel system, budget, and procurement that are relatively inflexible.

b. The number of authorized staff is subject to restrictions; hiring procedures are not flexible enough; systems for pay and promotions are rigid; it is difficult to replace unqualified employees.

c. Domestic banks in Taiwan have long been dealing with intense competition and a low interest rate spread environment. The BOT, on top of that, also shoulders policy missions, which reduces profitability.

d. BOT is 100% owned by the government, profits are placed in the national treasury, and capital accumulation is slow; the resulting difficulty of boosting capital through cash injections weakens the Bank's capital adequacy ratios.

e. BOT holds massive deposits, a large share of which is time deposits, so the cost of funds is relatively high.

2. BTLI

(1) Business operations area

BTLI's main products are life insurance policies sold only in Taiwan. It has 9 branches, 4 correspondence offices, 13 exclusive agencies, 16 contracted cooperating financial institutions, and 73 ordinary brokerages and agencies. BTLI actively uses the nationwide business locations of BOT to reap the benefits of cross-selling synergy, and is working to deepen cooperative ties with brokerages, agencies, and BOT to expand its sales channels.

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

The US Federal Reserve has entered into an upswing in the interest-rate cycle, while Taiwan's competent authority has raised its policy reserve requirement and tightened the standard for the testing of liability adequacy, so we expect a steep decline in sales of NT Dollar-denominated traditional insurance products. In the meantime, insurers will make a special effort to promote sales of US Dollar-denominated interest-sensitive products. Due to Taiwan's ageing population and falling birth rate, demand for disability care insurance, long-term care insurance, and health insurance products is sure to rise, and the government has adopted a new National Health Insurance premium payment system that expands the list of non-covered items.

(3) Business targets

Unit: NT$1,000

Major Operation Category	2018 Budget Target
First Year Premium Income	9,107,174
Renewal Premium Income	39,827,914
Gross Premium Income	48,935,088

(4) Positive and negative factors for future development

(A) Positive factors

a.BTLI is Taiwan's only state-owned life insurer. It has a stable image as a state-owned enterprise, and enjoys strong public trust.

b.BTLI has huge, high-quality public-employee customer base; reaps benefits of synergy by carrying out integrated marketing via the TFH Group's banking channel.

c.BTLI has one of the highest policy persistency ratios in the industry, an indication of good marketing practices and high customer satisfaction.

(B) Negative factors

a.As a state-run enterprise, the company's human resources, budgeting, and final accounting are operations subject to legal and regulatory restrictions, so business management lacks flexibility.

b.Rules governing budgeting and salary levels make it difficult to attract experienced actuarial and financial professionals.

3. BTS

(1) Business operations areas

BTS is principally engaged in securities brokering, dealing, and underwriting. Its customers include both institutional and individual investors, mainly in Taiwan. The company has 8 business locations, cross-selling facilities at 153 Bank of Taiwan business locations, and very strong online banking operations, via which it provides customers with a full range of services relating to investment and personal financial planning.

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

Due to rapid global capital flows, globalized investment concepts are the direction of the future. As deregulation picks up speed, the range of products that securities firms can invest in grows increasingly diverse. The ability to accurately gauge global financial and economic trends will become more important to a securities firm's profitability.

(3) Business targets

Unit: NT$1,000

Major Operation Category	2018 Budget Target
Brokerage Income	805,760,000
Underwriting Income	1,500,000
Dealing Income	2,610,000

(4) Positive and negative factors for future development

(A) Positive factors

a. Taiwan's economy is growing at a moderate pace, and the Central Bank is pursuing a relaxed monetary policy to ensure strong liquidity in the economy. These factors are conducive to good performance in equity markets.

b. The government will pursue the following three major initiatives in 2018: (a) continue expanding capital markets; (b) improve corporate governance; and (c) promote the launch of new products and new trading systems. These measures will be conducive to the development of securities markets.

c. The government will continue to pursue deregulation. One example is the temporary 50% reduction of the securities transaction tax on day trading of fully paid shares. This transaction tax has been further reduced to 0.15%, and the period of the reduced rate has been extended to three years. In addition, the scope of the reduced rate has been expanded to include transactions by securities dealers. This will help spur increased trading volume.

(B) Negative factors

a. Inclusion of China A-shares into the MSCI Emerging Markets Index has raised the level of international interest in mainland China's stock markets. This poses a risk of Taiwanese shares becoming marginalized.

b. The US Federal Reserve has entered into an upswing in the interest-rate cycle, which tends to pull international capital into US markets. This could weaken impetus for growth in Taiwan's stock markets.

c. As securities markets in Taiwan gradually mature, competition grows more intense, and large securities firms are continually pursuing M&A deals to grow larger. This makes it more difficult for small and medium securities firms to survive.

TFH Chairman Joseph Jye-Cherng Lyu (center) and the representative of Taipei Economic and Cultural Office in Australia Mr. Elliott Charng (3rd from left) were among those who cut the ribbon at a ceremony marking the launch of the Bank of Taiwan's new branch at Sydney.

IV. Employee Profile

1. Employee Statistics

Year	2016	2017	2018.3.31
Company	Number of Employees		
TFH	42	46	47
BOT	7,982	8,134	8,069
BTLI	246	243	245
BTS	139	139	136
BTIB	35	38	36
Total	8,444	8,600	8,533
Average Age	45.47	45.37	45.44
Average Service Year	18.03	17.76	17.80
Education Level & Ratio			
Doctor	0.07	0.10	0.10
Master	19.05	20.06	20.38
University or College	71.69	71.24	71.11
Senior High School	8.09	7.68	7.52
Below Senior High School	1.10	0.92	0.89

2. Professional development and training

The TFH Group encourages employees to strive for improvement and sharpen their professional skills. In 2017, it subsidized a total of 1,406 instances of participation in licensing tests, and used its online learning platform to provide access to a wide variety of learning resources. Over this same period, TFH subsidiaries administered education and training programs that attracted a total of 19,639 participants. They also dispatched 3,139 participants to attend workshops offered by outside professional bodies focusing on such matters as legal compliance, AML/CFT concerns in purchasing operations, risk management, and treasury, accounting, and internal audit operations.

V. Corporate Social Responsibility

Please refer to Chapter III “Corporate Governance” on “Social Responsibility” section and “Implementation of Ethical Management” section at page 33~37.

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

Unit: person; NT$1,000/per person

Name	Non-managerial employees		Change from year before	Avg. benefits per employee		Change in avg. benefits
	2017	2016		2017	2016	
TFH	39	35	4	1,580	1,994	-414
BOT	7,938	7,801	137	1,476	1,495	-19
BTLI	472	482	-10	1,186	1,179	-7
BTS	193	193	-	1,260	1,076	184

Note: According to International Accounting Standards 19, employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees. Taiwan's "Regulations Governing the Preparation of Financial Reports by Financial Holding Companies" state that the "cost of employee benefits" includes wages, labor and health insurance, retirement benefits, and other employee benefits provided by an entity to employees.

VII. Information Equipment

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

(1) Principal hardware includes servers, firewalls, routers, and switches. These support business development and improve operating efficiency.

(2) Principal application software includes programs used for business and administrative tasks. These software systems provide for the handling of: inquiries regarding interested parties of TFH; reporting of A07 balances; accounting; human resources; electronic documents; legislation searches; email guardian and supervision system; management of group-wide information reporting; online registration and management of the Civil Service Ethics Rules; and integrated marketing.

(3) Principal maintenance and administrative tasks

(A) TFH information services integrate and utilize the information resources of BOT, to achieve the synergistic benefits of shared access to group-wide information system software and hardware, personnel administration, and services management.

(B) TFH works with its subsidiaries to carry out social engineering drills. The company holds related cybersecurity education, training, and awareness activities to make employees more conscious of information security concerns. We intend to increase the frequency of cybersecurity drills and reduce the damage caused by security incidents.

Chairman Joseph Jye-Cherng Lyu delivered a speech on "new thinking in the FinTech age" at a forum on the blockchain revolution.

2. Future Development or Procurement Plans

(1) Continue expanding the group-wide shared information operations platform and use groupwide platforms to further integrate and share information, thereby reaping greater benefit from the integration and and use of group information.

(2) Enhance the group-wide information sharing platform, simplify contract execution operations and purchasing procedures, and reduce overall group expenses.

(3) Integrate information and reduce costs by expanding shared access to the group's fundamental services system, implementing centralized operation and maintenance, and developing a shared group-wide information system.

(4) Oversee subsidiaries' efforts to develop digital financial services and stock up on FinTech patents, promote business innovation, skillfully use technology to enhance business performance, improve the user experience, and seize upon business opportunities.

(5) Continue strengthening cybersecurity, conduct cybersecurity awareness and training activities, cultivate consciousness of cybersecurity concerns, conduct cybersecurity check-ups and monitor corrective actions, oversee efforts by subsidiaries to implement information security management, continue operating in compliance with international cybersecurity standards.

TFH's subsidiary Bank of Taiwan won both a Golden Security Award and a Golden Quality Award in 2017 for its outstanding cybersecurity operations. Chairman Joseph Jye-Cherng Lyu (3rd from right) is shown here with Financial Supervisory Commission (FSC) Chairman Wellington L. Koo (center) during the Awarding ceremonies.

3. Emergency Back-up and Security Measures

TFH information services integrate and utilize the information resources of BOT, making shared use of BOT's premises, personnel, systems and physical facilities, and networks. Disaster recovery and security protection measures include the following:

(1) Adopting a disaster recovery drill program, and conducting periodic on-site drills as part of the program.

(2) Establishing a disaster recovery system to ensure highly reliable information services.

(3) Continuing to strengthen BOT's cybersecurity management rules and audits by, any others, allowing the British Standards Institution (BSI) conducts an ISO certification inspection at BOT once every half-year.

(4) Carrying out Windows Update procedures once per month to ensure that all software is secure and up to date and install the firewalls for important Internet gateways and nodes.

(5) Installing anti-hacker devices to prevent attacks.

(6) Periodically scanning for server vulnerabilities to strengthen system security.

(7) Covering all personal computers and servers by the company's anti-virus system.

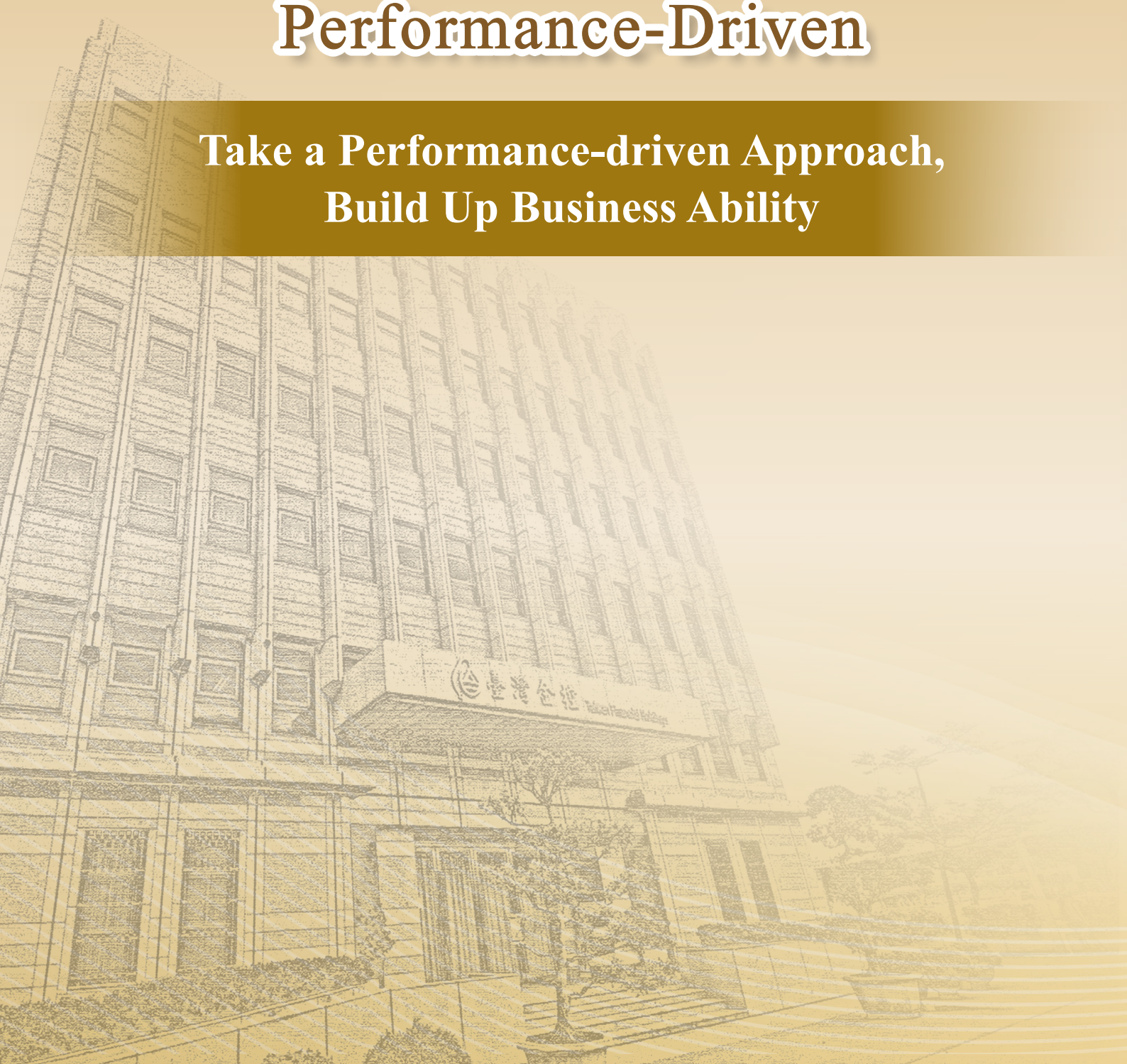
(8) Installing security agent software on all personal computers to exercise access control over USB drives, optical disc drives, floppy drives, and other such devices.

(9) Subjecting the Internet activities of personal computer users depending on the nature of each user's work, to website whitelisting and web page classified access to make sure that employees avoid malicious and poorly constructed websites.

London
Frankfurt
JiaDing
Shanghai
Tokyo
Fuzhou
Taiwan
Guangzhou
Yangon
Mumbai
Bangkok
Hong Kong
Singapore
Silicon Valley
Los Angeles
New York
South Africa
Sydney

Performance-Driven

Take a Performance-driven Approach, Build Up Business Ability



Financial Information

I. Five-Year Financial Summary

II. Five-Year Financial Analysis

III. Statement by the Audit Committee

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

V. Any Financial difficulties of the Company or the Affiliates in 2017

Financial Information

I. Five-Year Financial Summary

1. Condensed Balance Sheets and Comprehensive Income Statements under IFRS

Condensed Consolidated Balance Sheet

Unit: NT$1,000

Item \ Year			2013	2014	2015	2016	2017	2018.3.31
Cash and cash equivalents			124,627,966	175,980,371	148,235,818	136,207,788	176,557,484	169,510,334
Placement with Central Bank and call loans to banks			585,444,072	582,914,021	585,963,772	687,235,976	675,504,410	575,193,821
Financial assets at fair value through profit or loss			167,496,351	208,952,372	176,385,509	213,743,018	238,298,393	241,763,369
Available-for-sale financial assets, net			815,602,042	852,076,122	1,099,519,771	1,072,928,664	1,167,534,338	-
Financial assets measured at fair value through other comprehensive income			-	-	-	-	-	1,167,266,115
Debt instruments investments measured at amortized cost			-	-	-	-	-	396,972,146
Hedging financial assets			5,443	25,613	15,970	21,221	22,759	48,684
Bills and bonds purchased under resell agreements			13,671,033	7,945,387	10,792,264	3,939,177	15,496,693	10,648,673
Receivables, net			90,884,392	71,063,277	80,673,391	70,157,593	67,938,513	77,776,820
Current income tax assets			3,349,666	3,428,447	3,215,081	2,139,472	3,856,127	1,675,875
Loans and discounts, net			2,240,472,476	2,299,974,231	2,381,326,379	2,267,854,659	2,278,418,007	2,395,182,112
Reinsurance assets			16,588	12,528	11,799	18,624	10,125	17,633
Held to maturity financial assets, net			270,703,495	270,591,631	300,963,479	359,811,608	369,165,099	-
Investments under equity method, net			40,324,580	42,914,648	41,733,625	41,160,422	42,510,031	43,740,236
Other financial assets, net			166,509,512	142,602,433	121,178,784	118,368,288	102,850,759	65,414,331
Investments property, net			5,512,559	5,487,465	7,037,870	22,231,247	22,668,062	22,650,802
Property and equipment, net			99,369,646	99,283,101	98,823,229	98,743,775	98,315,342	98,099,293
Intangible assets			1,062,179	958,129	869,211	823,948	733,720	742,209
Deferred tax assets			2,044,758	2,217,173	2,694,045	2,735,110	2,654,324	3,645,748
Other assets			11,748,859	14,152,357	11,558,064	8,990,934	11,809,607	13,108,952
Total Assets			4,638,845,617	4,780,579,306	5,070,998,061	5,107,111,524	5,274,343,793	5,283,457,153
Deposits of Central Bank and other banks			252,738,244	156,988,830	225,425,517	227,596,814	219,021,384	233,057,136
Financial liabilities measured at fair value through profit or loss			4,416,467	50,111,045	39,952,611	7,670,290	34,926,949	52,321,614
Hedging financial liabilities			225,806	103,024	243,967	144,195	60,480	39,002
Bills and bonds sold under repurchase agreements			20,898,486	39,587,959	17,992,102	12,836,136	36,703,085	19,780,139
Commercial paper payables, net			1,499,705	2,478,382	1,459,660	1,159,709	1,189,859	1,699,672
Payables			70,865,244	66,577,259	63,535,537	58,492,724	60,080,069	58,587,811
Current income tax liabilities			217,159	317,794	463,466	727,187	984,175	1,616,399
Deposits and remittances			3,391,502,015	3,537,029,089	3,825,858,990	3,865,981,443	3,931,372,672	3,908,658,658
Financial bonds payable			15,998,240	24,997,612	24,997,826	24,998,082	24,998,316	24,998,398
Other loans			-	-	-	300,000	-	-
Provision			597,722,903	613,339,379	588,738,072	608,368,865	650,473,144	658,555,423
Other financial liabilities			3,720,522	2,378,613	1,798,439	762,102	854,756	1,013,279
Deferred tax liabilities			18,427,706	18,563,374	18,756,564	18,303,100	18,475,398	18,290,239
Other liabilities			8,003,288	8,375,679	8,091,466	7,296,499	8,983,572	7,969,519
Total liabilities		Before distribution	4,386,235,785	4,520,848,039	4,817,314,217	4,834,637,146	4,988,123,859	4,986,587,289
		After distribution	4,386,235,785	4,520,940,044	4,817,314,217	4,834,637,146	4,988,123,859	4,986,587,289
Equity attributable to stockholders of TFH	Capital stock	Before distribution	90,000,000	90,000,000	90,000,000	90,000,000	90,000,000	90,000,000
		After distribution	90,000,000	90,000,000	90,000,000	90,000,000	90,000,000	90,000,000
	Capital surplus		111,434,739	111,463,639	111,385,217	111,385,217	111,385,226	111,385,226
	Retained earnings	Before distribution	34,103,837	37,824,048	40,005,351	54,012,622	60,272,427	58,729,059
		After distribution	31,050,034	34,505,272	40,005,351	54,012,622	60,272,427	58,729,059
	Other equity		17,071,256	20,443,580	12,293,276	17,076,539	24,562,281	36,755,579
Total equity		Before distribution	252,609,832	259,731,267	253,683,844	272,474,378	286,219,934	296,869,864
		After distribution	249,556,029	256,412,491	253,683,844	272,474,378	286,219,934	296,869,864

Note: Figures for 2013 through 2016 are based on final accounts. Figures for 2013 and 2014 reflect adjustments made to figures and account titles after adoption of the 2013 version of the International Financial Reporting Standards. Figures for 2017 have been audited by CPA. Figures for 2018 through March 31 have been reviewed by a CPA.

Condensed Consolidated Income Statement

Unit: NT$1,000

Item \ Year	2013	2014	2015	2016	2017	2018.3.31
Interest income	68,852,758	75,096,508	73,983,770	68,328,335	68,764,834	17,740,428
Less: Interest expense	(33,482,173)	(36,573,222)	(36,543,681)	(33,490,982)	(33,659,218)	(9,059,890)
Net interest income	35,370,585	38,523,286	37,440,089	34,837,353	35,105,616	8,680,538
Non-interest income, net	41,507,033	11,246,729	(30,028,468)	27,506,508	38,047,318	7,040,561
Net revenue	76,877,618	49,770,015	7,411,621	62,343,861	73,152,934	15,721,099
Bad debt expense and reserve for guarantees	(2,627,371)	(7,335,511)	(4,526,947)	(5,172,049)	(1,680,984)	(35,433)
Provisions for policyholder's reserve premium	(46,618,023)	(13,299,953)	26,556,546	(19,878,537)	(42,788,426)	(8,949,842)
Total expenses	(19,292,175)	(20,543,733)	(21,505,411)	(21,358,824)	(21,429,585)	(5,177,425)
Net income before income tax	8,340,049	8,590,818	7,935,809	15,934,451	7,253,939	1,558,399
Income tax expenses	(1,256,113)	(1,215,485)	(1,598,950)	(1,111,241)	108,718	330,678
Consolidated net income	7,083,936	7,375,333	6,336,859	14,823,210	7,362,657	1,889,077
Other comprehensive income (loss)	3,558,360	2,771,005	(8,987,084)	3,967,324	6,383,909	804,968
Total comprehensive income (loss) after tax for the period	10,642,296	10,146,338	(2,650,225)	18,790,534	13,746,566	2,694,045
Consolidated net income attributable to stockholders of TFH	7,083,936	7,375,333	6,336,859	14,823,210	7,362,657	1,889,077
Total comprehensive income (loss) after tax for the period attributable to stockholders of TFH	10,642,296	10,146,338	(2,650,225)	18,790,534	13,746,566	2,694,045
Basic earnings per share	0.79	0.82	0.70	1.65	0.82	0.21

Note: Figures for 2013 through 2016 are based on final accounts. Figures for 2013 and 2014 reflect adjustments made to figures and account titles after adoption of the 2013 version of the International Financial Reporting Standards. Figures for 2017 have been audited by CPA. Figures for 2018 through March 31 have been reviewed by a CPA.

Condensed Balance Sheet

Unit: NT$1,000

Item \ Year			2013	2014	2015	2016	2017	2018.3.31
Cash and cash equivalents			260,624	529,552	256,670	278,860	140,733	930,003
Financial assets measured at fair value through other comprehensive income			-	-	-	-	-	25,000
Receivables, net			35	37	24	5	3	274
Current income tax assets			272,093	304,521	412,706	306,541	289,905	334,940
Investments under equity method, net			264,339,612	271,038,529	270,161,803	288,734,901	302,173,032	312,701,095
Other financial assets, net			-	-	-	-	-	2,827
Property and equipment, net			6,274	6,618	5,938	5,809	5,049	4,985
Intangible assets			356	419	302	292	280	263
Other assets			3,236,103	3,235,673	16,372	22,660	6,302	11,316
Total Assets			268,115,097	275,115,349	270,853,815	289,349,068	302,615,304	314,010,703
Payables			28,983	21,563	19,799	22,193	23,813	24,036
Other loans			11,600,000	11,550,000	17,050,000	16,750,000	16,250,000	16,250,000
Provision			98,992	87,356	99,839	102,318	121,463	121,466
Other liabilities			3,777,290	3,725,163	333	179	94	745,337
Total liabilities		Before distribution	15,505,265	15,384,082	17,169,971	16,874,690	16,395,370	17,140,839
		After distribution	11,835,985	11,776,045	17,169,971	16,874,690	16,395,370	17,140,839
Equity Attributable to Stockholders of TFH	Capital stock	Before distribution	90,000,000	90,000,000	90,000,000	90,000,000	90,000,000	90,000,000
		After distribution	90,000,000	90,000,000	90,000,000	90,000,000	90,000,000	90,000,000
	Capital surplus		111,434,739	111,463,639	111,385,217	111,385,217	111,385,226	111,385,226
	Retained earnings	Before distribution	34,103,837	37,824,048	40,005,351	54,012,622	60,272,427	58,729,059
		After distribution	31,050,034	34,505,272	40,005,351	54,012,622	60,272,427	58,729,059
	Other equity		17,071,256	20,443,580	12,293,276	17,076,539	24,562,281	36,755,579
Total equity		Before distribution	252,609,832	259,731,267	253,683,844	272,474,378	286,219,934	296,869,864
		After distribution	249,556,029	256,412,491	253,683,844	272,474,378	286,219,934	296,869,864

Note: Figures for 2013 through 2016 are based on final accounts. Figures for 2013 and 2014 reflect adjustments made to figures and account titles after adoption of the 2013 version of the International Financial Reporting Standards. Figures for 2017 have been audited by CPA. Figures for 2018 through March 31 have been reviewed by a CPA.

Condensed Income Statement

Unit: NT$1,000

Item \ Year	2013	2014	2015	2016	2017	2018.3.31
Income from equity investments under equity methods	7,228,902	7,609,600	6,482,932	15,097,003	7,577,862	1,767,210
Other gains	1,527	3,125	2,905	2,746	2,401	765
Operating expenses	(155,556)	(151,079)	(142,118)	(162,772)	(155,914)	(31,011)
Other expenses and losses	(91,778)	(121,973)	(140,521)	(152,885)	(142,693)	(33,596)
Net income before income tax	6,983,095	7,339,673	6,203,198	14,784,092	7,281,656	1,703,368
Income tax benefit	100,841	35,660	133,661	39,118	81,001	185,709
Net income	7,083,936	7,375,333	6,336,859	14,823,210	7,362,657	1,889,077
Other comprehensive income (loss) for the period, net of income tax	3,558,360	2,771,005	(8,987,084)	3,967,324	6,383,909	804,968
Total comprehensive income (loss) for the period	10,642,296	10,146,338	(2,650,225)	18,790,534	13,746,566	2,694,045
Earnings per share	0.79	0.82	0.70	1.65	0.82	0.21

Note: Figures for 2013 through 2016 are based on final accounts. Figures for 2013 and 2014 reflect adjustments made to figures and account titles after adoption of the 2013 version of the International Financial Reporting Standards. Figures for 2017 have been audited by CPA. Figures for 2018 through March 31 have been reviewed by a CPA.

2.CPA-Auditor of Financial Report

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

II. Five-Year Financial Analysis

1. Consolidated Financial Analysis

Unit: NT$1,000; %

Item \ Year		2013	2014	2015	2016	2017	2018.3.31
Operating Ability	Total assets turnover (times)	0.0170	0.0106	0.0015	0.0123	0.0141	0.0030
	Loans to deposits ratio of banking subsidiary (%)	66.02	65.25	62.79	59.42	58.69	61.89
	NPL ratio of banking subsidiary (%)	0.44	0.31	0.23	0.26	0.29	0.27
	The group's average operating revenue per employee	9,109	5,672	838	7,058	8,141	1,762
	The group's average profit per employee	839	840	716	1,678	819	212
Profitability	Return on assets（%）	0.16	0.16	0.13	0.29	0.14	0.04
	Return on equity（%）	2.84	2.88	2.47	5.63	2.64	0.65
	Net margin（%）	9.21	14.82	85.50	23.78	10.06	12.02
	Earnings per share (NT$)	0.79	0.82	0.70	1.65	0.82	0.21
Financial structure (%)	Liabilities to assets ratio	94.55	94.57	95.00	94.66	94.57	94.38
	Liabilities to net worth ratio	1,736.37	1,740.59	1,898.94	1,774.35	1,742.76	1,679.72
	TFH's financial leverage ratio	Referred to condensed financial analysis					
Leverage ratio	Operating leverage ratio	Referred to condensed financial analysis					
	TFH's financial leverage ratio						
Growth rates	Growth rate of assets	4.95	3.06	6.07	0.71	3.27	0.17
	Growth rate of profit	6.38	3.01	-7.62	100.79	-54.48	-(note 2)

tem \ Year			2013	2014	2015	2016	2017	2018.3.31
Cash flows	Cash flow ratio		Referred to condensed financial analysis					
	Cash flow adequacy ratio							
	Cash flow reinvestment ratio							
Operating scale	Market share by assets		11.99	11.44	11.14	10.62	10.04	9.94
	Market share by net worth		9.22	8.77	8.10	8.11	7.70	7.74
	Market share of deposits of banking subsidiary		10.80	10.59	10.72	10.36	10.12	10.08
	Market share of loans of banking subsidiary		9.06	8.78	8.90	8.29	8.03	8.44
Capital Adequacy	Capital adequacy ratio	BOT	10.73	11.30	11.19	12.04	13.13	13.29
		BTLI	218.27	284.43	232.91	189.33	154.15	122.98
		BTS	373	348	373	448	512	478
	Eligible capital of the subsidiaries	BOT	203,513,137	223,721,961	226,726,439	240,967,261	246,987,645	247,535,389
		BTLI	13,482,750	15,748,873	14,504,121	11,675,786	9,714,048	7,955,701
		BTS	2,221,810	2,279,926	2,510,371	2,572,896	2,779,888	2,752,381
	Group's eligible capital		199,505,274	217,943,590	214,762,689	226,451,017	231,028,483	229,619,659
	Statutory capital requirement of the subsidiaries	BOT	151,722,654	158,453,187	162,046,964	172,594,143	173,984,554	183,921,041
		BTLI	12,354,146	11,074,016	1,008,746	12,333,702	12,603,324	12,938,050
		BTS	892,614	983,477	12,454,844	862,052	815,211	863,264
	Group's statutory capital requirement		164,985,472	170,526,646	175,533,183	185,818,662	187,414,724	197,040,863
	Group's capital adequacy ratio		120.92	127.81	122.35	121.87	123.27	116.53
Paragraph 46 of the Financial Holding Company Act requires disclosure of the aggregate amount, or ratio of, credit extensions, guarantees or other transactions between all subsidiaries and any single party, single group of related parties, or single group of related enterprises.		Same person (%)	779.91	753.82	879.32	784.5	800.34	821.04
		Same natural person and his/her spouse and relatives by blood within the second degree of kinship, as well as enterprises in which the principal or his/her spouse is the responsible person (%)	87.54	77.32	81.84	72.12	41.68	27.46
		Same affiliate (%)	346.47	212.51	220.38	186.82	201.71	185.59

Note：

1. Figures for 2013 through 2016 are based on final accounts. Figures for 2013 and 2014 reflect adjustments made to figures and account titles after adoption of the 2013 version of the International Financial Reporting Standards. Figures for 2017 have been audited by CPA. Figures for 2018 through March 31 have been reviewed by a CPA.
2. The growth rate of profit in the first quarter of 2018 wasn't expressed, due to the earnings before tax is negative in the same period of last year.
3. Average profit per employee, ROA, ROE, net margin, EPS and the growth rate of profit declined in 2017, derived mainly because the BOT recognized the revaluation gain of the liquidation of Kaohsiung Ammonium Sulfate Co. in 2016. As a result, the ratio decreased from last year.
4. The growth rate of assets increased because available-for-sale asset, cash and cash equivalents, bills and bonds purchased under resell agreements, loans and discounts increased in 2017 from the 2016 level.

2. Condensed Financial Analysis

Unit:NT$1,000; %

tem \ Year		2013	2014	2015	2016	2017	2018.3.31
Operating ability	Total assets turnover	0.0272	0.0276	0.0232	0.0534	0.0251	0.0056
	Average revenue per employee	134,692	159,378	151,079	355,878	161,686	36,902
	Average profit per employee	133,659	156,922	150,878	352,934	160,058	40,193
Profitability	Return on Assets（%）	2.70	2.72	2.32	5.29	2.49	0.61
	Return on Equity（%）	2.84	2.88	2.47	5.63	2.64	0.65
	Net Income ratio（%）	99.23	98.46	99.87	99.17	98.99	108.92
	Earnings Per Share (NT$)	0.79	0.82	0.70	1.65	0.82	0.21
Financial structure (%)	Liabilities to assets ratio	5.78	5.59	6.34	5.83	5.42	5.46
	Liabilities to net worth ratio	6.14	5.92	6.77	6.19	5.73	5.77
	TFH's double leverage ratio	104.64	104.35	106.50	105.97	105.57	105.33
Leverage ratio	Operating leverage ratio	101.98	101.87	102.14	100.99	102.00	101.65
	TFH's financial leverage ratio	101.31	101.61	102.10	100.97	101.82	101.90
Growth rates	Growth rate of assets	4.27	2.61	-1.55	6.83	4.58	3.77
	Growth rate of profit	-2.71	5.11	-15.48	138.33	-50.75	1,495.63
Cash flows	Cash flow ratio	12,552.03	16,200.12	-714.91	2,100.17	2,078.43	3,523.24
	Cash flow adequacy ratio	102.10	99.28	104.30	109.95	123.15	136.26
	Cash flow satisfied ratio	60.62	164,464.78	-2.57	33,244.65	59,132.14	3,358.50
Operating scale	Market share of assets	9.12	8.41	7.79	7.74	7.42	7.52
	Market share of net worth	9.66	8.94	8.25	8.24	7.99	8.00

Note：

1. Figures for 2013 through 2016 are based on final accounts. Figures for 2013 and 2014 reflect adjustments made to figures and account titles after adoption of the 2013 version of the International Financial Reporting Standards. Figures for 2017 have been audited by CPA. Figures for 2018 through March 31 have been reviewed by a CPA.
2. Total assets turnover, average revenue/profit per employee, ROA, ROE, EPS and the growth rate of profit declined in 2017, derived mainly because the BOT recognized the revaluation gain of the liquidation of Kaohsiung Ammonium Sulfate Co. in 2016. As a result, the ratio decreased from last year.
3. The growth rate of assets declined, mainly because investment growth in 2017, when the company adopted the equity method, was less than ithe 2016 level.
4. The cash flow reinvestment ratio increased, due mainly to a drop in the net cash outflow from investing activities.

Formula used in calculations:

1. Operating Ability
   (1) Total assets turnover (times) = Net interest and non-interest income / Average Total Assets
   (2) Subsidiary bank's ratio of loans to deposits = Subsidiary bank's annual average loans outstanding / Annual average deposits
   (3) Subsidiary bank's non-performing loan ratio = Subsidiary bank's non-performing loans / Total loans outstanding
   (4) Average revenue per employee = Net interest and non-interest income / Total number of employees
   (5) Average profit per employee = Net income / Total number of employees
2. Profitability
   (1) Return on assets = Net Income / Average total assets
   (2) Return on shareholders' equity = Net income / Average net shareholders' equity
   (3) Net income ratio = Net income / Net interest and non-interest income
   (4) Earnings per share = (Income attributable to owners of the parent company – preferred stock dividend) / Weighted average number of shares issued
3. Financial Structure
   (1) Ratio of liabilities to assets = Total liabilities / Total assets
   (2) Liabilities to net worth ratio = Total liabilities / Net equity
   (3) The financial holding company double leverage ratio = aggregate investment in subsidiaries / aggregate parent equity
4. Leverage ratio
   (1) Operating leverage ratio = (Net revenue－Net expense) / Earnings before tax
   (2) TFH's financial leverage ratio = (Earnings before tax + Interest expense) / Earnings before tax
5. Growth Rate
   (1) Rate of asset growth = (Total assets for current year – total assets for previous year) / Total assets for previous year
   (2) Rate of profit growth = (Before-tax profit or loss for current year – before-tax profit or loss for previous year) / Before-tax profit for previous year
6. Cash Flow
   (1) Cash flow ratio = Net cash flow from operating activities / (Call loans and overdrafts from banks + commercial paper + financial liabilities measured at fair value through profit or loss + bonds and bills sold under repurchase agreements + current portion of payables)
   (2) Cash flow adequacy ratio = Net cash flow from operating activities for the past five years / (Capital expenditures + cash dividends) for the past five years
   (3) Cash flow satisfied ratio = Net cash flow from operating activities / Net cash flow from investing activities
7. Operating Scale
   (1) Market Share of Assets = Total assets / Total assets of the major financial institutions
   (2) Market Share of Net Worth = Net worth / Total net worth of the major financial institutions
   (3) Market Share of Deposits = Deposits / Total deposits of the major financial institutions
   (4) Market Share of Loans = Loans / Total loans of the major financial institutions
8. Capital Adequacy Ratio
   (1) Group's net eligible capital =financial holding company's eligible capital +（the financial holding company's shareholding×eligible capital of its subsidiaries）－the amounts of deductions set forth in Article 4 herein.
   (2) Group's statutory capital requirement =financial holding company's statutory capital requirement +（the financial holding company's shareholding×the statutory capital requirements of its subsidiaries）－the amounts of deductions set forth in Article 4 herein.
   (3) Group's capital adequacy ratio = Group's net eligible capital / the group's statutory capital requirement.

III. Statement by the Audit Committee:

Please refer to page 80 of the Chinese annual report

IV. Consolidated Financial Statements of 2017

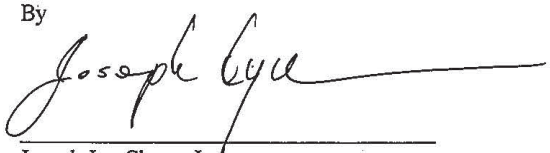
LETTER OF DECLARATION

The entities that are required to be included in the combined financial statements of Taiwan Financial Holding Co., Ltd. as of and for the year ended December 31, 2017 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 endorsed by the Financial Supervisory Commission, "Consolidated and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Taiwan Financial Holding Co., Ltd. and its Subsidiaries do not prepare a separate set of combined financial statements.

Truthfully yours,

TAIWAN FINANCIAL HOLDING CO., LTD.

By



Joseph Jye-Cherng Lyu
Chairman

March 22, 2018

Independent Auditors' Report

To the Board of Directors of Taiwan Financial Holding Co., Ltd.:

Opinion

We have audited the consolidated financial statements of Taiwan Financial Holding Co., Ltd. ("the Group") and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2017 and 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of other auditors (please refer to Other Matter paragraph), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated operations and cash flows for the years then ended in accordance with the "Regulations Governing the Praparation of Financial Reports of Financial Holding Companies" and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), International Financial Reporting interpretations ("IFRICS"), and the Standing Interpretations Committee ("SICs") as well as related guidelines endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Emphasis of Matter

In accordance with the Audit Act and other governmental regulations of Taiwan, the financial statements of the Group and its subsidiaries are required to be examined and certified by the Ministry of Audit (the "MoA"). The financial statements of the Company and its subsidiaries as of, and for year ended December 31, 2016 were restated to reflect the adjustments made by the MoA. For further information, please see Note 16(b).

Other Matter

As stated in Note 6(j), we have not audited the financial statements of Hua Nan Financial Holdings Co., Ltd. and Tai Yi Real Estate Co., Ltd. The Company and its subsidiaries recognized its investments in Hua Nan Financial Holdings Co., Ltd. and Tai Yi Real Estate Co., Ltd. under equity method amounting to $41,193,676 thousand and $39,876,361 thousand respectively, constituting 0.78% and 0.78% of the consolidated total assets as of December 31, 2017 and 2016, respectively; and its shares of investment profits in associates accounted for using equity method amounting to $3,021,338 thousand and $3,535,129 thousand, respectively, constituting 41.65% and 22.19% of the related consolidated income before income tax for the year ended December 31, 2017 and 2016, respectively. Those financial statements were audited by other auditors, whose reports have been furnished to us, and our review, insofar as it relates to the amounts included for those companies, is based solely on the reports of the other auditors.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. The valuation of financial instruments

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

   Description of key audit matters

   Of the financial instruments measured at fair value through profit and loss and other comprehensive income held by the Group and its subsidiaries, fair value of the financial instruments, other than those that the fair value can be observed in an open market, shall be calculated via models. The parameters of modeling inputs often involved the exercise of judgment and may have significant impact on the results. The financial assets and liabilities measured at fair value held by the Group as of December 31, 2017 amounted to $1,839,089,730 thousand and $97,543,586 thousand, respectively. Among them, the financial assets and liabilities measure at fair value, other than those classified as level 1 in the fair value hierarchy, amounted to $1,138,719,682 thousand and $34,987,429 thousand, respectively. The amounts are material to the Company and its subsidiaries. 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 principal audit procedures included (i) testing the controls over the investment cycle and related financial reporting process, including initial recognition, subsequent measurement and disclosure; (ii) sampling to test whether the fair values of the financial instruments measured at fair value with an active market are appropriate; (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 Company used when deemed necessary; (iv) assessing whether the fair value information is disclosed in accordance with the International Financial Reporting Standards.

2. The assessment of impairment of financial assets

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

   Description of key audit matters

   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 Company and its subsidiaries rely on management for considering all kinds of observable data to determine whether objective evidence of impairment exists on the reporting date. If there is such evidence exists, then the Company and its subsidiaries shall calculate the amount of impairment loss by further estimating future cash flow and effective interest rate or current market return. The decision involved the exercise of judgment and the financial assets of $1,585,271,885 thousand should be included in the scope of test of impairment as of December 31, 2017. The amount is material to the Company and its subsidiaries. Therefore, the assessment of impairment of financial assets has been identified as a key audit matter in our audit.

How the matter was addressed in our audit

Our principal audit procedures included (i) inspecting the internal guidelines of impairment assessment and understanding the Company and its subsidiaries' procedures of the assessment of impairment of financial assets ; (ii) assessing the reasonableness of the Company and its subsidiaries' assessment of impairment of financial assets and recognized impairment loss by the understanding of auditors and evidence collected from other audit procedures.

3. The assessment of insurance liability

Please refer to Note 4(t) "Insurance liability" for related accounting polices, Note 5(c) "Insurance liability and reserve of insurance policy with financial instrument nature" for the uncertainty of accounting estimation and assumptions, and Note 6(z) "Insurance contract and financial products with discretionary participation feature" for the details of the assessment of insurance liability.

Description of key audit matters

The major business activity of BankTaiwan Life Insurance Co., Ltd.(BTLI) is to provide life insurance. To strengthen its financial structure and the capability of fulfilling future obligation, BTLI is required to set aside various statutory reserves calculated based on each product's characteristic and its undue risk in accordance with the Insurance Act and "Regulations Governing Insurance Enterprises for Setting Aside Various Reserves". The evaluation of the adequacy of insurance liabilities involved the assumptions of morbidity rate, expense rate, discount rate, default rate, future cash flows, etc., which all rely on the judgment and experiences of the management and may cause a significant impact on the recognition of insurance liability. Therefore, the assessment of the insurance liability has been identified as a key audit matter in our audit.

How the matter was addressed in our audit

Our principal audit procedures included (i) testing the internal process of the provision of statutory reserves; (ii) inspecting the related minutes of BTLI's Board of Directors and the committee of asset-liability management; (iii) obtaining BTLI's s liability adequacy test report prepared by a third party and assessing the qualification of the actuaries; (iv) appointing KPMG's actuaries to re-assess the reasonableness of significant assumptions and the conformity of the regulations; (v) assessing whether the disclosures of the reserves of BTLI are in compliance with the relevant accounting standards and guidelines.

4. The assessment of loans impairment

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

Description of key audit matters

When conducting credit business, Bank of Taiwan(BOT) shall assess whether there is any indication that loans may be impaired because BOT will assume credit risk if the loans are not repaid. BOT first assesses the impairment loss of loans in accordance with IAS 39, and such amount of allowance for doubtful accounts shall not be lower than the amount calculated in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non performing/Non accrual Loans". When BOT, individually or collectively, assesses its impairment loss of loans according to IAS 39, the uses of assumptions, such as effective interest rates, recovery rates and future cash flows, involved the exercise of judgment which usually has significant impacts on the results. In addition, BOT recognized its loans and allowance for doubtful accounts of $2,318,081,105 thousand and $33,041,862 thousand, respectively, as of December 31, 2017. The accounts are material to BOT. Therefore, the assessment of

loans impairment has been identified as a key audit matter in our audit.

How the matter was addressed in our audit

Our principal audit procedures included (i) testing the internal control procedures over credit operations, and inspect the meeting minutes of both Board of Directors and the Assets and Liabilities Management Committee regarding credit business; (ii) executing substantive analytical procedure and analyzing the structure and movement of loans; (iii) inspecting whether the process of determining parameters were conducted in accordance with the related internal guidelines, as well as evaluating the reasonableness of adjusting the parameters (iv) executing the retrospective testing of last year's allowance for doubtful accounts which had already been recognized; (v) checking the accuracy of allowance for doubtful accounts calculated in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non performing/Non accrual Loans"; (vi) assessing whether the disclosures appropriately reflected BOT's exposure to credit risk.

5. Insurance Regulatory Compliance

Please refer to Note 9(d) "BTLI's capital management" for the details of the capital management.

Description of key audit matters

As of December 31, 2017, BTLI's capital adequacy ratio was 154.15%, which was lower than 200% regulated in Article 143-4 paragraph 1 of the Insurance Act. Hence, BTLI was categorized as an insurance company without adequate capital according to the Regulations Governing Capital Adequacy of Insurance Companies (hereinafter referred to as the "Regulations"). In accordance with Article 7 paragraph 2 of the Regulations and Article 143-6 of the Insurance Act, the competent authority shall adopt necessary measures, for instance, ordering such company to put forward a plan for capital increase or another corrective action plan for finance or business within the specified period. Among all the measures the competent authority can take, the restriction on the sale of existing products or the launch of new products and the scope of fund utilization may pose a significant impact on BTLI. Therefore, the assessment of insurance regulatory compliance has been identified as a key audit matter in our audit.

In order to raise the capital adequacy ratio, BTLI proactively improves its efficiency on its fund utilization. BTLI also sets up countermeasures to prevent itself from being limited on investment and operations to ensure it can adhere with its 2017 asset liability matching plan. In addition, on November 19, 2016, the parent company Taiwan Financial Holding Co., Ltd., agreed to include a 10 billion capital injection to BTLI into its 2018 budget. The budget was approved by the BTLI's and the Company's board of directors on February 22, 2017 and March 30, 2017, respectively. The budget was also approved by the Finance Committee of the Legislative Yuan R.O.C. on December 4, 2017.

How the matter was addressed in our audit

Our principal audit procedures included (i) obtaining BTLI's documents regarding capital adequacy ratio to evaluate the accuracy of calculation; (ii) obtaining the minutes of board of directors meeting, and asset and liability management committee meeting, as well as reviewing the related reports to understand countermeasures, including capital injection; (iii) checking whether the capital injection was included in BTLI's and the Company's 2018 annual budget and approved by the board of directors; (iv) checking the Legislative Yuan's reviewing process of the budget; (v) assessing whether the disclosures are sufficient and appropriate.

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", the "Regulations Governing the Praparation of

Financial Reports of Financial Holding Companies" and with the IFRSs, IASs, IFRICs, and SICs as well as related guidelines 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 Company and its subsidiaries ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (including members of the Audit Committee or Supervisors) are responsible for overseeing the Company and its subsidiaries' financial reporting process.

Auditor's 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Company 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 Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely

responsible for our audit opinion.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

KPMG

Taipei, Taiwan (Republic of China)
March 22, 2018

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

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2017		December 31, 2016	
Assets	Amount	%	Amount	%
Cash and Cash Equivalents (note 6(a) and 7)	$ 176,557,484	3	136,207,788	3
Placement with Central Bank and Call Loans to Banks (note 6(b), (g) and 7)	675,504,410	13	687,235,976	13
Financial Assets Measured at Fair Value through Profit or Loss, Net (note 6(c) and 7)	238,298,393	5	213,743,018	4
Available-for-Sale Financial Assets, Net (note 6(h), (p) and 7)	1,167,534,338	23	1,072,928,664	22
Hedging Derivative Financial Assets (note 6(d) and 7)	22,759	-	21,221	-
Bills and Bonds Purchased under Resell Agreements (note 6(e))	15,496,693	-	3,939,177	-
Receivables, Net (note 6(f) and 7)	67,938,513	1	70,157,593	1
Current Income Tax Assets	3,856,127	-	2,139,472	-
Loans and Discounts, Net (note 6(g) and 7)	2,278,418,007	43	2,267,854,659	45
Reinsurance Assets	10,125	-	18,624	-
Held-to-Maturity Financial Assets, Net (note 6(i), (p) and 7)	369,165,099	7	359,811,608	7
Investments under Equity Method, Net (note 6(j))	42,510,031	1	41,160,422	1
Other Financial Assets, Net (note 6(f), (g), (k), (p) and 7)	102,850,759	2	118,368,288	2
Investments property, Net (note 6(l))	22,668,062	-	22,231,247	-
Property and Equipment, Net (note 6(m), (p) and 11)	98,315,342	2	98,743,775	2
Intangible Assets (note 6(n))	733,720	-	823,948	-
Deferred Tax Assets (note 6(ad))	2,654,324	-	2,735,110	-
Other Assets (note 6(o))	11,809,607	-	8,990,934	-
Total assets	$ 5,274,343,793	100	5,107,111,524	100
Liabilities and Equity				
Deposits of Central Bank and Other Banks (note 6(q))	$ 219,021,384	5	227,596,814	5
Financial Liabilities Measured at Fair Value through Profit or Loss (note 6(r) and 7)	34,926,949	1	7,670,290	-
Hedging Derivative Financial Liabilities (note 6(d))	60,480	-	144,195	-
Bills and Bonds Sold under Repurchase Agreements (note 6(e))	36,703,085	1	12,836,136	-
Commercial Paper Payables, Net (note 6(s))	1,189,859	-	1,159,709	-
Payables (note 6(t))	60,080,069	1	58,492,724	1
Current Income Tax Liabilities	984,175	-	727,187	-
Deposits and Remittances (note 6(u))	3,931,372,672	75	3,865,981,443	77
Financial Bonds Payable (note 6(v))	24,998,316	-	24,998,082	-
Other borrowings (note 6(w))	-	-	300,000	-
Provision (note 6(y), (z), (aa) and (ab))	650,473,144	12	608,368,865	12
Other Financial Liabilities (note 6(x))	854,756	-	762,102	-
Deferred Tax Liabilities (note 6(ad))	18,475,398	-	18,303,100	-
Other Liabilities (note 6(ac))	8,983,572	-	7,296,499	-
Total liabilities	4,988,123,859	95	4,834,637,146	95
Equity attributable to owners of parent (note 6(ae)):				
Capital Stock	90,000,000	2	90,000,000	2
Capital Surplus	111,385,226	2	111,385,217	2
Retained earnings:				
Legal Reserve	6,793,230	-	5,392,503	-
Special Reserve	41,357,939	1	32,983,414	1
Unappropriated Retained Earnings (note 6(ad))	12,121,258	-	15,636,705	-
	60,272,427	1	54,012,622	1
Other Equity	24,562,281	-	17,076,539	-
Total equity	286,219,934	5	272,474,378	5
Total liabilities and equity	$ 5,274,343,793	100	5,107,111,524	100

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

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

	2017		2016		Change
	Amount	%	Amount	%	%
Revenue and income:					
Interest income (note 6(af))	$ 68,764,834	94	68,328,335	110	1
Less:Interest expense (note 6(af))	(33,659,218)	(46)	(33,490,982)	(54)	1
Net income (loss) of interest (note 6(af))	35,105,616	48	34,837,353	56	1
Non-interest income, net					
Service fees, net (note 6(ag))	4,123,535	6	3,011,277	5	37
Gain on real estate investment, net (note 6(l))	83,170	-	92,181	-	(10)
Share of profit (loss) of associates and joint ventures accounted for using equity method (note 6(j))	3,073,663	4	16,955,013	27	(82)
Premiums gain (loss) (note 6(ao))	1,983,700	3	(13,811,493)	(22)	114
Gain on financial assets or liabilities measured at fair value through profit or loss (note 6(c) and (ah))	37,166,577	50	17,122,608	27	117
Realized gain on available-for-sale financial assets (note 6(ai))	4,494,381	6	3,707,986	6	21
Realized gain (loss) on held-to-maturity financial assets (note 6(i))	486,380	1	242,198	-	101
Foreign exchange gain (loss)	(13,724,465)	(19)	(4,212,373)	(7)	(226)
Impairment loss of assets (note 6(m) and (p))	(1,913)	-	27,659	-	(107)
Net other non-interest income (loss)					
Sales income (note 6(o) and (aj))	455,670	1	542,536	1	(16)
Subsidized income from government (note 6(aj))	10,452,705	14	13,754,258	22	(24)
Other miscellaneous income (note 6(aj))	538,295	1	936,017	2	(42)
Excess interest expenses (note 6(aj))	(11,084,380)	(15)	(10,861,359)	(17)	(2)
Net Revenue	73,152,934	100	62,343,861	100	17
Bad debt expense and reserve for guarantees (note 6(g))	(1,680,984)	(2)	(5,172,049)	(8)	(67)
Provisions for policyholder's reserve premium	(42,788,426)	(58)	(19,878,537)	(32)	115
Expenses:					
Employee benefits expenses (note 6(ak))	(12,967,099)	(18)	(12,889,507)	(21)	1
Depreciation and amortization expenses (note 6(al))	(1,156,523)	(2)	(1,158,996)	(2)	-
Other general and administrative expenses (note 6(am))	(7,305,963)	(10)	(7,310,321)	(12)	-
Total Expenses	(21,429,585)	(30)	(21,358,824)	(35)	-
Net income before income tax	7,253,939	10	15,934,451	25	(54)
Income Tax Expenses (note 6(ad))	108,718	-	(1,111,241)	(2)	110
Net income	7,362,657	10	14,823,210	23	(50)
Other comprehensive income (losses):					
Items not to be reclassified into profit or loss					
Gains (losses) on remeasurements of defined benefit plans	(1,006,449)	(1)	(704,403)	(1)	(43)
Change in fair value of financial liability attributable to change in credit risk of liability	(49,185)	-	-	-	-
Share of other comprehensive income of associates and joint ventures accounted for using equity method－Items not to be reclassified into profit or loss (note 6(j))	(105,446)	-	(122,321)	-	14
Income tax－items not to be reclassified into profit or loss	4,918	-	(5,288)	-	193
Subtotal of items not to be reclassified into profit or loss	(1,156,162)	(1)	(832,012)	(1)	(39)
Items that may be subsequently reclassified into profit or loss					
Exchange differences on translation of foreign operations	(1,442,846)	(2)	(470,319)	(1)	(207)
Unrealized losses on available-for-sale financial assets	8,842,550	12	5,685,402	9	56
Share of other comprehensive income of associates and joint ventures accounted for using equity method (note 6(j))	231,936	-	(367,213)	(1)	163
Income tax－items that may be reclassified into profit or loss (note 6(ad))	(91,569)	-	(48,534)	-	(89)
Subtotal of items that may be subsequently reclassified into profit or loss	7,540,071	10	4,799,336	7	57
Other comprehensive income (losses) for the period, net of income tax	6,383,909	9	3,967,324	6	61
Total comprehensive income (loss), net of tax for the year	$ 13,746,566	19	18,790,534	29	(27)
Basic earnings per share (In dollars) (note 6(an))	$	0.82		1.65	

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent											
			Retained earnings				Total other equity interest					
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total	Exchange differences on translation of foreign operations	Unrealized gains (losses) on available-for-sale financial instruments	Gains (losses) on effective portion of cash flow hedges	Change in fair value of financial liability attributable to change in credit risk of liability	Total other equity interest	Total equity
alance at January 1, 2016	$ 90,000,000	111,385,217	4,857,208	29,771,643	5,376,500	40,005,351	1,263,211	10,999,156	4,278	26,631	12,293,276	253,683,844
propriation of retained earnings:												
Legal reserve appropriated	-	-	535,295	-	(535,295)	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	3,211,771	(3,211,771)	-	-	-	-	-	-	-
t income for the period	-	-	-	-	14,823,210	14,823,210	-	-	-	-	-	14,823,210
her comprehensive income (losses) for the period	-	-	-	-	(815,939)	(815,939)	(732,723)	5,528,140	3,919	(16,073)	4,783,263	3,967,324
tal comprehensive income (losses) for the period	-	-	-	-	14,007,271	14,007,271	(732,723)	5,528,140	3,919	(16,073)	4,783,263	18,790,534
alance at December 31, 2016	90,000,000	111,385,217	5,392,503	32,983,414	15,636,705	54,012,622	530,488	16,527,296	8,197	10,558	17,076,539	272,474,378
propriation of retained earnings:												
Legal reserve appropriated	-	-	1,400,727	-	(1,400,727)	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	8,404,363	(8,404,363)	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(29,838)	29,838	-	-	-	-	-	-	-
Changes in equity of associates and joint ventures accounted for using equity method	-	9	-	-	(1,019)	(1,019)	-	-	-	-	-	(1,010)
t income for the period	-	-	-	-	7,362,657	7,362,657	-	-	-	-	-	7,362,657
her comprehensive income (losses) for the period	-	-	-	-	(1,101,833)	(1,101,833)	(1,871,218)	9,411,503	(4,206)	(50,337)	7,485,742	6,383,909
tal comprehensive income (losses) for the period	-	-	-	-	6,260,824	6,260,824	(1,871,218)	9,411,503	(4,206)	(50,337)	7,485,742	13,746,566
alance at December 31, 2017	$90,000,000	111,385,226	6,793,230	41,357,939	12,121,258	60,272,427	(1,340,730)	25,938,799	3,991	(39,779)	24,562,281	286,219,934

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	2017	2016
Cash flows from (used in) operating activities:		
Profit from continuing operations before tax	$ 7,253,939	15,934,451
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	891,833	897,950
Amortization expense	375,103	367,611
Provision (reversal of provision) for bad debt expense	1,453,834	5,219,259
Interest expense	33,659,218	33,490,982
Interest income	(68,764,834)	(68,328,335)
Dividend income	(8,578,412)	(7,774,544)
Net change in provisions for guarantee liabilities	227,150	(47,210)
Net change in other provisions	40,841,605	19,334,206
Share of profit of associates and joint ventures accounted for using equity method	(3,073,663)	(16,955,013)
Loss on disposal of property and equipment	162,827	30,690
Gain on disposal of investments	(486,380)	(242,198)
Impairment loss on non-financial assets	1,913	-
Reversal of impairment loss on non-financial assets	-	(27,659)
Other adjustments to reconcile profit (loss):	59	(3,430)
Total adjustments to reconcile profit (loss)	(3,289,747)	(34,037,691)
Changes in operating assets and liabilities:		
(Increase) decrease in due from the central bank and call loans to banks	(32,604,799)	50,356,525
Increase in financial assets at fair value through profit or loss	(15,810,342)	(38,070,093)
(Increase) decrease in available-for-sale financial assets	(88,858,664)	64,031,249
Increase in derivative financial assets for hedging	(1,538)	(5,251)
(Increase) decrease in securities purchased under agreements to resell	(602,254)	156,043
Decrease in receivables	2,244,829	6,657,320
(Increase) decrease in discounts and loans	(12,056,202)	108,325,150
Increase in held-to-maturity financial assets	(2,158,525)	(59,585,413)
Decrease in other financial assets	15,544,427	2,744,641
Decrease in other assets	1,010,288	2,682,486
(Decrease) increase in deposits from the central bank and banks	(8,575,430)	2,171,297
Increase (decrease) in financial liabilities at fair value through profit or loss	27,256,659	(32,282,321)
Decrease in derivative financial liabilities for hedging	(83,715)	(99,772)
Increase (decrease) in notes and bonds issued under repurchase agreement	23,866,949	(5,155,966)
Increase (decrease) in payable	385,093	(3,518,523)
Increase in deposits and remittances	65,391,229	40,122,453
Increase in provisions for employee benefits	1,034,541	343,601
Decrease in other liabilities	(375,457)	(385,897)
Total adjustments	(27,682,658)	104,449,838
Cash inflow (outflow) generated from operations	(20,428,719)	120,384,289
Interest received	68,764,834	72,170,370
Dividends received	9,110,598	9,342,609
Interest paid	(32,456,816)	(35,015,222)
Income taxes refund (paid)	(1,097,865)	(266,440)
Net Cash flows from operating activities	23,892,032	166,615,606

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	2017	2016
Net cash flows from (used in) investing activities:		
Proceeds from disposal of investments accounted for using equity method	$ -	187,907
Acquisition of assets classified as held for sale	(442,040)	-
Acquisition of property and equipment	(634,488)	(779,748)
Increase in refundable deposits	(3,820,580)	(118,961)
Acquisition of intangible assets	(284,816)	(322,138)
Increase in other financial assets	(1,000)	-
Net cash flows used in investing activities	(5,182,924)	(1,032,940)
Cash flows from (used in) financing activities:		
Decrease in short-term loans	(300,000)	-
Increase in commercial papers payable	30,000	-
Decrease in commercial papers payable	-	(300,000)
Increase in other borrowings	-	300,000
Increase in guarantee deposits received	2,062,530	-
Decrease in guarantee deposits received	-	(409,070)
Increase in other financial liabilities	92,654	-
Decrease in other financial liabilities	-	(1,036,337)
Net cash flows from (used in) financing activities	1,885,184	(1,445,407)
Effect of exchange rate changes on cash and cash equivalents	(1,871,962)	(734,174)
Net increase in cash and cash equivalents	18,722,330	163,403,085
Cash and cash equivalents at beginning of period	1,099,585,550	936,182,465
Cash and cash equivalents at end of period	$ 1,118,307,880	1,099,585,550
Composition of cash and cash equivalents:		
Cash and cash equivalents reported in the statement of financial position	$ 176,557,484	136,207,788
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	274,645,417	318,969,155
Investments qualifying for cash and cash equivalents under the definition of IAS 7	667,104,979	644,408,607
Cash and cash equivalents at end of period	$ 1,118,307,880	1,099,585,550

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

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

(1) Organization and Business Scope

(a) Taiwan Financial Holdings

On January 1, 2008, Taiwan Financial Holding Co., Ltd. (the Company) was incorporated in accordance with the Act of Taiwan Financial Holding Co., Ltd. and has three investee companies: "Bank of Taiwan Co., Ltd." (BOT), "BankTaiwan Life Insurance Co., Ltd." (BTLI) and "BankTaiwan Securities Co., Ltd." (BTS). Taiwan Financial Holdings became a public company on November 17, 2009.

The Company engages mainly in investing and managing investee companies. The investing business complies with the Financial Holding Company Act.

(b) Subsidiaries' activities

Bank of Taiwan (BOT) was established on May 20, 1946. BOT became a legal entity in 1985 in accordance with the Banking Act of the Republic of China, and transformed into a corporate entity since July 1, 2003. BOT became a public company on September 16, 2004.

BOT merged with the Central Trust of China effective on July 1, 2007. The Central Trust of China was the dissolved company, and BOT was the surviving company. BOT is primarily involved in:

(i) all commercial banking operations allowed under the Banking Law;

(ii) foreign exchange operations allowed under the Foreign Regulation Act;

(iii) operations of offshore banking unit allowed under the Offshore Banking Act;

(iv) savings and trust operations;

(v) overseas branch operations authorized by the respective foreign governments; and

(vi) other operations authorized by the central competent authority in charge.

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

BOT 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 subsidiary mainly engages in life insurance and property insurance brokerage.

BankTaiwan Life Insurance Co., Ltd. (BTLI) was the life insurance department of BOT and separated from BOT on January 2, 2008, with net assets $5 billion yield by BOT as its owner's equity. BTLI have increased its capital by 2 billion, 4 billion, 6 billion and 5.5 billion on June 30, 2009, June 30, 2010, June 28, 2013 and September 30, 2015, respectively. BTLI became a public company on November 18, 2013. Its main businesses are life insurance and related businesses.

BankTaiwan Securities, Co., Ltd. (BTS) was the securities department of BOT and separated from BOT on January 2, 2008, with net assets $3 billion yielded by BOT as its owner's equity.BTS became a public company on October 21, 2013. BTS's main businesses include the following: 1. Securities trading brokerage. 2. Providing margin purchases and short sales for securities transactions. 3. Securities dealing and underwriting. 4. Operating as futures introducing brokers.

(2) Financial statements authorization date and authorization process:

The consolidated financial statements were approved by the Audit Committee on March 21, 2018 as well as Board of Directors on March 22, 2018 and then published.

(3) New Standards, Amendments and Interpretations Adopted:

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2017:

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

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

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

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

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

The Group will include the required disclosures.

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017. In addition, based on the announcement issued by the FSC on December 12, 2017, the Group can, and therefore, elected to early adopt the amendments to IFRS 9 "Prepayment features with negative compensation":

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

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

(i) Amendments to IFRS 4 Insurance Contracts "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"

The amendments provide the following optional approaches to reduce the impact of the differing effective dates of IFRS 9 and the forthcoming IFRS 4:

1) Overlay approach: provides all companies that issue insurance contracts the option to recognize the volatility, that could arise when IFRS 9 is applied before the new insurance contracts Standard is issued, as other comprehensive income, rather than profit or loss.; and
2) Deferral approach: provides companies, whose activities are predominantly connected with insurance, an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instrument Standard—IAS 39.

The Company plans to adopt the overlay approach. Please refer to note3 (ii) 2 for the estimated impact on other equity and retained earnings.

(ii) IFRS 9 “Financial Instruments”

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

1) Classification- Financial assets

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

Based on its assessment, the Group estimated the application of IFRS 9’s classification requirements on January 1, 2018, resulting in an increase of $11,292,486 thousand and a decrease of $3,213,990 thousand in the other equity and retained earnings respectively.

2) Impairment-Financial assets and contact assets

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

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

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

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

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

The Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. The Group estimated the application of IFRS 9's impairment requirements on January 1, 2018, resulting in an increase of $241,746 thousand in the allowance for impairment, which correspondingly led to the decrease of $140,281 thousand in assets and the decrease of $34,893 thousand in liabilities (including the increase in the allowance for impairment of $47,718 thousand from its Department of Government Employees Insurance which resulted in the decrease in the provisions for civil servants', teachers' and labor's insurance, instead of retain earnings), as well as the increase of $80,410 thousand in other equity and the decrease of $185,798 thousand in retained earnings, respectively.

3) Hedge accounting

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

4) Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Group's assessment included an analysis to identify data gaps against current processes, wherein it plans to implement the system and controls the changes that it believes will be necessary to obtain the required data.

5) Transition

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

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

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

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

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

As of the date the following IFRSs that have been issued by the IASB, but not yet endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 16 “Leases”	January 1, 2019
IFRS 17 “Insurance Contracts”	January 1, 2021
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019
Amendments to IFRS 9 “Prepayment features with negative compensation”	January 1, 2019
Amendments to IAS 28 “Long-term interests in associates and joint ventures”	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019

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

Issuance / Release Dates	Standards or Interpretations	Content of amendment
January 13, 2016	IFRS 16 "Leases"	The new standard of accounting for lease is amended as follows: • For a contract that is, or contains, a lease, the lessee shall recognize a right of use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right of-use asset during the lease term. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.
May 18, 2016	IFRS 17 "Insurance Contracts "	The new standard of accounting for insurance contracts contain recognition, measurement, presentation and disclosure of insurance contracts issued, and the main amendments are as follows: • Recognition: the beginning of the coverage period of the group of contracts, the date when the first payment from a policyholder in the group becomes due and when the group becomes onerous shall recognize a

Issuance / Release Dates	Standards or Interpretations	Content of amendment
		group of insurance contracts it issues from the earliest. • Measurement: on initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. For subsequent measurement, the entity shall estimate the cash flows, discount rates and the adjustment for non-financial risk. • Presentation and disclosure: the presentation of insurance revenue is based on the provision of service pattern and investment components excluded from insurance revenue.
June 7, 2017	IFRIC 23 "Uncertainty over Income Tax Treatments"	• In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations. • If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.
February 7, 2018	Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	The amendments clarify that: • on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the remainder of the reporting period after the change to the plan; and • the effect of the asset ceiling is disregarded when calculating past service cost and the gain or loss on settlement. Any change in that effect is recognised in other comprehensive income.

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

(4) Summary of Significant Accounting Policies:

The adopted significant accounting policies are summarized as follows. Except for those with interpretations, the following policies have been applied consistently to all reporting periods of these consolidated financial statements.

(a) Statement of compliance

The consolidated financial statements are prepared in conformity with relevant government regulatory. The Company and its subsidiaries set up their accounting policies and prepare the financial statements according to the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, and the International Financial Reporting Standards, International Accounting Standards and, IFRIC Interpretations, and SIC Interpretations endorsed by the Financial Supervisory Committee, ROC.

The Company and its subsidiary are government-owned enterprises, so its accounting practices mainly follow the Budget Law, Budget Settlement Law and Uniform Regulations on Accounting Systems for Banks Governed by the Ministry of Finance (the MoF). The annual financial statements are examined by the Ministry of Audit (the MoA) to ensure that the Company and its subsidiary comply 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 2016 was certified by the MoA, and the opening balances of retained earnings of 2016 are the same as those certified in the closing balances of 2016. Please refer to Note 16(b) for the government audit adjustments.

(b) Basis of preparation

(i) Basis of Measurement

These 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) Available-for-sale financial assets measured at fair value
3) Derivative financial instruments designated as hedges which are measured at fair value
4) The defined benefit assets which is the net amount of the pension fund less the present value of the defined benefit obligation.
5) Some property, equipment and investments property of which the revaluation value is used are deemed as cost on revaluation date in accordance with the ROC GAAP;
6) Reinsurance assets, insurance liabilities and foreign exchange volatility reserve which are accounted in accordance with the "Regulations Governing Insurance Enterprises for Setting Aside Various Reserves."

(ii) Preparing the financial statements in accordance with IFRSs requires not only the use of some critical accounting estimates in the application of the Company's accounting policies but also the management's judgment on significant assumptions and estimates of the financial statements. Please refer to note 5 for further information.

(iii) The consolidated financial statements are composed of the consolidated balance sheet, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flow and the related notes.

(iv) Functional currency and presentation currency

The functional currency of each entity of the Company and its subsidiaries is based on the primary economic environment in which the entity operates. These consolidated financial statements are presented in New Taiwan dollars, which also the functional currency of the Company and its subsidiaries. All financial information represented in New Taiwan dollars has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements

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

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

(ii) List of subsidiaries in the consolidated financial statements

			Shareholdings	
Name of Investor	Name of Subsidiary	Principal activities	December 31, 2017	December 31, 2016
The Company	Bank of Taiwan (BOT)	Banking	100%	100%
The Company	BankTaiwan Life Insurance (BTLI)	Life Insurance	100%	100%
The Company	BankTaiwan Securities (BTS)	Broker	100%	100%
Bank of Taiwan	BankTaiwan Insurance Brokers (BTIB)	Life and Property insurance broker	100%	100%

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Company and its subsidiaries at the exchange rates of the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies of the reporting date are retranslated to the functional currency at the exchange rate of 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 of the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of translation.

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

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

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Company and its subsidiaries' 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 Company and its subsidiaries' functional currency at average rate. Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity.

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

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

(e) Cash and cash equivalents

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

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

(f) Financial instrument

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

(i) Financial asset

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

1) Financial assets at fair value through profit or loss

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

a) Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;

b) Performance of the financial asset is evaluated on a fair value basis;

c) A hybrid instrument contains one or more embedded derivatives.

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

2) Available-for-sale financial assets

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

Dividend income is recognized in profit or loss on the date that the Company and its

subsidiaries' rights to receive payment are established, which in the case of quoted securities is normally the ex-dividend date. Such dividend income is included in statement of comprehensive income.

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

3) Held to maturity financial assets

Financial assets which the Company and its subsidiaries have the positive intent and the ability to hold debt securities to maturity, such financial assets are classified as held-to-maturity. Held to maturity financial assets are recognized initially at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less, any impairment losses. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade date accounting.

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

4) Loans and receivables

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

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

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

The write-off of non-performing loans and non-accrual loans of the subsidiary, BOT, shall be discussed by the related committee, reviewed by the general manager and approved by a

resolution passed by the board of directors or the board of managing directors and the audit committee shall be notified of the write-off. The Board of Directors shall be notified if the write-off case is passed by the board of the managing directors. Collections after write-off shall be reversed from the allowance for bad debt.

5) Financial assets at cost

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

6) Debts investment without active market

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

7) The derecognition of financial assets

The derecognition of a financial asset takes place if either the contractual rights to the cash flows associated with the financial instrument expire or almost all the risks and rewards have been transferred to another party.

On derecognition of a financial asset, the difference between its carrying amount and the sum of (1) the consideration received or receivable and (2) any cumulative gain or loss that had been recognized directly in equity (other equity- unrealized gain or loss on available-for-sale financial assets) is to be recognized in profit or loss in the consolidated statement of comprehensive income.

8) Reclassification of financial assets

According to IAS 39, the Company and its subsidiaries are only permitted to reclassify their financial assets, classified as held for trading, out of the fair value though profit or loss category in the rare circumstances prescribed in paragraph 50B. Moreover, as stated in paragraph 50C, if the Company and its subsidiaries reclassify a financial asset out of the fair value through profit or loss category in accordance with paragraph 50B, the financial asset shall be reclassified at its fair value on the date of reclassification. Any gains or losses already recognized in profit or loss shall not be reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

(ii) Financial liability and equity instrument

1) The classification of liabilities and equity

The liability and equity instrument issued by the Company and its subsidiaries are classified as financial liability and equity based on the substance of the agreement and the definition of financial liability and equity instrument.

Equity instrument refers to any contract that evidences a residual interest in the assets of the Company and its subsidiaries after deducting all of its liabilities.

If an instrument classified as a liability is reclassified as equity, the difference between the carrying amount before the reclassification and the measurement after reclassification should not be reported as profit or loss.

2) Financial liabilities at fair value through profit or loss

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

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

a) Eliminate or significantly reduce the measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

b) The performance of the financial liabilities is evaluated on a fair value basis.

c) Hybrid instrument contains embedded derivative.

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

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

3) Other financial liabilities

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

4) The derecognition of financial liabilities

The derecognition of a financial liability takes place when the contractual obligations associated with the financial instrument are performed, cancelled or expired.

On derecognition of a financial liability, the difference between its carrying amount and the amount of the consideration paid or payable (including any transferred non-cash assets or assumed liabilities) is to be recognized in profit or loss in the consolidated statement of comprehensive income.

5) Offsetting the financial assets and financial liabilities

Offsetting is required when, and only when, the Company and its subsidiaries currently have a legally enforceable right to set off the recognized amounts; and intend either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

6) Financial guarantee contract

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

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

a) the amount determined in accordance with IAS 37 “Provision, Contingent Liabilities and Contingent Assets”; and

b) the amount initially recognized, less, when appropriate, cumulative amortization recognized in accordance with revenue accounting policy.

(iii) Derivative financial instruments and hedge accounting

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

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

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

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

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

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

(g) Pecuniary and securities financing and refinancing

Pecuniary finance represents loans extended to securities investors for the purchase of securities and is accounted as receivables from pecuniary finance. Such loans are secured by the securities purchased by the investors. These securities are not reflected in the financial statements of the subsidiary, BTS. The investors may redeem the collateral securities upon repayment of the loans.

Securities finance represents securities lent to investors and is affected by lending to securities investors securities in custody that are received from pecuniary finance or borrowed from securities finance companies when necessary. Such securities finance is not reflected in the financial statements of the subsidiary, BTS. The investors' deposits for borrowing securities are held by the subsidiary, BTS, as collateral and recorded under securities finance margin deposits received. In addition, investors are required to deposit the proceeds from sales of borrowed securities. Such deposits are accounted for as payables for securities financing.

Pecuniary refinancing represents loans from securities finance companies when the subsidiary, BTS, lacks sufficient funds to perform pecuniary financing. These loans are recorded as refinance borrowings.

Securities refinancing represents securities borrowed from securities finance companies when the subsidiary, BTS, does not have sufficient securities to perform securities financing. For securities refinancing, the subsidiary, BTS, pays margin deposits to securities finance companies. These margin deposits are recorded as refinance margin deposits. The subsidiary, BTS, also provides securities investors' proceeds from selling borrowed securities to securities finance companies as collateral and records them under receivables from securities refinance.

(h) Repo and reverse repo transactions involving bill and bond investment or debt

Repo and reverse repo bond transactions are the sale or purchase of a bond coupled with an agreement to repurchase or resell the same or substantially identical bond at a stated price. Such transactions are treated as collateral for financing transactions and not as the sale or purchase of trading securities. When conducting such transactions, the actual attained amount are recognized as “Bills and Bonds Sold under Repurchase Agreement”, and the actual lend amount are recognized as “Bills and Bonds Purchased under Resell Agreement”.

The related interest revenue or expenses are calculated by agreed interest rates.

(i) Investments in associates

Associate refers to an entity in which the Company and its subsidiaries have hold 20% of the voting power or less than 20% of the voting power but have significant influence. If the Company and its

subsidiary have rights on the finance and operating policy decisions but not control or joint control these decisions, it is presumed that the company and its subsidiary have significant influence.

The Company and its subsidiaries 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 Company and its subsidiaries recognize the changes according to the holding shares.

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

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

When the Company and its subsidiaries' 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 Company and its subsidiaries has an obligation or has made payments on behalf of the investee.

(j) Investment property

Investment property is the 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 including costs and expenses are directly attributed to the acquisition of the investment property on initial recognition and subsequently. The depreciation is computed along with the depreciable amount. The method, the useful life and the residual amount are the same with those of property and equipment. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

When the use of a property changes such that it is reclassified as property and equipment, the carrying amount at the date of reclassification becomes its cost for subsequent accounting.

(k) Property, plant and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and

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

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

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

(ii) Reclassification to investment property

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

(iii) Subsequent cost

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

(iv) Depreciation

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

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

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

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

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

(l) Reinsurance assets

To limit the potential damage of the exposure events, the insurance subsidiaries follows Insurance Act to process reinsurance contract. Even the reinsurer not perform obligation, the insurance subsidiaries can't reject to fulfill the contract obligation for the insured.

The insurance subsidiaries have the following rights over reinsurer: ceded unearned premium reserve, ceded claim reserve, claims recoverable from reinsurers, and due from reinsurers and ceding companies, net. The method used for estimating claims recoverable from reinsurers should be the same as the method used for estimating the claim reserve liabilities.

The Company should not offset reinsurance assets against the related insurance liabilities, or income or expense from reinsurance contracts against the expense or income from the related insurance contracts.

If there is evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the insurance subsidiary may not receive all amounts regulated under the terms of the contract, and that event has a measurable amounts in terms of the influence of the event, the insurance subsidiary shall recognize the difference between the recoverable amount and the carrying amount of the previously stated right as impairment loss.

In addition, in determining the classification of a reinsurance contract, insurance subsidiary considers whether a significant insurance risk should be transferred to the reinsurer. If there is no significant risk that are being transferred, the contract shall be recognized and measured in accordance with deposit accounting and the consideration received or paid for reinsurance contracts shall be treated as a financial liability or a financial asset, rather than as revenue or expense.

If a reinsurance contract on the ceded date or balance sheet date is deemed unqualified ceded reinsurance under the "Regulation Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms", the Company utilizes "The Provision of Unqualified Reinsurance Reserve" to evaluate the effect of unqualified reinsurance in supervision reports, and the results are disclosed in its financial statements. The Company has no unqualified reinsurance so far.

(m) Insurance contract

The insurance subsidiary classifies a contract as an insurance contract is when the insurance subsidiary accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects

the policyholder. The insurance risks refer to the risks that policyholder transfer to the contract issuer excluding financial risks. Financial risks refer to the risk resulting from possible changes in specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable in the future. If the previously stated variables are non-financial variables, then the variables do not belong to any specific side of the contract. Insurance contract may possibly transfer part of the financial risks.

The insurance subsidiary identifies the significant insurance risk if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario but excluding the situation of lack of commercial substance. A contract that qualified as an "insurance contract" remains an “insurance contract” until all rights and obligations are extinguished or expired. The insurance contract of which the significant insurance risks are not transferred are classified as insurance contract with financial instrument features. However, if an insurance contract with financial instrument features transfers significant insurance risk to the insurance subsidiary in subsequent periods, it will be reclassified as "insurance contract".

Insurance contracts and insurance contracts with financial instrument features can be further divided into 2 categories, which are insurance with discretionary participation feature or without discretionary participation feature.

A discretionary participation feature is a contractual right to receive both the guaranteed benefits and also the additional benefits:

(i) that are likely to be a significant portion of the total contractual benefits;

(ii) whose amount or timing of distribution of additional benefit is contractually at the discretion of the company; and

(iii) the additional benefit are contractually based on:

1) the performance of a specified pool of the contracts or a specified type contract;

2) the rate of return of a specific asset portfolio, or

3) the profit or loss of the company, fund or other entity that issues the contract.

If the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, it is required to be separated from the host contract and the value embedded derivate shall be measured at fair value through profit or loss, and the change shall be recognized as current gains or losses. If the embedded derivate is itself an insurance contract or in the case of an insurer need not separate it and is able to measure it at fair value through profit or loss, the company does not need to separate the embedded derivate and the insurance contract in terms of recognition.

(n) Lease

(i) Operating Lease

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

(ii) Financial Lease

1) The Company and its subsidiaries are lessors. The assets under financial lease will be recognized as lease payment receivables by the net investment value. The original cost which is cause by the operating lease agreement is included in the net lease investment. Lease investment is recognized as financial lease because of it has a steady rate of return, apportioning into each lease period.

2) The Company and its subsidiaries are lessees. They capitalize the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments made are allocated as a reduction of the obligation and interest expenses. Interest expenses are calculated by the opening balance of lease obligation using the interest rate implicit in the lease or the lessee's incremental borrowing rate of interest and recognized in the income statement. The attained property, plant and equipment are measured at cost.

(o) Intangible assets

(i) Computer Software

The Company and its subsidiaries measure the computer software at cost less accumulated amortization and accumulated loss.

(ii) Subsequent Expenditure

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

(iii) Amortization

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

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

Computer software	5 years

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

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

(p) Impairment of assets

(i) Impairment of financial assets

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

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

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

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

Impairment losses recognized on available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

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

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

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

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assassin collective impairment, the Bank and its subsidiary uses historical trends of the probability of default, the timing of recoveries, and the amount of loss

incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than those suggested by historical trends.

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

The Company and its subsidiaries evaluates the categories and recognizes allowance for doubtful accounts according to the higher of the Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past Due/Non Performing Loans and the Regulation of Evaluating the Impairment Loss of Loans and Receivables. A bank shall classify credit assets on and off balance sheet. Normal credit assets shall be classified as "Category One." The remaining unsound credit assets shall be evaluated based on the status of the loan collaterals and the length of time overdue. Assets that require special mention shall be classified as "Category Two," assets that are substandard shall be classified as "Category Three," assets that are doubtful shall be classified as "Category Four," and assets for which there is loss shall be classified as "Category Five."

In accordance with aforementioned rules, the minimum loan loss provision and guarantee reserve shall be the sum of 1% of the outstanding balance of Category One credit asset's claim (excluding assets that represent claims against the central and local government in Taiwan), 2% of the balance of Category Two credit assets, 10% of the balance of Category Three credit assets, 50% of the balance of Category Four credit assets, and the full balance of Category Five credit assets.

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

To improve domestic banks' control and affordability of credit risk exposure in order to mortgage on land and loans to institutions in Mainland Area, FSC issued the letters No. 10300329440 and 10410001840 to require the banks that have business activities in Mainland Area to maintain a loan loss coverage ratio of at least 1.5%.

According to the "Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises", the amount of the allowance for bad debts cannot be lower than the amount as follow:

1) the sum of 0.5% of the first category (other than insurance loans, premium loans and loans to ROC government), 2% of the second category, 10% of the third category, 50% of the forth category and 100% of the fifth category.
2) 1% of the sum of all credit loans, less, insurance loans, premium loans and loans to ROC government.
3) the total unsecured portions of nonperforming loans and non accrual receivables.

In accordance with the "Accounting Guidelines for The Delinquent Debt Legal Right Urges to Accept The Payment and The Delinquent Debt Processing" issued by the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, the Company will write off the loans and credit when those are authorized and are in conformity with the regulations.

(ii) Impairment loss of non financial assets

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

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

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

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

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

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

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

Reversal of an impairment loss for goodwill is prohibited.

(q) Provision

(i) The Company and its subsidiaries 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 Company and its subsidiaries shall take into account the risks, uncertainties that surround the underlying events and the time value of the currency.

(iii) The Company and its subsidiaries evaluate the provision at every end of the reporting date, and adjust the carrying amount according to the best estimation.

(r) Other reserves

Provision for civil servants', teachers' and labor's insurance: The bank subsidiary 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".

(s) Separate account – insurance instrument assets

The insurance subsidiary is engaged in selling investment linked products. The payment of premiums (net of administrative expense) is recorded in a separate account which shall only be used in a way agreed by the proposer. The assets of separate accounts are valued at market price on the valuation date, and the insurance subsidiary follows the related rules and financial accounting standards in the IFRS to determine the net asset value.

In accordance with the "Regulations Governing the Preparation of Financial Reports by Insurance Companies", the assets and liabilities are recorded as "Assets on insurance product, separated account" and "Liabilities on insurance product, separated account", no matter it is caused by a insurance contract or the insurance contract with financial instrument feature. The revenue and expenses in accordance with the definition of IFRS No.4 (including insurance products, separated account with discretionary participating features) are recorded as "Income on insurance product, separated account" and "Disbursements on insurance product, separated account", respectively.

(t) Insurance liability

Reserves for insurance contracts are provided in accordance with the "Regulations Governing Insurance Enterprises for Setting Aside Various Reserves" and are also certified by an appointed actuary approved by the Financial Supervisory Commission, Executive Yuan, R.O.C. (FSC). Except the reserves for short-term group insurance, the reserve basis shall be based on the greater amount of actual premium income or the premium income as calculated under the Tai Tsai Pao No. 852367814 and other reserve basis listed below:

In addition, partial insurance contracts contain a discretionary participation feature as well as a

guaranteed element; the insurance subsidiary classifies the whole contract as a liability rather than recording them separately.

(i) Unearned premium reserve

The unearned premium reserve should be provided based on the unexpired risk for the in force policies with an insurance term of less than one year, the accident insurance with an insurance term of more than one year, and the investment linked insurance and universal insurance agreed to collecting fees periodically based on the calculation in accordance with one year term insurance cost method.

(ii) Claims Reserve:

1) Claim reserves for businesses with less than one year insurance term and for accident insurance with more than one year insurance term shall be provided as follows:

Claim reserves provided for health and life insurance which became effective after January 1, 2010, and accident insurance are set aside using the loss development triangle method based on the previous claim experience. The reserves are respectively provided for "Reported but Not Paid Claims" and "Not Reported and Not Paid". For "Reported but Not Paid Claims", a reserve has been provided on a per policy claim report basis for each type of insurance.

2) Claim reserves provided for "Reported but Not Paid claims" derived from investment-linked insurance, universal insurance, and life insurance, health insurance, and annuity insurance with insurance terms more than one year are determined in accordance with actual information on a per-policy-claim-report basis and are respectively set aside for each type of insurance.

(iii) Policy reserve

The provision for policy reserves is based on mortality tables and prescribed interest rates approved by the FSC and calculated based on the modified reserve method in accordance with the Article 12 of the "Regulations Governing Insurance Enterprises for Setting Aside Various Reserves" and other regulations and approved calculation instructions filed with the FSC.

Since 2003, if the dividends of in-force policies are calculated in accordance with Tai Tsai Pao No. 800484251, then the reduction in dividends resulting from the offsetting of mortality margin and interest loss should be provided as long-term policy reserve.

Starting from 2012, the insurance subsidiary should provide the provision of policy reserve for in-force policies to comply with Jin Guan Pao Tsai No. 10102500530 on January 19, 2012. Calculated based on the terms of the “Regulations Governing Insurance Enterprises for Setting Aside Various Reserves,” the recovery of the special catastrophe reserve should be provided as policy reserve of life insurance-reversed catastrophe reserve. However, to comply with Jin Guan Pao Tsai No. 10202124790 on November 21, 2013, the insurance subsidiary no longer has to provide the new reserve since 2013.

Starting from 2012, in accordance with the Gin Guan Bao Tsai No. 10102500530 on January 19, 2012 and Article 11 of Value-added and Non-value-added Business Tax Act, a liability reserve based on 3% of sales is provided for purposes of writing off overdue loans or providing allowance for bad debts when the percentage of overdue loans is lower than 1%.

(iv) Special reserve

1) For retained business with an insurance period of one year or less, the insurance subsidiary shall set aside the following catastrophe reserve and special risk volatility reserve in accordance with the following provisions:

a) Special catastrophe reserve:

i) a special catastrophe reserve shall be set aside at the reserve ratio prescribed by the competent authority.

ii) upon the occurrence of a catastrophic event, actual retained losses in excess of NT$81,317 million may be withdrawn from special catastrophe reserve and shall be reported to the competent authority for recordation.

iii) a special catastrophe reserve that has been set aside for more than 15 years can be released based on the evaluation by actuary and calculation methodology approved by the competent authority.

b) Special risk-volatility reserve:

i) For each type of insurance, when the balance of actual losses minus the amount reversed from a special catastrophe reserve is lower than expected losses, a special risk-volatility reserve shall be provided at 15 percent of the difference.

ii) When the balance of actual losses minus the amount reversed from a special catastrophe reserve is greater than expected losses, the amount in excess of expected losses may be reversed from the special risk-volatility reserve previously provided. If the reserve for special risk-volatility reserve for a particular type of insurance is insufficient to cover losses, the losses may be reversed from the special risk-volatility reserve previously provided for another type of insurance and shall be reported to the competent authority.

iii) When cumulative provisions for the special risk-volatility reserve exceed 30 percent of the amount of retained earned premiums for the current year, that portion in excess shall be released and treated as income.

Special reserves shall be set aside every year while the newly provided special reserves (net of taxes determined in accordance with IAS 12 – “Income Taxes”) shall be recognized as special reserve under shareholders’ equity each year. Also, the withdrawal or the released amount of special reserve (net of taxes determined in accordance with IAS 12 – “Income Taxes”) based on the above-mentioned regulations shall offset with special reserves of Special surplus recorded under shareholders’ equity.

In addition, according to the Tai Cai Bao No.0910074195, the insurance subsidiary should provide the special reserve for the withdrawal amount of special risk-volatility reserve (net of taxes), and should be authorized by the competent authority before distributing or using those reserve for other purpose.

2) According to the Tai Cai Bao No.0910712459, BTLI should recognize the special reserves for the participating insurance policy and write off the reserves when the bonuses are declared.

3) According to the Jin Guan Bao Shou No.10302125060, if the result of the insurance profit testing is negative, BTLI should recognize the special reserves according to the related operating principles.

(v) Premium deficiency reserve

For life insurance, health insurance, or annuities with an insurance term over one year, and polices issued after January 1, 2001, a deficiency reserve is provided when the actual premium written is less than the premium on the policy reserve prescribed by the competent authority.

In addition, the Company shall evaluate expected future claims and expenses for in-force contracts with contract term less than one year and for accident insurance contracts with terms over one year, and if the amount exceeds unearned premium reserve and expected future premium income, a premium deficiency reserve should be provided for the difference.

(vi) Liability adequacy reserve

BTLI shall assess at the end of each reporting period whether its recognized insurance liabilities recognized by BTLI are adequate, using current estimates of future cash flows under its insurance contracts. BTLI's liability adequacy test is based on all insurance contracts that BTLI issues and adheres to Actuarial Practice Guidance of IFRS 4 "Contracts Classification and Liability Adequacy Test" and its related regulations issued by The Actuarial Institute of the Republic of China. The test is conducted on each balance sheet date by comparing the net carrying amount of its insurance liabilities less related acquisition costs and intangible assets and current estimates of future cash flows under its insurance contracts. If the assessment shows that the net carrying amount is inadequate in the light of the estimated future cash flows, the entire deficiency shall be recognized in loss as liability adequacy reserve.

Policy reserve and premium deficiency reserve are discounted using the pre-decided rate, liability adequacy reserve are discounted using the best-estimate for the return on investment, based on current information. However, unearned premium reserve, claim reserve and special reserve are not discounted.

(u) Reserve for foreign exchange valuation

In accordance with "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises", starting on March 1, 2012, BTLI should set up a reserve for foreign exchange valuation under liabilities for their foreign investments. In addition, BTLI transfers some of the special reserve to the reserve for foreign exchange valuation as the opening balance. The maximum amount may not exceed half of the special reserve for significant incidents and the special reserve for risk volatility of various insurance types recorded under the liabilities as of December 31, 2011.

The accumulated limit, provision, and offsetting of the reserve are as follows:

(i) Limit of provision: the total amount of its foreign investment assets in the current month times the exposure ratio times 0.042% equals the provision. If any, the foreign exchange gain from the non hedged foreign currency assets times 50% equals the additional provision.

(ii) Limit of offsetting: If any, the foreign exchange loss from the non-hedged foreign currency assets times 50% equals the reverse amount of this reserve. The balance of this reserve at the end of

each month shall not be less than the 20% of the accumulated balance of this reserve last year.

(iii) If the current balance of the reserve decreased to 20% (the lower limit) of that of the prior year end and last for more than 3 months, the ratio of setting aside non-hedging foreign assets profit shall increase from 50% to 60% until the balance bounces back twice as high as the lower limit.

(iv) The definitions of the amount of "overseas investment", "exposure ratio", "non-hedge asset dominated in foreign currency", and "hedging cost" are in accordance with Article 2 and 3 of the "Regulation Governing the Setting Aside of Various Reverses by Insurance Enterprise".

(v) BTLI shall provide the same amount as the reduction of hedging cost attributable to the application of this rule as special earnings reserve each year. If BTLI does not have enough retained earnings for the reserve in the current year, BTLI shall compensate for the insufficient amount in the following year when it has earnings. The amounts provided as the special earnings reserve shall only be used to increase the capital or to offset the accumulated deficit in the subsequent periods.

(vi) If there are earnings after tax in the current year, 10% of the earnings amount should be provided as special earnings reserves. However, BTLI may not provide such reserves if the regulatory authority approves.

(v) Future trader's equity

The future trader's equity is the future's margin and premium from future traders, plus, the daily market value of the future. It is allowed to offset accounts, if, and only if, they belong to the same client and same type . If the margin account is a debit balance, then a margin call is made and the account owner must replenish the margin account.

(w) Revenue and operating expense recognition

Subsidiary, BOT:

(i) Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary operating activities of an entity when those inflows result in increases in equity, other than increase relating to contributions from equity participants.

(ii) The amount of revenue arising on a transaction is usually determined by agreement between the entity and the buyer or user of the asset. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity. Revenue shall be recognized when all of the following criteria have been satisfied:

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

(iii) Except for the financial assets and liabilities at fair value through profit and loss, the interest revenue and interest expense caused by the interest-bearing financial assets or liabilities are calculated by effective interest method. For loans and receivables, the Company and its subsidiaries shall consider the materiality principle to decide to measure the interest by agreed interest rate or effective interest rate.

(iv) Service fee income

1) The service fee income arising from offering loan service or other services shall be recognized in the accounting period in which the services are rendered.

2) The service fee or expense arising from the loan service shall be amortized in the service period or taken into account for calculating the effective interest of loans and receivables in accordance with the materiality principle.

(v) Dividend revenue: it shall be recognized if and only if the Company and its subsidiaries have right to receive the dividend revenue.

(vi) According to the “Civil Servant and Teacher Insurance Act”, if GESSI experiences a loss, the loss before May 31, 1999, would be covered by the Ministry of Finance; and the loss after that date would be covered by an adjustment of the insurance premium.

(vii) Revenue and expense that relate to the same transaction or other event are recognized simultaneously; this process is commonly referred to as the matching of revenue and expense.

Subsidiary, BTLI:

(i) Premium revenue recognition and policy acquisition costs

First-year and renewal premiums of insurance contract and financial instruments with discretionary participation features are respectively recognized as income when premiums are received and the policies are approved or due. Acquisition costs, including commissions and other costs related to acquiring new business, are recognized as expenses as incurred.

Premiums collected from the financial instruments without discretionary participation features under insurance product, separated account shall be recognized as premium income to the extent of insurance component. The remaining, after being subtracted by other revenues, including upfront fee or investment management service fee income, shall be fully recognized as "Liabilities on insurance product, separated account" on the balance sheet.

Investment management service fee income is recognized as revenue when received. However, under the circumstance that the Company is obligated to provide future services for the service fee received (such as up-front fee) the revenue recognition shall be deferred as “unearned revenue liability” until the services are provided and amortized using the straight-line method over the passage of service period as “fee income.” Furthermore, the incremental transaction cost paid due to investment management services provided for these insurance contracts (including commission fee and overriding) shall be deferred to match its corresponding unearned revenue liability as “deferred acquisition cost” and amortized using the straight-line method over the passage of service period as other operating costs.

In accordance with the recognition and calculation principles provided in the "Life Insurance Industry Accounting System Guidance," the Company determines whether to recognize the unearned revenue liability and the deferred acquisition cost based on the design of the insurance products and the comparison of service revenue received and service cost incurred.

(ii) Interest revenue

The interest revenue derived from bank deposit, loans, and bonds investments are accounted on an accrual basis. For the over-due receivables, the interest will not be recognized as revenue until they are received.

(iii) Lease income

Lease income from operating lease is recognized in profit or loss on a straight basis over lease term. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

Subsidiary, BTS

Revenue is recognized when it is probable that the future economic benefits will flow to the subsidiary, BTS, and these benefits can be measured reliably.

(i) Brokerage commissions, profit or loss from the sale of securities, and the relevant charges are recognized on the trade date.

(ii) Interest income or expenses of margin loans, securities financing and refinancing and bonds purchased under agreement to resell and sold under agreement to repurchase are recognized during the transaction periods on an accrual basis.

(iii) Consulting revenue and underwriting business revenue and expense are recognized according to agreements on an accrual basis.

(iv) While offering future exchange supporting business, the future commission revenues received from futures commission merchants are recognized during transaction period on accrual basis.

(v) The disposal profit and loss of equity investments measured through fair value are recognized on transaction date.

(vi) Profit or loss of future: The future margin is recognized at cost. Futures are measured through market price method every day. The valuation and disposal profit or loss shall be recognized in the income statement. The related brokerage fees shall be recognized at the trading date.

(vii) The profit or loss of options: The margin is recorded at cost. Options are evaluated using market price method every month before they are exercised. The valuation profit or loss and the disposal profit or loss shall be recognized in the income statement.

(viii) Interest revenue is calculated using the effective interest rate method.

(ix) 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.

(x) 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) Pension

1) Employee pension:

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

2) Labor pension:

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

3) For defined contribution plan, the employer has no further legal or constructive obligation to pay further contributions in accordance with the Labor Pension Act.

4) For the definite benefit plan, the independent actuary uses the projected unit credit method to calculate the present value of the defined benefit obligation and the current service cost. The present value of the defined benefit obligation is the projected future cash flow discounted by the market yields at the end of the reporting period on the bonds that have maturity dates approximating the terms of the obligation and that are denominated in the same currency in which the benefits are expected to be paid. The actuarial gains and losses are recognized in the other comprehensive income when they occur. Prior period servicing costs should recognize in profit or loss immediately. The prior period's service costs which are due to the modification of retirement plan are currently recognized as personnel expenses in profit or loss.

5) The oversea branches of the bank subsidiary follow the foreign government's regulations.

(iii) Preferential interest deposits

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

2) In accordance with the Regulations Governing the Preparation of Financial Reports by the Financial Holding Companies, if the preferential interest rate for retired employees exceeds the market rate, the Company and its subsidiaries 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 Company and its subsidiaries shall calculate the interest monthly on accrual basis. The different amount of the preferential interest rate and market interest rate is recognized under the preferential interest account in the comprehensive Income statement.

(iv) Civil servant and teacher insurance excess annuity benefit plans

According to the "Civil Servant and Teacher Insurance Act" (the CSTI Act) that took effect on May 29, 2015 and Tui Yi Zi No. 10440257582 issued by the Ministry of Finance, BTLI's employees who are not qualified for preferential interest deposits are entitled to receive annuity when retiring or getting laid off if they meet the requirements prescribed in Article 16 and 18 of the CSTI Act. The sum of the monthly payments from this annuity and the total amount of the defined benefit plan shall not exceed 80% of twice the amount of the employee's salary at the time of retirement. Moreover, if the payment rate of the annuity is lower than the basic rate of annuity (0.75%), the annuity will be calculated using the latter rate. However, if the payment rate is higher than the upper limit (1.3%), the annuity is calculated based on 1.3%.

BTLI is responsible for the portion of the annuity payments that exceeds 0.75% and the calculation is reviewed by the insurance carrier (Department of Government Employees' Insurance, Bank of Taiwan) on a monthly basis in accordance with the CSTI Act.

(v) 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.

(y) Income tax

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

(i) Current income tax

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

(ii) Deferred Tax

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

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

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

(z) 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.

(aa) Operating segments

An operating segment is a component of the Company and its subsidiaries that engage 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 Company and its subsidiaries' chief operating officer in order to decide the resource allocation and assess the segments' performance. Each segment has separate financial information.

(ab) Due from Representative Organization

According to Military Insurance Act, the BTLI engages in the military insurance business and the

related transactions are recorded in due from representative organization based on military insurance accounting requirement. Charges from military insurance business are recorded as fee income, and the agent fee from other institutions on behalf of the company to collect premiums and to release of benefit payments are recorded as expenses. Moreover, funding for military insurance is kept by BTLI, and the interest is paid and recorded as interest expense.

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

The preparation of the financial statements, in conformity with the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, and the International Financial Reporting Standards, the International Accounting Standards and IFRS interpretation 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.

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

Determination of the book value of the assets and the liabilities were influenced by the accounting estimations and judgments that have the most significant effects on the amounts recognized in the consolidated financial statements. Actual results may significantly differ from the followings due to the changes in accounting assumptions and judgments.

(a) The valuation of financial instruments

The Company and its subsidiaries hold certain financial instruments without active markets, including financial instruments lacking of active market quotes and financial instruments that turned out to be inactive due to market conditions (ex: low market liquidity). When a market is inactive, it is usually only a few or no observable market data available to measure the fair value of financial instruments. Determination of the existence of an active market for a financial instrument requires management's judgments.

If the market of an investment held by the Company and its subsidiaries is not active, the fair value of the instrument is determined with valuation techniques. The Company and its subsidiaries apply quotes from independent third parties (such as brokers or valuation service providers) or valuation model internally developed to determine the fair value of those financial instruments. When the fair value may be publicly obtained from independent sources, it shall be adopted. Overall, the Company and its subsidiaries would decide a source and / or a valuation technique as a fair value determination method that can reflect the price achieved between market participants through regular trading as of the balance sheet date. Valuation techniques include adoption of recent arm's length transactions, reference to other instruments with substantially identical basis, application of discounted cash flow analysis, etc., which may also include a number of assumptions related to each variable (such as credit risk and interest rate). Adoption of different valuation techniques or assumptions may lead to significant discrepancies in fair value determination results.

Please refer to note 7 relating to the fair value of financial instruments content description for the above the estimated fair value of financial instruments.

(b) The evaluation of financial assets impairments

(i) Available for sale securities

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

(ii) Financial assets carried at amortized cost

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

1) Significant financial difficulty of the issuer/obligor.
2) Default or breach of contract such as a default or delinquency in interest or principal payments.
3) Granting of a concession by the lender.
4) Bankruptcy or financial reorganization of the borrower.
5) Disappearance of an active market for the assets concerned.
6) Adverse effects of changes in technological, market, economic or legal environment, in which the issuer operates.
7) Significant or prolonged decline in the fair value of an investment in the equity instrument.

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

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

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

(c) Insurance liability and reserve of insurance policy with financial instrument nature

BTLI measures insurance liabilities based on the “Regulations Governing Insurance Enterprises for Setting Aside Various Reserves.”

Reserves for life insurance are accrued using the lock in interest rate assumptions at issue for reserves provision instead of the current market rate.

Unearned premium reserves are calculated by each insurance unexpired risk. The methods of reserve provision are determined by actuaries about each insurance characteristic.

Claims reserve is estimated based on the loss of accrued triangle method. The major assumptions are loss development factors and expected claims rate; hence, it results in ultimate claims costs. The loss development factors and expected loss rates are based on BTLI's historical claims experiences, and it also considers expense rates, claims management and other corporation's policy adjustments.

Liability Adequacy Test is estimated based on "Code of Conduct of Actuarial Practice Under the Statements of Financial Accounting Standards No 40 - Contracts Classification and Liability Adequacy Test" announced by the Actuarial Institute of the Republic of China. BTLI evaluates liability adequacy test using future insurance benefits, premiums, related fees and other reasonable estimates for the current estimates of future cash flows under its insurance contracts. Please refer note 6(z) for further information.

During the assessment process of liabilities, the use of professional judgment will affect the financial statements regarding the net change in claim liability, insurance contract reserves net change with the nature of financial, and the recognized amounts of the aforementioned.

(d) Impairment loss on loans

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

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

(e) Fair value of investment property

In addition to the aforementioned policies which may have a material impact on the amounts recognized by the Company and its subsidiary, there are other accounting policies that also involved significant judgment.

(i) Income tax

The Company and its subsidiaries need to pay income tax for various countries. When estimating the globe income tax, the Company and its subsidiaries rely on significant accounting estimations. Determine the final tax 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.

(ii) 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 Company and its 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 Company and its subsidiaries 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.

(iii) Classification of insurance policy and significant risk transfer test

BTLI is required to recognize insurance risks, other risks and other elements of the issued insurance policies, and determine whether the elements of these contracts can be split and separately calculated and whether the results will affect the classification of insurance contracts.

In addition, BTLI shall determine whether the insurance transfer insurance risk exists and contains a nature of business, as well as whether the transfer of insurance risk is materially significant. BTLI also makes a significant insurance risk transfer test and the judgments of the test results will affect the classification of insurance contracts.

Identification and separation of the insurance contracts elements and the classification of the insurance contracts will affect BTLI's revenue recognition, liabilities measurements and presentation of the financial statements.

(iv) Reinsurance reserves

Reinsurance reserve assets include ceded unearned premium reserve, ceded Claims reserve, ceded Premium deficiency reserve and ceded Liability adequacy reserve. They shall be estimated according to the “Regulations Governing Insurance Enterprises for Setting Aside Various Reserves” and the “Directions Concerning Compliance with Application of Reinsurance Business” with Over One Year by Life Insurance Enterprises which Recognize Receded Liability Reserves at the Balance Sheet”.

The actuary uses the actuarial principles and related assumptions to estimate the reinsurance reserves. The actuarial assumptions include the characteristics of insurances, the historical claims, the loss development factors, the expected claim rate and the estimated future cash flow. The actuary’s professional judgments will affect the recognized amount of the net change of insurance liabilities and reinsurance reserves.

(6) Explanation of Significant Accounts:

(a) Cash and Cash Equivalents

	December 31, 2017	December 31, 2016
Cash on hand	$ 12,522,363	12,456,306
Foreign currency on hand	12,051,213	11,813,908
Bank deposits	18,186,233	13,809,102
Notes and checks for clearing	9,980,049	10,860,257
Placement with banks	123,789,489	87,268,215
Cash equivalents	28,137	-
Total	$ 176,557,484	136,207,788

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

	December 31, 2017	December 31, 2016
Cash and cash equivalents in consolidated balance sheets	$ 176,557,484	136,207,788
Placement with Central Bank of R.O.C. and other banks that meet the definition of cash and cash equivalents under the definition of IAS 7	274,645,417	318,969,155
Investments qualifying cash and cash equivalents under the definition of IAS 7	667,104,979	644,408,607
Total	$ 1,118,307,880	1,099,585,550

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

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

(i) 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.

(ii) Additionally, as of December 31, 2017 and 2016, 60% of the reserve deposits collected by the subsidiary, BOT, on behalf of a government institution amounting to $4,015,405 thousand dollars and $4,362,710 thousand dollars, respectively, were deposited in the Central Bank and their use is restricted according to the regulations.

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

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

	December 31, 2017	December 31, 2016
Financial assets held for trading	$ 182,644,048	171,902,406
Add: Valuation adjustment	39,037,540	23,770,314
Subtotal	221,681,588	195,672,720
Financial assets designated at fair value through profit or loss	16,419,807	18,004,143
Add: Valuation adjustment	196,998	66,155
Subtotal	16,616,805	18,070,298
Total	$ 238,298,393	213,743,018

(ii) 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".

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

	December 31, 2017	December 31, 2016
Commercial papers	$ 26,396,634	16,139,250
Government bonds	-	183,242
Stocks and beneficiary certificates	143,241,137	132,071,798
Treasury bills	-	1,994,714
Domestic convertible bonds	-	312,260
Corporate and financial bonds	224,925	439,526
Foreign government bonds	221,284	283,453
Foreign exchange call options	637,973	2,218,242
Structured time deposits	19,675	18,619
Value of asset swap IRS contracts	1,682	6,833
Negotiable certificates of deposits	240	762
Asset swap options	11,900,498	18,223,699
Negotiable certificates of deposits	-	10,008
Add: Valuation adjustment－Non derivative financial instruments	30,766,106	13,458,379
Valuation adjustment－Cross currency swaps	127,700	27,086
Valuation adjustment－Swaps	7,267,905	9,428,518
Valuation adjustment－Interest rate swaps	270,152	179,791
Valuation adjustment－Forward foreign exchange	412,637	555,059
Valuation adjustment－Fixed rate commercial papers	21	-
Valuation adjustment－Asset swaps (note)	190,179	127,837
Valuation adjustment－Foreign exchange call options	3,763	(3,712)
Valuation adjustment－Value of asset swap IRS contracts	(1,075)	(2,573)
Valuation adjustment－Asset swap	152	(71)
Total	$ 221,681,588	195,672,720

Note: The fix rate of financial bonds issued by BOT converted interest rate swaps of floating interest rate.

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

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

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

	December 31, 2017	December 31, 2016
Foreign exchange call options	$ 2,024,129	2,321,240
Swaps	481,218,383	634,508,377
Interest rate swaps	19,386,518	16,673,850
Forward foreign exchange	42,490,196	20,733,429
Fixed rate commercial paper	500,000	415,650
Asset swaps (note)	26,890,080	2,190,960
Cross currency swaps	1,269,880	1,323,220
Value of asset swap IRS contract	28,000	209,100
Asset swap options	4,000	3,000
Total	$ 573,811,186	678,378,826

Note: The fix rate of financial bonds issued by BOT converted interest rate swaps of floating interest rate.

(d) Hedging Derivative Financial Instruments

The content of hedging asset is as follows:

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

The content of hedging liability is as follows:

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

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

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

The net losses of above hedging instruments in 2017 and 2016 are $6,819 thousand dollars and $37,095 thousand dollars, respectively. The net gains and losses of hedged items embedded in hedging instrument in 2017 and 2016 are $81,317 thousand dollars and $111,645 thousand dollars, respectively.

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

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

	December 31, 2017	December 31, 2016
Bills and bonds purchased under resell agreements:		
Negotiable certificates of deposit	$ 6,614,225	1,704,703
Commercial papers	7,889,633	1,843,893
Government bonds	340,976	40,500
Corporate bonds	651,859	350,081
Total	$ 15,496,693	3,939,177

	December 31, 2017	December 31, 2016
Bills and bonds sold under repurchase agreements:		
Commercial papers	$ 49,936	549,382
Government bonds	17,473,146	10,411,842
Corporate bonds	3,931,721	1,255,908
Financial bonds	14,920,187	150,137
Treasury bill	-	468,867
Convertible Corporate bonds	328,095	-
Total	$ 36,703,085	12,836,136

(f) Receivables, Net

	December 31, 2017	December 31, 2016
Accounts receivable	$ 1,121,307	1,419,656
Long-term receivables－payment on behalf of the government	16,694,448	17,054,885
Accrued incomes	669,677	544,006
Interests receivable	13,969,544	14,865,931
Premiums receivable	143,394	114,148
Notes receivable and acceptance notes receivable	2,739,327	2,571,262
Accounts receivable factoring without recourse	11,462,524	9,414,652
Margin loans receivable	3,702,380	2,993,359
Accounts receivable for settlement	3,121,019	1,273,748
Accounts receivable －others	-	84
Others－settlement prices	-	317,451
Others－replenishment of national treasury	12,058,261	16,910,332
Others－undelivered spot exchange	2,283	4,813
Other－ATM temporary receipts, payments and interbank difference	1,816,568	1,589,410
Others－FX Swaps	89,200	49,673
Others	494,272	1,162,493
Subtotal	68,084,204	70,285,903
Less: allowance for doubtful accounts	145,691	128,310
Total	$ 67,938,513	70,157,593

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 $8,174,483 thousand and $8,284,655 thousand in 2017 and 2016, respectively, due to executing the government premium savings policy.

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

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

(g) Loans and Discounts, Net

	December 31, 2017	December 31, 2016
Discounts and export / import bills negotiations	$ 3,970,292	3,872,121
Short-term loans and overdrafts	466,463,871	356,315,237
Short-term secured loans and secured overdrafts	76,825,361	91,034,002
Life insurance loans	5,723,066	5,676,245
Accounts receivable financing	166,450	235,309
Accounts receivable secured financing	7,338	5,201
Medium-term loans	474,555,063	550,638,619
Medium-term secured loans	240,933,371	247,694,164
Long-term loans	166,879,651	176,933,311
Long-term secured loans	871,048,709	863,563,543
Overdue loans	4,947,756	4,772,500
Subtotal	2,311,520,928	2,300,740,252
Less: allowance for doubtful accounts	33,102,921	32,885,593
Total	$ 2,278,418,007	2,267,854,659

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

	2017	2016
Loans:		
Beginning balance	$ 32,885,593	27,976,889
Allowance for doubtful accounts	1,492,854	5,146,570
Write-off	(2,491,515)	(2,634,547)
Recovery from written-off	1,369,560	2,403,571
Effects of exchange rate changes and others	(153,571)	(6,890)
Ending balance	$ 33,102,921	32,885,593

	2017	2016
Receivables (including call loans to banks and other financial assets):		
Beginning balance	$ 311,462	1,446,103
Allowacne for doubtful accounts (reversal)	(39,020)	72,689
Write-off (note)	(14,866)	(1,185,890)
Recovery from written-off	59,305	13,335
Effects of exchange rate changes and others	(1,309)	(34,775)
Ending balance	$ 315,572	311,462
Total	$ 33,418,493	33,197,055

Note:The bond-badced security 2007-1 No.B-1 issued by E. SUN Bank and held by BOT amounting to $995,505, which was overdue and confirmed defaulted in 2016. The write-off was approved by the board of directors of Bank of Taiwan on February 26, 2016.

Details of allowance for doubtful accounts were as follows:

	December 31, 2017	December 31, 2016
Call loans to bank	$ 58,446	45,819
Receivables	145,691	128,310
Loans and discounts	33,102,921	32,885,593
Other financial assets	111,435	137,333
Total	$ 33,418,493	33,197,055

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

	2017	2016
Bad debts	$ 1,453,834	5,219,259
Provisions for guarantee liabilities	227,150	(47,210)
Total	$ 1,680,984	5,172,049

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

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

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

	December 31, 2017	December 31, 2016
Negotiable certificates of deposit	$ 932,539,967	847,664,916
Government bonds	41,318,500	37,742,856
Financial bonds	12,882,340	12,628,685
Corporate bonds	35,895,888	28,142,301
Financial asset securitization investments	5,502,710	6,113,337

	December 31, 2017	December 31, 2016
TSEC and OTC stocks and certificates	47,485,085	46,970,073
Real estate securitization	831,735	932,056
Exchange traded funds	1,278,230	521,060
Foreign bonds	56,723,065	64,655,480
Foreign exchange traded funds	6,460,512	9,373,726
Foreign stocks	718,670	1,368,453
Add: Adjustment valuation	25,897,636	16,815,721
Total	$ 1,167,534,338	1,072,928,664

(i) Please see note 7 “The Fair Value and Fair Value Hierarchy of the Financial Instruments”, for valuation of available-for-sale financial assets.

(ii) Please see note 6(ai) for realized gain (loss) on available-for-sale financial assets.

(i) Held-to maturity Financial Assets, Net

	December 31, 2017	December 31, 2016
Domestic:		
Financial bonds	$ 35,685,882	40,490,937
Corporate bonds	21,676,421	25,283,618
Negotiable certificates of deposits	1,402,431	2,605,284
Commercial papers	15,973,499	9,494,908
Government bonds	94,121,703	105,725,229
	168,859,936	183,599,976
Foreign:		
Bonds	198,722,373	173,442,133
Negotiable certificates of deposits	409,410	1,543,860
Treasury bills	1,173,380	1,225,639
	200,305,163	176,211,632
Total	$ 369,165,099	359,811,608

BTLI recognizes impairment loss for the held to maturity financial assets having an objective evidence of impairment. As of December 31, 2017 and 2016, no impairment loss was recognized.

BTLI disposed its held-to-maturity financial assets due to the changes of military insurance regulations and the future cash demand of Ministry of National Defense. The amounts of disposals and the gains (losses) on disposals of the held-to-maturity financial assets during 2017 and 2016, respectively, were as follows:

	2017	2016
Carrying amount	16,215,457	3,611,479
Gains (losses) on disposal	486,380	242,198

The amount of disposals of held-to-maturity financial assets were 7.46% and 1.93% of ending balance as of December 31, 2017 and 2016, respectively.

(j) Investments under Equity Method, Net

	December 31, 2017		December 31, 2016	
	Percentage of Ownership (%)	Amount	Percentage of Ownership (%)	Amount
Hua Nan Financial Holdings Co., Ltd.	25.07	$ 41,173,108	25.07	39,856,719
Tang Eng Iron Works Co., Ltd.	21.37	1,316,355	21.37	1,284,061
Tai Yi Real Estate Management Co., Ltd.	30.00	20,568	30.00	19,642
Total		$ 42,510,031		41,160,422

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

	2017	2016
Hua Nan Financial Holdings Co., Ltd.	$ 145,513	(484,311)
Tang Eng Iron Works Co., Ltd.	(19,023)	(5,223)
Total	$ 126,490	(489,534)

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

	2017	2016
Hua Nan Financial Holdings Co., Ltd.	$ 3,017,402	3,531,785
Kaohsiung Ammonium Sulfate Co., Ltd.	-	13,312,318
Tang Eng Iron Works Co., Ltd.	52,325	107,566
Tai Yi Real Estate Management Co., Ltd.	3,936	3,344
Total	$ 3,073,663	16,955,013

(iii) Individually significant associate(s)

The Company and its subsidiaries acquisited Hua Nan Financial Holdings Company 25.07% shares, which had maturity effection, using equity method for accounted, other informations as following:

Aassociates Company	The relations between the Combined company	Business place/ registration country	The proportion of ownership interest and voting rights December 31, 2017	December 31, 2016
Hua Nan Financial Holdings Co., Ltd.	Followed the FHC to investment, such as banking, finance bills industry	Taiwan	25.07%	25.07%

The Company and its subsidiaries has major affiliates of the listed or OTC companies, its fair value is as follows:

	December 31, 2017	December 31, 2016
Hua Nan Financial Holdings Co., Ltd.	$ 44,523,291	42,865,775

1) Summarized of Financial Information

Hua Nan Financial Holding Co., Ltd.

	December 31, 2017	December 31, 2016
Total Assets	$ 2,573,419,750	2,545,941,962
Total Liabilities	(2,409,185,587)	(2,386,958,692)
Net Assets	$ 164,234,163	158,983,270
The Company holding shares	$ 41,173,108	39,856,719

	2017	2016
Net income	$ 12,015,568	14,086,800
Other comprehensive income	599,718	(1,931,831)
Total comprehensive income	$ 12,615,286	12,154,969
The Company holding shares		
Investment income	$ 3,017,402	3,531,785
Other comprehensive income	145,513	(484,311)

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, repaying loans or advances.

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

4) Hua Nan Financial Holdings Co., Ltd.'s financial statements is audited by other auditors. The related investment gains is $3,017,402 thousand and $3,531,785 thousand in 2017 and 2016, respectively.

(iv) Maturity associate enterprise

1) Summarized of Financial Information- The Company and its subsidiaries holding shares

	December 31, 2017	December 31, 2016
Total investment in book value	$ 1,336,923	1,303,703

	2017	2016
Investment income	$ 56,261	13,423,228
Other comprehensive income	(19,023)	(5,223)
Total comprehensive income	$ 37,238	13,418,005

2) Kaohsiung Ammonium Sulfate Co., Ltd. is one of the associates of BOT under the equity method, resolved to liquidate and dissolve on January 15, 2016. The shareholders' meetings of Kaohsiung Ammonium Sulfate Co., Ltd. held on February 4 2016 then resolved to distribute the surplus based on shareholding equity ratio. BOT received an allocation of the surplus, including $232,412 thousand in cash and $15,238,207 thousand worth of land (recognized as investment property) whose value was evaluated by independent appraisers. BOT also recognized a gain amounting to $13,312,318 thousand.

(v) Collateral

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

(k) Other Financial Assets, Net

	December 31, 2017	December 31, 2016
Short-term advances	$ 52,291,020	52,253,321
Less: allowance for doubtful accounts－Short-term advances	(29,710)	(32,088)
Debt investments without quoted price in active markets	39,986,671	42,955,960
Financial assets carried at cost	8,600,826	8,599,826
Less: cumulative impairment－financial assets carried at cost	(15,049)	(15,049)
Remittances purchased	7,171	5,765
Less: allowance for doubtful accounts－remittances purchased	(71)	(58)
Overdue receivables	81,703	123,106
Less: allowance for doubtful accounts－overdue receivables	(81,654)	(105,187)
Separate account insurance product assets	11,934	13,247
Time deposits over three months	1,890,400	14,550,000
Others	107,518	19,445
Total	$ 102,850,759	118,368,288

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

(ii) Concerning for the payment of excess interest for the government, booked under “short term payment” for December 31, 2017 and 2016, please refer to note 11 for further information.

(l) Investment property

(i) The movement of investment property were as follows:

	Land and improvements	Buildings	Total
Cost or deemed cost:			
Balance at January 1, 2017	$ 20,018,888	2,542,934	22,561,822
Additions	154,223	287,817	442,040
Reclassification from property and equipment	18,392	55,658	74,050
Balance at December 31, 2017	$ 20,191,503	2,886,409	23,077,912
Balance at January 1, 2016	$ 4,767,779	2,538,131	7,305,910
Additions	15,238,207	-	15,238,207
Reclassification from property and equipment	12,902	4,803	17,705
Balance at December 31, 2016	$ 20,018,888	2,542,934	22,561,822
Depreciation:			
Balance at January 1, 2017	$ -	330,575	330,575
Depreciation	-	63,935	63,935
Reclassification from property and equipment	-	15,340	15,340
Balance at December 31, 2017	$ -	409,850	409,850

	Land and improvements	Buildings	Total
Balance at January 1, 2016	$ -	268,040	268,040
Depreciation	-	61,335	61,335
Reclassification from property and equipment	-	1,200	1,200
Balance at December 31, 2016	$ -	330,575	330,575
Carrying amounts:			
December 31, 2017	$ 20,191,503	2,476,559	22,668,062
January 1, 2016	$ 4,767,779	2,270,091	7,037,870
December 31, 2016	$ 20,018,888	2,212,359	22,231,247

(ii) The fair values of the investment properties of the Company and its subsidiaries were as follows:

	December 31, 2017	December 31, 2016
Fair value of investment properties	$ 23,818,130	25,160,432

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.

1) The Bank of Taiwan

As noted in Note 15, Kaohsiung Ammonium Sulfate Co., Ltd. distributed its several pieces of land to BOT as surplus to BOT after its dissolution and liquidation. The appraisers engaged by the bank determined to use the comparison approach and the land development analysis approach for the land in commercial-use areas by reviewing it accurately right and analyzing the general factors, area factors, specific factors, market situations of real estate and its highest and best use, as well as their professional judgment. In addition, as the land reserved for roads is public service facilities and qualified to be conducted through transfer of floor area rights based on the appraisers' survey, the market value usually ranges within 30% and 35% of the average current value of the neighboring non-public facility land announced by the government during the fiscal year. Therefore, the appraisers use 30% as one of the major assumptions for the price of land for roads. The relevant contract information and key assumptions are as follows:

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

BOT's plan for the development land includes determining the scope of the land to be developed, estimating the duration of development, surveying and analyzing costs, obtaining current market prices, conducting on-site surveys, and investigating and analyzing the degree

of development in the local environment. There was no significant fluctuation revealed after the assessment on macroeconomic factors, i.e., market indexes, population, employment rate, market prices and rates, market equilibrium, and other relevant market factors; hence, these data were used for estimating the total selling price after development or construction, and this expected selling price was used as a basis in determining the price prior to development and construction.

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

Valuation technique	Significant unobservable inputs	Inter relationship between key unobservable inputs and fair value measurement
The management evaluate and measure the effect of 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.	• The rate of return • Overall capital interest rate	The estimated fair value would increase (decrease) if: • the rate of return were lower (higher); or • the overall capital interest rate were lower (higher).

The investment property was subsequently measured at cost, and the fair value was used as the recoverable amount for impairment testing. The fair value of investment property was evaluated by using comparison approach and land development analysis approach, and the recent market transaction prices are also taken into consideration. The valuation technique is consistent with the technique used for initial acquisition. After evaluating, BOT did not recognized impairment loss.

2) The BankTaiwan Life Insurance

The fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent appraiser who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued. The range of yields applied to the net annual rentals to determine fair value of property for which current prices in an active market are unavailable was as follows:

	December 31, 2017	December 31, 2016
Capitalization of earning percentage	0.84%~3.39%	0.16%~2.23%

(iii) Detail of operating lease of the Company and its subsidiaries were as follows:

Location	2017	2016
Rental revenue	$ 226,990	231,147
Direct operating cost of the investment property for the period (comprise maintenance fee)	(143,820)	(138,966)
Net profit of investment property	$ 83,170	140,710

(iv) As of December 31, 2017 and 2016, the Company and its subsidiaries' investment property neither served as a guarantee or collateral, nor they were pledged.

(m) Property and Equipment, Net

Changes in the cost, depreciation, and impairment of the properties and equipments of the Company and its subsidiaries for the year ended 2017 and 2016 were as follows:

	Land and Land improvements	Buildings	Machinery and equipment	Transportation equipment	Miscellaneous equipment	Leasehold improvements	Construction in progress and prepayment for equipment	Total
Cost:								
Balance at January 1, 2017	$ 87,556,608	15,581,844	6,667,089	1,089,638	1,022,691	828,370	623,982	113,370,222
Additions	-	3,815	251,385	36,144	28,679	2,425	312,040	634,488
Disposals	(136,013)	(29,515)	(1,220,071)	(43,993)	(33,147)	(216)	-	(1,462,955)
Reclassification	(18,392)	34,084	97,633	931	426	16,997	(210,629)	(78,950)
Effect of change in exchange rates	-	-	(4,643)	(1,172)	(2,317)	(9,451)	-	(17,583)
Balance at December 31, 2017	$ 87,402,203	15,590,228	5,791,393	1,081,548	1,016,332	838,125	725,393	112,445,222
Balance at January 1, 2016	$ 87,569,510	15,540,548	6,611,591	1,071,823	1,027,900	785,271	474,409	113,081,052
Additions	-	14,418	408,248	29,152	30,199	12,479	285,252	779,748
Disposals	-	(11,800)	(374,451)	(46,570)	(35,951)	(52)	-	(468,824)
Reclassification	(12,902)	38,678	22,628	35,668	990	32,789	(135,679)	(17,828)
Effect of change in exchange rates	-	-	(927)	(435)	(447)	(2,117)	-	(3,926)
Balance at December 31, 2016	$ 87,556,608	15,581,844	6,667,089	1,089,638	1,022,691	828,370	623,982	113,370,222
Accumulated depreciation:								
Balance at January 1, 2017	$ 14,785	7,003,112	5,121,920	886,670	836,212	717,811	-	14,580,510
Depreciation	181	301,613	417,773	41,946	32,437	33,948	-	827,898
Disposal	-	(29,454)	(1,197,816)	(42,705)	(29,937)	(216)	-	(1,300,128)
Reclassification	-	(15,340)	-	-	-	-	-	(15,340)
Effect of change in exchange rates	-	-	(1,840)	(705)	(1,804)	(6,561)	-	(10,910)
Balance at December 31, 2017	$ 14,966	7,259,931	4,340,037	885,206	836,908	744,982	-	14,082,030
Balance at January 1, 2016	$ 14,423	6,717,415	5,046,986	888,438	833,929	683,036	-	14,184,227
Depreciation	362	298,691	422,410	43,579	35,431	36,142	-	836,615
Disposal	-	(12,994)	(347,175)	(45,129)	(32,784)	(52)	-	(438,134)
Reclassification	-	-	95	-	(38)	(93)	-	(36)
Effect of change in exchange rates	-	-	(396)	(218)	(326)	(1,222)	-	(2,162)
Balance at December 31, 2016	$ 14,785	7,003,112	5,121,920	886,670	836,212	717,811	-	14,580,510
Accumulated impairment:								
Balance at January 1, 2017	$ 45,937	-	-	-	-	-	-	45,937
Impairment loss	1,913	-	-	-	-	-	-	1,913
Balance at December 31, 2017	$ 47,850	-	-	-	-	-	-	47,850
Balance at January 1, 2016	$ 73,596	-	-	-	-	-	-	73,596
Impairment loss	(27,659)	-	-	-	-	-	-	(27,659)
Balance at December 31, 2016	$ 45,937	-	-	-	-	-	-	45,937
Carrying amounts:								
December 31, 2017	$ 87,339,387	8,330,297	1,451,356	196,342	179,424	93,143	725,393	98,315,342
January 1, 2016	$ 87,481,491	8,823,133	1,564,605	183,385	193,971	102,235	474,409	98,823,229
December 31, 2016	$ 87,495,886	8,578,732	1,545,169	202,968	186,479	110,559	623,982	98,743,775

The Company and its subsidiaries have conducted a few revaluations of land and buildings for many times over these years, and the latest was in December, 2011. As of December 31, 2017 and 2016, the total revaluation increments for land were $81,983,111 thousand and $82,119,093 thousand. The total revaluation increments for buildings were $142,852 thousand dollars and $154,628 thousand dollars.

Based on the assessment in December, 2017, the carrying amount of the lands which have indicators of impairment was determined to be $135,241 thousand higher than its recoverable amount of $133,328 thousand, and an impairment loss amounted to $1,913 thousand was recognized. In 2016, the carrying amount of the lands which have indicator of impairment was determined to be $174,169 thousand lower than its recoverable amount of $201,828 thousand. Therefore, the amount of $27,659 thousand, which was initially recognized as impairment, has been reversed.

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

As of December 31, 2017, the Company and its subsidiaries' property and equipment neither served as a guarantee or collateral, nor were they pledged, please refer to note 51.

(n) Intangible Assets

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

	Computer software
Costs:	
Balance at January 1, 2017	$ 3,291,544
Additions	284,816
Balance at December 31, 2017	$ 3,576,360
Balance at January 1, 2016	$ 2,969,406
Additions	322,138
Balance at December 31, 2016	$ 3,291,544
Amortization and Impairment loss:	
Balance at January 1, 2017	$ 2,467,596
Amortization for the year	375,044
Balance at December 31, 2017	$ 2,842,640
Balance at January 1, 2016	$ 2,100,195
Amortization for the year	367,401
Balance at December 31, 2016	$ 2,467,596
Carrying value:	
Balance at December 31, 2017	$ 733,720
Balance at January 1, 2016	$ 869,211
Balance at December 31, 2016	$ 823,948

(o) Other Assets

	December 31, 2017	December 31, 2016
Foreclosed collaterals and residuals taken over, net	$ 1,084,739	1,076,959
Advance payments	4,713,186	5,785,130
Operating guarantee deposits and settlement funds	118,277	107,617
Refundable deposits	4,309,732	489,152
Temporary payments and suspense accounts	767,366	368,224
Inventories	812,975	1,163,603
Others	3,332	249
Total	$ 11,809,607	8,990,934

(i) Foreclosed collaterals and residuals taken over, net

	December 31, 2017	December 31, 2016
Foreclosed collaterals and residuals taken over	$ 1,084,739	1,076,959

(ii) Advance payment

	December 31, 2017	December 31, 2016
Prepaid expenses	$ 314,213	314,778
Prepaid interests	17,596	5,434
Business tax paid	662	170
Business tax carry forward	511	699
Other prepayment－Interbank Fund Transfer Special Accounts	4,301,227	5,350,068
Other prepayment－other	78,977	113,981
Total	$ 4,713,186	5,785,130

(iii) Inventories

	December 31, 2017	December 31, 2016
Inventories	$ 813,034	1,163,603
Less: allowance for inventory valuation	(59)	-
Total	$ 812,975	1,163,603

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

	2017	2016
Sale gain	$ (59)	3,430

(p) Impairment

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

	2017	2016
Beginning balance	$ 60,986	88,645
Reversal of impairment loss for the current period	1,913	(27,659)
Ending balance	$ 62,899	60,986

Details of accumulated impairment were as follows:

	2017	2016
Other financial assets	$ 15,049	15,049
Property and equipment	47,850	45,937
Ending balance	$ 62,899	60,986

(q) Deposits of Central Bank and other banks

	December 31, 2017	December 31, 2016
Deposits from Central Bank	$ 11,251,965	11,350,048
Deposits from banks－others	48,206,734	49,661,259
Postal deposits transferred	690,413	1,001,178
Bank overdrafts	2,271,023	778,312
Call loans from bank	156,601,249	164,806,017
Total	$ 219,021,384	227,596,814

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

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

	December 31, 2017	December 31, 2016
Financial liabilities held for trading	$ 26,694	50,002
Add: Valuation adjustment	8,576,470	7,620,288
Subtotal	8,603,164	7,670,290
Financial liabilities designated at fair value through profit or loss	26,118,400	-
Add: Valuation adjustment	205,385	-
Subtotal	26,323,785	-
Total	$ 34,926,949	7,670,290

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

(iii) Financial liabilities held for trading

	December 31, 2017	December 31, 2016
Foreign exchange options premium	$ 24,558	25,709
Asset swaps options	2,136	23,849
Value of asset swap IRS contract	-	224
Issuing warrants	-	(869)
Commodity option	-	1,089
Add: Valuation adjustment		
Foreign exchange options premium	(944)	(8,409)
Swaps	7,910,688	6,693,957
Cross currency swaps	140,211	266,770
Interest rate swaps	237,780	173,441
Forward foreign exchanges	207,220	384,692
Issuing Warrants	-	1,380
Asset swaps	82,351	104,798
Asset swaps options	(836)	3,801
Value of asset swaps IRS contract	-	10
Commodity option	-	(152)
Total	$ 8,603,164	7,670,290

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

	December 31, 2017	December 31, 2016
Financial bonds	$ 26,118,400	-
Add: Valuation adjustment	205,385	-
Total	$ 26,323,785	-

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, 2017	December 31, 2016
2017-1 Senior unsecured financial bonds-A	2017/04/07	2047/04/07	0%	USD $0.5 billion	Senior unsecured financial bond	$ 14,840,000	-
2017-1 Senior unsecured financial bonds-B	2017/04/07	2047/04/07	0%	USD $0.38 billion	Senior unsecured financial bond	11,278,400	-
				Valuation adjustment		205,385	-
						$ 26,323,785	-

BOT has embedded call options to the above bonds. The call options may be exercised 2 years after the issuing date. If the call options are not exercised prior to the bonds maturity date, BOT will pay the principal and interests accrued in full upon maturity. The call options were exercised at November 28th and December 1st, 2016, BOT recalled all of its financial bonds which were issued in 2014. For the bonds issued in 2017, the call option may be exercised 2 years for bond A, and 3 years for bond B, after the issuing date. If the call options are not exercised prior to the bonds maturity date, BOT will pay the principal and interests accrued in full upon maturity.

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

	December 31, 2017	December 31, 2016
Foreign exchange options premium	$ 2,031,574	3,163,326
Swaps	750,369,224	516,889,589
Cross currency swaps	3,050,680	3,234,820
Interest rate swaps	12,033,858	16,454,661
Forward foreign exchanges	15,678,111	28,700,130
Asset swaps	801,360	1,288,800
Asset swaps options	29,000	13,000
Warrants	-	85,776
Total	$ 783,993,807	569,830,102

(s) Commercial paper payable, net

Details of the short-term notes payable of the Company and its subsidiaries were as follow

	December 31, 2017		
	Guarantee or acceptance institution	Range of interest rates	Amount
Commercial paper payable	International Bills Finance Corporation	0.478%~0.808%	$ 790,000
	Taishin International Bank	0.478%~0.818%	400,000
			1,190,000
Less: discount			(141)
Total			$ 1,189,859

	December 31, 2016		
	Guarantee or acceptance institution	Range of interest rates	Amount
Commercial paper payable	International Bills Finance Corporation	0.428%~0.868%	$ 420,000
	Taishin International Bank	0.438%~0.818%	740,000
			1,160,000
Less: discount			(291)
Total			$ 1,159,709

The Company and its subsidiaries have no assets which were served as a guarantee or collateral, nor they were pledged for the short-term notes payable.

(t) Payables

	December 31, 2017	December 31, 2016
Accounts payable	$ 10,476,616	11,887,529
Collection payable	1,030,550	1,056,890
Accrued expense	2,860,627	2,808,208
Other tax payable	470,193	459,148
Accrued interests	12,770,102	11,567,850
Banker's acceptance payable	2,719,831	2,508,820
Payables to representative organizations	14,289,466	14,898,326
Construction payable	9,794	15,204
Commission payable	106,284	181,747
Non-recourse accounts payable	361,199	347,180
Other payables－undelivered spot exchange	192	-
Other payables－collection bills	744,435	1,271,059
Other payables－payments awaiting transfer	7,161,698	6,471,553
Other payables –ATM temporary receipts, payments and inter branch difference	1,931,229	1,753,455
Other payables－foreign exchange awaiting transfer	408,084	556,826
Other payables – amounts awaiting settlement	595,888	82,543
Other payables－settlement accounts payable	2,732,655	1,601,373
Other payables－cost of settlement	235,974	-
Other payables－overdue accounts	188,049	164,970
Other payables－check deposit	115,216	122,373
Other payables－collections	20,897	29,931
Other payables－others	851,090	707,739
Total	$ 60,080,069	58,492,724

(u) Deposits and Remittances

	December 31, 2017	December 31, 2016
Check deposits	$ 35,437,592	36,130,549
Government deposits	272,339,999	258,655,614
Demand deposits	395,448,975	386,045,467
Time deposits	677,595,393	616,357,574
Remittances	764,098	676,407

	December 31, 2017	December 31, 2016
Savings account deposits:		
Demand savings deposits	836,924,067	835,507,981
Staff accounts	25,216,326	24,761,970
Club saving deposits	804,229	918,514
Non-drawing time savings deposits	392,680,420	382,729,099
Interest withdrawal on principal deposited	833,272,930	860,048,514
Preferential Interest deposits	460,888,643	464,149,754
Total	$ 3,931,372,672	3,865,981,443

(v) Financial Bonds Payable

Name of bond	Condition			Bond		
	Beginning date	Maturity date	Interest rate	Type	Amount	
					December 31, 2017	December 31, 2016
2013-1 TWD subordinated unsecured financial bond	2013/12/2	2023/12/2	BOT's listed annual 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	2014/6/25	2024/6/25	TAIBOR 3M plus 0.3%.	Subordinated unsecured financial bond	5,500,000	5,500,000
2014-1 TWD subordinated unsecured financial bonds-B	2014/6/27	2024/6/27	1.70%	Subordinated unsecured financial bond	2,000,000	2,000,000
2014-1 TWD subordinated unsecured financial bonds-C	2014/6/27	2024/6/27	BOT's listed annual interest rate of time deposits, plus, 0.15%.	Subordinated unsecured financial bond	1,500,000	1,500,000
			Unamortized discount amount		(1,684)	(1,918)
					$ 24,998,316	24,998,082

(w) Borrowings

As of December 31, 2017 and 2016, the credit loan and guarantee loan were 0 thousand dollars, and 300,000 thousand dollars, respectively, and the short term borrowings which were not utilized by the Company's subsidiary, BankTaiwan Securities, were 15,593,600 thousand dollars, and 17,344,400 thousand dollars, respectively.

	December 31, 2017		
Bank	Nature	Total amount	Interest rate
Hua Nan Bank	Short-term loans	1,000,000	Itemized bargaining
	Overdrafts	-	0.30%
	Guaranteed loans	-	0.50%
Taiwan Cooperative Bank	Short-term loans	1,000,000	Itemized bargaining
	Guaranteed loans	6,000,000	0.40%
Chinatrust Commercial Bank	Short-term loans	600,000	Itemized bargaining
	Overdrafts	400,000	0.18%

		January 1, 2016	
Bank	Nature	Total amount	Interest rate
Hua Nan Bank	Short-term loans	1,000,000	Itemized bargaining
	Overdrafts	-	0.300%
	Guaranteed loans	-	0.500%
Yuanta Bank	Short-term loans	1,000,000	Itemized bargaining
	Guaranteed loans	-	0.250%
Taiwan Cooperative Bank	Short-term loans	5,000,000	Itemized bargaining
	Guaranteed loans	-	0.400%
Chinatrust Commercial Bank	Short-term loans	1,000,000	Itemized bargaining
	Overdrafts	-	0.180%
Bank Sinopac	Short-term loans	1,000,000	Itemized bargaining
	Overdrafts	-	0.400%
	Guaranteed loans	-	0.400%

(x) Other Financial Liabilities

	December 31, 2017	December 31, 2016
Appropriated loan funds	$ 41,430	52,626
Liability of insurance product-separate account	11,934	13,247
Principal from structured products	801,392	696,229
Total	$ 854,756	762,102

For hedged derivative financial liabilities, please refer to note 7 “The Fair Value and Fair Value Hierarchy of the Financial Instruments”.

(y) Provision

	December 31, 2017	December 31, 2016
Reserve for unearned premiums	$ 378,648	393,944
Claims reserve	94,403	91,070
Liability reserve	329,797,142	317,976,340
Special reserve	147,645	227,341
Reserve for premium deficiency	3,975,837	4,930,707
Foreign exchange volatility reserve	279,465	425,059
Employee benefit obligations	19,446,311	18,411,770
Guarantee reserve	1,298,033	1,071,798
Reserve for government employees insurance	295,055,660	264,840,836
Total	$ 650,473,144	608,368,865

(z) Insurance contract and financial products with discretionary participation feature

Information on insurance contract and financial product with the discretionary participation feature of the subsidiary, BTLI, as of December 31, 2017 and 2016 were as follows:

(i) Details of reserve for unearned premium:

	December 31, 2017		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	$ 15,200	504	15,704
Personal injury insurance	62,504	-	62,504
Personal health insurance	120,806	-	120,806
Group insurance	179,587	-	179,587
Investment-linked insurance	47	-	47
Total	378,144	504	378,648
Deduction of reserve for unearned premium outward:			
Personal life insurance	$ 948	13	961
Personal injury insurance	3,920	-	3,920
Group insurance	5,013	-	5,013
Investment-linked insurance	1	-	1
Total	9,882	13	9,895
Net	$ 368,262	491	368,753

	December 31, 2016		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	$ 14,567	1,249	15,816
Personal injury insurance	66,555	-	66,555
Personal health insurance	119,842	-	119,842
Group insurance	191,683	-	191,683
Investment-linked insurance	48	-	48
Total	392,695	1,249	393,944
Deduction of reserve for unearned premium outward:			
Personal life insurance	$ 908	33	941
Personal injury insurance	4,259	-	4,259
Group insurance	6,114	-	6,114
Investment-linked insurance	1	-	1
Total	11,282	33	11,315
Net	$ 381,413	1,216	382,629

The reconciliations of reserve for unearned premium were listed below:

	2017		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2017	$ 392,695	1,249	393,944
Provision	369,537	504	370,041
Reclaim	(384,069)	(1,249)	(385,318)
Other	(19)	-	(19)
Balance at December 31, 2017	378,144	504	378,648
Deduction of reserve for unearned premium outward			
Balance at January 1, 2017, net	11,282	33	11,315
Provision	9,882	13	9,895
Reclaim	(11,282)	(33)	(11,315)
Balance at December 31, 2017, net	9,882	13	9,895
Total	$ 368,262	491	368,753

	2016		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2016	$ 418,195	2,235	420,430
Provision	378,755	1,249	380,004
Reclaim	(404,240)	(2,235)	(406,475)
Other	(15)	-	(15)
Balance at December 31, 2016	392,695	1,249	393,944
Deduction of reserve for unearned premium outward			
Balance at January 1, 2016, net	9,295	62	9,357
Provision	11,282	33	11,315
Reclaim	(9,295)	(62)	(9,357)
Balance at December 31, 2016, net	11,282	33	11,315
Total	$ 381,413	1,216	382,629

(ii) Details of claims reserve:

	December 31, 2017		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life Insurance			
Reported but not paid	$ 7,246	4,265	11,511
Not reported and not paid	2,980	144	3,124
Personal injury insurance			
Reported but not paid	248	-	248
Not reported and not paid	11,403	-	11,403
Personal health insurance			
Reported but not paid	6,764	-	6,764
Not reported and not paid	19,350	-	19,350
Group insurance			
Reported but not paid	1,447	-	1,447
Not reported and not paid	40,556	-	40,556
Total	89,994	4,409	94,403
Deduction of claims reserve-outward:			
Personal life Insurance	$ -	6	6
Personal injury insurance	60	-	60
Personal health insurance	23	-	23
Group insurance	141	-	141
Total	224	6	230
Net	$ 89,770	4,403	94,173

	December 31, 2016		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life Insurance			
Reported but not paid	$ 12,817	818	13,635
Not reported and not paid	4,214	265	4,479
Personal injury insurance			
Reported but not paid	163	-	163
Not reported and not paid	9,713	-	9,713
Personal health insurance			
Reported but not paid	3,216	-	3,216
Not reported and not paid	17,742	-	17,742
Group insurance			
Reported but not paid	1,925	-	1,925
Not reported and not paid	40,197	-	40,197
Total	89,987	1,083	91,070

	December 31, 2016		
	Insurance Contract	Financial products with discretionary participation feature	Total
Deduction of claims reserve-outward:			
Personal life Insurance	$ 1	37	38
Personal injury insurance	436	-	436
Personal health insurance	2,616	-	2,616
Group insurance	837	-	837
Total	3,890	37	3,927
Net	$ 86,097	1,046	87,143

The reconciliations of claims reserve were listed below:

	2017		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2017	$ 89,987	1,083	91,070
Provision	345,488	24,269	369,757
Recovery	(345,481)	(20,943)	(366,424)
Balance at December 31, 2017	89,994	4,409	94,403
Deduction of claims reserve-outward			
Balance at January 1, 2017, net	3,890	37	3,927
Provision	2,265	56	2,321
Recovery	(5,931)	(87)	(6,018)
Balance at December 31, 2017, net	224	6	230
Closing balance	$ 89,770	4,403	94,173

	2016		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2016	$ 73,636	3,701	77,337
Provision	300,114	2,509	302,623
Recovery	(283,763)	(5,127)	(288,890)
Balance at December 31, 2016	89,987	1,083	91,070
Deduction of claims reserve-outward			
Balance at January 1, 2016, net	2,053	1	2,054
Provision	8,582	80	8,662
Recovery	(6,745)	(44)	(6,789)
Balance at December 31, 2016, net	3,890	37	3,927
Closing balance	$ 86,097	1,046	87,143

(iii) Details of liability reserve:

	December 31, 2017		
	Insurance Contract	Financial products with discretionary participation feature	Total
Life insurance	$ 266,002,628	10,935,298	276,937,926
Health insurance	7,312,089	-	7,312,089
Annuity insurance	47,981	44,191,077	44,239,058
Reclaim of reserve for major accidents	2,428	-	2,428
Strengthen increasing reserve	1,160,000	-	1,160,000
Reserve for life insurance – reduce sales tax (the accumulated unwritten-off allocation of 3% of sales)	145,641	-	145,641
Total	$ 274,670,767	55,126,375	329,797,142

	December 31, 2016		
	Insurance Contract	Financial products with discretionary participation feature	Total
Life insurance	$ 234,091,634	32,828,613	266,920,247
Health insurance	6,579,463	-	6,579,463
Annuity insurance	47,608	43,120,952	43,168,560
Reclaim of reserve for major accidents	2,429	-	2,429
Strengthen increasing reserve	1,160,000	-	1,160,000
Reserve for life insurance – reduce sales tax (the accumulated unwritten-off allocation of 3% of sales)	145,641	-	145,641
Total	$ 242,026,775	75,949,565	317,976,340

The reconciliation of the above mentioned changes in liability reserve is listed below:

	2017		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2017	$ 242,026,775	75,949,565	317,976,340
Provision	48,956,351	3,374,681	52,331,032
Reclaim	(14,313,356)	(24,176,461)	(38,489,817)
Gain from cancellation of insurance	(65,824)	(21,410)	(87,234)
Effect of changes in exchange rates	(1,933,179)	-	(1,933,179)
Balance at December 31, 2017	$ 274,670,767	55,126,375	329,797,142

	2016		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2016	$ 226,109,825	93,164,631	319,274,456
Provision	43,577,354	3,009,209	46,586,563
Reclaim	(27,047,433)	(20,199,763)	(47,247,196)
Gain from cancellation of insurance	(65,887)	(24,512)	(90,399)
Effect of changes in exchange rates	(547,084)	-	(547,084)
Balance at December 31, 2016	$ 242,026,775	75,949,565	317,976,340

(iv) Details of special reserve:

	December 31, 2017		
	Insurance Contract	Financial products with discretionary participation feature	Total
Provision for dividend policy	$ 147,645	-	147,645

	December 31, 2016		
	Insurance Contract	Financial products with discretionary participation feature	Total
Provision for dividend policy	$ 227,341	-	227,341

The movements of special reserve were listed below:

	2017		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2017	$ 227,341	-	227,341
Provision of dividend policy	(56,527)	-	(56,527)
Recovery of dividend policy	(23,169)	-	(23,169)
Balance at December 31, 2017	$ 147,645	-	147,645

	2016		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2016	$ 228,097	-	228,097
Provision of dividend policy	36,678	-	36,678
Recovery of dividend policy	(37,434)	-	(37,434)
Balance at December 31, 2016	$ 227,341	-	227,341

(v) Reserve for premium deficiency:

	December 31, 2017		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	$ 3,958,577	-	3,958,577
Personal health insurance	17,260	-	17,260
Total	$ 3,975,837	-	3,975,837

	December 31, 2016		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	$ 4,929,870	-	4,929,870
Personal health insurance	837	-	837
Total	$ 4,930,707	-	4,930,707

The reconciliations of reserve for premium deficiency were listed as below:

	2017		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2017	$ 4,930,707	-	4,930,707
Provision	140,562	-	140,562
Reclaim	(1,088,806)	-	(1,088,806)
Effect of changes in exchange rates	(6,626)	-	(6,626)
Balance at December 31, 2017	$ 3,975,837	-	3,975,837

	2016		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2016	$ 2,683,251	-	2,683,251
Provision	2,427,093	-	2,427,093
Reclaim	(178,952)	-	(178,952)
Effect of changes in exchange rates	(685)	-	(685)
Balance at December 31, 2016	$ 4,930,707	-	4,930,707

(vi) Details of provision for liability adequacy:

1) Information on provision for liability adequacy of the subsidiary, BTLI, as of December 31, 2017 and 2016 was as follows:

	December 31, 2017	December 31, 2016
Liability reserve	$ 329,692,901	317,867,943
Reserve for unearned premium	182,152	185,382
Special reserve	147,645	227,341
Reserve for premium deficiency	3,975,837	4,930,707
Book value of insurance liability	$ 333,998,535	323,211,373
Estimate of present cash flow	$ 288,658,617	278,394,562

There is no concern of provision for liability adequacy since the subsidiary, BTLI, had no deficiency on net value between book value of insurance liability and estimate of present cash flow.

Inward reinsurance: Starting from 2015, the Central Reinsurance Corporation no longer transfers the business of reinsurance to the Company, due to the policy adjustment. There is no need to conduct the liability adequacy test of inward reinsurance.

2) As of December 31, 2017 and 2016, the short-term insurance of liability adequacy reserve of the Company is summarized as follows:

	December 31, 2017	December 31, 2016
Claim and reserve within a year	$ 90,725	87,408
Less: Premium not received within a year	1,602	2,543
Subtotal	$ 89,123	84,865
Unearned premium reserve	$ 196,495	208,539
Liability adequacy reserve	$ -	-

The amount of claim and reserve within a year, deducted by the current unpaid premium, were lower than the amount of unearned premium reserve; and therefore, the liability adequacy was sufficient.

3) The liability adequacy test methods used by the subsidiary, BTLI, were listed below:

	December 31, 2017	December 31, 2016
Test Method	Long term insurance : gross premium evaluation method; Short term insurance (including inward reinsurance) : loss evaluation method	Long term insurance : gross premium evaluation method; Short term insurance (including inward reinsurance) : loss evaluation method
Group	Test long and short term insurance separately	Test long and short term insurance separately
Significant assumption	Based on the newest composed of asset on the time of evaluating and the level of risk free interest rate, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2016 (with steady state assumption for discount rates after 30 year).	Based on the newest composed of asset on the time of evaluating and the level of risk free interest rate, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2015 (with steady state assumption for discount rates after 30 year).

(aa) Foreign exchange volatility reserve

(i) Hedging strategy and risk exposure:

The Company's subsidiary, BTLI, has hedged its foreign exchanges by considering the market situation and the hedging cost.

As of December 31, 2017 and 2016, the primary foreign exchange exposures were USD assets, amounting $49,463,266 thousand dollars and $52,553,858 thousand dollars, respectively.

(ii) The movements in foreign exchange volatility reserve were as follows:

	2017	2016
Balance as at 1 January	$ 425,059	869,492
Current provision:		
Compulsory provision	238,515	297,894
Additional provision	398,624	602,108
Subtotal	637,139	900,002
Current write-off	(782,733)	(1,344,435)
Balance as at 31 December	$ 279,465	425,059

(iii) Comparisons table shows the effects on profit/loss, liability, equity and earnings per share due to not applying this rule was as follow:

Items	Amount not applied	Amount applied	Changes
Liability and equity			
December 31, 2017			
Reserve for foreign exchange valuation	$ -	279,465	(279,465)
Equity	286,451,890	286,219,934	231,956
December 31, 2016			
Reserve for foreign exchange valuation	-	425,059	(425,059)
Equity	272,827,177	272,474,378	352,799

Items	Amount not applied	Amount applied	Changes
Income (loss) after tax and earnings (loss) per share			
2017			
Income (loss) after tax	$ 7,241,814	7,362,657	(120,843)
Earnings (loss) per share	0.80	0.82	(0.02)
2016			
Income (loss) after tax	14,454,331	14,823,210	(368,879)
Earnings (loss) per share	1.61	1.65	(0.04)

(ab) Employee benefit obligations

	December 31, 2017	December 31, 2016
Recognized in Consolidated Balance Sheet:		
－Defined benefit plans	$ 10,997,470	10,197,199
－Employees preferential interest deposits	8,382,550	8,170,364
－Three Chinese festival bonus	7,227	176
－Civil servant and teacher insurance excess	59,064	44,031
Total	$ 19,446,311	18,411,770

1) The reconciliation of the defined benefit obligations at present value and plan assets at fair value are as follows:

	December 31, 2017	December 31, 2016
Present value of the defined benefit obligations	$ 27,285,692	26,038,906
Less: fair value of the plan assets	(7,839,381)	(7,627,136)
Net defined benefit obligations	$ 19,446,311	18,411,770

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

		2017	2016
Defined benefit obligation at January 1	$	26,038,735	25,467,403
Current service costs		1,301,857	1,331,672
Remeasurements of the defined benefit plans in other comprehensive income			
—Actuarial gains and losses in demographic changes in assumptions		233,860	658,768
—3 percent increase in salary		516,683	-
—Experience adjustments		274,982	20,586
—Changes in actuarial gains and losses in financial assumptions		10,680	15,654
Benefit curtailment gains		-	(404)
Past service cost		2,004,037	1,444,084
Benefit payments		(3,095,142)	(2,898,857)
Defined benefit obligation at December 31	$	27,285,692	26,038,906

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

		2017	2016
Fair value of plan assets at January 1	$	7,627,136	7,399,998
Interest revenue		108,004	142,979
Remeasurements of defined benefit plans in other comprehensive income			
—Return on plan assets		(19,601)	(60,832)
Contribution made by the Bank		56,995	60,169
Contribution made by the plan participant		916,178	811,454
Benefit payments		(849,331)	(726,632)
Fair value of plan assets at December 31	$	7,839,381	7,627,136

4) Expense recognized in profit or loss

		2017	2016
Current service cost	$	723,926	997,311
Net interest of the defined benefit obligations		470,964	1,715,788
Past service cost		2,004,037	(84,790)
Remeasurements of defined benefit plans in other comprehensive income		44,773	55,088
Total	$	3,243,700	2,683,397

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

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

		2017	2016
Accumulated amount at January 1	$	2,566,791	1,862,388
Recognized during the period		1,006,449	704,403
Accumulated amount at December 31	$	3,573,240	2,566,791

6) Actuarial assumptions

	December 31, 2017	December 31, 2016
Discount rate	1.10%~4.00%	1.40%~4.00%
Assets expected rate of return	0.50%~2.00%	0.50%~2.00%
Future of salary increases	1.10%	1.30%~1.40%

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

The Company and its subsidiaries expect to pay the benefits amounting to $812,114 thousand dollars within one year.

7) Sensitivity analysis

The followings could impact the present value of the defined benefit obligations as of December 31, 2017 and 2016 if the actuarial assumptions change as follows:

		Impact on the defined benefit obligation	
	Actuarial assumption changes (%)	Actuarial assumption increase	Actuarial assumption decrease
December 31, 2017			
Discount rate	0.25%	$ 26,343,485	27,785,494
Salary increase rate	0.50%	19,876,819	17,968,450
December 31, 2016			
Discount rate	0.25%	25,127,030	26,510,128
Salary increase rate	0.50%	18,779,647	16,946,510

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

There were no changes in the method and assumptions used in the preparation of sensitivity analysis for 2017 and 2016.

(ac) Other Liabilities

	December 31, 2017	December 31, 2016
Advance collections	$ 2,266,580	2,132,314
Guarantee deposits received	4,976,441	2,913,911
Temporary receipt awaiting suspense accounts	367,635	970,868
Other liabilities to be settled	8,239	8,239
Compensation arising from land revaluation	1,264,803	1,264,803
Collections for underwriting stock value	99,874	6,364
Total	$ 8,983,572	7,296,499

(ad) Income Tax Expenses

(i) Income tax expenses (benefit)

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

	2017	2016
Current income tax expense	$ 1,164,898	427,349
Deferred tax expenses (benefit)	(1,273,616)	683,892
Income tax expenses (benefit)	$ (108,718)	1,111,241

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

	2017	2016
Exchange differences on translation of foreign operations	$ (851)	(358)
Unrealized (gain) loss on available-for-sale financial assets	92,420	48,892
Actuarial gain (loss) on defined benefit plans	(4,918)	5,288
	$ 86,651	53,822

Reconciliations of income tax expense (benefit) and profit before tax for 2017 and 2016 were as follows:

	2017	2016
Profit before tax	$ 7,253,939	15,934,451
Income tax based on domestic tax rate	1,233,169	2,708,857
Income basic tax	-	21,110
Income tax expense of overseas branches	544,692	789,611
Changes in deferred tax assets and liabilities	61,871	831,510
Tax-exempt income	(1,147,816)	(2,962,466)
Others	(800,634)	(277,381)
Total	$ (108,718)	1,111,241

(ii) Deferred Tax Assets and Liabilities

1) Unrecognized deferred tax assets

Unrecognized deferred tax assets are as follows:

	December 31, 2017	December 31, 2016
Deductible temporary difference	$ 4,685,497	4,996,300

2) Recognized deferred tax assets and liabilities

Changes in deferred tax assets and liabilities for 2017 and 2016 were as follows:

Deferred Tax Assets:

	Defined Benefit Plans	Fair Value Gains	Unrealized Gain or Loss on Foreign Exchange	Other	Total
Balance at January 1, 2017	$ 136,076	657,516	502,160	1,439,358	2,735,110
Recognized in profit or loss	3,400	(256,668)	1,715,922	5,204	1,467,858
Recognized in other comprehensive income	-	(109,446)	851	-	(108,595)

	Defined Benefit Plans	Fair Value Gains	Unrealized Gain or Loss on Foreign Exchange	Other	Total
Turns to income tax refund receivable	-	-	-	(1,440,050)	(1,440,050)
Balance at December 31, 2017	$ 139,476	291,402	2,218,933	4,512	2,654,323
Balance at January 1, 2016	$ 62,888	771,032	247	1,859,878	2,694,045
Recognized in profit or loss	78,476	(39,829)	501,555	(420,520)	119,682
Recognized in other comprehensive income	(5,288)	(73,687)	358	-	(78,617)
Balance at December 31, 2016	$ 136,076	657,516	502,160	1,439,358	2,735,110

Deferred Tax Liabilities:

	Defined benefit plans	Land value increment tax	Fair value gains	Unrealized gain or loss on foreign exchange	Other	Total
Balance at January 1, 2017	$ 10,699	18,226,204	66,197	-	-	18,303,100
Recognized in profit or loss	17	(26,076)	220,301	-	-	194,242
Recognized in other comprehensive income	(4,918)	-	(17,026)	-	-	(21,944)
Balance at December 31, 2017	$ 5,798	18,200,128	269,472	-	-	18,475,398
Balance at January 1, 2016	$ 6,446	18,226,204	138,419	290,593	94,902	18,756,564
Recognized in profit or loss	4,253	-	(47,427)	(290,593)	(94,902)	(428,669)
Recognized in other comprehensive income	-	-	(24,795)	-	-	(24,795)
Balance at December 31, 2016	$ 10,699	18,226,204	66,197	-	-	18,303,100

3) Information related to the unappropriated earnings and deduction tax account was summarized below:

	December 31, 2017	December 31, 2016
Unappropriated earnings of 1998 and after	(Note)	$ 15,636,705

	December 31, 2017	December 31, 2016
Balance of deductible tax account	(Note)	$ 58,443

	2017(Projected)	2016(Actual)
Imputed tax creditable ratio for appropriating net income	(Note)	3.55%

The integrated income tax is calculated according to the Tai Cai Shui No.10204562810 (October 17, 2013).

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

(ae) Equity

(i) Capital stock

On 1 January 2008 TFH was established by the Bank of Taiwan in a share swap, the capital from share exchange were 9,000,000 thousand shares, and capital stock had a par value of $10. As of December 31, 2017 and 2016, the Company's authorized capital and issued capital were $90,000,000 thousands.

(ii) Capital surplus

	December 31, 2017	December 31, 2016
Changes in equity of associates and joint ventures accounted for using equity method	$ 9	-
Equity premium	111,385,217	111,385,217
Total	$ 111,385,226	111,385,217

According to the ROC Company Act prior to the new amendment on January 4, 2012, capital surplus can only be used to increase share capital by using the realized capital surplus after making good the deficit. Capital surplus cannot be used for distribution of cash dividends. According to the new amendment of the ROC Company Act, the Company can declare dividend with capital surplus when which without loss and resolution by the shareholders. The aforementioned realized capital surplus includes the income derived from the issuance of new shares at a premium and the income from endowment received by the Company. The share capital capitalized in any one year may not exceed a certain percentage for the Company's increasing share capital under the Regulations Governing the Offering and Issuance of Securities by Securities Issuers. The Company may only increase its capital reserve out of the share capital from cash premium on capital stock once a year. The additional capital reserve from the share capital may not be increased during the same fiscal year as the additional share capital form cash premium on capital stock.

(iii) Legal reserve

In accordance with the Company Act prior to the new amendment on January 4, 2012, the Company shall set aside 10 percent of the net income after tax as legal reserve until such legal reserve amounts have reach the authorized capital. The legal reserve can only be used to make good the deficit but not use to distribute any cash dividends. According to the amendment of the ROC Company Act, the distribution of the legal reserve by issuing new shares or by cash is allowed only with the approval granted through the shareholder's meeting when the Company does not have any deficit, and only the portion of legal reserve which exceeds 25 percent of the paid-in capital may be distributed.

(iv) Appropriation of earnings

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

1) to settle all outstanding tax payable;
2) to offset prior years losses;
3) to appropriate 10% as legal reserve;

4) special reserve

to appropriate 40~60% 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 Company and its subsidiaries elect to transfer to retained earnings by application of the exemption under IFRSs No. 1, the Company and its subsidiaries shall set aside an equal amount of special reserve. When the Company and its subsidiaries subsequently use, dispose of, or reclassify the relevant assets, it may be reversed to distributable earnings a proportional amount of the special reserve originally set aside.

5) To appropriate dividends

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

According to the Company's policy, before the legal reserve balance amounts to the authorized capital, cash dividend distributions cannot exceed 15% of the authorized capital.

6) To accelerate the accumulation BOT's regulatory capital, the Company submitted the application (Jin-Kung-Tsai-Tsu No. 10515400091) to the Ministry of Finance and the Executive Yuan on January 15, 2016 for the Company and BOT not to distribute the surplus of 2015 to the Ministry of Finance. On March 31, 2016, the Ministry of Finance responded to the Company in accordance with the reply from the Executive Yuan that the surplus can be kept as retained earnings, except for the distribution of 4 hundred million of the Company's budgeted working capital in 2016.

7) To strengthen the Group's operation and development in order to help its subsidiaries boost their Tier 1 capital ratio and total capital adequacy ratio, the Company submitted its application to the Executive Yuan in accordance with the resolution of the Legislative Yuan and related regulations on January 16, 2017 for not distributing its 2016 surplus and BOT. The application was approved by the Executive Yuan on March 14, 2107.

8) According to the budget approved by the Executive Yuan and the Legislative Yuan, the Company will not distribute its 2017 surplus as dividend to the Ministry of Finance.

(v) Other equity

	Financial statements translation differences of foreign operations	Gain (losses) on effective portion of cash flow hedges	Unrealized gain (loss) on available-for-sale financial assets	Effect of credit risk changes of financial liabilities measured at fair value	Total
Balance at January 1, 2017	$ 530,488	16,527,296	8,197	10,558	17,076,539
Exchange differences arising on translation of foreign operations	(1,871,218)	-	-	-	(1,871,218)
Unrealized gain (loss) on available-for-sale	-	9,411,503	-	-	9,411,503
Change in cash flow hedges of associates and joint ventures accounted for equity method	-	-	(4,206)	-	(4,206)
Effect of credit risk changes in financial liabilities measured at fair value sale financial assets	-	-	-	(50,337)	(50,337)
Balance at December 31, 2017	$ (1,340,730)	25,938,799	3,991	(39,779)	24,562,281

	Financial statements translation differences of foreign operations	Gain (losses) on effective portion of cash flow hedges	Unrealized gain (loss) on available-for-sale financial assets	Effect of credit risk changes of financial liabilities measured at fair value	Total
Balance at January 1, 2017	$ 1,263,211	10,999,156	4,278	26,631	12,293,276
Exchange differences arising on translation of foreign operations	(732,723)	-	-	-	(732,723)
Unrealized gain (loss) on available-for-sale	-	5,528,140	-	-	5,528,140
Change in cash flow hedges of associates and joint ventures accounted for equity method	-	-	3,919	-	3,919
Effect of credit risk changes in financial liabilities measured at fair value sale financial assets	-	-	-	(16,073)	(16,073)
Balance at December 31, 2017	$ 530,488	16,527,296	8,197	10,558	17,076,539

(af) Net interest income

	2017	2016
Interest income:		
Loans and discounts	$ 38,830,625	39,687,442
Placement with Central Bank and call loans to banks	8,707,304	8,165,324
Securities investment	20,209,992	19,376,730
Credit cards	26,392	29,085
Bonds purchased under resell agreements	30,805	24,892
Others	959,716	1,044,862
Subtotal	68,764,834	68,328,335
Interest expense:		
Deposits from customers	30,337,130	30,750,262
Deposits of Central Banks and other banks	2,750,030	2,175,375
Bonds sold under repurchased agreements	120,042	58,015
Financial bonds	304,369	322,410
Structured deposits	17,242	15,616
Others	130,405	169,304
Subtotal	33,659,218	33,490,982
Total	$ 35,105,616	34,837,353

(ag) Service fees, net

	2017	2016
Service fees revenue:		
Bank business	$ 5,249,741	4,920,347
Insurance business	111,407	95,839
Securities business	434,321	335,542
Subtotal	5,795,469	5,351,728

	2017	2016
Service fees expense:		
Bank business	642,329	622,033
Insurance business	1,003,176	1,697,389
Securities business	26,429	21,029
Subtotal	1,671,934	2,340,451
Total	$ 4,123,535	3,011,277

The Company and its subsidiaries provide custody, trust, investment management and advisory services to third parties, therefore, the Company and its subsidiaries plan, manage and make trading decisions about these financial instruments. Trust funds or portfolios, entrusted with management and application, prepare financial statements for internal management purposes and will not include in the financial statements of the Company and its subsidiaries.

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

	2017	2016
Gain (loss) on financial assets or liabilities measured at fair value through profit or loss:		
Dividend income	$ 4,616,813	3,946,347
Net interest income	(48,285)	(562,055)
Net gain on disposal	12,255,776	4,818,958
	16,824,304	8,203,250
Gain (loss) on financial assets or liabilities measured at fair value through profit or loss－valuation:		
Net gain on valuation	20,342,273	8,919,358
Total	$ (3,517,969)	17,122,608

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

	2017	2016
Dividend income	$ 3,725,030	3,546,796
Gain (loss) on disposal	769,351	161,190
Total	$ 4,494,381	3,707,986

(aj) Other non-interest income (expenses)

	2017	2016
Sales revenue, net	$ 455,670	542,536
Subsidized income from government	10,452,705	13,754,258
Others	538,295	936,017
Excess preferential interest expenses	(11,084,380)	(10,861,359)
Total	$ 362,290	4,371,452

Note: According to Government Employees and School 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.

(ak) Employee benefits expenses

	2017	2016
Salaries	$ 11,233,950	11,131,362
Labor and health insurances	553,741	548,890
Pensions	893,076	917,679
Others	286,332	291,576
Total	$ 12,967,099	12,889,507

(al) Depreciation and amortization expenses

	2017	2016
Depreciation expenses	$ 781,420	791,385
Amortization expenses	375,103	367,611
Total	$ 1,156,523	1,158,996

(am) Other general and administrative expenses

	2017	2016
Taxes	$ 3,208,503	3,350,671
Rental expenses	713,706	706,652
Insurance expenses	963,731	935,231
Postage and phone / fax expenses	258,554	247,769
Utilities	201,155	207,926
Supplies expense	167,577	169,357
Repair and maintenance expenses	427,888	409,901
Marketing expenses	421,636	425,512
Professional service fees	464,169	407,343
Others	479,044	449,959
Total	$ 7,305,963	7,310,321

(an) Earnings per Share

The consolidated basic earnings per share are calculated by dividing the net income by the number of shares outstanding. The net income in 2017 and 2016 are $7,362,657 thousand and $14,823,210 thousand, respectively. The weighted average outstanding shares are 9,000,000 thousand.

The Company's basic earnings per share were calculated as follows:

	2017	2016
Consolidated net income	$ 7,362,657	14,823,210
Weighted average outstanding shares (thousand shares)	9,000,000	9,000,000
Basic earnings per share (In dollars)	$ 0.82	1.65

(ao) Insurance income, net

	2017		
	BOT government employees' insurance department	BTLI	Total
Premium income	$ 23,478,165	42,555,588	66,033,753
Amortized reinsurance claims payment	-	35,824	35,824
Income on insurance product-separated account	-	1,503	1,503
Insurance business income	23,478,165	42,592,915	66,071,080
Reinsurance expense	-	102,088	102,088
Direct business expenses	-	739	739
Insurance claims payment	24,923,675	38,953,506	63,877,181
Disbursement toward industry stability	-	105,869	105,869
Disbursement on insurance product separated account	-	1,503	1,503
Insurance business expenses	24,923,675	39,163,705	64,087,380
Net income from insurance business	$ (1,445,510)	3,429,210	1,983,700

	2016		
	BOT government employees' insurance department	BTLI	Total
Premium income	$ 22,779,133	41,129,853	63,908,986
Amortized reinsurance claims payment	-	25,081	25,081
Income on insurance product-separated account	-	1,552	1,552
Insurance business income	22,779,133	41,156,486	63,935,619
Reinsurance expense	-	90,911	90,911
Direct business expenses	-	741	741
Insurance claims payment	29,871,353	47,701,170	77,572,523
Disbursement toward industry stability	-	81,385	81,385
Disbursement on insurance product separated account	-	1,552	1,552
Insurance business expenses	29,871,353	47,875,759	77,747,112
Net income from insurance business	$ (7,092,220)	(6,719,273)	(13,811,493)

The retained earned premium and retained benefits and claims paid were as follow:

(i) Retained earned premiums

	2017		
	Insurance Contract	Financial products with discretionary participation feature	Total
Direct written premium	$ 40,357,410	2,198,178	42,555,588
Less: Reinsurance premium ceded	102,061	27	102,088
Net change in unearned premium reserve	(13,151)	(725)	(13,876)
	88,910	(698)	88,212
Retained earned premium	$ 40,268,500	2,198,876	42,467,376

	2016		
	Insurance Contract	Financial products with discretionary participation feature	Total
Direct written premium	$ 39,769,357	1,360,451	41,129,808
Reinsurance premium	45	-	45
Premium income	39,769,402	1,360,451	41,129,853
Less: Reinsurance premium ceded	90,844	67	90,911
Net change in unearned premium reserve	(27,486)	(958)	(28,444)
	63,358	(891)	62,467
Retained earned premium	$ 39,706,044	1,361,342	41,067,386

(ii) Retained benefits and claims paid

	2017		
	Insurance Contract	Financial products with discretionary participation feature	Total
Claims payment incurred	$ 14,779,553	24,173,895	38,953,448
Reinsurance claims	58	-	58
Insurance claims payment	14,779,611	24,173,895	38,953,506
Less: Claims payment recovered from reinsures	35,824	-	35,824
Retained benefits and claims paid	$ 14,743,787	24,173,895	38,917,682

	2016		
	Insurance Contract	Financial products with discretionary participation feature	Total
Claims payment incurred	$ 27,503,867	20,196,870	47,700,737
Reinsurance claims	433	-	433
Insurance claims payment	27,504,300	20,196,870	47,701,170
Less: Claims payment recovered from reinsures	24,921	160	25,081
Retained benefits and claims paid	$ 27,479,379	20,196,710	47,676,089

(7) The Fair Value Information of Financial Instruments:

(a) The methods and assumptions used to estimate the fair value of financial instruments are as follows:

(i) For certain financial instruments, the Company and its subsidiaries consider their carrying amounts measured at amortized cost to be a reasonable approximation of fair value. These financial instruments include cash and cash equivalents, placement with Central Bank and call loans to banks, bills and bonds purchased under resell agreements, notes receivables and other receivables, other financial liabilities (other than financial assets carried at cost and debt investments without quote price in an active market), margin loans and stock loans, deposits of

central bank and other banks, commercial paper payables, bills and bonds sold under repurchase agreements, payables, deposits, other borrowings and other financial liabilities.

(ii) For financial instruments measured at fair value through profit or loss, available-for-sale financial assets, held-to-maturity financial assets and hedging derivative financial assets, the fair value is based on quoted market price in an active market. If a quoted market price is not available, the fair value is determined based on valuation technique or quoted price from other financial institution.

(iii) For loans and discounts, negotiations, factoring receivables, credit card receivables, acceptance receivables, and overdue, the fair value is the balance of adjustment unamortized discount or premium and accumulated impairment loss.

(iv) Debt investments without quoted price in an active market use the valuation model or quoted price form financial institution as reference.

(v) Other financial assets- financial assets carried at cost are composed of unlisted stocks without quoted price in an active market; hence the Company and its subsidiaries measure them at cost.

(vi) Deposits and Remittances: The Company and its subsidiary consider the bank industries characteristic to decide the fair value. The deposits with market interest rate are almost those due within one year and their carrying amount 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's reasonable using the carrying amount to estimate the fair value.

(vii) Financial Bonds Payable: It refers to the convertible corporate bonds and financial bonds issued by the Company and its subsidiary. Their coupon rates are almost equal to the market interest rate, so it is reasonable to using the discounted present values of expected future cash flow to estimate their fair values. The present values are almost equal to the carrying amounts.

(viii) The fair value of the financial instruments is the attainable or payable amount if the contract is terminated at the reporting date. The fair value includes the unrealized gain (loss) of unexpired contracts. The derivatives are measured using the quoted price from financial institutions or valuation model.

(b) The fair value hierarchy of financial instruments

The Three-level Definition

(i) 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.

(ii) Level 2

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

(iii) 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.

(c) Fair value measurement

(i) The fair value hierarchy

The following tables present for each of the fair value hierarchy levels the Company and its subsidiaries' assets and liabilities that are measured at fair value on a recurring basis.

	December 31, 2017			
Financial instruments measured at fair value	**Total**	**Level 1**	**Level 2**	**Level 3**
Non-derivative financial instruments				
Assets:				
Financial assets measured at fair value through profit or loss	$ 231,417,694	174,994,332	56,423,362	-
Financial assets held for trading	214,800,889	174,994,332	39,806,557	
Investment in stocks	94,813,513	93,400,413	1,413,100	-
Investment in bonds	1,110,122	1,014,147	95,975	-
Others	118,877,254	80,579,772	38,297,482	-
Financial assets designated at fair value measured through profit or loss	16,616,805	-	16,616,805	-
Available-for-sale financial assets	1,167,534,338	92,141,476	1,075,392,862	
Investments in stocks	73,066,100	73,066,100	-	-
Investment in bonds	148,248,427	5,916,903	142,331,524	-
Others	946,219,811	13,158,473	933,061,338	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	26,323,785	-	26,323,785	-
Financial liabilities designated at fair value through profit or loss	26,323,785	-	26,323,785	-
Derivative financial instruments				
Assets:				
Financial assets measured at fair value through profit or loss	6,880,699	-	6,880,699	-
Hedging derivative financial assets	22,759	-	22,759	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	8,603,164	-	8,603,164	-
Hedging derivative financial liabilities	60,480	-	60,480	-

Financial instruments measured at fair value	December 31, 2016 Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets:				
Financial assets measured at fair value through profit or loss	$ 203,579,322	148,448,554	55,130,768	-
Financial assets held for trading	185,509,024	148,448,554	37,060,470	
Investment in stocks	78,456,868	78,264,004	192,864	-
Investment in bonds	3,197,654	2,706,662	490,992	-
Others	103,854,502	67,477,888	36,376,614	-
Financial assets designated at fair value measured through profit or loss	18,070,298	-	18,070,298	-
Available-for-sale financial assets	1,072,928,664	88,189,670	984,738,994	
Investments in stocks	80,648,600	80,648,600	-	-
Investment in bonds	140,581,177	6,866,690	133,714,487	-
Others	851,698,887	674,380	851,024,507	-
Derivative financial instruments				
Assets:				
Financial assets measured at fair value through profit or loss	10,163,696	-	10,163,696	-
Hedging derivative financial assets	21,221	-	21,221	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	7,670,290	512	7,669,778	-
Hedging derivative financial liabilities	144,195	-	144,195	-

(ii) Valuation techniques

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In addition, when measuring fair value, the following must be considered:

1) The asset or liability being measured, including its condition, location and any restrictions on sale
2) The principal (or most advantageous) market in which an orderly transaction would take place for the asset or liability'
3) The highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis
4) The assumptions that market participants would use when pricing the asset or liability.

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, BOT uses the valuation techniques or refers to the quoted prices set by Bloomberg, Reuters or the Counterparties to determine the fair value.

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

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

Other than those traded in an active market, the fair value of all other financial instruments is determined by using a valuation model or referring to the quoted price of the counterparty. The Company and its subsidiaries 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 Company and its subsidiary adopt the valuation methods which are widely used and accepted by other market participants. The parameters used are usually the observable market data or information.

For complex financial instruments, the Company and its subsidiary 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, BOT has to make proper estimates based on assumptions and judgments.

(iii) Fair value adjustment

1) Limitations of valuation models and inputs

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 Company and its subsidiary believe 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 Company and its subsidiary'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 Company and its subsidiary.

2) Credit risk valuation adjustment

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

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

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

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

CVAs are calculated by considering 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 Company and its subsidiary 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 Company and its subsidiary may also use other alternative PD assumptions if data availability is limited. Moreover, the Company and its subsidiary also take 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 Company and its subsidiary's creditworthiness.

(iv) Reconciliations for financial assets measured at fair value classified in Level 3 of the fair value hierarchy.

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

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

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

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

The Company and its subsidiaries considers the valuation techniques used by the Company and its subsidiaries 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.

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

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

(i) Fair value information

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

Item	Book value	Fair value
December 31, 2017		
Financial assets:		
Held-to-maturity financial assets	369,165,099	368,141,962
Other financial assets – Debt investments without quoted price in active markets	39,986,671	40,146,678
December 31, 2016		
Held-to-maturity financial assets	359,811,608	343,861,398
Other financial assets – Debt investments without quoted price in active markets	42,955,960	42,303,533

(ii) Fair value hierarchy

	December 31, 2017			
Assets and liabilities item	Total	Quoted prices in active markets for identical asset (Level1)	Significant other observable inputs (Level2)	Significant observable inputs (Level3)
Financial Assets:				
Held-to-maturity financial assets	$ 368,141,962	103,879,122	264,262,840	-
Other financial assets – Debt investments without quoted price in active markets	40,146,678	1,391,991	38,754,687	-

	December 31, 2016			
Assets and liabilities item	Total	Quoted prices in active markets for identical asset (Level1)	Significant other observable inputs (Level2)	Significant observable inputs (Level3)
Financial Assets:				
Held-to-maturity financial assets	$ 343,861,398	105,626,496	238,234,902	-
Other financial assets – Debt investments without quoted price in active markets	42,303,533	2,116,012	40,187,521	-

(8) Financial Risk Management:

(a) Risk management structure

(i) The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

(ii) The Board has established the Risk Management Committee, which is responsible for developing and monitoring the risk management policies of the Company and its subsidiaries to reduce risk exposure. The committee reports regularly to the Board of Directors on its activities.

(iii) Risk management department is an independent organization responsible for monitoring the group's risk management practices, keeping track of the progress of the execution of revolutions made by the Board or the Committee and submitting the risk reports to the Board and the Committee regularly. If a significant risk exposure is identified, the Department shall take necessary action and report them to the Board and the Committee.

(iv) The Board of each subsidiary is the highest organization to make decisions on major company issues. Their respective risk management committees and risk management departments are charged with monitoring risks.

(v) Each subsidiary is responsible for identify, evaluate, and control the risks of new products or business, set up related risk management guideline, and monitor the risk management to ensure the risk control of the company.

(vi) The risk management departments of the Company and its subsidiaries should periodically report the risk control situation to the Board of Directors and Risk management committee to enable the Committee to assess the risk involved in the Company's business and how they are controlled and monitored by the management.

(b) Risk management strategies

The various risks resulted from the business no matter on/off the financial statements should be managed in order to optimize compliance and enhance the operating and development. Except for regulations requested by the competent authority, the Company and its subsidiaries also set related risk management regulations as a guideline to ensure the risk control of various risks.

(i) The subsidiary, BOT

1) Overview

The Bank and its subsidiary's activities have exposed to various risks from financial instruments, which include 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:

a) Monitor the BIS Capital Adequacy Ratio in response to operation scale, credit risk, market risk, operational risk and the operating trades in the future.

b) Establish a systematic risk measure and control mechanism to measure, monitor and control every risk.

c) Manage every business risk considering the risk capacity, capital reserve, nature of debts

and performance.

d) 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.

e) 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.

2) Risk management committee

The risk management committee of BOT is composed of the Board of Directors, risk management committee, risk management department and every operational unit.

a) 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.

b) Risk management committee under the Board of Directors is responsible for executing risk management policies and coordinating interdepartmental management of risk.

c) Risk management department is responsible for monitoring, tracing the execution status of risk management policies and submitting reports to the Board of Directors or risk management committee. If a significant risk exposure is discovered, the risk management department has to make appropriate procedures and report them to the Board of Directors.

d) 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.

e) All operational units shall comply with the regulations for risk management.

3) Credit Risk

a) Causes and definition of credit risk

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

b) Identification and measurement of credit risk

To ensure the credit risk is in a tolerable range, BOT sets the credit risk management policies which identified that the credit risk includes all the transactions and business

related to the assets, liabilities and off balance sheet items. Before executing present or new businesses, BOT shall identify the credit risk, understand the risk exposure through appropriate evaluation and assess the possibilities of default.

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

i) Credit business

1. Credit assets categories and post-loan management

BOT has established the “Operational Manual of Evaluating the Impairment of Loans and Receivables” and classify the credit assets into five categories. Except for the normal credit assets that are classified at the first category, the other bad credit rating assets are classified as the second category requiring attention, the third category collectable, the forth category hard to collect and the fifth category impossible to collect by assessing the collaterals and overdue days. In order to reinforce the post loan management, BOT set the “Credit Review and Follow up Evaluations Provision”, the “Review of the Credit Conducted by Managers Provision” and “Warning Mechanism Provision” and evaluate and monitor the quality of credit assets regularly. Also, the BOT keep retrial according to rating of credit cases and check significant credit case periodically to enhance the management of abnormal credit for the intention of warning and interim monitor.

2. Internal credit rating

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

a. Corporate Finance

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

b. Consumer Finance

BOT uses the credit application scorecard and behavior scorecard both of which

have five grades to consider the credit risk evaluation and differential interest rate. Unsecured consumer loans are graded based on seven scoring items and classified into five ratings. BOT will reject those below the lowest scores; the others are reviewed in accordance with related provisions.

ii) Due from banks and call loans to banks

BOT 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.

iii) Investment in debt instruments and derivative

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

Most of the BOT's derivative contracts with its counterparties are financial institutions with good credit ratings. For those financial institutions whose ratings are not available, the BOT reviews the transactions individually. All the counterparties, including non financial institutions, are managed based on their lines of credit (including loans at call).

c) Management of maximum exposure to credit risk and excessive risk concentration

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

ii) BOT'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.

iii) To diversify the risk for countries, BOT allocates different credit amount according to the ranking of the countries in Euromoney to the Financing Department, OBU, and foreign branches. The covered businesses are loan assets, transaction assets, and off balance sheet positions.

d) Policies of credit risk deduction

i) Collateral

BOT 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, BOT established policies governing the scope of collateral and related procedures to secure debts. Moreover, BOT 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 BOT can cut and the grace periods the banks can offer or even requesting for a prepayment.

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

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

ii) Master netting agreement

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

iii) Other credits enhancement

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

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

i) Assets in the Financial Statements

	December 31, 2017		December 31, 2016	
Item	Book Value	Maximum credit exposure (Note 1)	Book Value	Maximum credit exposure (Note 2)
Cash and cash equivalents	$ 114,043	79,489	81,044	45,914
Placement with Central Bank and call loans to banks	675,563	251,386	687,282	226,850
Financial assets measured at fair value through profit or loss	64,827	64,827	67,334	65,174
Available-for-sale financial assets	1,135,941	161,370	1,037,838	152,394
Hedging derivative financial assets	23	23	21	21
Receivables	100,519	83,175	45,795	28,044
Loans and discounts	2,318,081	2,252,679	2,307,049	2,236,786
Held-to-maturity financial assets	81,258	12,809	81,983	16,564
Other financial assets	75,715	75,632	76,716	28,017
Total	$ 4,565,970	2,981,390	4,385,062	2,799,764

Note 1: December 31, 2017

(1) The amount of non-performing loans which included the department of loan management was $4,923 million.

(2) Apart from cash, the maximum exposure to credit risk of other assets shall exclude the debts (including tax receivables, placement with Central Bank and deposits in Central Bank) from the government and the Central Bank. Explanations were as follows:

1) Cash and cash equivalents excludes cash, notes, and checks for clearing of $34,554 million.

2) Placement with Central Bank and call loans to banks excludes placement with Central Bank and deposits in Central Bank of $424,177 million.

3) Available-for-sale financial assets exclude the government bonds of $42,225 million and negotiable certificate of deposits of $932,346 million.

4) Receivables exclude tax receivable of $68,449 million.

5) Loans and discounts exclude loans to government of $650 million and long-term receivable of $16,694 million.

6) Held-to-maturity financial assets exclude the government bonds of $65,402 million.

7) Other financial assets exclude short-term advance to government of $83 million.

(3) The book value of hedging derivatives is the principal of the hedging instruments (IRS); and the amount of greatest credit exposure is the adjusted amount of hedging derivatives at fair value.

(4) This table excluded the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

Note 2: December 31, 2016

(1) The amount of non-performing loans which included the department of loan management was $4,749 million.

(2) Apart from cash, the maximum exposure to credit risk of other assets shall exclude the debts (including tax receivables, placement with Central Bank and deposits in Central Bank) from the government and the Central Bank. Explanations were as follows:

1) Cash and cash equivalents excludes cash, notes, and checks for clearing of $35,130 million.

2) Placement with Central Bank and call loans to banks excludes placement with Central Bank and deposits in Central Bank of $460,432 million.

3) Financial assets measured at fair value through profit or loss exclude the treasury bonds of $167 million and the government bonds $1,993 million.

4) Available-for-sale financial assets exclude the government bonds of $38,028 million and negotiable certificate of deposits of $847,416 million.

5) Held-to-maturity financial assets exclude the government bonds of $65,419 million.

6) Receivables exclude tax receivable of $696 million and long-term receivables of $17,055 million.

7) Loan and discount exclude loans to government of $70,263 million.

8) Other financial assets exclude short-term advance to government of $48,699 million.

(3) The greatest impact of the credit exposure is the fair value at the balance sheet date; the book value of hedging derivatives is the principal of the hedging instruments (IRS); and the amount of greatest credit exposure is the adjusted amount of hedging derivatives at fair value.

(4) The carrying amounts excluded the assets of the Department of Government Employees Insurance.

ii) Off-balance Sheet Items

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

Note 1: December 31, 2017

(1) While measuring the maximum exposure to credit risk, BOT only considers the items that are positive at reporting date and the off-balance commitments and guarantee contracts and exclude the position to the government.

1) Irrevocable loan commitment with credit agreement excludes $418,762 million.

2) Letter of credit receivables exclude $1,871 million.

3) Deposits receivables exclude the amount of $39 million.

(2) This table excluded the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

Note 2: December 31, 2016

(1) While measuring the maximum exposure to credit risk, BOT only consider the items that are positive at the reporting date, the off balance commitments and guarantee contracts and exclude the position to the government.

1) Irrevocable loan commitment with credit agreement excludes $338,802 million.

2) Letter of credit receivables exclude $2,169 million.

(2) This table excluded the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

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

December 31, 2017	Collateral	General agreement of net amount settlement	Enhancement of other credits	Total
In balance sheet:				
Receivables				
Others	$ 1,161	3	2,427	3,591
Loans and discounts	1,314,590	-	1,002,505	2,317,095
Off-balance sheet				
Irrevocable loan commitments	2,432	-	428,686	431,118
Standby letters of credit	1,506	-	23,913	25,419
Financial guarantees	7,008	-	78,031	85,039
Total	$ 1,326,697	3	1,535,562	2,862,262

December 31, 2016	Collateral	General agreement of net amount settlement	Enhancement of other credits	Total
In balance sheet:				
Receivables				
Others	$ 329	69	4,561	4,959
Loans and discounts	1,333,311	-	972,576	2,305,887
Off-balance sheet				
Irrevocable loan commitments	795	-	343,952	344,747
Standby letters of credit	2,731	-	26,199	28,930
Financial guarantees	5,354	-	70,328	75,682
Total	$ 1,342,520	69	1,417,616	2,760,205

The Management believes that the reason why the BOT 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

f) 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 BOT 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:

i) Industry

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

Note 1: December 31, 2017

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

(2) This table excluded the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

Note 2: December 31, 2016

(1) The carrying amounts include loans ($2,307,049 million), call loans to banks, overdraft of banks and placement with banks ($265,934 million), security investments ($1,237,144 million) and so on. Loans refer to discounts, overdrafts, government overdrafts, secured overdrafts, short-term loans, short-term secured loans, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, import bill advance and nonperforming loans ($4,749 million). Security investments include bonds and stocks. Bonds are measured at fair value. However the bonds classified as held-to-maturity financial assets or bond investments in non-active market are carried at cost. Equity investments are measure at fair value but those classified as cost of long-term equity investments under the equity method and financial assets carried at cost are measured at cost.

(2) This table excluded the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

ii) Region

Areas type	December 31, 2017 Book Value (Note 1)	%	December 31, 2016 Book Value (Note 2)	%
Domestic	$ 3,508,669	88.11%	3,339,650	87.65%
Foreign	473,290	11.89%	470,477	12.35%
Total	$ 3,981,959	100.00%	3,810,127	100.00%

Note 1: December 31, 2017

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

(2) This table excluded the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

Note 2: December 31, 2016

(1) The carrying amounts include loans ($2,307,049 million), call loans to banks, overdraft of banks and placement with banks ($265,934 million), security investments ($1,237,144 million) and so on. Loans refer to discounts, overdrafts, government overdrafts, secured overdrafts, short-term loans, short-term secured loans, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, import bill advance and nonperforming loans ($4,749 million). Security investments include bonds and stocks. Bonds are measured at fair value. However the bonds classified as held-to-maturity financial assets or bond investments in non-active market are carried at cost. Equity investments are measure at fair value but those classified as cost of long-term equity investments under the equity method and financial assets carried at cost are measured at cost.

(2) This table excluded the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

iii) Collateral

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

Note 1: The carrying amounts only contain loans which refer to discounts, overdrafts, government overdrafts, secured overdrafts, short-term loans, short-term secured loans, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, import bill advance and non-performing loans ($4,923 million at December 31, 2017; $4,749 million at December 31, 2016).

g) The analysis of credit quality and overdue cases

The financial instruments held by BOT, such as cash and cash equivalents, due to the Central Bank and other banks, financial assets measured at fair value through profit, bills

and bonds purchased under resell agreements, guarantees deposits paid, operating guarantee deposits and settlement funds, are considered to have “very low risk” since all counterparties have good credit ratings.

i) Credit quality analysis for bills purchased, discounts and loans

December 31, 2017	Performing loans						NPL but not impair amount(B)	Impairment Amount(C)	Total (A)+(B)+(C)	Impairment loss(D)		Net (A)+(B)+(C)-(D)
	Very good	Good	Medium	Weak	Non-evaluate	Subtotal(A)				With objective	No objective	
Account receivable												
Credit card business	296,330	80,898	115,560	321,905	318	815,011	23,377	9,044	847,432	6,620	884	839,928
Others	250,773	2,007,931	923,157	222,199	184,417	3,588,477		176,389	3,764,866	118,684	66,586	3,579,596
Loans and Discount	160,621,243	1,286,089,052	591,286,363	142,319,646	118,120,011	2,298,436,315		19,644,790	2,318,081,105	10,493,372	22,548,490	2,285,039,243

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

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

December 31, 2017	Performing loans					
	Very good	Good	Medium	Weak	Non-evaluate	Total
Government agencies	65,402,181	335,655,307	-	-	-	401,057,488
Financial, investment, and insurance	16,300,000	1,336,447	23,044,411	3,397,193	727,554	44,805,605
Corporate and business	77,401,746	117,213,170	477,218,999	113,669,740	18,093,934	803,597,589
Individual	-	814,290,345	7,612,739	-	28,409,712	850,312,796
Other	1,517,316	17,593,783	83,410,214	25,252,713	70,888,811	198,662,837
Total	160,621,243	1,286,089,052	591,286,363	142,319,646	118,120,011	2,298,436,315

December 31, 2016	Performing loans					
	Very good	Good	Medium	Weak	Non-evaluate	Total
Government agencies	70,263,218	289,673,990	-	-	-	359,937,208
Financial, investment, and insurance	16,750,000	9,413,719	31,207,584	3,230,748	746,961	61,349,012
Corporate and business	84,476,184	119,075,878	452,992,586	134,103,274	27,387,743	818,035,665
Individual	-	808,288,362	7,895,469	-	29,093,547	845,277,378
Other	4,313,280	17,131,168	68,160,228	27,643,691	86,419,010	203,667,377
Total	175,802,682	1,243,583,117	560,255,867	164,977,713	143,647,261	2,288,266,640

iii) Credit quality analysis for security investments

December 31, 2017

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

December 31, 2016

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

h) Aging Analysis of Overdue but Not Impaired Financial Assets

Item	December 31, 2017 Overdue less than 1 month	Overdue 1 to 3 months	Total
Accounts Receivable			
—Credit Card Business	$ 4,411	1,980	6,391

Item	December 31, 2016 Overdue less than 1 month	Overdue 1 to 3 months	Total
Accounts Receivable			
—Credit Card Business	$ 3,175	3,305	6,480

i) The analysis of allowance for doubtful accounts of loans and receivable

Loans

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

Receivables (including other financial assets)

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

Loans

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

Receivables (including other financial assets)

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

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

i) Asset Quality of overdue loans and receivables

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

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

Note 1: Nonperforming loans are reported to the authorities and disclosed to the public, as required by the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Non-accrued Loans." Nonperforming credit card receivables are reported to the authorities and disclosed to the public, as required by the Banking Bureau's letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: Ratio of nonperforming loans: Nonperforming loans ÷ Outstanding loan balance. Ratio of nonperforming credit card receivables: Nonperforming credit card receivables ÷ Outstanding credit card receivables balance.

Note 3: Coverage ratio of loans: Allowance for possible losses for loans ÷ Nonperforming loans. Coverage ratio of credit card receivables: Allowance for possible losses for credit card receivables ÷ Nonperforming credit card receivables.

Note 4: The mortgage loan is for house purchase or renovation and is fully secured by housing that is purchased (owned) by the borrower, the spouse or the minor children of the borrowers.

Note 5: Based on the Banking Bureau's letter dated December 19, 2005 (Ref. No. 09440010950), small-scale credit loans are unsecured, involve small amounts, and exclude credit cards and cash cards.

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

Note 7: As required by the Banking Bureau in its letter dated July 19, 2005 (Ref. No. 094000494), factored accounts receivable without recourse are reported as nonperforming receivables within three months after the factors or insurance companies refuse to indemnify banks for any liabilities on these accounts.

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

ii) Non performing Loans and Overdue Receivables Exempted from Reporting

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

iii) Concentration of Credit Risk

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

December 31, 2016			
Rank	Group Name	Credit Extensions Balance	% of Net Asset Value
1	A company－Transport via Railways	63,823	23.26%
2	B group－Air Transport	45,963	16.75%
3	C group－Manufacture of Petroleum and Coal Products	33,065	12.05%
4	D group－Rolling, Extruding and Drawing of Aluminum	22,964	8.37%
5	E group－Real Estate Development Activities	16,417	5.98%
6	F group－Ocean Transportation	15,394	5.61%
7	G group－Manufacture of Made-up Textile Articles	12,943	4.72%
8	H group－Manufacture of Made-up Textile Articles	12,356	4.50%
9	I group－Ocean Transportation	12,298	4.48%
10	J group－Manufacture of Liquid Crystal Panel and Components	12,079	4.40%

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

	December 31, 2017		December 31, 2016	
	Average	Average interest rate (%)	Average	Average interest rate (%)
Interest earnings assets				
Call loans and placement with banks	$ 279,785,036	1.78	354,531,288	1.19
Placement with Central Bank	463,711,187	0.69	487,587,720	0.71
Financial assets	1,192,639,414	0.87	1,117,203,415	0.91
Negotiation, discounts and total loans	2,326,583,609	1.66	2,336,875,064	1.69

	December 31, 2017		December 31, 2016	
	Average	Average interest rate (%)	Average	Average interest rate (%)
Interest bearing liabilities				
Deposit of Central Bank	13,783,569	-	12,978,220	-
Deposits and call loans from banks	212,369,290	1.06	229,170,621	0.71
Demand deposit	395,050,689	0.15	390,112,955	0.12
Demand savings	869,863,600	0.57	872,819,625	0.57
Time savings	1,700,764,507	1.57	1,701,113,006	1.67
Time deposits	636,316,359	1.44	633,072,303	1.24
Government deposits	265,804,022	0.19	249,531,567	0.22
Structured products	1,296,613	1.33	2,045,694	0.76
Financial bonds	25,000,000	1.22	25,000,000	1.29

Note 1: Each average balance is calculated by respectively summing up the daily average balances and then dividing the number of days in the year starting from January to the financial statement date.
Note 2: The balances are derived from the Department of banking, credit cards, trusts and securities.
Note 3: The interest rates used in calculation include preferential interests.
Note 4: Finance bonds excluded financial assets designated at fair value through profit or loss.

4) Liquidity Risk

a) Causes and definition of liquidity risk

The definition for liquidity risk is BOT 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.

b) Management policies of liquidity risk

i) To optimize the structure of assets and liabilities, BOT sets 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, interest rate risk, and to review the structure of deposits and loans and so on.

ii) To enforce the management of liquidity and interest rate risk and maintain suitable liquidity for higher effectiveness of capital and good operations, BOT sets up policies for liquidity and interest rate risk. Assets and Liabilities Management Committee discusses the liquid position and risk management every month and reports to the Board of Directors periodically.

iii) Management of liquidity risk

1. Maintain liquidity reserve ratio: According to "Liquidity Guidelines for Financial Institutions" published by the Center Bank, BOT has to maintain the liquidity reserve ratio of deposit balances greater than 15%.
2. Management of loan and deposit ratio: Set the loan and deposit ratio of NTD between 65% and 87% as a risk indicator.
3. Short term gap analysis: Calculate 1~10 day and 11~30 day gaps which should be greater than zero.
4. 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%.
5. 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 measured for every month and every term under one year between ±50% and ±40%.
6. 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 NTD fund management, the Bank maintains appropriate cash and cashable securities on hand, draw up notice about NTD fund management and request every unit to notify 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.
7. Establish "Bank of Taiwan operational crisis management plan" to prevent and response quickly to the crisis.

c) Maturity date analysis of non derivative financial assets and liabilities

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

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

December 31, 2016	0~30days	31~90 days	91days~1year	Over one year	Total
Cash and cash equivalents	35,130,441	-	-	-	35,130,441
Placement with Central Bank and call loans to banks	58,187,886	248,004,626	197,693,087	270,664,412	774,550,011
Financial assets measured at fair value through profit or loss, net	14,749,440	16,875,512	8,086,642	172,849,404	212,560,998
Available-for-sale financial assets, net	606,533,709	100,914,037	175,258,219	155,135,374	1,037,841,339
Held-to-maturity financial assets, net	834,950	6,512,386	1,254,459	130,210,533	138,812,328
Financial assets carried at cost	-	-	-	8,581,825	8,581,825
Debt investments without quoted price in active markets	-	-	966,600	14,766,065	15,732,665
Investments under equity method, net	-	-	-	35,055,524	35,055,524
Receivables, net	21,476,827	1,178,499	357,692	23,371,800	46,384,818
Loans and discounts, net	194,728,793	238,896,916	408,917,906	1,455,884,484	2,298,428,099
Non-performing loans	-	-	-	4,872,178	4,872,178
Total assets	931,642,046	612,381,976	792,534,605	2,271,391,599	4,607,950,226

December 31, 2016	0~30days	31~90 days	91days~1year	Over one year	Total
Deposits of Central Bank and other banks	101,040,170	34,964,693	31,822,400	59,769,551	227,596,814
Payables	19,036,632	48,202	77,110	22,863,327	42,025,271
Financial liabilities measured at fair value through profit or loss	-	-	-	6,709,063	6,709,063
Bonds and bills sold under repurchase agreements	1,930,925	9,136,811	270,178	-	11,337,914
Other financial liabilities	667,849	25,003	-	56,003	748,855
Deposits and remittances	323,985,682	393,903,349	143,891,262	3,012,202,471	3,873,982,764
Total liabilities	446,661,258	438,078,058	176,060,950	3,101,600,415	4,162,400,681

d) Maturity analysis of derivatives

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

December 31, 2016 Derivative financial instruments	1.Overdue less than 1 month	2.Overdue 1 to 3 months	3.Overdue 3 to 6 months	4.Overdue 6 months to 1 year	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	16,007,441	15,653,076	2,552,111	728,858	427,462	-	35,368,948
Foreign exchange inflow	16,010,653	15,653,072	2,552,111	728,858	427,462	-	35,372,156
Financial assets and liabilities measured at fair value through profit or loss, Derivative instruments (Interest)							
Interest outflow	460,540,392	381,910,368	155,898,243	28,889,785	5,643,435	-	1,032,882,223
Interest inflow	483,933,106	398,811,140	168,304,044	39,902,553	5,575,269	-	1,096,526,112
Financial assets and liabilities measured at fair value through profit or loss, Derivative instruments (Option)							
Netting	-	1,089	-	-	-	-	1,089
Hedging derivative financial instruments (Interest)							
Interest outflow	18,717	93,199	53,302	-	-	-	165,218
Interest inflow	12,401	61,719	34,615	-	-	-	108,735

e) Maturity analysis of off balance sheet items

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

December 31, 2017	0-30 days	31-90 days	91-180days	181 days-1 year	Over 1 year	Total
Irrevocable loan commitment	-	-	1,171,662	239,283,744	190,662,883	431,118,289
Irrevocable credit card commitment	-	-	-	-	270,542	270,542
Letter of credit receivables	5,475,797	3,050,021	3,790,534	11,362,227	1,740,268	25,418,847
Guarantee receivables	58,542,125	3,058,657	4,792,337	9,826,968	8,818,651	85,038,738
Total	64,017,922	6,108,678	9,754,533	260,472,939	201,492,344	541,846,416

December 31, 2016	0-30 days	31-90 days	91-180days	181 days-1 year	Over 1 year	Total
Irrevocable loan commitment	-	171,086,300	91,170	168,964,907	4,311,062	344,453,439
Irrevocable credit card commitment	-	-	-	-	145,626	145,626
Letter of credit receivables	6,359,406	1,708,362	4,523,176	13,396,273	2,942,243	28,929,460
Guarantee receivables	53,633,221	3,422,482	5,149,124	5,598,768	7,878,560	75,682,155
Total	59,992,627	176,217,144	9,763,470	187,959,948	15,277,491	449,210,680

f) Maturity analysis of lease agreements and capital expenditures

The lease agreements of BOT refer to operational lease.

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

December 31, 2017	Less than 1 year	1-5 year	Over 5 year	Total
Lease commitments				
Operating lease payments (Lessee)	(336,672)	(514,828)	(370)	(851,870)
Operating lease income(Lessor)	137,854	180,893	-	318,747
Total	(198,818)	(333,935)	(370)	(533,123)

December 31, 2016	Less than 1 year	1-5 year	Over 5 year	Total
Lease commitments				
Operating lease payments (Lessee)	(353,773)	(731,209)	-	(1,084,982)
Operating lease income(Lessor)	152,489	109,502	-	261,991
Total	(201,284)	(621,707)	-	(822,991)

g) Disclosures requested by the "Regulations Governing the Preparation of Financial Reports by Publicly Banks"

i) Maturity analysis of assets and liabilities (New Taiwan Dollars)

December 31, 2017

	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	$4,561,860,640	549,076,875	528,588,086	582,754,999	454,366,366	527,523,965	1,919,550,349
Major matured capital outflow	4,561,860,640	172,919,251	284,413,940	639,285,610	543,710,647	941,070,529	1,980,460,663
Capital gap	-	376,157,624	244,174,146	(56,530,611)	(89,344,281)	(413,546,564)	(60,910,314)

December 31, 2016

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

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

December 31, 2017

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	$ 51,904,325	9,480,751	11,092,430	5,574,245	2,871,724	22,885,175
Major matured capital outflow	51,904,325	11,034,343	8,087,184	4,763,223	4,422,098	23,597,477
Capital gap	-	(1,553,592)	3,005,246	811,022	(1,550,374)	(712,302)

December 31, 2016

Unit: In Thousand of USD

	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	$ 41,235,359	13,366,111	10,309,276	5,360,255	2,941,194	9,258,523
Major matured capital outflow	41,235,359	16,271,096	11,089,307	4,442,059	3,338,991	6,093,906
Capital gap	-	(2,904,985)	(780,031)	918,196	(397,797)	3,164,617

5) Market risk

a) Causes and definition of market risk

Market risk means that changes in market price 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, BOT's net operating income and the value of investment portfolio will have volatility risk.

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

b) Management policies of market risk

BOT sets up market risk management regulations and policies according to the risk management strategies approved by the board of directors, the Basel Accord and government regulations. In order to identify, assess, measure and monitor various risks of investments, they also decide the quota of investments and stop-loss point for financial instruments by types and characteristics in accordance with whole management target and offer reports to the board of directors, risk management committee and high-level managers.

c) Procedure of market risk management

i) Identification

The identification procedures are as follows. First, use the business analysis or

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

ii) Measurement

BOT's market risk exposure can be classified into trading book and banking book. The financial instruments classified in trading book are measured at daily market value (please refer to 6 "Other risks - Interest rate risk management for banking book" on risk management policy and process of banking book.); those classified in banking book are measured at market value at least once a month. Following IFRS 13, BOT ensures that Level 1 inputs (i.e. quoted prices in an active market, such as OTC or Bloomberg) and Level 2 inputs (those which can be directly or indirectly observed in the market) are available. When the aforementioned inputs are not available, the related instruments shall be classified to Level 3. The sources from which BOT obtains inputs largely remain the same as prior periods and BOT will check if a financial instrument can be reasonably measured before entering into a transaction.

iii) Monitor and Report

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

d) 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 belong to trading book are regarded as banking book.

i) Policy and Procedure

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

ii) Valuation Policy

BOT's market risk exposure can be classified into trading book and banking book. Following IFRS 13, BOT ensures that Level 1 inputs (i.e. quoted prices in an active market, such as OTC or Bloomberg) and Level 2 inputs (which can be directly or indirectly observed in the market) are available. When the aforementioned inputs are

not available, the related instruments shall be classified to Level 3. The sources from which the BOT obtains inputs largely remain the same as prior periods and the BOT will check if a financial instrument can be reasonably measured before entering into a transaction.

iii) Measurement Method

1. Monitoring the trading book of risk exposure including stocks, funds, bonds, spot exchanges, forward exchanges, rate swap, option, etc. Checking the ratio of risk exposure with total investment everyday and reporting monthly.
2. BOT conduct stress test every quarter under unfavorable economic scenarios which are set up risk factors: equity securities, interest rate, foreign exchange and commodities, setting the scene to calculate possible impacts by inputting different on profit or loss of each risk factor.
3. Check the market price every month.
4. Prepare the risk monitor report to chief director and put it on BOT's website as reference.

e) Exchange rate risk management

i) Definition of exchange rate risk

The exchange rate risk refers to the profit or loss resulted from two different currencies transferred at different times. BOT exchange rate risk is derived from exchange, forward exchange, FX swaps, cross currency swaps, and foreign exchange options. Because BOT squares customer's position every day, the exchange rate does not have any significant risk.

ii) Management procedures and measurement method of exchange rate risk

To control the exchange rate risk, BOT 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.

BOT conducts stress testing. The simulated situations are ±3% changes of exchange rate for every currency. The relevant statements are disclosed at sensitivity analysis.

f) Equity security risk management

i) 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 resulted from the whole market price changes.

ii) 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.

iii) Procedure of equity security price risk management

BOT sets different investment quotas by industries, enterprises and groups. They use the β value to measure the influence of systematic risk monthly and monitor the risk value of equity securities and unrealized profit/loss ratio every day. The stop-loss point mechanism is approved by the security investment committee and executed by the risk management department.

iv) Measurement method

The control of the equity security price risk is based on the unrealized gain (loss) ratio, β value and the aforementioned investment limitations.

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

g) Market risk valuation technique

i) Interest Rate Risk Sensitivity

BOT assumes that other factors are unchanged and the yield curve of the whole world moves upward by 100 bps at December 31, 2017 and 2016. Under this assumption, the income after tax will decrease $4,743 million and $5,265 million, respectively and the other comprehensive income will decrease $6,169 million and $5,665 million, respectively. If the yield curve moves downward by 100 bps, the income after tax will increase $5,362 million and $5,935 million, respectively and the other comprehensive income will increase $6,440 million and $5,966 million, respectively.

ii) Exchange Rate Risk Sensitivity

BOT assumes that other factors are unchanged and the foreign currency to New Taiwan Dollars exchange rate appreciates by 3% at December 31, 2017 and 2016. Under this assumption, the income after tax will increase $1,795 million and $2,624 million, respectively and the other comprehensive income will increase $2,285 million and $2,440 million, respectively.

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

iii) Equity Security Price Risk Sensitivity

BOT assumes that other factors are unchanged and the market prices of the equity securities increase by 15% at December 31, 2017 and 2016. Under this assumption, the income after tax will increase $8,177 million and $7,648 million, respectively and the other comprehensive income will increase $8,860 million and $7,779 million, respectively.

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

iv) Sensitivity analysis is as follows:

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

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

h) Information of currency risk concentrate

Units: In Thousands of stated currencies

December 31, 2017		
Amount in original currency		Amount in New Taiwan Dollars
USD	962,416	28,564,507
CNY	1,271,223	5,782,793
JPY	2,966,635	781,115
GBP	18,387	734,193
KRW	16,555,529	460,244

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

Note 1:The major foreign currencies were the top 5 currencies by position expressed in New Taiwan Dollars after exchange rate conversion.

Note 2:The net position represented the absolute value of each currency.

All held foreign financial assets and liabilities are classified by currencies and represented using the carrying amounts. The following tables are the information at December 31, 2017 and 2016, respectively.

	December 31, 2017		
Assets	USD to NTD	Other currency to NTD	Total NTD
Cash and cash equivalents	$ 37,363,032	64,466,405	101,829,437
Placement with Central Bank and call loans to banks	85,638,257	72,348,322	157,986,579
Financial assets measured at fair value through profit or loss, net	69,756,516	19,029,826	88,786,342
Available-for-sale financial assets	11,107,435	60,532,829	71,640,264
Hedging derivative financial assets	-	22,759	22,759
Receivables, net	7,213,203	3,912,394	11,125,597
Current income tax assets	131,895	267,825	399,720
Loans and Discounts, net	136,368,376	86,447,448	222,815,824
Held-to-maturity financial assets, net	10,601,839	21,832,468	32,434,307
Other financial assets, net	1,200,256	13,558,975	14,759,231
Property and equipment, net	53,789	19,396	73,185
Intangible assets	6,030	4,095	10,125
Deferred income tax assets, net	212,323	39,876	252,199
Other assets, net	537,939	628,723	1,166,662
Total assets	$ 360,190,890	343,111,341	703,302,231

	December 31, 2017		
Liabilities	USD to NTD	Other currency to NTD	Total NTD
Deposits of Central Bank and other banks	$ 64,847,252	58,792,937	123,640,189
Financial liabilities measured at fair value through profit or loss	270,822	26,196,172	26,466,994
Hedging derivative financial liabilities	-	60,480	60,480
Bills and Bonds Sold under Repurchase Agreements	16,725,699	-	16,725,699
Payables	5,857,607	663,414	6,521,021
Current income tax liabilities	75,125	52,691	127,816
Deposits and remittances	436,646,132	238,849,658	675,495,790
Other financial liabilities	136,760	664,632	801,392
Provisions	5,862	2,486	8,348
Deferred income tax liabilities	-	49,172	49,172
Other liabilities	109,269,941	41,007,308	150,277,249
Total liabilities	$ 633,835,200	366,338,950	1,000,174,150

December 31, 2016			
Assets	USD to NTD	Other currency to NTD	Total NTD
Cash and cash equivalents	$ 21,116,033	44,451,890	65,567,923
Placement with Central Bank and call loans to banks	58,864,822	89,908,956	148,773,778
Financial assets measured at fair value through profit or loss, net	68,742,875	16,079,536	84,822,411
Available-for-sale financial assets	16,952,654	61,064,521	78,017,175
Hedging derivative financial assets	-	21,221	21,221
Receivables, net	6,296,325	3,991,314	10,287,639
Current income tax assets	204,732	213,909	418,641
Loans and Discounts, net	141,656,340	88,781,135	230,437,475
Held-to-maturity financial assets, net	10,080,990	25,545,850	35,626,840
Other financial assets, net	2,104,042	13,653,881	15,757,923
Property and equipment, net	78,966	21,806	100,772
Intangible assets	8,442	3,082	11,524
Deferred income tax assets, net	222,514	65,465	287,979
Other assets, net	153,833	95,665	249,498
Total assets	$ 326,482,568	343,898,231	670,380,799

December 31, 2016			
Liabilities	USD to NTD	Other currency to NTD	Total NTD
Deposits of Central Bank and other banks	$ 64,963,069	67,860,227	132,823,296
Financial liabilities measured at fair value through profit or loss	499,977	22,349	522,326
Hedging derivative financial liabilities	-	144,195	144,195
Payables	5,012,940	(232,736)	4,780,204
Current income tax liabilities	17,314	88,255	105,569
Deposits and remittances	355,495,039	237,940,297	593,435,336
Other financial liabilities	212,972	483,257	696,229
Provisions	12,124	1,039	13,163
Deferred income tax liabilities	-	66,197	66,197
Other liabilities	98,700,099	35,696,048	134,396,147
Total liabilities	$ 524,913,534	342,069,128	866,982,662

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

i) Interest rate sensitivity assets and liabilities analysis (New Taiwan Dollars)

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

December 31, 2016					
Item	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest rate sensitive assets	$1,778,022,449	1,290,382,982	217,875,054	354,541,173	3,640,821,658
Interest rate sensitive liabilities	365,304,321	2,745,230,523	333,722,350	133,837,865	3,578,095,059
Interest rate sensitive gap	1,412,718,128	(1,454,847,541)	(115,847,296)	220,703,308	62,726,599
Net worth					273,114,708
Ratio of interest rate sensitive assets to liabilities (%)					101.75
Ratio of interest rate sensitive gap to net worth (%)					22.97

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

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

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

Note 4: Ratio of interest-rate-sensitivity assets to liabilities = Interest-rate-sensitivity assets Interest–rate-sensitivity liabilities (in New Taiwan Dollars).

ii) Assets and liabilities interest rate sensitivity analysis (United Stated Dollars)

Unit: In Thousand of USD

December 31, 2017					
Item	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest rate sensitive assets	$28,823,293	5,395,605	3,420,487	787,330	38,426,715
Interest rate sensitive liabilities	20,704,148	9,049,931	3,406,640	1,112,683	34,273,402
Interest rate sensitive gap	8,119,145	(3,654,326)	13,847	(325,353)	4,153,313
Net worth					(11,308)
Ratio of interest rate sensitive assets to liabilities (%)					112.12
Ratio of interest rate sensitive gap to net worth (%)					(36,728.98)

Unit: In Thousand of USD

December 31, 2016					
Item	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest rate sensitive assets	$ 27,014,893	4,917,394	3,143,912	1,213,969	36,290,168
Interest rate sensitive liabilities	22,373,842	6,573,443	2,547,247	511,782	32,006,314
Interest rate sensitive gap	4,641,051	(1,656,049)	596,665	702,187	4,283,854
Net worth					(42,746)
Ratio of interest rate sensitive assets to liabilities (%)					113.38
Ratio of interest rate sensitive gap to net worth (%)					(10,021.65)

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

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

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

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

6) Interest rate risk management for trading book

a) Definition of interest rate risk

The interest rate risk means that the changes of interest rate lead to the fair value changes or loss. The main products include securities related to interest rate and derivatives.

b) Procedures of interest rate risk management

BOT 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.

c) Measurement method

BOT also uses the PV01 and Duration to monitor the influence of interest risk.

7) Other risks

a) Operational risk and legal risk

The Bank and its subsidiary have identified, measured and monitored operational risk and legal risk and also disclosed qualitative and quantitative information in accordance with the “Information of the Capital Adequacy and the Risk Managements” and the FSC’s requirements.

According the “The Explanations and Formats of Calculation of Bank’s Self-Owned Capital and Risk-Weighted Assets,” operation risks is the risk of a change in value caused by the fact that actual losses, incurred for inadequate or failed internal processes, people and systems, or from external events (including legal risk), differ from the expected losses. As

legal risk is part of the operational risk, where it involves legal risk to be reported together with the operation risk to the appropriate management level.

b) Compliance risks and reputation risks

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 units (each unit of the head office, Secretary Department of the Board of directors, Department of Internal Auditing of the Board of Directors), training unit (Department of Human Resources), 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 unit 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 prepares the “ Legislation and Amendment of External Financial Regulations Checklist” to let each operation unit recheck their internal guidelines and make necessary adjustments in time. The Department of Compliance passes the information to colleagues about changes in financial regulations related to the Bank’s operations to lower the risk of legal compliance. If any operational loss events involving legal compliance occur and cause loss, they will be reported as part of operation risk to the appropriate management level.

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

In the future, the Bank shall meet the requirements proposed by the authorities. Moreover, the Bank will keep collecting domestic and international information and refer them to other banks’ practical operations to enhance the quantitative measurement and qualitative management on operation risk, legal risk, compliance risk and reputation risk.

c) 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):

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

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

ii) Setting up AML/CFT Committee

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

iii) Optimizing AML/CFT managerial mechanisms

1. In order to strengthen the Bank's AML/CFT managerial mechanisms, the Bank has already hired independent third parties to audit the effectiveness of the AML/CFT managerial mechanisms in 2016 and 2017. Against the findings of the audit, the Bank then hired external consultants to assist the Bank for improvement. The external consultants also participated and provided suggestions in the establishment of the Bank's AML/CFT information systems.
2. 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.

iv) Setting up and optimizing AML/CFT information systems

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

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

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

vi) Training responsible officers and supervisors

1. In order to respond to the announcement of the amendments to AML/CFT related regulations and to enhance the employees' understanding of related regulations, the Bank hired external expert to hold orientation training for the Bank's responsible officers and supervisors. The Bank also held seminars and invited professional lecturer to discuss the amendments to AML/CFT related regulations and patterns for the Board of Directors, General President, and responsible officers or supervisors.
2. To propagate "Money Laundering Control Act" and related regulations, the Bank recorded AML/CFT online courses, and requires all employees to finish the online courses. The Bank also drew up "Understanding AML Q&A", and held online exam about the Q&A. The Bank requires all its employees to read the Q&A thoroughly and finish the online exam so as to improve their knowledge on AML related regulations.

8) Transfer of financial assets - transferred financial assets without overall derecognition

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

	December 31, 2017				
Financial assets type	Transferred financial assets book value	Financial liability book value	Transferred financial assets fair value	Financial liability fair value	Net fair
Financial asset at fair value through profit or loss					
Issued under repurchase agreement	$ 4,351,953	4,154,202	4,351,954	4,154,202	197,752
Available-for-sale financial assets					
Issued under repurchase agreement	30,614,896	29,751,918	30,614,896	29,751,918	862,978

Financial assets type	December 31, 2016 Transferred financial assets book value	Financial liability book value	Transferred financial assets fair value	Financial liability fair value	Net fair
Financial asset at fair value through profit or loss					
Issued under repurchase agreement	$ 1,072,336	1,071,878	1,072,336	1,071,878	458
Available-for-sale financial assets					
Issued under repurchase agreement	9,315,866	10,265,271	9,315,866	10,265,271	(949,405)

9) Offsetting of financial assets and financial liabilities

BOT 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 BOT do not engage in transactions that meet the offsetting condition in IFRSs, they have signed the net settlement contracts of similar agreements with counterparties, such as global master repurchase agreement, global securities lending agreement and similar repurchase agreement or reverse repurchase agreement. If both parties choose to net settle, the abovementioned executable net settlement contracts or similar agreements will be allowed to be settled in net amount after offsetting the financial assets and financial liabilities. Otherwise, the transaction will be settled in gross amount. However, if one party defaults, the other party could opt for net settling.

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

December 31, 2017						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
				Relevant amount not offset on the balance sheet (d)		
Financial assets	Total recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Financial instrument (note)	Cash received as collaterals	Net amount (e)=(c)-(d)
Derivative financial assets	$ 7,071,851	-	7,071,851	529,545	1,461,975	5,080,331

Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
				Relevant amount not offset on the balance sheet (d)		
Financial liabilities	Total recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheets (b)	Net amount of financial liabilitieson the balance sheets (c)=(a)-(b)	Financial instrument (note)	Pledged cash Collaterals	Net amount (e)=(c)-(d)
Derivative financial liabilities	$ 8,722,072	-	8,722,072	529,545	200,773	7,991,754

Note: Netting settlement agreement and non-cash financial collaterals are included.

December 31, 2016						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
				Relevant amount not offset on the balance sheet (d)		
Financial assets	**Total recognized financial assets (a)**	**Total recognized financial liabilities offsetting on the balance sheets (b)**	**Net amount of financial assets on the balance sheets (c)=(a)-(b)**	**Financial instrument (note)**	**Cash received as collaterals**	**Net amount (e)=(c)-(d)**
Derivative financial assets	$ 10,320,504	-	10,320,504	1,199,479	3,441	9,117,584

Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
				Relevant amount not offset on the balance sheet (d)		
Financial liabilities	**Total recognized financial liabilities (a)**	**Total recognized financial assets offsetting on the balance sheets (b)**	**Net amount of financial liabilitieson the balance sheets (c)=(a)-(b)**	**Financial instrument (note)**	**Pledged cash Collaterals**	**Net amount (e)=(c)-(d)**
Derivative financial liabilities	$ 6,667,566	-	6,667,566	1,199,479	50,263	5,417,824

Note: Netting settlement agreement and non-cash financial collaterals are included.

(ii) The subsidiary, BTLI

1) Risk management system

a) The structure, organization and the responsibility of the risk management

The risk management structure of BTLI is composed of the Board of Directors, the risk management committee, the director of the heads of risk management, the internal audit department, the risk management department and all the operational units. Their responsibilities are described as follows:

i) Board of Directors

The Board of Directors is responsible for the oversight of the Company's risks. They should identify risks in business operations and ensure the effectiveness of risk management.

ii) Risk management committee

The Risk Management Committee is responsible for formulating risk the management policies and organization functions: (i) establish qualified and quantified management standards, structure; (ii) regularly report the performance and provide advice to the Board of Directors.

iii) The Chief Risk Officer is responsible for overseeing the overall risk management.

iv) Risk management department

The Risk Management Department is responsible for monitoring, measuring and evaluating the implementation of the risk management on a daily basis. The Risk Management Department shall remain independent of other operational units.

v) All the operational units

Each department shall identify, measure, response and monitor the risk of implementation.

vi) The internal audit department

The internal audit department shall audit the risk management performance of each department in accordance with the applicable regulations and legislations.

b) Risk management procedures and protocols

i) Risk management procedures include risk identification, risk measurement, risk response, risk monitoring, data communication and documentation. Moreover, integrating risk management procedures to an operational level is helpful to reflect the impact on risk arising from changing in business environment.

ii) BTLI establishes the relevant risk indicators for the risks in business operations concerning the procedures, period and frequency of identification, measurement and evaluation of risk as means of decision making. It also includes performance evaluation and resource allocation.

iii) After the evaluation and compilation of risks, the appropriate responding procedure from the Company shall include the followings:

1. Risk averse: to exclude any participation or terminate the operations and activities.
2. Risk transfer: to reinsure or transfer all or partial risks to a third party.
3. Risk control: to adopt risk controlling procedures in order to minimize any impact.
4. Risk tolerance: to tolerate any possible impact of risk by not initiating procedures as means of changing the probabilities of outcome.

iv) BTLI establishes a risk monitoring system, timely scrutinize and monitor all the risks. If a risk is higher than expected or the tolerant limit, the Company should report and respond accordingly.

v) The aforementioned risk monitoring and reporting system shall change along with the adjustment of operating objectives, risk exposure and external conditions of BTLI, including the effectiveness of the risk management system and the appropriateness of risk elements.

vi) The structure, organization and the responsibility of the risk management

The risk management structure of BTLI is composed of the Board of Directors, the risk management committee, the director of the heads of risk management, the internal audit department, the risk management department and all the operational units. Their responsibilities are described as follows:

1. Board of Directors

a. Is the highest level of risk management decision making unit and is responsible for the oversight of the Company's risks.

b. The Board of Directors shall approve the Company's risk management policies, keep monitoring the effectiveness of risk management mechanism, control the Company's risk situation thoroughly, and ensure the Company's possession of sufficient capital to react all risks, in accordance with overall operations strategy and operation circumstances.

2. Risk management committee

a. Implements risk management policies approved by the Board of Directors, and coordinates cross-departmental risk management related affairs.

b. Formulates risk management policies, structure, organizational function, and establishes qualified and quantified management standards. Regularly reports and timely reflects the implementation of the risk management framework, as well as provides necessary advice to the Board of Directors.

3. The Chief Risk Officer is responsible for overseeing the overall risk management.

4. The internal audit department

The internal audit department shall audit the risk management performance of each department in accordance with the applicable regulations and legislations.

5. Risk management department

a. Is responsible for overall BTLI risk management.

b. Monitors and tracks follow-up matters assigned by the Board of Directors or the risk management committee, then propose risk management report to them. If the risk management department finds any significant exposure, which may endanger financial position, business operations, or legal compliance, the risk management department shall take action immediately and report to the Board of Directors.

c. Assists in formulating and implementing the risk management policies approved by the Board of Directors.

d. Sets up management guidance and procedures toward BTLI significant risk, as the basis for all the operational units setting up related risk control guidelines. The guidance and procedures shall be delivered to the Company for future reference.

e. Regularly reports all risk control situations to the Board of Directors and the risk management committee, to help them understand and control whether the risks BTLI taken are within appropriate range, as well as being the reference of making operation and management decisions. The risk monitoring report shall be delivered to the Company's risk management department monthly.

6. All the operational units

In connection with management businesses and related new kind of businesses or products, all the operational units shall identify, measure, response and monitor its

risk. All the operational units shall set related risk control guidelines, and manage risk in accordance with the guidelines.

vii) Risk management procedures and protocols

1. Risk management procedures include risk identification, risk measurement, risk response, risk monitoring, data communication and documentation. Moreover, integrating risk management procedures to an operational level is helpful to reflect the impact on risk arising from changing in business environment.
2. BTLI establishes the relevant risk indicators for the risks in business operations concerning the procedures, period and frequency of identification, measurement and evaluation of risk as means of decision making. It also includes performance evaluation and resource allocation.
3. After the evaluation and compilation of risks, the appropriate responding procedure from BTLI shall include the followings:
   a. Risk averse: to exclude any participation or terminate the operations and activities.
   b. Risk transfer: to reinsure or transfer all or partial risks to a third party.
   c. Risk control: to adopt risk controlling procedures in order to minimize any impact.
   d. Risk tolerance: to tolerate any possible impact of risk by not initiating procedures as means of changing the probabilities of outcome.
4. BTLI establishes a risk monitoring system, timely scrutinize and monitor all the risks. If a risk is higher than expected or the tolerant limit, the Company should report and respond accordingly.
5. The aforementioned risk monitoring and reporting system shall change along with the adjustment of operating objectives, risk exposure and external conditions of BTLI, including the effectiveness of the risk management system and the appropriateness of risk elements.

c) Credit risk management

BTLI sets credit limits for each rating and continuous credit risk mechanism for the credit risk management of securities investment. Performs strict credit analysis based on the different characteristics of financial instruments in order to control the credit risk exposure by investment instrument, issuer, counterparty, nation and industry, and to set the credit limits for each rating. Also prepares its related reports periodically to ensure it abides by the law.

BTLI performs strict credit analysis before undertaking mortgage loans and insurance loans. The mortgage loan policy not only limits the Loan to Value but also requests the evaluation of personal financial ranking to decide whether or not to undertake the loan. For the insurance loans, the loan amount shall be under the policy value reserves of the insurance product.

BTLI uses the Probability of Default (PD) and Loss Given Default (LGD) to measure the credit risk of risk related instruments, including the investments without quoted price in active market and the held to maturity investments. Also performs pressure tests to evaluate the effect of abnormal credit changes on investment portfolio as a reference for making corresponding countermeasures.

d) Liquidity risk management

BTLI manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows.

e) Market risk management

BTLI performs evaluations before any financial instruments investment. Furthermore, the Company uses VaR model, scenario analysis, stress test, back test, position limit, risk limit, and stop loss system to manage market risk derived from financial investments.

f) Operational risk

Operational risk is the risk of loss arising from fraud, unauthorized authorities, error, omission, inefficiency system failure or external events. BTLI manages the risk through a control-based environment in which processes are documented, authorization is independent and transactions are reviewed and monitored.

BTLI sets up operation regulations and internal control system for each product and operating activity. BTLI also sets emergency management and recovery plan (Business Continuity Plan) with respect to some events caused by nature or human, such as the regional disasters, significant infectious diseases, employee's strikes, system interruptions and so on. In doing so, BTLI can ensure operations can continue even if a material incident occurs.

The risk management department monitors the operation risk exposure periodically and offers suggestions on topics regarding operational risk management. If a significant operation risk event happens, the risk management department should immediately prepare a risk management report.

g) The insurance risk management

Insurance risk refers to the risk resulting from the assumption of risks transferred from policy holders and unexpected changes in benefit claims, including product design and pricing risk, underwriting risk, reinsurance risk, catastrophe risk, claim risk, provision risk, etc. By implementing appropriate risk management procedures, such as risk identification and measurement in advance, risk responding and risk monitoring during the business process, and risk reporting thereafter, the Company and its subsidiaries can limit their potential damage to a reasonable and acceptable level.

2) Credit risk

a) The Credit Risk Exposure

After deducting the government bonds and treasury bills, the maximum exposure of the credit risk were as follows:

Item	December 31, 2017 Carrying amount	Maximum credit exposure
Financial assets		
Cash and cash equivalents	$ 41,926,709	41,926,709
Receivables	1,976,016	1,976,016
Financial assets measured at fair value through profit or loss	1,412,330	1,412,330
Available-for-sale financial assets	29,519,837	2,581,959
Debt investments without quoted price in active market	25,341,974	25,341,974
Held-to-maturity financial assets	225,104,333	201,020,123
Other financial assets	1,890,400	1,890,400
Loans	9,628,764	9,628,764
Refundable deposits	3,484,697	41,101
Total	$ 340,285,060	285,819,376

Item	December 31, 2016 Carrying amount	Maximum credit exposure
Financial assets		
Cash and cash equivalents	$ 24,752,046	24,752,046
Receivables	2,152,607	2,152,607
Financial assets measured at fair value through profit or loss	503,092	188,949
Available-for-sale financial assets	33,494,243	4,655,630
Debt investments without quoted price in active market	27,223,295	27,223,295
Held-to-maturity financial assets	217,504,215	182,287,788
Other financial assets	14,550,000	14,550,000
Loans	10,368,155	10,368,155
Refundable deposits	3,535,675	40,610
Total	$ 334,083,328	266,219,080

b) 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.

BTLI maintains a diversified portfolio, limits its exposure to any one geographic region, country or individual creditor and monitors the exposure continuously. BTLI's most significant concentrations of credit risk are summarized as follows:

i) Industry

Item	Finance	Government	Petrochemical Industry	Manufacturing	Electricity	Other
December 31, 2017						
Financial assets						
Cash and cash equivalents	$ 41,926,709	-	-	-	-	-
Receivables	913,761	380,393	-	16,593	13,489	651,780
Financial assets measured at fair value through profit or loss	1,412,330	-	-	-	-	-
Available-for-sale financial assets-debt instruments	2,379,172	-	-	-	-	202,787
Debt investments without quoted price in active market-debt instruments	14,090,425	10,614,689	-	-	-	636,860
Held-to-maturity financial assets-debt instruments	171,479,316	32,293,925	-	2,846,853	1,698,145	16,786,094
Other financial assets-net	1,890,400	-	-	-	-	-
Loans	-	-	1,292,813	-	20,692	8,315,260
Refundable deposits	38,666	3,443,596	-	-	-	2,435

Item	Finance	Government	Petrochemical Industry	Manufacturing	Electricity	Other
December 31, 2016						
Financial assets						
Cash and cash equivalents	$ 24,752,046	-	-	-	-	-
Receivables	907,198	568,136	-	19,977	13,489	643,807
Financial assets measured at fair value through profit or loss	188,949	-	-	-	-	-
Available-for-sale financial assets-debt instruments	4,105,712	-	-	-	-	549,918
Debt investments without quoted price in active market-debt instruments	10,600,725	13,781,610	-	-	-	2,840,960
Held-to-maturity financial assets-debt instruments	155,584,974	43,293,172	-	3,495,679	1,696,988	13,433,402
Other financial assets-net	14,550,000	-	-	-	-	-
Loans	-	-	1,366,688	-	280,732	8,720,735
Refundable deposits	38,647	3,495,065	-	-	-	1,963

ii) Region

Item	Taiwan	America	Europe	Asia	Oceania	Other
December 31, 2017						
Financial assets						
Cash and cash equivalents	$ 41,926,709	-	-	-	-	-
Receivables	1,326,224	277,592	118,432	168,661	85,107	-
Financial assets measured at fair value through profit or loss	1,179,959	-	-	232,372	-	-
Available-for-sale financial assets-debt instruments	2,581,959	-	-	-	-	-
Debt investments without quoted price in active market-debt instruments	8,400,000	11,323,589	2,986,387	2,052,812	579,186	-
Held-to-maturity financial assets-debt instruments	57,233,478	78,737,587	54,367,241	18,369,622	16,396,405	-
Other financial assets-net	1,890,400	-	-	-	-	-
Loans	9,628,764	-	-	-	-	-
Refundable deposits	3,484,697	-	-	-	-	-

Item	Taiwan	America	Europe	Asia	Oceania	Other
December 31, 2016						
Financial assets						
Cash and cash equivalents	$ 24,752,046	-	-	-	-	-
Receivables	1,358,163	279,502	125,320	243,154	122,853	23,614
Financial assets measured at fair value through profit or loss	186,402	-	-	2,547	-	-
Available-for-sale financial assets-debt instruments	3,501,166	643,614	-	510,850	-	-
Debt investments without quoted price in active market-debt instruments	200,000	14,829,349	6,531,751	2,549,251	1,112,944	-
Held-to-maturity financial assets-debt instruments	76,919,423	60,634,443	44,254,871	21,172,436	14,198,585	324,457
Other financial assets-net	14,550,000	-	-	-	-	-
Loans	10,368,155	-	-	-	-	-
Refundable deposits	3,535,675	-	-	-	-	-

c) Credit Quality Analysis of the subsidiary, BTLI:

i) Credit Quality Analysis for Securities Investment

December 31, 2017	Non-overdue nor non-impaired amount						NPL but not impair amount (B)	Impairment Amount (C)	Total (A)+(B)+(C)	Recognized Impairment Amount (D)	Net (A)+(B)+(C)-(D)
	Very Good	Good	Medium	Weak	Non-evaluate	Subtotal (A)					
Available-for-sale financial assets											
Debt investments	202,787	2,379,172	-	-	-	2,581,959	-	-	2,581,959	-	2,581,959
Held-to-maturity financial assets											
Debt investments	43,503,405	119,934,452	61,666,476	-	-	225,104,333	-	-	225,104,333	-	225,104,333
Debt investments without a quoted price in active market											
Debt investments	10,705,934	13,581,140	1,054,900	-	-	25,341,974	-	-	25,341,974	-	25,341,974
Refundable deposits	3,443,596	-	-	-	-	3,443,596	-	-	3,443,596	-	3,443,596

December 31, 2016	Non-overdue nor non-impaired amount						NPL but not impair amount (B)	Impairment Amount (C)	Total (A)+(B)+(C)	Recognized Impairment Amount (D)	Net (A)+(B)+(C)-(D)
	Very Good	Good	Medium	Weak	Non-evaluate	Subtotal (A)					
Available-for-sale financial assets											
Debt investments	205,960	3,633,771	815,899	-	-	4,655,630	-	-	4,655,630	-	4,655,630
Held-to-maturity financial assets											
Debt investments	56,971,258	112,498,041	48,034,916	-	-	217,504,215	-	-	217,504,215	-	217,504,215
Debt investments without a quoted price in active market											
Debt investments	16,083,228	10,277,667	862,400	-	-	27,223,295	-	-	27,223,295	-	27,223,295
Refundable deposits	3,495,065	-	-	-	-	3,495,065	-	-	3,495,065	-	3,495,065

Internal Credit Risk Grades of The Subsidiary, BTLI	Credit Rating of Taiwan Ratings
Very Good	twAAA~twAA+
Good	twAA~twA+
Medium	twA~BBB+
Weak	twBBB
Non-evaluate	

ii) Credit Quality Analysis for Discounts and Loans (other than insurance loans and premium loans) and Receivables

	Non-overdue nor non-impaired amount									Recognized Impairment Amount		
December 31, 2017	Very Good	Good	Medium	Weak	Non-evaluate	Subtotal (A)	NPL but not impair amount (B)	Impairment Amount (C)	Total (A)+(B)+(C)	With objective	No objective	Net (A)+(B)+(C)-(D)
Receivables	$				1,976,044	1,976,044	12	18,197	1,994,253	18,197	41	1,976,015
Loans	$				3,938,651	3,938,651	3,458	24,648	3,966,757	334	60,725	3,905,698

	Non-overdue nor non-impaired amount									Recognized Impairment Amount		
December 31, 2016	Very Good	Good	Medium	Weak	Non-evaluate	Subtotal (A)	NPL but not impair amount (B)	Impairment Amount (C)	Total (A)+(B)+(C)	With objective	No objective	Net (A)+(B)+(C)-(D)
Receivables	$				2,152,646	2,152,646	9	9,048	2,161,703	9,048	48	2,152,607
Loans	$				4,738,681	4,738,681	2,606	23,429	4,764,716	104	72,702	4,691,910

iii) Aging Analysis of discounts and loans (Other than insurance loans and premium loans) and receivables which overdue but not impaired

	December 31, 2017	December 31, 2016
Overdue 1 to 3 months	$ 3,470	2,615

3) Liquidity Risk

The followings are the contractual maturities of financial liabilities, including estimated interest payments but excluding the impact of netting agreements.

Derivatives settled in net

	December 31, 2017							
	0~30 days	31~90 days	91~181 days	181 days ~1 year	1~2 years	2~5 years	Over 5 years	Total
Financial liabilities measured at fair value through profit or loss								
Foreign exchange derivatives	$ (1,226)	(15,724)	-	-	-	-	-	(16,950)

Derivatives settled in total

	December 31, 2017							
	0~30 days	31~90 days	91~181 days	181 days ~1 year	1~2 years	2~5 years	Over 5 years	Total
Financial liabilities measured at fair value through profit or loss								
Net cash flows	$ -	-	-	-	-	-	-	-

Derivatives settled in net

	December 31, 2016							
	0~30 days	31~90 days	91~181 days	181 days ~1 year	1~2 years	2~5 years	Over 5 years	Total
Financial liabilities measured at fair value through profit or loss								
Foreign exchange derivatives	$ (1,066)	700	-	-	-	-	-	(366)

Derivatives settled in total

	December 31, 2016							
	0~30 days	31~90 days	91~181 days	181 days ~1 year	1~2 years	2~5 years	Over 5 years	Total
Financial liabilities measured at fair value through profit or loss								
Foreign exchange derivatives								
—Foreign exchange outflow	$ (31,318,040)	(39,931,918)	(14,716,300)	-	-	-	-	(85,966,258)
—Foreign exchange inflow	31,245,783	39,788,387	14,618,449	-	-	-	-	85,652,619
Foreign exchange derivatives								
—Foreign exchange outflow	-	(627,802)	(3,111)	(3,111)	(649,711)	-	-	(1,283,735)
—Foreign exchange inflow	-	625,000	-	-	646,600	-	-	1,271,600
Subtotal of outflows	$(31,318,040)	(40,559,720)	(14,719,411)	(3,111)	(649,711)	-	-	(87,249,993)
Subtotal of inflows	$ 31,245,783	40,413,387	14,618,449	-	646,600	-	-	86,924,219
Net cash flows	$ (72,257)	(146,333)	(100,962)	(3,111)	(3,111)	-	-	(325,774)

Maturity analysis of non-derivative:

	December 31, 2017							
Assets	0~30 days	31~90 days	91~181 days	181 days ~1 year	1~2 years	2~5 years	Over 5 years	Total
Cash and cash equivalents	$41,192,280	745,348	-	-	-	-	-	41,937,628
Receivables	142,224	-	-	-	-	-	-	142,224
Available-for-sale financial assets	-	-	-	1,543,874	16,650	920,250	157,200	2,637,974
Held-to-maturity financial assets	727,874	2,663,991	4,602,348	7,501,057	15,696,158	27,416,995	521,780,373	580,388,796
Debt investments without quoted price in active market	110,091	190,139	297,504	927,912	1,494,935	4,440,191	55,263,044	62,723,816
Other financial assets-net	550	905,070	1,001,349	-	-	-	-	1,906,969
Refundable deposits	38,666	-	-	-	-	-	3,443,596	3,482,262
Total	$42,211,685	4,504,548	5,901,201	9,972,843	17,207,743	32,777,436	580,644,213	693,219,669

	December 31, 2016							
Assets	0~30 days	31~90 days	91~181 days	181 days ~1 year	1~2 years	2~5 years	Over 5 years	Total
Cash and cash equivalents	$ 23,406,673	1,356,764	-	-	-	-	-	24,763,437
Receivables	8,419	-	-	-	-	-	-	8,419
Available-for-sale financial assets	13,855	-	10,761	1,047,380	1,525,218	1,082,799	1,969,819	5,649,832
Held-to-maturity financial assets	5,034,142	3,048,783	4,522,614	6,820,274	18,884,565	37,713,144	415,704,106	491,727,628
Debt investments without quoted price in active market	138,741	247,522	3,184,488	1,217,144	1,755,899	6,416,617	34,009,514	46,969,925
Other financial assets-net	2,705,006	5,806,693	6,053,701	-	-	-	-	14,565,400
Refundable deposits	38,647	-	-	-	458,698	167,559	2,868,807	3,533,711
Total	$31,345,483	10,459,762	13,771,564	9,084,798	22,624,380	45,380,119	454,552,246	587,218,352

4) Market Risk

a) Exchange rate risk

i) The significant exchange rate risk exposure of the financial assets and liabilities are as follows:

	December 31, 2017			December 31, 2016		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
Financial assets						
Monetary items						
AUD	$ 306,364	23.1350	7,087,737	386,457	23.3450	9,021,835
CAD	28,920	23.6300	683,373	69,113	23.9200	1,653,185
EUR	5,141	35.4500	182,250	20,466	33.9800	695,448
HKD	526,939	3.7960	2,000,261	555,659	4.1540	2,308,208
USD	5,948,886	29.6800	176,562,947	4,698,418	32.2200	151,383,037
CNY	2,857,752	4.5490	12,999,916	4,180,692	4.6240	19,331,520
ZAR	-	2.3900	-	288,678	2.3700	684,166
SGD	73,560	22.2000	1,633,043	70,496	22.3100	1,572,766
Financial liabilities						
Monetary items						
USD	791,269	29.6800	23,484,865	773,664	32.2200	24,927,469

ii) The concentration of the exchange rate risk is as follows:

	December 31, 2017										
	USD	AUD	HKD	EUR	CAD	NZD	CNY	JPY	ZAR	SGD	Total
Foreign financial assets											
Cash and cash equivalents	$ 2,729,516	9,077	1,024,952	-	17,496	-	18,668	-	-	22	3,799,731
Financial assets measured at fair value through profit or loss	1,412,330	-	-	-	-	-	-	-	-	-	1,412,330
Avaliable-for -sale financial assets	3,318,905	-	975,293	182,250	-	-	-	-	-	-	4,476,448
Loans and receivables	288,649	57,575	16	-	1,428	-	268,669	-	-	-	616,337
Held-to-maturity financial assets	138,700,597	7,021,085	-	-	664,449	-	10,477,806	-	-	1,633,021	158,496,958
Debt investments without quoted price in active market	6,457,613	-	-	-	-	-	2,234,772	-	-	-	8,692,385
Total	$152,907,610	7,087,737	2,000,261	182,250	683,373	-	12,999,915	-	-	1,633,043	177,494,189

	December 31, 2017										
	USD	AUD	HKD	EUR	CAD	NZD	CNY	JPY	ZAR	ZAR	Total
Foreign financial liabilities											
Financial liabilities measured at fair value through profit or loss	$ 2,178	98,472	-	-	-	-	15,791	-	-	-	116,441
Payables	1,771	-	-	-	-	-	-	-	-	-	1,771
Total	$ 3,949	98,472	-	-	-	-	15,791	-	-	-	118,212

Note: December 31, 2017: 1 USD = 29.680 NTD; 1 AUD =23.135 NTD; 1 HKD = 3.796 NTD; 1 EUR = 35.45 NTD; 1 CAD = 23.63 NTD; 1 NZD = 21.07 NTD; 1 CNY = 4.549 NTD; 1 JPY =0.2633 NTD; 1 ZAR =2.39 NTD; 1 SGD = 22.20 NTD

	December 31, 2016										
	USD	AUD	HKD	EUR	CAD	NZD	CNY	JPY	ZAR	SGD	Total
Foreign financial assets											
Cash and cash equivalents	$ 2,322,192	194,688	249,153	247,452	27,107	409	229,181	9	4,671	22	3,274,884
Financial assets measured at fair value through profit or loss	14,867	148,622	-	-	11,317	-	9,817	-	-	4,326	188,949
Avaliable-for -sale financial assets	4,334,125	-	2,059,051	447,997	-	-	-	-	-	-	6,841,173
Loans and receivables	270,032	85,359	4	-	12,145	-	366,655	-	30,117	-	764,312
Held-to-maturity financial assets	108,960,189	7,177,673	-	-	650,945	-	15,307,874	-	421,627	1,572,745	134,091,053
Debt investments without quoted price in active market	9,226,986	1,564,115	-	-	962,988	-	3,427,811	-	227,751	-	15,409,651
Total	$ 125,128,391	9,170,457	2,308,208	695,449	1,664,502	409	19,341,338	9	684,166	1,577,093	160,570,022

	December 31, 2016										
	USD	AUD	HKD	EUR	CAD	NZD	CNY	JPY	ZAR	ZAR	Total
Foreign financial liabilities											
Financial liabilities measured at fair value through profit or loss	$ 1,147,030	1,329	-	-	-	-	1,778	-	-	-	1,150,137
Payables	2,731	-	-	-	-	-	-	-	-	-	2,731
Total	$ 1,149,761	1,329	-	-	-	-	1,778	-	-	-	1,152,868

Note: December 31, 2016: 1 USD = 32.220 NTD; 1 AUD = 23.345 NTD; 1 HKD = 4.154 NTD; 1 EUR = 33.98 NTD; 1 CAD = 23.92 NTD; 1 NZD = 22.46 NTD; 1 CNY = 4.624 NTD; 1 JPY = 0.2771 NTD; 1 ZAR = 2.37 NTD; 1 SGD= 22.31 NTD.

b) Interest rate risk

The changes in the interest rates of financial assets and financial liabilities were addressed in the notes of liquidity risk management of BTLI.

The sensitivity analysis represents the interest rate risk exposure of the derivatives and non derivatives at the reporting date. The risk of interest rate is mainly derived from the risk of interest reprising. The measurement of monitoring account interest rate risk is to compute the reprising gap of risk sensitive assets/ liabilities and to develop risk standard as the monitoring benchmark. Its measurements are to set the interest rate, which increases or decreases 50 basis points to evaluate the risk.

c) Sensitivity analysis

The subsidiary, BTLI, uses risk value analysis and sensitivity analysis to manage the market risk. The sensitivity analysis is used to measure the effects of each risk factor.

December 31, 2017			
Main risk	Range	Amount Influence	
		Equity	Gain or loss
Exchange rate risk	Other foreign currencies / NTD rise 5%	3.35	31.36
Exchange rate risk	Other foreign currencies / NTD fall 5%	(3.35)	(31.36)
Interest rate risk	Interest rate curve rises 50BPS	(0.25)	-
Interest rate risk	Interest rate curve falls 50BPS	0.26	-
Price of equity stock risk	Price of equity stock rises 10%	26.94	-
Price of equity stock risk	Price of equity stock falls 0%	(26.94)	-

Note: the analysis timing is on December 31, 2017.

December 31, 2016			
Main risk	Range	Amount Influence	
		Equity	Gain or loss
Exchange rate risk	Other foreign currencies / NTD rise 5%	5.32	33.09
Exchange rate risk	Other foreign currencies / NTD fall 5%	(5.32)	(33.09)
Interest rate risk	Interest rate curve rises 50BPS	(1.29)	-
Interest rate risk	Interest rate curve falls 50BPS	1.40	-
Price of equity stock risk	Price of equity stock rises 10%	28.84	0.31
Price of equity stock risk	Price of equity stock falls 0%	(28.84)	(0.31)

Note: the analysis timing is on December 31, 2016.

5) The nature and scope of the Insurance Contract Risk

a) Information of insurance risk

i) Sensitivity of insurance risk – Insurance contracts and financial instruments with discretionary feature:

	December 31, 2017		
	Change in assumption	Changes in profit or loss before tax	Changes in shareholder's equity
Death rate	X1.1	(9,708)	(8,058)
Morbidity	X1.1	(30,246)	(25,104)
Contract Default Rate	X0.9	(35,312)	(29,309)
Expense	X1.1	(258,148)	(214,263)
Ratio of Return on Investment	(0.25)%	(805,224)	(668,336)

	December 31, 2016		
	Change in assumption	Changes in profit or loss before tax	Changes in shareholder's equity
Death rate	X1.1	(10,010)	(8,308)
Morbidity	X1.1	(27,015)	(22,423)
Contract Default Rate	X0.9	(41,279)	(34,262)
Expense	X1.1	(402,307)	(333,915)
Ratio of Return on Investment	(0.25)%	(787,957)	(654,005)

ii) The interpretation for the concentration of insurance risk

BTLI does not target its insurance product at any group, age or gender. Insurance service area includes the whole Taiwan. In order to increase its management in insurance risk, BTLI established "BankTaiwan Life Insurance reinsurance management plan" to further implement all sorts of risk managing strategies. As a result, the concentration risks are minimal.

iii) Claim development trend

1. Development trend of direct business loss

The development trends of the accumulated claims for the past seven to nine years on December 31, 2017 and 2016 are as follows:

December 31, 2017

Occurrence year	Development year										Claim Provision
	1	2	3	4	5	6	7	8	9	10	
97	165,310	213,533	216,353	221,841	221,880	221,881	221,909	221,919	221,939	221,939	-
98	160,616	202,266	207,255	208,577	208,657	208,739	208,740	208,740	208,743	208,743	-
99	150,536	200,284	207,399	208,700	208,778	208,889	208,907	208,937	208,948	208,948	11
100	158,363	203,032	210,554	211,065	211,107	211,110	211,153	211,167	211,180	211,180	27
101	174,121	224,805	228,749	229,003	229,080	229,096	229,122	229,139	229,152	229,152	56
102	184,487	240,404	246,748	247,020	247,450	247,498	247,523	247,538	247,552	247,552	102
103	194,819	238,026	245,923	248,278	248,389	248,441	248,469	248,487	248,501	248,501	223
104	194,813	243,357	248,027	250,124	250,237	250,290	250,318	250,336	250,351	250,351	2,324
105	197,945	252,559	258,915	261,361	261,483	261,534	261,560	261,577	261,590	261,590	9,031
106	202,733	256,762	262,639	265,161	265,276	265,330	265,359	265,377	265,392	265,392	62,659
Provision for unreported and within 1year unpaid claims											74,433
Add: over 1 year reported but unpaid claims											19,970
Unreported provision claims											**94,403**

December 31, 2016

Occurrence year	Development year										Claim Provision
	1	2	3	4	5	6	7	8	9	10	
96	425,676	532,759	547,878	549,554	550,644	550,647	550,672	550,673	550,681	550,695	-
97	165,310	213,533	216,353	221,841	221,880	221,881	221,909	221,919	221,938	221,951	13
98	160,616	202,266	207,255	208,577	208,657	208,739	208,740	208,740	208,752	208,766	26
99	150,536	200,284	207,399	208,700	208,778	208,889	208,907	208,910	208,922	208,936	29
100	158,363	203,032	210,554	211,065	211,107	211,109	211,123	211,127	211,141	211,155	46
101	174,121	224,805	228,749	229,003	229,080	229,126	229,142	229,146	229,161	229,177	97
102	184,516	240,433	246,777	247,047	247,160	247,205	247,220	247,224	247,239	247,254	207
103	194,838	238,044	245,947	247,877	247,969	248,018	248,034	248,039	248,054	248,071	2,124
104	194,813	243,357	249,119	250,932	251,028	251,078	251,095	251,100	251,115	251,133	7,776
105	197,950	251,209	257,248	259,569	259,669	259,715	259,730	259,734	259,748	259,763	61,813
Provision for unreported and within 1year unpaid claims											72,131
Add: over 1 year reported but unpaid claims											18,939
Unreported provision claims											**91,070**

2. Development trend of retained business loss

The development trends of the accumulated claims for the past seven to nine years on December 31, 2017 and 2016 are as follows:

December 31, 2017

Occurrence year	Development year										Claim Provision
	1	2	3	4	5	6	7	8	9	10	
97	151,816	196,181	198,907	203,895	203,934	203,935	203,963	203,973	203,993	203,993	-
98	153,588	193,488	198,157	199,358	199,438	199,521	199,521	199,522	199,524	199,524	-
99	143,101	189,407	196,245	197,440	197,518	197,629	197,647	197,677	197,688	197,688	11
100	152,753	195,787	202,928	203,439	203,481	203,484	203,527	203,542	203,554	203,554	27
101	166,896	216,798	220,742	220,995	221,073	221,089	221,115	221,131	221,145	221,145	56
102	177,338	230,255	236,199	236,471	236,901	236,949	236,973	236,989	237,002	237,002	101
103	192,319	233,110	241,007	243,363	243,469	243,521	243,549	243,566	243,581	243,580	217
104	193,219	239,697	244,227	246,299	246,408	246,461	246,489	246,507	246,522	246,522	2,295
105	195,227	249,841	256,053	258,474	258,594	258,645	258,671	258,688	258,701	258,701	8,860
106	202,733	256,762	262,639	265,161	265,276	265,330	265,359	265,377	265,392	265,392	62,659

December 31, 2016

Occurrence year	Development year										Claim Provision
	1	2	3	4	5	6	7	8	9	10	
96	281,376	355,445	364,533	365,509	366,428	366,431	366,456	366,457	366,465	366,479	-
97	151,816	196,181	198,907	203,895	203,934	203,935	203,963	203,973	203,992	204,005	13
98	153,588	193,488	198,157	199,358	199,438	199,521	199,521	199,521	199,534	199,547	26
99	143,101	189,407	196,245	197,440	197,518	197,629	197,647	197,650	197,662	197,676	29
100	152,753	195,787	202,928	203,439	203,481	203,483	203,497	203,501	203,515	203,529	46
101	166,896	216,798	220,742	220,995	221,073	221,119	221,134	221,138	221,153	221,169	96
102	177,367	230,284	236,228	236,498	236,603	236,648	236,663	236,667	236,681	236,697	199
103	192,337	233,129	241,031	242,942	243,031	243,079	243,096	243,100	243,115	243,132	2,101
104	193,219	239,697	245,258	247,056	247,149	247,199	247,216	247,220	247,236	247,253	7,556
105	195,632	248,019	253,893	256,194	256,292	256,337	256,353	256,357	256,370	256,386	60,754

BTLI provides claim reserve based on the expected future payments and relevant compensation processing cost of reported and unreported claims. In computation of such provision involves vast uncertainty, estimates and judgments, and is highly complicated. Any changes of estimation and judgment are regarded as changes in accounting estimates and the amount of changes is recognized in profit or loss. Some customers may be delayed to inform the claims to BTLI. In addition, when estimating the potential compensation of unreported claims, it involves vast past experience and subjective judgment; therefore, it is not able to confirm that the estimated reserve for claims on the balance sheet date will be the same as the actual compensation. The estimate of reserve for claims is based on the information currently available; however, the final result may be different from the original estimation due to the subsequent development.

The above table shows the development trend of claims (excluding the claims of which the compensation will be confirmed in a year). The vertical shaft represents the year when the claim event occurred, and the horizontal shaft represents the development years. Every slash represents the accumulated compensation at the end of each year. The compensation refers to the claims whether they are ruled or not. It explains how BTLI estimates the compensation of each year as time passes by. The scenario and trend which affect the amount of reserve for claims may not be

consistent in the future; therefore, the estimated future compensation cannot be determined by the claim development trend revealed in the above table.

b) Credit risk, liquidity risk and market risk of insurance contracts

i) Credit risk

December 31, 2017

Name	Credit rating agent	Credit rating	Date of rating
Central Re	S&P	A	102.06.10
Munich Re	S&P	AA-	95.12.22
Swiss Re	S&P	AA-	100.10.28
Cologne Re	S&P	AA+	99.02.04
Gibraltar Re	S&P	A+	104.09.17
France Re	S&P	AA-	104.09.07
Dai-ichi Mutual Life	S&P	A+	103.11.26

December 31, 2016

Name	Credit rating agent	Credit rating	Date of rating
Central Re	S&P	A	102.06.10
Munich Re	S&P	AA-	95.12.22
Swiss Re	S&P	AA-	100.10.28
Cologne Re	S&P	AA+	99.02.04
Gibraltar Re	S&P	A+	104.09.17
France Re	S&P	AA-	104.09.07
Dai-ichi Mutual Life	S&P	A+	103.11.26

ii) Liquidity risk

Formulating relative actuarial assumption including death rate, contract default rate, expense, commission expense, morbidity and declared interest rate, by the actual rate of occurrence and valid insurance contract, without considering premium income from new contracts and beginning cash equivalent, of Conventional Insurance Product, Universal Life Insurance Product, Interest Sensitive Annuity Insurance Product, Participating Policy and Foreign Currency Policy up to December 31, 2015, the Company estimate future cash flow of provisions found that there will be negative value of net cash flow from assets and liabilities in next 10 years. However, after considering premium income from new contracts and beginning cash equivalent, the circumstance of cash flow from assets and liabilities mismatching may not occur.

The maturity analysis of insurance and investment contract liabilities on December 31, 2017 and 2016 are as follows:

Units: In Millions of NTD

Undiscounted expected cash outflow (inflow) on December 31, 2017

	< 12 months	1~5 years	>5 years		total
$	12,677	15,805	922,562	$	951,044

Undiscounted expected cash outflow (inflow) on December 31, 2016

	< 12 months	1~5 years	>5 years		total
$	8,054	24,074	878,380	$	910,508

iii) Market risk

Market risk in insurance contracts refers to the adverse changes in the market resulting in the returns on investment lower than the forecasted interest rate. As a result, insurers are subjected to financial losses. Considering BTLI's forecasted interest rate with the return on investment for the year ended December 31, 2017, the undertaken risk is within the acceptable level.

c) Information regarding risk exposure for embedded insurance contracts not measured using fair value: None.

6) Offsetting financial assets and financial liabilities

BTLI engages in the transactions of financial instruments that meet the offsetting conditions set forth in paragraph 42 of IAS 32 endorsed by the FSC. Those transactions are presented at the net amount on the balance sheet.

BTLI also engages in the transactions on repurchase agreement or reversed repurchase agreement that do not meets the offsetting condition. Such transactions include global master repurchase agreement, global securities lending agreement and related agreements. If both parties agree to settle the transactions on a net basis, BTLI can settle the transactions by netting the assets and liabilities. If there are no such agreements, BTLI shall settle the transaction on a gross basis. However, one party can choose to settle a transaction on a net basis if the other party defaults.

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

December 31, 2017

Financial assets subject to offsetting, enforceable master netting arrangement or similar agreement

Description	Recognized financial assets (a)	Recognized financial liabilities offset in the balance sheet (b)	Net financial assets reported in the balance sheet (c)=(a)-(b)	Related amount not offset in the balance sheet (d)		Net (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral received	
Derivative financial assets	$ 1,412,330	-	1,412,330	2,178	-	1,410,152

Financial liabilities subject to offsetting, enforceable master netting arrangement or similar agreement

Description	Recognized financial liabilities (a)	Recognized financial assets offset in the balance sheet (b)	Net financial liabilities reported in the balance sheet (c)=(a)-(b)	Related amount not offset in the balance sheet (d)		Net (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral received	
Derivative financial liabilities	$ 116,441	-	116,441	116,441	-	-

Note: Include master netting arrangement and non-cash collateral.

December 31, 2016						
Financial assets subject to offsetting, enforceable master netting arrangement or similar agreement						
				Related amount not offset in the balance sheet (d)		
Description	Recognized financial assets (a)	Recognized financial liabilities offset in the balance sheet (b)	Net financial assets reported in the balance sheet (c)=(a)-(b)	Financial instruments (Note)	Cash collateral received	Net (e)=(c)-(d)
Derivative financial assets	$ 188,949	-	188,949	188,949	-	-

Financial liabilities subject to offsetting, enforceable master netting arrangement or similar agreement						
				Related amount not offset in the balance sheet (d)		
Description	Recognized financial liabilities (a)	Recognized financial assets offset in the balance sheet (b)	Net financial liabilities reported in the balance sheet (c)=(a)-(b)	Financial instruments (Note)	Cash collateral received	Net (e)=(c)-(d)
Derivative financial liabilities	$ 1,150,137	-	1,150,137	112,866	-	1,037,271

Note: Include master netting arrangement and non-cash collateral.

(iii) The Subsidiary, BTS

1) Risk Management Strategies and Organization Structure

The risk management strategies are the highest principles for BTS's risk management system. The risk management strategies include the risk management principles, the scope, the authority, the procedures and so on.

The risk management strategies are designed to measure various risks including market risks, credit risks, liquidity risk, operational risks, legal risks, strategy risks, reputation risks and so on. The business units are required to identify the potential risks and offer a risk management plan to the management in the course of conducting business.

The risk management mechanism is as follows:

a) Measure, monitor and control every risk under an affordable level in order to achieve the goal of the risk management.

b) Build risk indicators and precaution system to conduct proper risk monitor.

c) Establish a communication mechanism to report the complete risk information to the management periodically or properly, to announce to the subordinate units and to communicate between different departments; and to disclose to the public according to the regulations.

d) Assessing risk and preparing paper work before creating new business or products, changing operating process, or developing information system.

e) Enforcing the professional knowledge and training, and harness risk sensitivity within the corporation culture.

BTS sets a risk management department which is directly responsible to the general manager to ensure that the risks are well-controlled. The risk management organization of BTS is composed of the Board of Directors, the risk management committee, the risk management department and business units. Through a proper division of authority and responsibility, BTS establishes a risk management culture to make sure that the risk management system operates effectively.

i) Market risk

Market risk is the risk that BTS will suffer losses due to the changes in market interest rate, exchange rate or the security price fluctuation.

BTS manages its market risk through the following risk management mechanism:

1. The content, range of transaction, and authorization of levels should be clearly defined.
2. Risk should be identified, measured, supervised, and controlled while operating financial instrument, the risk undertaken should be within the risk appetite of BTS.
3. Establishing risk target of market, precaution system, overrunning handling, and communication system to take proper policy of market risk, in order to accomplish fully supervising and prevention.
4. Establishing market risk information management system, including transaction system, operating system, and risk management system to define the responsibility, ensure the independence of the system, and keep the system proper and in balance.
5. Create a model of market risk to assess and express the exposure of BTS; furthermore, to systematically manage the risk exposed.
6. Assessing market risk and preparing paper work before creating financial instrument, changing operating process, or developing information system and explore new financial services and products.
7. Enforcing the professional knowledge and training, and harness risk sensitivity within the corporation culture.

ii) Credit risk

The causes of credit risk are derived from both balance sheet and off balance sheet items. The major credit risks arise from discounts and loans, investments, over-due receivables, risk mitigation instruments (such as collaterals, guarantees and hedge instruments), securities financing, and derivatives.

The subsidiary, BTS, uses the following mechanism to manage credit risks:

1. Formulate the acceptable business and transactions and the division of the authority and responsibility.
2. Identify, measure, monitor and control the risks in the course of business.
3. Establish the credit risk indicators, the credit rating management, the alarm system,

the communication mechanism to improve and prevent the risk supervision.

4. Establish a complete credit risk information system and define the access rights to ensure that the credit risk monitoring operates independently.
5. Build a quantification model of credit risk to assess the exposures.
6. Assess credit risk and prepare paper work before creating financial instrument, changing operating process, or developing information system and new financial services and products.
7. Enforce the professional knowledge and training, and harness risk sensitivity within the corporation culture.

iii) Liquidity risk

Liquidity risk includes market liquidity risk and capital liquidity risk (financial risk). Market liquidity risk is the risk of facing market price movement in processing or offsetting assets caused by a low-volume market. Capital liquidity risk, on the other hand, is the risk of default at maturity due to inability to sell assets or obtain sufficient capital.

BTS has different policies in accordance with capital demands for different kinds of business aiming to effectively monitor market liquidity risk. The risk management department is in charge of the overview of capital and conducts a daily review to respond to system risk and capital demand in abnormal conditions.

In order to enhance the fund liquidity, BTS requests all business units to report the cash flow status every day. In addition, BTS also maintains sufficient cash and convertible securities consistently.

BTS's approach to managing liquidity is to ensure, as far as possible, that it always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. If BTS is unavailable to meet its obligations, the following emergency plans should be used:

1. Ask for a loan from the financial institutions.
2. Sell the short-term securities, government bonds or corporate bonds.
3. Adjust the financing rate and the LTV ratio.
4. Sell the stocks of listed company and funds.

iv) Operational risk

Operational risk is the risk of loss arising from fraud, unofficial authorities, error, omission, inefficiency system failure or external events. BTS manages the risk through a control-based environment in which processes are documented, authorization is independent and transactions are reviewed and monitored.

If any risk loss is defined, the business unit shall report it to the risk management department before the end of the month. The risk management department shall build an operational risk loss database to summarize, analyze and offer suggestions to the risk management committee or the Board of Directors.

2) Credit Risk

a) Credit risk exposure

The carrying amounts of the financial assets represent the maximum exposure amount. The maximum exposure to credit risk at reporting date is as follows:

	December 31, 2017	December 31, 2016
Cash and cash equivalents	$ 79,937	98,785
Financial assets measured at fair value through profit or loss-current	236,333	461,610
Available-for-sale financial assets-current	2,072,100	1,469,203
Loans and receivables	6,746,595	4,707,945
Other receivables (note)	524	1
	$ 9,135,489	6,737,544

The maximum exposure amounts by regions are as follows:

	December 31, 2017 (Taiwan)	December 31, 2016 (Taiwan)
Cash and cash equivalents	$ 79,937	98,785
Financial assets measured at fair value through profit or loss-current	236,333	461,610
Available-for-sale financial assets-current	2,072,100	1,469,203
Loans and receivables	6,746,595	4,707,945
Other receivables (note)	524	1
	$ 9,135,489	6,737,544

The maximum exposure amounts by counterparties are as follows:

	Government	Finance	Other companies	Individuals	Total
December 31, 2017					
Cash and cash equivalents	$ -	79,937	-	-	79,937
Financial assets measured at fair value through profit or loss—current	-	34,809	201,524	-	236,333
Available-for-sale financial assets—current	-	559,825	1,512,275	-	2,072,100
Loans and receivables	3,121,018	2,794	605	3,622,178	6,746,595
Other receivables (note)	-	-	-	524	524
	$ 3,121,018	677,365	1,714,404	3,622,702	9,135,489
December 31, 2016					
Cash and cash equivalents	$ -	98,785	-	-	98,785
Financial assets measured at fair value through profit or loss—current	-	9,971	451,639	-	461,610
Available-for-sale financial assets—current	49,549	612,419	807,235	-	1,469,203
Loans and receivables	387,057	232	-	4,320,656	4,707,945
Other receivables (note)	-	-	-	1	1
	$ 436,606	721,407	1,258,874	4,320,657	6,737,544

Note: recorded in other current assets

b) Impairment loss

Aging analysis of loans and receivables:

	December 31, 2017		December 31, 2016	
	Amount	Impairment	Amount	Impairment
Non-overdue	$ 6,747	-	4,709	-
Overdue 0 to 30 days	-	-	-	-
Overdue 31 to 120 days	-	-	-	-
Overdue over 1 year	-	-	-	-
	$ 6,747	-	4,709	-

There is no recognition of impairment due to both loans and receivables are non-overdue on December 31, 2017 and 2016.

The movements of the impairment were as follows:

	2017	2016
Beginning balance	$ 648	991
Reversal	(325)	(343)
Ending balance	$ 323	648

The allowance for bad debt of other receivables is used to record bad debt or impairment. In the case where BTS believes the receivables cannot be collected, the receivables will be directly offset by the allowance for bad debt previously booked.

c) The credit quality information

	December 31, 2017			
	Normal	Caution	Abnormal	Subtotal
Cash and cash equivalents	$ 79,937	-	-	79,937
Financial assets measured at fair value through profit or loss-current	236,333	-	-	236,333
Available-for-sale financial assets-current	2,072,100	-	-	2,072,100
Loans and receivables	6,746,595	-	-	6,746,595
Other receivables	251	278	318	847
Total	$ 9,135,216	278	318	9,135,812

	December 31, 2016			
	Normal	Caution	Abnormal	Subtotal
Cash and cash equivalents	$ 98,785	-	-	98,785
Financial assets measured at fair value through profit or loss-current	461,610	-	-	461,610
Available-for-sale financial assets-current	1,469,203	-	-	1,469,203
Loans and receivables	4,707,945	-	-	4,707,945
Other receivables	1	-	648	649
Total	$ 6,737,544	-	648	6,738,192

3) Liquidity Risk

The following tables represent the expiration date of the financial liabilities. The amounts included the estimated interest expenses but without considering the effects of the netting agreements.

	1~30 days	31~90 days	91days ~ 1 year	Over 1 year	Total
December 31, 2017					
Non-derivatives financial liabilities					
Commercial paper payable	$ 1,189,859	-	-	-	1,189,859
Bonds sold under repurchase agreements	2,661,693	135,271	-	-	2,796,964
Deposits received from securities borrowers	33,275	33,275	66,549	-	133,099
Guaranteed price deposits received from securities borrowers	35,824	35,824	71,649	-	143,297
Accounts payables	2,987,789	-	-	-	2,987,789
Collections	108,877	-	-	-	108,877
Other payables	60,936	-	-	-	60,936
Other payables- related-party	82,651	-	-	-	82,651
Other current liabilities	113	-	-	-	113
Other non-current liabilities	-	-	-	5,325	5,325
Derivatives financial liabilities					
Financial liabilities measured at fair value through profit or loss －current	1	-	1,299	-	1,300
	$ 7,161,018	204,370	139,497	5,325	7,510,210
December 31, 2016					
Non-derivative financial liabilities					
Short-term borrowings	$ 300,000	-	-	-	300,000
Commercial paper payable	1,159,709	-	-	-	1,159,709
Bonds sold under repurchase agreements	1,456,060	42,162	-	-	1,498,222
Deposits received from securities borrowers	20,065	20,065	40,129	-	80,259
Guaranteed price deposits received from securities borrowers	21,878	21,878	43,756	-	87,512
Accounts Payables	1,608,269	-	-	-	1,608,269
Collections	12,885	-	-	-	12,885
Other payables	46,048	-	-	-	46,048
Other payables-related-party	53,874	-	-	-	53,874
Other current liabilities	103	-	-	-	103
Other non-current liabilities	-	-	-	4,193	4,193
Derivatives financial liabilities					
Financial liabilities measured at fair value through profit or loss－current	28,395	-	-	-	28,395
	$ 4,707,286	84,105	83,885	4,193	4,879,469

BTS does not expect the occurrence of the actual cash flow will be earlier or significantly different.

4) Market Risk

a) Equity securities price risk

Sensitivity analysis

Units: In Million of NTD

	Equity	Gain or loss
December 31, 2017		
Price increases 10%	22.99	50.57
Price decreases 10%	(21.19)	(19.67)

	Equity	Gain or loss
December 31, 2016		
Price increases 10%	(0.25)	44.63
Price decreases 10%	(99.60)	(40.19)

b) Interest rate risk

The overview of the financial instruments held with interest rates is as follows:

	December 31, 2017	December 31, 2016
Financial instruments with fixed rate：		
Convertible bonds	$ 235,334	456,659
Government bonds	-	49,549
Corporate bonds	1,851,203	895,609
Financial bonds	-	151,162
	$ 2,086,537	1,552,979

5) Currency Risk

	December 31, 2017		
	Foreign currency (in thousand dollars)	Exchange rate (in dollars)	NTD
Financial assets:			
Monetary items:			
CNY	19,788	4.5490	90,017
USD	32	29.6800	957

	December 31, 2016		
	Foreign currency (in thousand dollars)	Exchange rate (in dollars)	NTD
Financial assets:			
Monetary items:			
CNY	24,488	4.6240	113,234
USD	27	32.2200	876
Financial liabilities:			
Monetary items:			

The currency risk mainly arises from the available-for-sale financial assets and receivables denominated in foreign currencies. Foreign currency difference arises from the retranslation of the report. A 1% strengthening/ weakening of the TWD against the CNY at the reporting date would have increased (decreased) profit before tax by $909 thousand dollars and $1,141 thousand dollars, respectively, in 2016 and 2015. The analysis assumes that all other variables in particular interest rates remained constant.

6) Reclassification of financial assets

a) The reclassified amount from the original category and the reason for the reclassification are as follows:

Beginning July 2015, the global economy was suffering from a dramatic economic downturn which was mainly caused by the Greek sovereign debt crisis. In addition, the plunge of China's stock market and the rapid depreciation of CNY also led to a panic slide in the domestic stock market. BTS believed that the conditions above have met all the needed requirement (as prescribed in paragraph 50B of IAS 39) to reclassify its financial assets at fair value through profit or loss – current to available for sale financial assets. The reclassification is consistent with other security companies, which is in line with the letter (No.1040006663) issued by Taiwan Securities Assoication on October 12, 2015, with the authorities' oral approval, stating that a security company can reclassify its financial assets in accordance with paragraph 50C of IAS 39 (other than those held for market making purposes).

Due to the reclassification, the income before tax of BTS for the year ended December 31, 2015 increased by $104,087 thousand.

b) The book values and fair values of the reclassified financial assets

	December 31, 2016	
	book value	fair value
Available-for-sale financial assets－current	$ 29,260	20,460

c) The information regarding the changes in fair value of reclassified financial assets

	Original category: financial asset measured at fair value through profit or loss－current	
	Gains (losses) would be recognized in profit of loss if not reclassified	Gains (losses) recoginzed in other comprehensive income following the reclassification
2016	$ (19,318)	(8,800)

The fair value gains or losses on the reclassified financial assets recognized in profit or loss for the year 2017 and 2016 were as follows:

	2017	2016
Valuation profit (loss)	$ -	(8,800)

7) Transfer of Financial Assets - Transferred Financial Assets Without Overall Derecognition

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

	December 31, 2017				
Financial assets type	Transferred financial assets book value	Financial liability book value	Transferred financial assets fair value	Financial liability fair value	Net fair value
Financial asset at fair value through profit or loss					
Issued under repurchase agreemen	$ 54,979	52,026	54,979	52,026	2,953
Available-for-sale financial assets					
Issued under repurchase agreemen	1,762,954	1,752,107	1,762,954	1,752,107	10,847

	December 31, 2016				
Financial assets type	Transferred financial assets book value	Financial liability book value	Transferred financial assets fair value	Financial liability fair value	Net fair value
Financial asset at fair value through profit or loss					
Issued under repurchase agreemen	$ 113,815	105,108	113,815	105,108	8,707
Available-for-sale financial assets					
Issued under repurchase agreemen	1,007,946	1,000,430	1,007,946	1,000,430	7,516

8) Offsetting financial assets and financial liabilities

BTS and its subsidiary hold financial instruments which meet Section 42 of the IAS 32 endorsed by FSC. Therefore, the financial instrument will be offset on the balance sheet.

Although BTS does not engage in transactions that meet the offsetting condition in IFRSs, they have signed the net settlement contracts of similar agreements with counterparties, such as global master repurchase agreement, global securities lending agreement and similar repurchase agreement or reverse repurchase agreement. If both parties choose to net settle, the abovementioned executable net settlement contracts or similar agreements will be allowed to be settled in net amount after offsetting the financial assets and financial liabilities. Otherwise, the transaction will be settled in gross amount. However, if one party defaults, the other party could opt for net settling.

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

December 31, 2017						
Financial assets subject to offsetting, enforceable master netting arrangement or similar agreement						
				Related amount not offset in the balance sheet (d)		
Description	Recognized financial assets (a)	Recognized financial liabilities offset in the balance sheet (b)	Net financial assets reported in the balance sheet (c)=(a)-(b)	Financial instruments (Note)	Cash collateral received	Net (e)=(c)-(d)
Derivative financial assets	$ 999	-	999	-	-	999

Note: Netting settlement agreement and non-cash financial collaterals are included.

Financial liabilities subject to offsetting, enforceable master netting arrangement or similar agreement						
				Related amount not offset in the balance sheet (d)		
Description	Recognized financial liabilities (a)	Recognized financial assets offset in the balance sheet (b)	Net financial liabilities reported in the balance sheet (c)=(a)-(b)	Financial instruments (Note)	Cash collateral received	Net (e)=(c)-(d)
Derivative financial liabilities	$ 1,300	-	1,300	-	-	1,300

Note: Netting settlement agreement and non-cash financial collaterals are included.

December 31, 2016						
Financial assets subject to offsetting, enforceable master netting arrangement or similar agreement						
				Related amount not offset in the balance sheet (d)		
Description	Recognized financial assets (a)	Recognized financial liabilities offset in the balance sheet (b)	Net financial assets reported in the balance sheet (c)=(a)-(b)	Financial instruments (Note)	Cash collateral received	Net (e)=(c)-(d)
Derivative financial assets	$ 4,951	-	4,951	283	-	4,668

Note: Netting settlement agreement and non-cash financial collaterals are included.

Financial liabilities subject to offsetting, enforceable master netting arrangement or similar agreement						
				Related amount not offset in the balance sheet (d)		
Description	Recognized financial liabilities (a)	Recognized financial assets offset in the balance sheet (b)	Net financial liabilities reported in the balance sheet (c)=(a)-(b)	Financial instruments (Note)	Cash collateral received	Net (e)=(c)-(d)
Derivative financial liabilities	$ 27,883	-	27,883	283	-	27,600

Note: Netting settlement agreement and non-cash financial collaterals are included.

(9) Capital Management:

(a) The capital management objectives and processes

The Company and its subsidiaries' basic objective of capital management shall be in compliance with the capital requirements of FSC and achieve the minimum statutory capital adequacy ratio. The qualified capital calculation is in accordance with regulation by competent authorities.

Maintain an optimal capital structure to respond to possible operational or economic risks, and to sustain future development of the business. The Company and its subsidiaries also make appropriate and effective capital allocation to react the different capital portfolio and risk characteristics.

The Company and its subsidiaries comply with the “Regulations Governing the Consolidated Capital Adequacy of Financial Holding Companies” and the “Standards Governing the Capital Adequacy Management of Taiwan Financial Holdings” and report the ratio to the authority twice a year. However, the subsidiaries shall comply with the regulations of different industries.

The Company and its subsidiaries set target ratios and alarm ratios in order to react properly if the capital adequacy ratio is close to or lower than the alarm ratio.

(b) Capital adequacy ratio

December 31, 2017

Unit: %

Item / Name	the financial holding company's shareholding in the subsidiary	net eligible capital	statutory capital requirement
The Company	100%	286,219,936	302,184,667
Subsidiary BOT	100%	246,987,645	173,984,554
Subsidiary BTS	100%	2,779,888	815,211
Subsidiary BTLI	100%	9,714,048	12,603,324
Deducted Amount	-	(314,673,032)	(302,173,032)
Subtotal		231,028,485	187,414,724
The Group Capital Adequacy Ratio (C)＝(A)÷(B)			123.27

December 31, 2016

Unit: %

Item / Name	the financial holding company's shareholding in the subsidiary	net eligible capital	statutory capital requirement
The Company	100%	272,462,778	288,756,469
Subsidiary BOT	100%	240,967,261	172,594,143
Subsidiary BTS	100%	2,572,896	862,052
Subsidiary BTLI	100%	11,675,786	12,333,702
Deducted Amount	-	(301,227,704)	(288,727,704)
Subtotal		226,451,017	185,818,662
The Group Capital Adequacy Ratio (C)＝(A)÷(B)			121.87

Explain: 1. The numbers are accordance with the "Regulations Governing the Consolidated Capital Adequacy of Financial Holding Companies"

2. The term "capital adequacy ratio of a financial holding company calculated on a consolidated basis" shall mean the group's net eligible capital divided by the group's statutory capital requirement.

3. Do not need to prepare the format for the first and third quarters.

(c) Financial holding company's eligible capital

December 31, 2017	
Item	**Amount**
Common stock	90,000,000
Capital instruments with Tier 1 capital	-
Other preferred stock and subordinated bonds	-
Advance receipts for common stock	-
Capital surpluses	111,385,226
Legal reserve	6,793,230
Special reserve	41,357,939
Cumulative gain or loss	12,121,258
Other equity	24,562,281
Reduce：Goodwill and other intangible assets	-
Reduce：Deferred assets	-
Reduce：Treasury stocks	-
Total qualifying capital	286,219,934

December 31, 2016	
Item	**Amount**
Common stock	90,000,000
Capital instruments with Tier 1 capital	-
Other preferred stock and subordinated bonds	-
Advance receipts for common stock	-
Capital surpluses	111,385,217
Legal reserve	5,392,503
Special reserve	32,983,414
Cumulative gain or loss	15,625,106
Other equity	17,076,539
Reduce：Goodwill and other intangible assets	-
Reduce：Deferred assets	1
Reduce：Treasury stocks	-
Total qualifying capital	272,462,778

Explain: 1. The numbers are accordance with the "Regulations Governing the Consolidated Capital Adequacy of Financial Holding Companies".

2. No need to prepare the format for the first and third quarters.

(d) The major objectives of BTLI are to safeguard the interests of the policy holders, to support the sustainable development of BTLI, and to protect the interests of its shareholders and stakeholders. BTLI is also subject to external capital requirement, such as setting aside legal reserve or special reserve.

In accordance with the Article 143-4 of the Insurance Act, the ratio of the risk based capital, divided by the total adjusted net capital of BTLI, shall not be lower than 200%. Besides, according to the

Regulations Governing Capital Adequacy of Insurance Companies and other requirements from the authorities, BTLI shall calculate its capital adequacy ratio and evaluate the future level of its capital adequacy at least once semiannually to ensure that BTLI is able to continually comply with the regulations.

As of December 31, 2016, BTLI's capital adequacy ratio was 189.33%, which was lower than 200%, regulated in Article 143-4 paragraph 1 of the Insurance Act. To raise its capital adequacy ratio, BTLI proactively improves its efficiency on its fund utilization. BTLI also sets up countermeasures to prevent itself from being limited on investment and operations to ensure it can adhere with its 2017 asset-liability matching plan.

In addition, on November 19, 2016, the parent company, Taiwan Financial Holding Co., Ltd., agreed to include a 10 billion capital injection to BTLI into its 2018 budget. The budget was also approved by the BTLI's and the Company's respective board of directors on February 22, 2017, as well as the Finance Committee of the Legislative Yuan R.O.C. on December 4, 2017.

(10) Related-party Transactions:

(a) Name of related party and relationship

Name	Relationship
Hua Nan Financial Holdings Co., Ltd. and its subsidiaries	Investee company of BOT and BTLI under the equity method
Tang Eng Iron Works Co., Ltd.	Investee company of BOT under the equity method
Kaohsiung Ammonium Sulfate Co., Ltd.	Investee company of BOT under the equity method (is completing of the liquidation on January 15, 2016)
Tai Yi Real Estate Management Co., Ltd.	Investee company of BOT under the equity method
Taiwan Business Bank Co., Ltd	Related-Party
Land Bank Of Taiwan	Related-Party
The Export-Import Bank of the Republic of China	Related-Party
Cathy United Bank	Related-Party
Chang Hwa Bank	Related-Party
Others	Directors, supervisors, managers and their relatives up to the second degree, affiliates and so on

(b) Name of related party and relationship

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

	December 31, 2017	December 31, 2016
Short-term employee benefits	$ 42,981	45,913
Retired benefits	1,284	11,446
	$ 44,265	57,359

(c) Name of related party and relationship

(i) Placement with banks

Name	December 31, 2017 Amount	December 31, 2017 Percentage of account balance	December 31, 2016 Amount	December 31, 2016 Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	$ 7,283	0.01	101,690	0.12

(ii) Bank deposits

Name	December 31, 2017 Amount	December 31, 2017 Percentage of account balance	December 31, 2016 Amount	December 31, 2016 Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	$ 317,818	0.66	209,950	0.43

(iii) Call loans to banks

	December 31, 2017 Highest balance	Ending balance	Interest rate range (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	$ 11,112,275	1,528,375	0.17~5.10	50,511

	December 31, 2016 Highest balance	Ending balance	Interest rate range (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	$ 49,325,120	3,060,900	0.17~3.30	51,762

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

	December 31, 2017 Highest balance	Ending balance	Interest rate range (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	$ 10,000,000	296,800	0.01~5.10	1,459

	December 31, 2016 Highest balance	Ending balance	Interest rate range (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	$ 12,371,120	-	0.17~8.00	2,975

The lending rates for the related party have no difference with the others.

(v) Deposits

Name	December 31, 2017 Amount	December 31, 2017 Percentage of account balance	December 31, 2016 Amount	December 31, 2016 Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	$ 376,291	0.01	399,156	0.18
Tang Eng Iron Works Co., Ltd.	-	-	13,309	-
Tai Yi Real Estate Management Co., Ltd.	10,333	-	605	-
Total	$ 386,624	0.01	413,070	0.18

The deposits rates for the above related parties are calculated using the board rates and the conditions are not different from the others.

(vi) Available-for-sale financial assets - current

Name	Summary	December 31, 2017	December 31, 2016
Hua Nan Financial Holdings Co., Ltd.	Financial bonds	$ 900,000	900,000
	Valuation adjustment	20,327	22,631
	Carrying amount	$ 920,327	922,631
	Interest receivable	$ 1,587	1,587

The interest income for the year ended 2017 and 2016 derived from the BTLI's financial bond investment on related party are $14,850 thousand dollars and $14,854 thousand dollars.

(vii) Loans

December 31, 2017							
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	27	14,354	9,642	9,642	-	None	None
House mortgages	104	574,881	521,316	521,316	-	Land and buildings	None
Call loans to banks	Land Bank of Taiwan Co., Ltd.	15,000,000	5,000,000	5,000,000	-	None	None
Call loans to banks	Hua Nan Financial Holdings Co., Ltd.	5,000,000	-	-	-	None	None
Call loans to banks	Taiwan Business Bank Co., Ltd.	3,000,000	-	-	-	None	None
Call loans to banks	Cathy United Bank Co., Ltd.	10,000,000	-	-	-	None	None
Call loans to banks	The Export-Import Bank of the Republic of China	1,800,000	1,500,000	1,500,000	-	None	None
Call loans to banks	Chang Hwa Bank Co., Ltd.	5,000,000	-	-	-	None	None
Long-term secured loans	Tai Yi Real Estate management Co., Ltd.	2,934	-	-	-	Land and buildings	None
Secured overdrafts loans	Tang Eng Iron Works Co., Ltd.	402,676	91,395	91,395	-	Land and factory	None
Short-term secured loans	Tang Eng Iron Works Co., Ltd.	100,000	100,000	100,000	-	Land and factory	None
Short-term secured loans	Tang Eng Iron Works Co., Ltd.	1,189,338	973,428	973,428	-	Land and factory	None
Medium-term secured loans	Tang Eng Iron Works Co., Ltd.	400,000	-	-	-	Land and factory	None
Medium-term secured loans	Tang Eng Iron Works Co., Ltd.	1,600,000	1,300,000	1,300,000	-	Land and factory	None

December 31, 2016							
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	32	13,922	9,153	9,153	-	None	None
House mortgages	110	662,165	581,249	581,249	-	Land and buildings	None
Call loans to banks	Land Bank of Taiwan Co., Ltd.	8,000,000	8,000,000	8,000,000	-	None	None
Call loans to banks	Hua Nan Financial Holdings Co., Ltd.	30,000,000	-	-	-	None	None
Call loans to banks	Taiwan Business Bank Co., Lrd	6,000,000	2,000,000	2,000,000	-	None	None
Call loans to banks	Cathy United Bank Co., Ltd	12,000,000	7,000,000	7,000,000	-	None	None
Call loans to banks	The Export-Import Bank of the Republic of China	4,000,000	2,650,000	2,650,000	-	None	None
Long-term secured loans	Tai Yi Real Estate management Co., Ltd.	3,162	2,934	2,934	-	Land and buildings	None
Call loans to banks	Chang Hwa Bank Co., Ltd	7,000,000	6,000,000	6,000,000	-	None	None
Secured overdrafts loans	Tang Eng Iron Works Co., Ltd.	170,947	170,947	170,947	-	Land and factory	None
Short-term secured loans	Tang Eng Iron Works Co., Ltd.	100,000	100,000	100,000	-	Land and factory	None
Short-term secured loans	Tang Eng Iron Works Co., Ltd.	650,000	650,000	650,000	-	Land and factory	None
Medium-term secured loans	Tang Eng Iron Works Co., Ltd.	600,000	400,000	400,000	-	Land and factory	None
Medium-term secured loans	Tang Eng Iron Works Co., Ltd.	1,550,000	950,000	950,000	-	Land and factory	None

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 respective related 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.

(viii) Short-term borrowings

	December 31, 2017			
	Highest balance	Ending balance	Interest rate range (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	$ 800,000	-	0.300	38

	December 31, 2016			
	Highest balance	Ending balance	Interest rate range (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	$ 700,000	-	0.300	65

(ix) Payables

Name	Summary	December 31, 2017	December 31, 2016
Hua Nan Financial Holdings Co., Ltd.	Agent fee	$ 487	880
Hua Nan Financial Holdings Co., Ltd.	Interest expense	3	-
		$ 490	880

(x) Broker service fee incomes

Name	2017	2016
Hua Nan Financial Holdings Co., Ltd.	$ -	25

(xi) Commission expenses

Name	Nature	2017	2016
Hua Nan Financial Holdings Co., Ltd.	Agent fee	$ 10,592	56,324

(xii) Service charges

Name	Nature	2017	2016
Hua Nan Financial Holdings Co., Ltd.	Remittance fee and insurance agent fee	$ 62	63

(xiii) Other operating expenses

Name	Nature	2017	2016
Hua Nan Financial Holdings Co., Ltd.	Sales charge	$ 11	-
Hua Nan Financial Holdings Co., Ltd.	Business expense	961	961
Hua Nan Financial Holdings Co., Ltd.	Service charge	5	8
Total		$ 977	969

(xiv) The Company and its subsidiary have no different in transaction price between related party and non-related party.

(d) Information on related party transactions amounting to more than $100,000 thousand:

Since the related-party transactions had been offset when the Company prepared the consolidated financial statements, only one of the consolidated parties needs to disclose its related-party transaction.

The company and its subsidiary have no different in transaction price between related party and non-related party.

(i) The subsidiary, BOT

1) Name of related party and relationship

Name	Relationship
Taiwan Financial Holding Co., Ltd.	Holding company of BOT
BankTaiwan Life Insurance Co., Ltd.	Wholly-owned subsidiary of Taiwan Financial Holdings
BankTaiwan Securities Co., Ltd.	Wholly-owned subsidiary of Taiwan Financial Holdings
Hua Nan Financial Holdings Co., Ltd. and its subsidiaries	Investee company of BOT under the equity method
Tang Eng Iron Works Co., Ltd.	Investee company of BOT under the equity method
Kaohsiung Ammonium Sulfate Co., Ltd.	Investee company of BOT under the equity method (is completing of the liquidation on January 15, 2016)
Tai Yi Real Estate Management Co., Ltd.	Investee company of BOT under the equity method
Taiwan Business Bank Co., Ltd	Related- Party
Land Bank of Taiwan Co., Ltd	Related- Party
The Export-Import Bank of The ROC Co., Ltd	Related- Party

Name	Relationship
Cathy United Bank	Related- Party
Chang Hwa Bank	Related- Party
Others	Directors, supervisors, managers and their relatives up to the second degree, affiliates and so on

2) Other related party transactions

a) Call loans to banks

	December 31, 2017			
	Highest balance	Ending balance	Interest rate range (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	$ 11,112,275	1,528,375	0.17~5.10	50,511

	December 31, 2016			
	Highest balance	Ending balance	Interest rate range (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	$ 49,325,120	3,060,900	0.17~3.30	51,762

b) Deposits of banks

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

c) Call loans from banks (recorded in Deposit of Central Bank and Other Bank)

	December 31, 2017			
	Highest balance	Ending balance	Interest rate range (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	$ 10,000,000	296,800	0.01~5.10	1,459

	December 31, 2016			
	Highest balance	Ending balance	Interest rate range (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	$ 12,371,120	-	0.17~8.00	2,975

d) Deposits

	December 31, 2017		December 31, 2016	
Name	Amount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holding Co., Ltd.	$ 130,657	-	178,808	0.08
BankTaiwan Life Insurance Co., Ltd.	3,656,360	0.07	3,848,677	1.69
BankTaiwan Securities Co., Ltd.	377,400	0.01	322,246	0.14
Hua Nan Financial Holdings Co., Ltd.	376,291	0.01	399,156	0.18
Tang Eng Iron Works Co., Ltd.	-	-	13,309	-
Tai Yi Real Estate Management Co., Ltd.	10,333	-	605	-
Total	$ 4,551,041	0.09	4,762,801	2.09

e) Interest income

Name	2017 Amount	2017 Percentage of account balance	2016 Amount	2016 Percentage of account balance
Taiwan Financial Holdings	$ 132,410	0.22	143,325	0.24
BankTaiwan Life Insurance Co., Ltd.	520	-	675	-
Total	$ 132,930	0.22	144,000	0.24

f) Service fee income

Name	2017 Amount	2017 Percentage of account balance	2016 Amount	2016 Percentage of account balance
BankTaiwan Life Insurance Co., Ltd.	$ 568,193	9.76	1,330,860	21.28
BankTaiwan Securities Co., Ltd.	2,935	0.05	1,837	0.03
Total	$ 571,128	9.81	1,332,697	21.31

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

Name	2017 Amount	2017 Percentage of account balance	2016 Amount	2016 Percentage of account balance
BankTaiwan Life Insurance Co., Ltd.	$ 372,504	1.18	(199,355)	1.22
BankTaiwan Securities Co., Ltd.	(4,315)	0.01	(2,301)	0.01
Total	$ 368,189	1.19	(201,656)	1.23

h) Loans

December 31, 2017							
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	27	14,354	9,642	9,642	-	None	None
House mortgages	104	574,881	521,316	521,316	-	Land and buildings	None
Call loans to banks	Land Bank of Taiwan Co., Ltd.	15,000,000	5,000,000	5,000,000	-	None	None
Call loans to banks	Hua Nan Financial Holdings Co., Ltd.	5,000,000	-	-	-	None	None
Call loans to banks	Taiwan Business Bank Co., Ltd.	3,000,000	-	-	-	None	None
Call loans to banks	Cathy United Bank Co., Ltd.	10,000,000	-	-	-	None	None
Call loans to banks	The Export-Import Bank of the Republic of China	1,800,000	1,500,000	1,500,000	-	None	None
Call loans to banks	Chang Hwa Bank Co., Ltd.	5,000,000	-	-	-	None	None
Long-term secured loans	Tai Yi Real Estate management Co., Ltd	2,934	-	-	-	Land and buildings	None
Short-term loans	Taiwan Financial Holdings Co., Ltd.	16,250,000	16,250,000	16,250,000	-	None	None
Short-term secured loans	Bank Taiwan Securities Co., Ltd.	500,000	-	-	-	Government (or financial institutions) guarantee	None
Secured overdrafts loans	Tang Eng Iron Works Co., Ltd.	402,676	91,395	91,395	-	Land and factory	None

December 31, 2017							
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		
Short-term secured loans	Tang Eng Iron Works Co., Ltd.	100,000	100,000	100,000	-	Land and factory	None
Shor-term secured loans	Tang Eng Iron Works Co., Ltd.	1,189,338	973,428	973,428	-	Land and factory	None
Medium-term secured loans	Tang Eng Iron Works Co., Ltd.	400,000	-	-	-	Land and factory	None
Medium-term secured loans	Tang Eng Iron Works Co., Ltd.	1,600,000	1,300,000	1,300,000	-	Land and factory	None

December 31, 2016							
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	32	13,922	9,153	9,153	-	None	None
House mortgages	10	662,165	581,249	581,249	-	Land and buildings	None
Call loans to banks	Land Bank of Taiwan Co., Ltd.	8,000,000	8,000,000	8,000,000	-	None	None
Call loans to banks	Hua Nan Financial Holding Co., Ltd.	30,000,000	-	-	-	None	None
Call loans to banks	Taiwan Business Bank Co., Ltd.	6,000,000	2,000,000	2,000,000	-	None	None
Call loans to banks	Cathy United Bank Co., Ltd.	12,000,000	7,000,000	7,000,000	-	None	None
Call loans to banks	The Export-Import Bank of the Republic of China	4,000,000	2,650,000	2,650,000	-	None	None
Long-term secured loans	Tai Yi Real Estate management Co., Ltd.	3,162	2,934	2,934	-	Land and buildings	None
Short-term secured loans	Taiwan financial Holding Co., Ltd.	16,750,000	16,750,000	16,750,000	-	Government (or financial institutions) guarantee	None
Secured overdrafts loans	Tang Eng Iron Works Co., Ltd.	170,947	170,947	170,947	-	Land and factory	None
Short-term secured loans	Tang Eng Iron Works Co., Ltd.	100,000	100,000	100,000	-	Land and factory	None
Short-term secured loans	Tang Eng Iron Works Co., Ltd.	650,000	650,000	650,000	-	Land and factory	None
Short-term secured loans	Tang Eng Iron Works Co., Ltd.	16,750,000	16,750,000	16,750,000	-	Land and factory	None
Medium-term secured loans	Tang Eng Iron Works Co., Ltd.	600,000	400,000	400,000	-	Land and factory	None
Medium-term secured loans	Tang Eng Iron Works Co., Ltd.	1,550,000	950,000	950,000	-	Land and factory	None
Short-term secured loans	BankTaiwan Securities Co., Ltd.	500,000	-	-	-	Real estate and government (or financial institutions) guarantee	None

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

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

i) Derivative instruments

December 31, 2017						
Name of relative party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Balance sheet	
					Account name	Amount
BankTaiwan Life Insurance Co., Ltd.	Swap agreement	2010.08.20~ 2018.04.20	19,890,440	(221,156)	Valuation adjustment of financial assets measured at fair value through profit or loss - swap	(221,156)

December 31, 2016						
Name of relative party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Balance sheet	
					Account name	Amount
BankTaiwan Life Insurance Co., Ltd.	Swap agreement	2009.02.24~ 2017.04.19	19,411,560	216,252	Valuation adjustment of financial assets measured at fair value through profit or loss - swap	216,252

(ii) The subsidiary, BTLI

1) Name of related party and relationship

Name	Relationship
Taiwan Financial Holding Co., Ltd.	Holding company of BTLI
Bank of Taiwan Co., Ltd.	Wholly-owned subsidiary of Taiwan Financial Holdings
BankTaiwan Securities Co., Ltd.	Wholly-owned subsidiary of Taiwan Financial Holdings
BankTaiwan Insurance Brokers Co., Ltd	Wholly-owned subsidiary of BOT
Hua Nan Financial Holdings Co., Ltd. and its subsidiaries	Investee company of BOT and BTLI under the equity method
Others	Directors, supervisors, managers and their relatives up to the second degree, affiliates and so on

2) Other related party transactions

a) Secured loans

The real estate secured loans to the directors, supervisors, general manager, vice general manger, employees with credit amounts, their spouses and their first or second degree relatives on December 31, 2017 and 2016 are as follows:

Name	December 31, 2017	December 31, 2016
Real estate secured loans	$ 217,407	268,259
Interest receivables	$ 151	178

All interest rate collars on December 31, 2017 and 2016 are 0.820%~1.657% and 0.820%~1.670%, respectively.

b) Bank deposits

The bank deposits in the related banks and the relevant interest revenues on December 31, 2017 and 2016 were as follows:

		December 31, 2017		December 31, 2016	
Name	Account	Amount	Percentage of account balance	Amount	Percentage of account balance
Bank of Taiwan Co., Ltd	Bank deposits	$ 9,251,340	22.07	7,500,315	30.30
Hua Nan Financial Holdings	Bank deposits	5,488	0.01	99,859	0.40
		$ 9,256,828		7,600,174	

The relevant interest revenues of the subsidiary, BTLI, in 2017 and 2016 were $41,304 thousand dollars and $35,771 thousand dollars, respectively.

c) Current tax assets

Name	Summary	December 31, 2017	December 31, 2016
Taiwan Financial Holdings	Refundable tax	$ 2,405,306	1,047,093

d) Available-for-sale financial assets

Name	Summary		December 31, 2017	December 31, 2016
Hua Nan Financial Holdings Co., Ltd.	Financial bonds (recorded in the available-for-sale financial assets)	Cost	$ 900,000	900,000
		Valuation adjustment	20,327	22,631
		Carrying amount	$ 920,327	922,631
		Interest receivable	$ 1,587	1,587

Both of the interest revenues from the aforementioned financial bonds in 2017 and 2016 are $14,850 thousand and $14,854 thousand dollars.

e) Derivatives

December 31, 2017						
Name of relative party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Balance sheet	
					Account name	Amount
Bank of Taiwan Co., Ltd.	Swap agreement	2017.10.20~ 2018.01.16	USD665,500	221,227	Valuation Adjustment on Financial Assets Designated as at Fair Value through Profit or Loss	221,227
			USD -	(10,868)	Valuation adjustment of financial liabilities measured at fair value through profit or loss - -current- held for trading-swap	-

December 31, 2016						
Name of relative party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Balance sheet	
					Account name	Amount
Bank of Taiwan Co., Ltd.	Swap agreement	2016.07.04~ 2017.04.17	USD -	10,754	Valuation Adjustment on Financial Assets Designated as at Fair Value through Profit or Loss	-
			USD611,000	45,151	〃	(217,305)

f) Gain (loss) on disposal of investments

Name	Summary	2017	2016
Bank of Taiwan	Gain (loss) on disposal of investment	$ (20,030)	111,460

g) Commission fees expense

Name	Summary	2017	2016
Bank of Taiwan Co., Ltd	Sales charge	$ 29,882	30,453
BankTaiwan Insurance Brokers Co., Ltd	Agent fee	495,553	1,263,670
Hua Nan Financial Holding	Agent fee	10,592	56,324
Total		$ 536,027	1,350,447

h) Exchange loss (gain)

Name	Summary	2017	2016
Bank of Taiwan Co., Ltd	forward and swap	$ (320,727)	32,729
BankTaiwan Insurance Brokers Co., Ltd	Commission	(977)	178
Total		$ (321,704)	32,907

In 2017 and 2016, the exchange gains (losses) arising from holding foreign currency assets or liabilities was $(10,794,176) thousand and $(3,696,679) thousand, and the exchange gains (losses) arising from related party transaction was $(321,704) thousands and $32,907 thousands.

(iii) The subsidiary, BTS

1) Name of related party and relationship

Name	Relationship
Taiwan Financial Holding Co., Ltd.	Holding company of BTS
Bank of Taiwan Co., Ltd.	Wholly-owned subsidiary of Taiwan Financial Holdings
BankTaiwan Life Insurance Co., Ltd.	Wholly-owned subsidiary of Taiwan Financial Holdings
BankTaiwan Insurance Brokers Co., Ltd	Wholly-owned subsidiary of BOT
Hua Nan Financial Holdings Co., Ltd. and its subsidiaries	Investee company of BOT and BTLI under the equity method
Others	Directors, supervisors, managers and their relatives up to the second degree, affiliates and so on

2) Other related party transactions

a) Bank deposits

The bank deposits in the Bank of Taiwan on December 31, 2017 and 2016 were as follows:

	December 31, 2017	December 31, 2016
Cash and cash equivalents	$ 46,100	82,880
Operation guarantee deposits (recorded in other non-current assets)	230,000	230,000
Amounts awaiting delivery (recorded in other current assets)	1,457	3,017
Collections for underwriting stock value (recorded in other current assets)	99,843	6,349
	$ 377,400	322,246

The bank deposits in the Hua Nan Financial Holdings on December 31, 2017 and 2016 were as follows:

	December 31, 2017	December 31, 2016
Cash and cash equivalents	$ 1,795	1,831

The interest revenues from the deposits in the Bank of Taiwan on December 31, 2017 and 2016 were $826 thousand and $1,194 thousand dollars, respectively.

b) Short-term loans borrowings

	December 31, 2017				
			Interest rate range (%)		Interest
Name	Highest balance	Ending balance	NTD	Foreign currency	expense, net
Bank of Taiwan Co., Ltd	$ 561,550	-	-	1.250~1.780	520
Hua Nan Financial Holdings Co., Ltd.	$ 800,000	-	0.300	-	38

	December 31, 2016				
			Interest rate range (%)		Interest
Name	Highest balance	Ending balance	NTD	Foreign currency	expense, net
Bank of Taiwan Co., Ltd	$ 3,767,250	-	-	0.708~1.180	675
Hua Nan Financial Holdings Co., Ltd.	$ 700,000	-	0.300	-	65

(11) Pledged Assets:

The carrying amounts of the pledged assets offered by the Company and its subsidiaries are as follows:

(a) Parent company-Taiwan Financial Holding Co., Ltd.: None.

(b) The subsidiary, BOT

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

(c) The subsidiary, BOT

Pledged assets	Purpose of pledge	December 31, 2017	December 31, 2016
Government bonds (accounted in refundable deposits)	Operating guarantee	$ 3,443,596	3,495,065
Cash (accounted in refundable deposits)	Lease and futures exchange guarantee	41,101	40,610
		$ 3,484,697	3,535,675

(d) The subsidiary, BTS

Pledged assets	Purpose of pledge	December 31, 2017	December 31, 2016
Property and Equipment—Land	Short-term borrowings	$ 379,309	379,309
Property and Equipment—Building	Short-term borrowings	78,334	82,105
		$ 457,643	461,414

(12) Commitments and Contingencies:

(a) Commitments and contingencies

(i) Commitments and contingencies of the subsidiary, BOT

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

(ii) Commitments and contingencies of the subsidiary, BTLI

The contract guarantees on behalf of counter parties of the subsidiary, BTLI, are $2,272 thousand and $648 thousand on December 31, 2017 and 2016, respectively.

(iii) Commitments and contingencies of the subsidiary, BTS

The subsidiary, BTS, had several proxy delivery agreements with certain securities companies. In accordance with these agreements, the companies have agreed to be BTS's first and second proxy. If BTS is unable to fulfill its obligation to the TSE, the proxies must then act pursuant to said obligations and responsibilities.

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

Trust assets	December 31, 2017	December 31, 2016
Deposits		
Deposits in BOT	$ 33,934,811	30,143,837
Deposits in other banks	892,101	3,551,648
Short term investment		
Investment in funds	164,744,058	169,839,348
Investment in bonds	246,406,386	239,092,992
Common stock investment–marketable securities	50,742,896	49,446,789
Receivables		
Interest receivable	1,470,549	1,724,011
Cash dividend receivable	591	2,813
Receivables from trading securities	211,773	266,618
Receivables from forward contracts	4,498,190	8,767,532

Trust assets	December 31, 2017	December 31, 2016
Prepaid expense	-	823
Real estate		
Land	17,554,272	16,646,162
Buildings	121,433	101,832
Construction in progress	20,867,817	19,336,087
Marketable securities under custody	76,946,911	67,864,278
Total of trust assets	$ 618,391,788	606,784,770

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

Notes: The funds invested by the OBU branch of the subsidiary, BOT, are included. The amounts as of December 31, 2017 and 2016 are $297,466 thousand dollars and $318,007 thousand dollars, respectively.

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

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

(13) Profitability:

(a) The Company

Unit: %

Item		December 31, 2017	December 31, 2016
Return on Assets(note 6)	pre-tax	5.22	8.24
	after-tax	5.25	8.25
Return on Equity(note 8)	pre-tax	5.53	8.77
	after-tax	5.56	8.78
Profit Margin		98.99	99.17

(b) The Company and its subsidiaries

Unit: %

Item		December 31, 2017	December 31, 2016
Return on Assets(note 7)	pre-tax	0.32	0.51
	after-tax	0.32	0.49
Return on Equity(note 8)	pre-tax	5.52	9.21
	after-tax	5.56	8.78
Profit Margin		10.06	23.78

(c) The subsidiary, BOT

Unit: %

Item		December 31, 2017	December 31, 2016
Return on Assets(note 7)	pre-tax	0.43	0.63
	after-tax	0.41	0.59
Return on Equity(note 8)	pre-tax	6.91	10.47
	after-tax	6.59	9.80
Profit Margin		31.44	39.50

(d) The subsidiary, BTLI

Unit: %

Item		December 31, 2017	December 31, 2016
Return on Assets	pre-tax	(1.12)	(0.91)
	after-tax	(0.85)	(0.73)
Return on Equity	pre-tax	(39.58)	(28.72)
	after-tax	(30.12)	(23.02)
Profit Margin		(32.10)	note 9

(e) The subsidiary, BTS

Unit: %

Item		December 31, 2017	December 31, 2016
Return on Assets	pre-tax	2.39	0.62
	after-tax	2.08	0.48
Return on Equity	pre-tax	6.65	1.62
	after-tax	5.78	1.25
Profit Margin		31.96	9.89

Note 1: Return on assets=Income before (after) income tax/Average total assets.
Note 2: Return on Shareholder's Equity=Income before (after) income tax/Average equity.
Note 3: Profit margin=Income after income tax/Net revenues.
Note 4: Income before (after) income tax is the income for the whole year of 2015 and 2014.
Note 5: The above profitability ratios are at annual rates.
Note 6: Return on total assets is calculated by the pre-tax or after-tax earnings, plus, excess preferential interest expense.
Note 7: The return on total assets of the Group is the pre-tax or after-tax earnings, plus, the excess preferential interest expense divided by the assets, less, the temporary advances and the total assets of the Government employees' department's.
Note 8: Return on equity is calculated by pre-tax or after-tax earnings, plus, excess favorable interest expense.
Note 9: BankTaiwan Life Insurance December 31, 2016 net profit rate is not expressed because 2015 have a large number of full payment, insurance claims and payment increase due to net profit rate of net income less than zero.

(14) Losses Due to Major Disasters: None

(15) Specific Inherent Risks in Operating as Futures Dealer: None

(16) Other:

(a) The employee benefit expenses, depreciation, depletion and amortization, categorized by function, were as follows:

By function / By nature	December 31, 2017			December 31, 2016		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	66,365	11,233,950	11,300,315	68,921	11,131,362	11,200,283
Labor and health insurance	101,905	553,741	655,646	99,746	548,890	648,636
Pension	3,180	893,076	896,256	3,315	917,679	920,994
Others	-	286,332	286,332	-	291,576	291,576
Depreciation	110,413	781,420	891,833	106,565	791,385	897,950
Amortization	-	375,103	375,103	-	367,611	367,611

The number of employees in 2017 and 2016 were 8,986 and 8,833, respectively.

(b) Government audit adjustments for fiscal year ended 2016

The accounting records as at and for the year ended 2016, have been audited and examined by the MoA, and the resulting adjustments were summarized as follows:

The Company and its subsidiaries

Balance Sheet	As Previously Reported December 31, 2016	Adjustments —Increase (Decrease)	As Audited by the MoA, December 31, 2016
Assets			
Cash and cash equivalents	$ 136,216,466	(8,678)	136,207,788
Financial assets measured at fair value through profit or loss, net	213,733,010	10,008	213,743,018
Accounts receivable, net	70,123,711	33,882	70,157,593
Current income tax assets	3,483,836	(1,344,364)	2,139,472
Investments accounted for using equity method, net	356,316,543	3,495,065	359,811,608
Deferred tax assets	1,360,026	1,375,084	2,735,110
Other assets, net	12,487,328	(3,496,394)	8,990,934
Liabilities			
Current income tax liabilities	708,065	19,122	727,187
Other liabilities, net	7,262,617	33,882	7,296,499
Stockholders' equity			
Retained earnings	54,001,023	11,599	54,012,622

Income statement	As Previously Reported 2016	Adjustments —Increase (Decrease)	As Audited by the MoA, 2016
Income tax expense	$ 1,122,840	(11,599)	1,111,241
Net income	14,811,611	11,599	14,823,210

Taiwan Financial Holding

Government audit adjustments for fiscal year ended December 31, 2016:

Balance Sheet	As Previously Reported December 31, 2016	Adjustments —Increase (Decrease)	As Audited by the MoA, December 31, 2016
Assets			
Current income tax assets	$ 302,139	4,402	306,541
Other financial assets	288,727,704	7,197	288,734,901
Stockholders' equity			
Unappropriated retained earnings	54,001,023	11,599	54,012,622

Income statement	As Previously Reported 2016	Adjustments —Increase (Decrease)	As Audited by the MoA, 2016
Interest revenue	$ 15,089,806	7,197	15,097,003
Net income before income tax	14,776,895	7,197	14,784,092
Income tax benefit	34,716	4,402	39,118
Net income	14,811,611	11,599	14,823,210

Revised entries by the MoA in 2016 were as follows:

Item	Adjustment accounts	Amount revised by the MoA		Explanation of revision by the MoA
1.	Current income tax assets	$ 1,367,909		Adjusted taxable income by amendment.
	Current income tax assets	7,197		
	Income tax expense		1,363,507	
	Income tax expense		4,402	
	Income tax expense		7,197	

Bank of Taiwan

Government audit adjustments for fiscal year ended December 31, 2016:

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

Income statement	As Previously Reported 2016	Adjustments —Increase (Decrease)	As Audited by the MoA, 2016
Income tax expense	$ 1,785,645	(5,086)	1,780,559
Net income	17,648,971	5,086	17,654,057

Revised entries by the MoA in 2016 were as follows:

Item	Adjustment accounts	Amount revised by the MoA		Explanation of revision by the MoA
1.	Current income tax assets	$ 83		The accountant of Hong Kong branch adjusted taxable income.
	Income tax expense		83	
2.	Current income tax liabilities	5,003		Head office adjusted taxable income by amendment.
	Income tax expense		5,003	
3.	Prepaid income taxes	24,125		Reversal of reclassification made by BankTaiwan Insurance Brokers Co., Ltd. to adjust taxable income.
	Income tax payable		24,125	

BankTaiwan Life Insurance

The accounting records as at and for the year ended 2016, have been auditred and examined by the MoA, and the resulting adjustments were summarized as follows:

Government audit adjustments for fiscal year ended December 31, 2016:

Balance Sheet	As Previously Reported December 31, 2016	Adjustments —Increase (Decrease)	As Audited by the MoA, December 31, 2016
Assets			
Current income tax assets	$ 1,052,158	(5,065)	1,047,093
Deferred tax assets	2,423,035	7,175	2,430,210
Stockholders' equity			
Unappropriated retained earnings	(6,794,213)	2,110	(6,792,103)

Income statement	As Previously Reported 2016	Adjustments —Increase (Decrease)	As Audited by the MoA, 2016
Income tax benefit	$ (641,320)	(2,110)	(643,430)
Net loss	(2,602,814)	2,110	(2,600,704)

Revised entries by the MoA in 2016 were as follows:

Item	Adjustment accounts	Amount revised by the MoA		Explanation of revision by the MoA
1.	Deferred tax assets	$ 7,175		Adjusted taxable income by amendment.
	Current income tax assets		5,065	
	Income tax benefit		2,110	

BankTaiwan Securities

There is no different between finance report and adjustment by MoA, no need to adjust the account.

(c) Supplementary information for government employees' insurance department

(i) Balance sheets

	Government employees' insurance department	
	December 31, 2017	December 31, 2016
Cash and cash equivalents	$ 44,300,291	41,355,259
Financial assets measured at fair value through profit or loss	171,775,507	145,324,912
Receivables, net	13,045,439	18,317,170
Held-to-maturity financial assets	62,802,459	56,829,157
Property and equipment, net	5,842	7,560
Intangible assets, net	6,017	8,268
Other assets, net	3,228,093	3,031,254
Total assets	$ 295,163,648	264,873,580

	Government employees' insurance department	
	December 31, 2017	December 31, 2016
Payables	$ 107,877	32,731
Provisions	295,055,660	264,840,836
Other liabilities	111	13
Total liabilities	$ 295,163,648	264,873,580

(ii) Income statement

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

Note: According to Government Employees and School Staff Insurance Act, if GESSI experiences a loss, the loss before May 31, 1999, would be covered by the Ministry of Finance; and the loss after that date would be covered by an adjustment of the insurance premium.

(d) Financial information classified by business type

December 31, 2017

Businesses / Items	Banking business	Insurance business	Securities business	Government insurance	Other operations	Total
Net interest income	23,673,173	9,526,356	147,693	1,758,366	28	35,105,616
Non-interest income, net	38,364,878	800,531	515,904	(1,623,774)	(10,221)	38,047,318
Net revenue	62,038,051	10,326,887	663,597	134,592	(10,193)	73,152,934
Bad debt expense	(1,685,005)	4,021	-	-	-	(1,680,984)
Provisions	(30,214,824)	(12,573,602)	-	-	-	(42,788,426)
Operating expenses	(19,933,668)	(843,220)	(390,987)	(134,592)	(127,118)	(21,429,585)
Net income before income tax	10,204,554	(3,085,914)	272,610	-	(137,311)	7,253,939
Income tax expenses	(893,506)	952,455	(31,232)	-	81,001	108,718
Net income	9,311,048	(2,133,459)	241,378	-	(56,310)	7,362,657

December 31, 2016

Businesses / Items	Banking business	Insurance business	Securities business	Government insurance	Other operations	Total
Net interest income	24,258,285	8,783,358	125,058	1,670,627	25	34,837,353
Non-interest income, net	37,805,776	(9,074,858)	320,820	(1,535,989)	(9,241)	27,506,508
Net revenue	62,064,061	(291,500)	445,878	134,638	(9,216)	62,343,861
Bad debt expense	(5,183,736)	11,687	-	-	-	(5,172,049)
Provisions	(18,843,200)	(1,035,337)	-	-	-	(19,878,537)
Operating expenses	(19,900,416)	(832,906)	(355,165)	(134,638)	(135,699)	(21,358,824)
Net income before income tax	18,136,709	(2,148,056)	90,713	-	(144,915)	15,934,451
Income tax expenses	(1,780,559)	643,430	(13,231)	-	39,119	(1,111,241)
Net income	16,356,150	(1,504,626)	77,482	-	(105,796)	14,823,210

(e) There were cross-selling products between the subsidiaries. The subsidiary which offers products to the consigned subsidiary, will incur commission expenses in accordance to the product sold. Please refer to note 10 for further information.

(f) Internal control of corporate governance

(i) The board of directors: The board of directors complies with laws, regulations, articles of incorporation, and the resolutions of the shareholders' meetings of the company. In addition, they supervises and the management of the company, and are responsible for the Company's overall operations. In accordance with Article 26-3 of the “Securities and Exchange Act,” and Article 2 of the “Regulations Governing Procedure for Board of Directors Meetings of Public Companies”, the Company’s establishes its own “Rules and Procedures for the Meeting of the Board of Directors”. The agenda of the board meetings, operational procedures, required content of meeting minutes, public announcements, and other compliance requirements shall be handled in accordance with the aforementioned rules. The board of directors of company shall meet at least once every month. Board members shall be concerned with protecting the rights and interests of shareholders, conduct corporate affairs faithfully and act with the care of a good administrator, exercising their

powers with a high degree of prudence and self-discipline.

(ii) Audit committees: The main function of the Audit Committee is to supervise the following matters: fair presentation of the financial reports of this Corporation; the hiring (and dismissal), independence and the performance of certificated public accountants; the effective implementation of the internal control system; compliance with relevant laws and regulations; management of the existing or potential risks of this Corporation. Moreover, the audit committee charter is established by referring to the "Regulations Governing the Exercise of Powers by Audit Committees of Public Companies" to improve operating efficiency and corporate governance. The audit committees of the Company shall meet at least once every quarter to ensure the credibility of corporate governance and information transparency.

(iii) In order to establish a good system of corporate governance, fulfill the responsibility of business operation and protect the legitimate rights and interests of shareholders and other parties, the Company considered its organizational structure and operating activities and referred to Article 51 of the "Financial Holding Company Act" and Article 4 of the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries" to establish the internal control system.

1) Internal controls: The basic objectives of internal controls of a financial holding company or banking business are to promote sound operations and, through joint compliance by the board of directors, management, and all personnel, to reasonably ensure that the following objectives are achieved:

   a) Effectiveness and efficiency of operations;

   b) Reliability, timeliness, transparency and compliance of reporting; and

   c) Compliance with applicable rules and regulations.

2) Internal audit: the Company sets up an internal audit unit that is directly subsidiary to the board of directors. The unit is required to report its audit business to the board of directors or audit committee at a minimum period of every six months.

3) Legal compliance: the Company sets up a compliance unit under the General President to take charge of the planning, management, and execution of the regulatory compliance system. Another high level manager shall also be assigned to act as the chief compliance officer for the head office to conduct the compliance affairs. The officer should make a report to the board of directors or the audit committee at least semiannually.

4) Risk Management Mechanism: the Company formulates adequate risk management policies and procedures and establishes operationally independent and effective risk management mechanisms, by which to assess and monitor the respective risk-bearing capacity, and current status of risks already incurred, and to determine their compliance with the risk response strategies and risk management procedures.

(g) Implementation Rules of Legal Compliance

(i) For planning, managing, and executing of legal compliance, the Company and its subsidiaries formulate the implementation guidelines of legal compliance in accordance with the Article 6 of the

Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries.

(ii) The Department of Compliance is responsible for:

1) Establishing the system for conveying, consulting, coordinating and communicating the regulations.
2) Ensuring all the guidelines are updated on a timely basis so that each operation activity is in conformity with the regulations all the time.
3) Formulating the assessment procedures of legal compliance, supervising regularly the executions of self-assessment of each operation unit, and evaluating its effectiveness. The results of the self-assessment will be treated as part of the performance review after reporting them to the General Manager.
4) Supervising the execution of self-inspection of legal compliance semiannually in accordance with the Article 6 of the Company's internal guideline " the Regulations of Internal Control System."
5) Analyzing the reasons and making suggestions on material weakness and malpractice of legal compliance of each operation unit. The Department shall report to the management, and then, to the Audit Committee and Board of Directors.
6) Providing appropriate legal compliance training to the members of each operation unit.
7) Filing electronically the information on the chief and the members of the Department of Compliance, as well as training with the competent authority.

h) Financial statements of Taiwan Financial Holding Co., Ltd.

TAIWAN FINANCIAL HOLDING CO., LTD.
Balance Sheet
December 31, 2017 and 2016
(expressed in thousands of New Taiwan dollars)

Assets	December 31, 2017 Amount	%	December 31, 2016 (Restated) Amount	%
Cash and cash equivalents	$ 140,733	-	278,860	-
Receivables, net	3	-	5	-
Current tax assets	289,905	-	306,541	-
Investments under equity method, net	302,173,032	100	288,734,901	100
Property and equipment, net	5,049	-	5,809	-
Intangible assets	280	-	292	-
Other assets, net	6,302	-	22,660	-
Total assets	$ 302,615,304	100	289,349,068	100

Liabilities and Equity	December 31, 2017 Amount	%	December 31, 2016 (Restated) Amount	%
Liabilities:				
Payables	$ 23,813	-	22,193	-
Other borrowings	16,250,000	5	16,750,000	6
Provision	121,463	-	102,318	-
Other liabilities	94	-	179	-
Total liabilities	16,395,370	5	16,874,690	6
Equity :				
Capital stock	90,000,000	30	90,000,000	31
Capital surplus	111,385,226	37	111,385,217	38
Retained earnings:				
Legal reserve	6,793,230	2	5,392,503	2
Special reserve	41,357,939	14	32,983,414	12
Unapporpriated retained earnings	12,121,258	4	15,636,705	5
Total retained earnings	60,272,427	20	54,012,622	19
Other equity	24,562,281	8	17,076,539	6
Total equity	286,219,934	95	272,474,378	94
Total liabilities and equity	$ 302,615,304	100	289,349,068	100

TAIWAN FINANCIAL HOLDING CO., LTD.
Statements of Comprehensive Income
For the years ended December 31, 2017 and 2016
(expressed in thousands of New Taiwan dollars,except earnings per share)

	2017		2016		Percentage
	Amount	%	Amount	%	change
Revenue :					
Share of profit of subsidiaries, associates and joint ventures accounted for using equity method	$ 7,577,862	100	15,097,003	100	(50)
Other gains	2,401	-	2,746	-	(13)
	7,580,263	100	15,099,749	100	(50)
Expense :					
Operating expenses	(155,914)	2	(162,772)	1	(4)
Other expenses and losses	(142,693)	2	(152,885)	1	(7)
	(298,607)	(4)	(315,657)	(2)	(5)
Net income before income tax	7,281,656	96	14,784,092	98	(51)
Income tax expense	81,001	1	39,118	-	107
Net income	7,362,657	97	14,823,210	98	(50)
Other comprehensive income (losses):					
Components of other comprehensive income that will not be reclassified to profit or loss					
Gains (losses) on remeasurements of defined benefit plans	(13,588)	-	3,207	-	(524)
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(1,142,574)	(15)	(835,219)	(6)	(37)
Income tax related to items Components that will not be reclassified to profit or loss	-	-	-	-	-
Total items that will not be reclassified to profitt or loss	(1,156,162)	(15)	(832,012)	(6)	(39)
Components of other comprehensive income that will be reclassified to profit or loss					
Share of other comprehensive income of associates and joint ventures accounted for using equity method	7,540,071	99	4,799,336	32	57
Income tax related to items Components that will not be reclassified to profit or loss	-	-	-	-	-
Total items that will be reclassified to profitt or loss	7,540,071	99	4,799,336	32	57
Other comprehensive income (losses) for the period, net of income tax	6,383,909	84	3,967,324	26	61
Total comprehensive (losses) income for the period	$ 13,746,566	181	18,790,534	124	(27)
Earnings per share (in New Taiwan Dollars)	$ 0.82		1.65		

TAIWAN FINANCIAL HOLDING CO., LTD.

Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

(expressed in thousands of New Taiwan dollars)

							Other equity interests					
			Retained earnings				Exchange differences on translation of foreign operations	Unrealized gains(losses) on available-for-sale financial instruments	Effective portion of unrealized gains (losses) on cash flow hedges	Change in fair value of financial liability attributable to change in credit risk of liability	Total other equity interest	Total equity
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total						
Balance at January 1, 2016	$ 90,000,000	111,385,217	4,857,208	29,771,643	5,376,500	40,005,351	1,263,211	10,999,156	4,278	26,631	12,293,276	253,683,844
Appropriation and distribution of retained earnings:												
Legal reserve appropriated	-	-	535,295	-	(535,295)	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	3,211,771	(3,211,771)	-	-	-	-	-	-	-
Net income for the period	-	-	-	-	14,823,210	14,823,210	-	-	-	-	-	14,823,210
Other comprehensive income (losses) for the period	-	-	-	-	(815,939)	(815,939)	(732,723)	5,528,140	3,919	(16,073)	4,783,263	3,967,324
Total comprehensive income (losses) for the period	-	-	-	-	14,007,271	14,007,271	(732,723)	5,528,140	3,919	(16,073)	4,783,263	18,790,534
Balance at December 31, 2016	90,000,000	111,385,217	5,392,503	32,983,414	15,636,705	54,012,622	530,488	16,527,296	8,197	10,558	17,076,539	272,474,378
Appropriation of retained earnings:												
Legal reserve appropriated	-	-	1,400,727	-	(1,400,727)	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	8,404,363	(8,404,363)	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(29,838)	29,838	-	-	-	-	-	-	-
Changes in equity of associates and joint ventures accounted for using equity method	-	9	-	-	(1,019)	(1,019)	-	-	-	-	-	(1,010)
Net income for the period	-	-	-	-	7,362,657	7,362,657	-	-	-	-	-	7,362,657
Other comprehensive income (losses) for the period	-	-	-	-	(1,101,833)	(1,101,833)	(1,871,218)	9,411,503	(4,206)	(50,337)	7,485,742	6,383,909
	-	-	-	-	6,260,824	6,260,824	(1,871,218)	9,411,503	(4,206)	(50,337)	7,485,742	13,746,566
Balance at December 31, 2017	$ 90,000,000	111,385,226	6,793,230	41,357,939	12,121,258	60,272,427	(1,340,730)	25,938,799	3,991	(39,779)	24,562,281	286,219,934

TAIWAN FINANCIAL HOLDING CO., LTD.
Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(expressed in thousands of New Taiwan dollars)

	2017	2016
Cash flows from (used in) operating activities:		
Net income before income tax	$ 7,281,656	14,784,092
Adjustments :		
Loss (income) of non-cash activities		
Depreciation	1,216	1,413
Amortization	139	129
Interest expense	132,410	143,325
Interest income	(348)	(507)
Share of profit of subsidiaries, associates and joint ventures	(7,577,862)	(15,097,003)
Loss on disposal and write-off of property, plant and equipment	246	4
Subtotal of loss (income) of non-cash activities	(7,444,199)	(14,952,639)
Change in operating assets and liabilities :		
Change in operating assets :		
Decrease (increase) in receivables	1	(1)
Decrease (increase) in other assets	16,366	(6,293)
Subtotal of change in operating assets	16,367	(6,294)
Change in operating liabilities :		
Decrease in payables	1,352	1,412
Increase in employee benefit obligations	5,558	5,685
(Decrease) increase in other liabilities	(1)	1
Subtotal of change in operating liabilities	6,909	7,098
Subtotal of change in operating assets and liabilities	23,276	804
Subtotal of all adjustments	(7,420,923)	(14,951,835)
Cash (used in) operating activities	(139,267)	(167,743)
Interest received	349	527
Dividends received	536,217	488,024
Income taxes returned	97,637	145,282
Net cash flow from operating activities	494,936	466,090
Cash flows from (used in) investing activities :		
Acquisition of property, plant and equipment	(702)	(1,288)
Increase in refundable deposits	(8)	-
Acquisition of intangible assets	(127)	(114)
Net cash flows (used in) investing activities	(837)	(1,402)
Cash flows from financing activities:		
Decrease in short-term borrowings	(500,000)	(300,000)
Decrease in guarantee deposits received	(84)	(155)
Interests paid	(132,142)	(142,343)
Net cash flow (used in) financing activities	(632,226)	(442,498)
Net (decrease) increase in cash and cash equivalents	(138,127)	22,190
Cash and cash equivalents at the opening of period	278,860	256,670
Cash and cash equivalents at the end of period	**$ 140,733**	**278,860**
Components of cash and cash equivalents:		
Cash and cash equivalents recognized in balance sheet	**$ 140,733**	**278,860**

(i) The balance sheets and income statements of the subsidiaries

(i) Balance sheets

	Bank of Taiwan (Individual)	
	December 31, 2017	December 31, 2016
Cash and cash equivalents	$ 158,343,054	122,398,626
Placement with Central Bank and call loans to banks	675,504,410	687,235,976
Financial assets measured at fair value through profit or loss	236,519,757	212,560,998
Hedging derivative financial assets, net	22,759	21,221
Receivables, net	59,237,166	63,288,567
Current income tax assets	1,160,916	761,713
Loans and discounts, net	2,285,039,243	2,274,236,504
Available-for-sale financial assets, net	1,135,942,401	1,037,841,339
Held-to-maturity financial assets, net	144,060,765	138,812,328
Investments under equity method, net	36,594,041	35,497,450
Other financial assets, net	75,603,497	76,578,794
Property and equipment, net	96,340,880	96,691,099
Investment property, net	15,238,207	15,238,207
Intangible assets, net	708,629	802,989
Deferred tax assets	163,217	293,925
Other assets, net	8,168,927	8,742,952
Total assets	$ 4,928,647,869	4,771,002,688
Deposits of Central Bank and other banks	$ 219,021,384	227,596,814
Financial liabilities measured at fair value through profit or loss	35,030,435	6,709,063
Hedging derivative financial liabilities, net	60,480	144,195
Bills and bonds sold under repurchase agreements	33,906,120	11,337,914
Payables	42,248,261	41,495,209
Current tax liabilities	506,359	610,261
Deposits and remittances	3,941,518,628	3,874,447,418
Financial bonds payable	24,998,316	24,998,082
Other financial liabilities	842,822	748,855
Provisions	314,774,236	283,367,966
Deferred tax liabilities	18,130,057	18,173,159
Other liabilities	8,506,000	6,924,444
Total liabilities	4,639,543,098	4,496,553,380
Capital stock	$ 95,000,000	95,000,000
Capital surplus	80,453,043	80,453,034
Retained earnings		
Legal reserve	39,246,685	34,201,365
Special reserve	29,383,528	22,686,273
Unappropriated retained earnings	15,930,139	18,820,340
	84,560,352	75,707,978
Other equity	29,091,376	23,288,296
Total equity	289,104,771	274,449,308
Total liabilities and stockholders' equity	$ 4,928,647,869	4,771,002,688

	BankTaiwan Life Insurance	
	December 31, 2017	December 31, 2016
Cash and cash equivalents	$ 41,926,709	24,752,046
Receivables	1,976,016	2,152,607
Current income tax assets	2,405,306	1,047,093
Financial assets measured at fair value through profit or loss	1,412,330	503,092
Available-for-sale financial assets	29,519,837	33,494,243
Debt investments without quoted price in an active market	25,341,974	27,223,295
Held-to-maturity financial assets	225,104,333	217,504,215
Investments under equity method, net	6,306,531	6,104,898
Other financial assets, net	1,890,400	14,550,000
Real estate investments	7,931,466	7,561,829
Loans	9,628,764	10,368,155
Reinsurance assets	10,125	18,708
Property and equipment	977,370	984,364
Intangible assets	10,343	7,763
Deferred tax assets	2,478,578	2,430,210
Other assets	3,516,311	3,572,289
Separate account-insurance assets	11,934	13,247
Total assets	$ 360,448,327	352,288,054
Payables	$ 14,496,671	15,176,504
Current income tax liabilities	386,814	-
Financial liabilities measured at fair value through profit or loss	116,441	1,150,137
Insurance liabilities	334,393,675	323,619,402
Foreign exchange volatility reserves	279,465	425,059
Provisions	776,347	735,644
Deferred tax liabilities	251,284	35,901
Other liabilities	383,262	338,042
Separate account-insurance liabilities	11,934	13,247
Total liabilities	351,095,893	341,493,936
Capital stock	22,500,000	22,500,000
Capital surplus	360,000	360,000
Retained earnings		
Legal reserve	96,557	96,557
Special reserve	832,484	787,059
Unappropriated retained earnings	(9,908,799)	(6,792,103)
	(8,979,758)	(5,908,487)
Other equity	(4,527,808)	(6,157,395)
Total equity	9,352,434	10,794,118
Total liabilities and equity	$ 360,448,327	352,288,054

	BankTaiwan Securities	
	December 31, 2017	December 31, 2016
Current assets	$ 10,597,247	7,744,139
Property and equipment	486,930	489,488
Intangible assets	14,365	12,667
Deferred tax assets	8,574	7,021
Other non-current assets	340,936	330,144
Total assets	**$ 11,448,052**	**8,583,459**
Current liabilities	$ 7,504,885	4,875,276
Liabilities reserves	127,958	118,476
Deferred tax liabilities	94,057	94,040
Other non-current liabilities	5,325	4,193
Total liabilities	7,732,225	5,091,985
Capital stock	3,000,000	3,000,000
Legal reserve	82,222	77,857
Special reserve	320,095	311,365
Unappropriated retained earnings	314,797	156,615
	717,114	545,837
Other equity	(1,287)	(54,363)
Total equity	3,715,827	3,491,474
Total liabilities and equity	**$ 11,448,052**	**8,583,459**

	BankTaiwan Insurance Broker	
	December 31, 2017	December 31, 2016
Cash and cash equivalents	$ 386,610	464,685
Receivables	91,802	104,092
Property and equipment	3,503	4,227
Intangible asset	103	236
Deferred tax assets	3,955	3,955
Other assets	3,780	3,779
Total assets	**$ 489,753**	**580,974**
Payables	$ 90,761	99,784
Current tax liabilities	8,351	38,927
Other liabilities	100	337
Total liabilities	99,212	139,048
Capital stock	20,000	20,000
Legal reserve	87,866	57,092
Special reserve	87,866	57,092
Unappropriated retained earnings	194,809	307,742
	370,541	421,926
Total equity	390,541	441,926
Total liabilities and equity	**$ 489,753**	**580,974**

(ii) Income statements

	Bank of Taiwan (Individual)	
	2017	2016
Interest income	$ 59,105,478	59,402,785
Less: interest expense	(33,583,762)	(33,367,745)
Net interest income	25,521,716	26,035,040
Other non-interest income	7,418,563	18,478,694
Net revenue	32,940,279	44,513,734
Bad debt expense and reserve for guarantees	(1,685,005)	(5,183,736)
Operating expenses	(19,998,078)	(19,958,435)
Net income before income tax	11,257,196	19,371,563
Income tax expense	(853,606)	(1,717,506)
Net income	10,403,590	17,654,057
Other comprehensive income	4,752,883	2,347,971
Total comprehensive income (loss) after tax for the period	15,156,473	20,002,028
Basic earnings per share (In dollars)	1.10	1.86

	BankTaiwan Life Insurance	
	2017	2016
Operating income	$ 50,336,107	50,124,464
Operating cost	(53,431,049)	(52,442,031)
Operating expense	(879,958)	(869,502)
Operating loss	(3,974,900)	(3,187,069)
Non operating income (expense)	(11,718)	(57,066)
Net income (loss) before income tax	(3,986,618)	(3,244,135)
Income tax benefit	952,455	643,430
Net loss	(3,034,163)	(2,600,705)
Other comprehensive income	1,592,479	1,594,530
Total comprehensive income (loss) after tax for the period	(1,441,684)	(1,006,175)
Basic earnings per share (In dollars)	(1.35)	(1.16)

	BankTaiwan Securities	
	2017	2016
Revenue	$ 700,726	488,259
Cost and expense	(484,218)	(446,326)
Net operating income	216,508	41,933
Non operating income	23,158	14,948
Net income before income tax	239,666	56,881
Income tax expense	(31,232)	(13,231)
Net income	208,434	43,650
Other comprehensive income	52,136	21,615
Total comprehensive income after tax for the period	260,570	65,265
Basic earnings per share (In dollars)	0.69	0.15

	BankTaiwan Insurance Brokers	
	2017	2016
Operating income	$ 1,676,090	2,342,832
Operating cost	(1,314,164)	(1,836,883)
Operating expense	(126,339)	(134,206)
Operating profit	235,587	371,743
Non operating expense	(877)	(948)
Net income before income tax	234,710	370,795
Income tax expense	(39,901)	(63,052)
Net income	194,809	307,743
Basic earnings per share (In dollars)	97.40	153.87

(17) Other Disclosures:

(a) Information on Significant Transactions:

Following the principle of financial report for public bank, the disclosure of information on significant transaction of the Company and its subsidiaries 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:

(In Thousands of New Taiwan Dollars)

Name of company	Name of property	Transaction date	Transaction amount	Status of payment	Counter-party	Relationship with the Company	If the counter-party is a related party, disclose the previous transfer information				References for determining price	Purpose of acquisition and current condition	Others
							Owner	Relationship with the Company	Date of transfer	Amount			
BankTaiwan Life Insurance	Nankang Software Park Phase II	2017.9.8	440,114	440,114	Century Development Co., Ltd.	Non-related party				-	Refered to appraisal reports	Asset allocation and real estate investment	

(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: 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) 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:

(In Thousands of New Taiwan Dollars)

Name of the investee	Investee Location	Major Operation	% of shares	Highest holding ratio for the period	Original investment cost	Gain(Loss) recognized during the period	Held by the company and related party at year-end				Notes
							Shares		Subtotal		
									Shares	% of Shares	
Hua Nan Financial Holdings Co., Ltd. and its subsidiaries	Taipei	Financial Holding	25.07%	25.07%	41,173,108	3,017,402	2,769,788,546	-	2,769,788,546	25.07%	
Kaohsiung Ammonium Sulfate Co., Ltd.	Kaohsiung	Liquidation	21.37%	21.37%	1,316,355	52,325	74,802,414	-	74,802,414	21.37%	
Tai Yi Real Estate Management Co., Ltd	Taipei	Real Estate Service	30.00%	30.00%	20,568	3,936	1,500,000	-	1,500,000	30.00%	
Bank of Taiwan	Taipei	Banking	100.00%	100.00%	289,104,771	10,403,590	9,500,000,000	-	9,500,000,000	100.00%	note 4
BankTaiwan Life Insurance	Taipei	Life insurance	100.00%	100.00%	9,352,434	(3,034,163)	2,250,000,000	-	2,250,000,000	100.00%	note 4
BankTaiwan Securities	Taipei	Securities	100.00%	100.00%	3,715,827	208,434	300,000,000	-	300,000,000	100.00%	note 4
BankTaiwan Insurance Brokers	Taipei	Insurance broker	100.00%	100.00%	390,541	194,809	2,000,000	-	2,000,000	100.00%	note 4

Note 1: The investee's shares or pro-forma shares held by the Company's board of directors, supervisors, general manager, vice general managers and affiliates conforming to the Company Act should be included.

Note 2: (1)Pro-forma shares are the "equity-type securities" or "derivative instrument contracts (have not been converted into stock)" that can be converted into shares of the investee company under Article 74 of the "Company Act" for investment purpose.

(2)The aforementioned equity-type securities refer to the securities defined in Securities and Exchange Act Enforcement Rules such as convertible corporate bonds and warrants.

(3) The aforementioned derivative instrument contracts refer to the contracts defined in the GAAP No.34 such as stock options.

Note 3: The table do not need to disclosure in the financial statement at first and third quarter.

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

(c) Information on Investment in Mainland China:

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

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

Note 1: Three types as follows of investments:

1) Direct investment in Mainland China.

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

3) Others through overseas branches.

Note 2: Equity in the earnings for the year:

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

2) A Company can recognize the investment income by obtaining the followings:

a) Financial statements audited or reviewed by an international accounting firm which has a member firm in Taiwan.

b) Financial statements audited or reviewed by the auditor of the parent company.

c) Others.

3) If the information regarding a subsidiary's current profit and loss is not available, the parent company should disclose it.

Note 3: Numbers in this table are shown in thousands of TWD.

(ii) Rationed investment in China:

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
13,647,000	13,647,000	173,462,863

(iii) Significant transactions with the invested company in China:None

(d) Subsidiaries lending to other parties, guarantees and endorsements for other parties, securities held as of December 31, 2016, securities for which purchase or sale amount for the period exceed $300 million or 10% of the Company's paid-in capital, and trading in derivative financial instruments: BOT, BTLI and BTS are banking industry, insurance industry and securities industry and their main operations include the above activities; hence it is not necessary to disclose the related information. The BankTaiwan Insurance Brokers does not have those transactions.

(e) Information on significant transactions between parent and subsidiary company were as follow

Number	Name of Company	Name of the counter-party	Existing relationship State of transaction with the counter-party				
				Account name	Amount	Terms of trading	Percentage of the total consolidated revenues or total assets
0	Taiwan Financial Holdings	Bank of Taiwan	1	Cash and cash equivalents	130,657	Same as regular transaction	-%
0	Taiwan Financial Holdings	Bank of Taiwan	1	Receivables, net	3	〃	-%
0	Taiwan Financial Holdings	Bank of Taiwan	1	Other assets-net	2,717	〃	-%
0	Taiwan Financial Holdings	Bank of Taiwan	1	Short-term borrowings	16,250,000	〃	0.31%
0	Taiwan Financial Holdings	Bank of Taiwan	1	Payables	3,238	〃	-%
0	Taiwan Financial Holdings	Bank of Taiwan	1	Interest income	321	〃	-%
0	Taiwan Financial Holdings	Bank of Taiwan	1	Other non-interest income	822	〃	-%
0	Taiwan Financial Holdings	Bank of Taiwan	1	Other general and administrative expenses	28,796	〃	0.05%
0	Taiwan Financial Holdings	Bank of Taiwan	1	Interest expense	132,410	〃	0.21%
0	Taiwan Financial Holdings	BankTaiwan Life Insurance	1	Other non-interest income	591	〃	-%
0	Taiwan Financial Holdings	BankTaiwan Securities	1	Other non-interest income	576	〃	-%
1	Bank of Taiwan	Taiwan Financial Holdings	2	Deposits and remittances	130,657	〃	-%
1	Bank of Taiwan	Taiwan Financial Holdings	2	Payables	3	〃	-%
1	Bank of Taiwan	Taiwan Financial Holdings	2	Other liabilities	2,717	〃	-%
1	Bank of Taiwan	Taiwan Financial Holdings	2	Loans and discounts, net	16,250,000	〃	0.31%

Number	Name of Company	Name of the counter-party	Existing relationship State of transaction with the counter-party				
				Account name	Amount	Terms of trading	Percentage of the total consolidated revenues or total assets
1	Bank of Taiwan	Taiwan Financial Holdings	2	Receivables, net	3,238	〃	-%
1	Bank of Taiwan	Taiwan Financial Holdings	2	Interest expense	321	〃	-%
1	Bank of Taiwan	Taiwan Financial Holdings	2	Employee benefits expenses	822	〃	-%
1	Bank of Taiwan	Taiwan Financial Holdings	2	Other non-interest income	28,796	〃	0.05%
1	Bank of Taiwan	Taiwan Financial Holdings	2	Interest income	132,410	〃	0.21%
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Receivables, net	13,029	〃	-%
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Other assets, net	5,873	〃	-%
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Payables	3,305	〃	-%
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Financial assets measured at fair value through profit or loss	(221,227)	〃	-%
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Deposits and remittances	925,320	〃	0.23%
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Services fee, net	71,664	〃	0.11%
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Gain (loss) on financial assets or liabilities measured at fair value through profit or loss	371,382	〃	0.56%
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Other non-interest income	37,363	〃	0.06%
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Interest expense	41,251	〃	0.06%
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Other general and administrative expenses	35,574	〃	0.06%
1	Bank of Taiwan	BankTaiwan Securities	3	Other assets, net	14	〃	-%
1	Bank of Taiwan	BankTaiwan Securities	3	Receivables, net	15	〃	-%
1	Bank of Taiwan	BankTaiwan Securities	3	Payables	61	〃	-%
1	Bank of Taiwan	BankTaiwan Securities	3	Deposits and remittance	377,400	〃	0.02%
1	Bank of Taiwan	BankTaiwan Securities	3	Other liabilities	1,792	〃	-%
1	Bank of Taiwan	BankTaiwan Securities	3	Interest income	520	〃	-%
1	Bank of Taiwan	BankTaiwan Securities	3	Service fee, net	80	〃	-%
1	Bank of Taiwan	BankTaiwan Securities	3	Other non-interest income	33,199	〃	0.05%

Number	Name of Company	Name of the counter-party	Existing relationship State of transaction with the counter-party				
				Account name	Amount	Terms of trading	Percentage of the total consolidated revenues or total assets
1	Bank of Taiwan	BankTaiwan Securities	3	Interest expense	826	〃	-%
1	Bank of Taiwan	BankTaiwan Securities	3	Other general and administrative expenses	86		-%
2	BankTaiwan Life Insurance	Taiwan Financial Holdings	2	Employee benefits expenses	591	〃	-%
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Payables	13,029	Same as regular transaction	-%
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Other liabilities	5,873	〃	-%
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Receivables, net	3,305	〃	-%
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Financial liabilities measured at fair value through profit or loss	(221,227)	〃	-%
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Cash and cash equivalents	9,251,320	〃	0.23%
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Service fee, net	71,725	〃	0.11%
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Foreign exchange gain	(320,727)	〃	0.62%
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Gain (loss) on financial assets or liabilities measured at fair value through profit or loss	50,594	〃	0.06%
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Gain on real estate investment, net	35,574	〃	0.06%
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Interest income	41,251	〃	0.06%
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Other general and administrative expenses	37,363	〃	0.06%
2	BankTaiwan Life Insurance	BankTaiwan Insurance Brokers	3	Payables	21,980	〃	-%
2	BankTaiwan Life Insurance	BankTaiwan Insurance Brokers	3	Foreign exchange loss	(976)	〃	-%
2	BankTaiwan Life Insurance	BankTaiwan Insurance Brokers	3	Service fee, net	495,553	〃	0.86%
3	BankTaiwan Securities	Taiwan Financial Holdings	2	Employee benefits expenses	576	〃	-%
3	BankTaiwan Securities	Bank of Taiwan	3	Other liabilities	14	〃	-%
3	BankTaiwan Securities	Bank of Taiwan	3	Receivables, net	61	〃	-%
3	BankTaiwan Securities	Bank of Taiwan	3	Other assets-net	332,047	〃	-%
3	BankTaiwan Securities	Bank of Taiwan	3	Cash and cash equivalents	47,144	〃	-%
3	BankTaiwan Securities	Bank of Taiwan	3	Interest expense	520	〃	-%

Number	Name of Company	Name of the counter-party	Existing relationship State of transaction with the counter-party				
				Account name	Amount	Terms of trading	Percentage of the total consolidated revenues or total assets
3	BankTaiwan Securities	Bank of Taiwan	3	Service fee, net	12,334	〃	0.02%
3	BankTaiwan Securities	Bank of Taiwan	3	Other general and administrative expenses	20,945	〃	0.03%
3	BankTaiwan Securities	Bank of Taiwan	3	Interest income	826	〃	-%
3	BankTaiwan Securities	Bank of Taiwan	3	Other non-interest income	86	〃	-%
3	BankTaiwan Securities	BankTaiwan Insurance Brokers	3	Receivables, net	16	〃	-%
4	BankTaiwan Insurance Brokers	BankTaiwan Life Insurance	3	Receivables, net	21,980	〃	-%
4	BankTaiwan Insurance Brokers	BankTaiwan Life Insurance	3	Service fee, net	496,529	〃	0.86%
4	BankTaiwan Insurance Brokers	BankTaiwan Securities	3	Payables	16	〃	-%
4	BankTaiwan Insurance Brokers	BankTaiwan Securities	3	Service fee, net	520		-%

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.

3)The subsidiary to another subsidiary is 3.

Note 3:The transactions mention above have already write-off when building the financial report.

(18) Segment Information:

The Company and its subsidiaries have seven reportable segments, as describes below. Each department offers different services and products, and are managed separately based on their diverse techniques and marketing tactic. The higher level managements of the Company and its subsidiaries review each department's internal management report on a quarterly basis. The information of asset and income disclose by segments are in accordance with the significant accounting policies stated above. The following describes the operations in each of the Company and its subsidiaries' reportable segments:

(a) Bank Department: Includes transacting deposit, loan, and foreign exchange; dispatching, managing, performing NTD and foreign currency; investing in securities, and analyzing, managing interest for loan and deposit, and etc.

(b) Government Employees' Insurance Department: Includes 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: Includes 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: Includes 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) Insurance Business: Provides a variety of insurance services.

(f) Security Business: Engages in securities business.

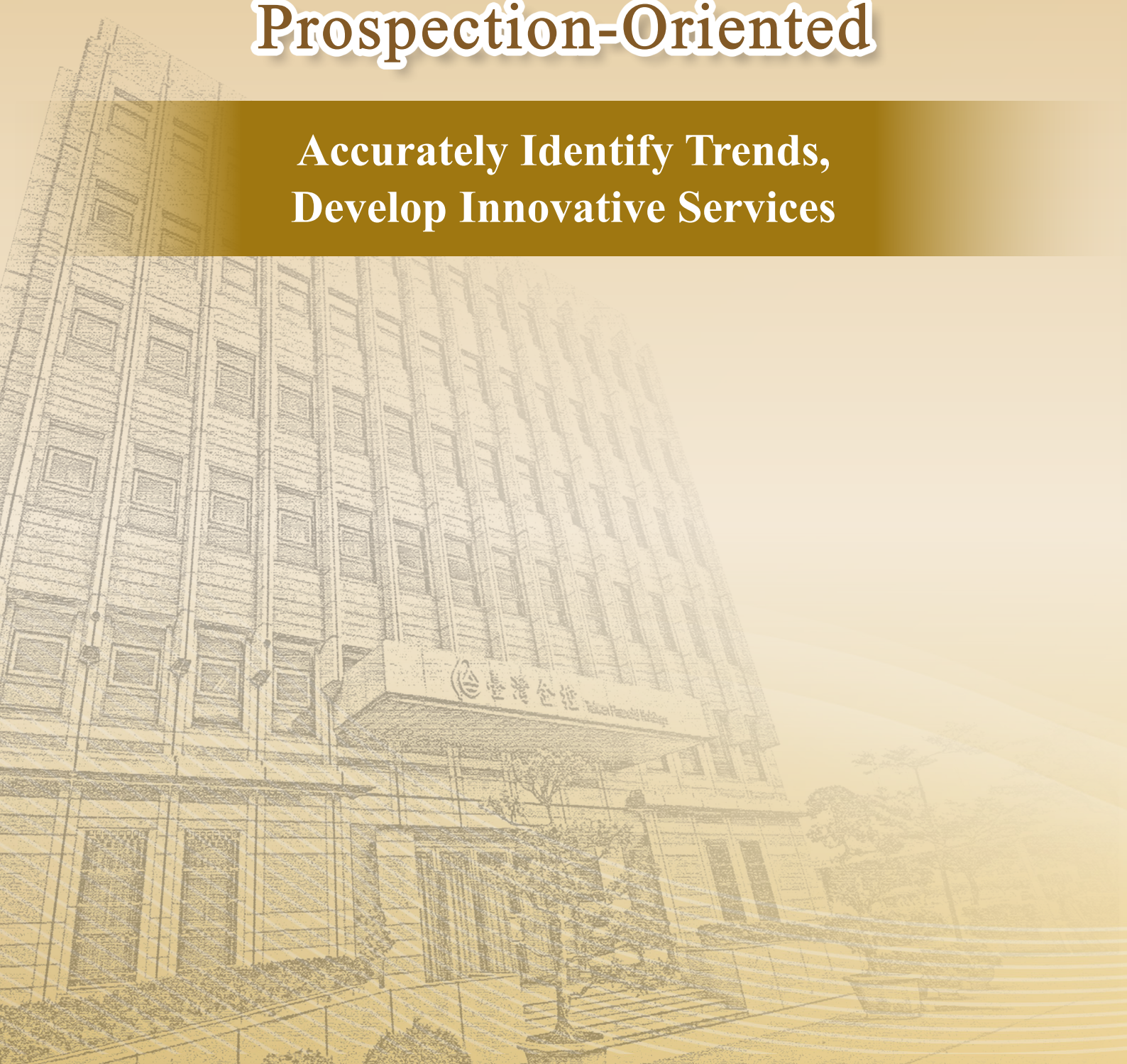
(g) Other Business: Engages in financial holding, venture capital and asset management, etc.

	2017								
	Bank department	Department of Government Employees' Insurance	Department of Procurement	Department of Precious Metals	Insurance Business	Securities Business	Other business	Reconciliation and elimination	Total
Interest income	$ 57,346,281	1,758,366	9	822	9,669,318	165,018	706	(175,686)	68,764,834
Less: interest expense	(33,583,762)	-	-	-	(101,711)	(17,020)	(132,411)	(175,686)	(33,659,218)
Interest income, net	23,762,519	1,758,366	9	822	9,567,607	147,998	(131,705)	-	35,105,616
Non-interest income, net	38,590,938	(1,623,774)	241,919	424,303	(113,959)	504,169	7,943,820	(7,920,098)	38,047,318
Net revenue	62,353,457	134,592	241,928	425,125	9,453,648	652,167	7,812,115	(7,920,098)	73,152,934
Bad debt expenses and reserve for guarantees	(1,685,005)	-	-	-	4,021	-	-	-	(1,680,984)
Provisions for policyholder's reserve premium	(30,214,824)	-	-	-	(12,573,602)	-	-	-	(42,788,426)
Operating costs	(19,625,653)	(134,592)	(107,463)	(91,022)	(870,685)	(412,508)	(282,253)	94,591	(21,429,585)
Continuing operating income before income tax	$ 10,827,975	-	134,465	334,103	(3,986,618)	239,659	7,529,862	(7,825,507)	7,253,939
Continuing operating income after income tax	$ 9,974,370	-	134,465	334,103	(3,034,163)	208,429	7,570,964	(7,825,511)	7,362,657
Total assets	$4,634,906,207	295,163,648	1,835,376	1,445,558	360,448,327	11,448,052	303,118,555	(334,021,930)	5,274,343,793
Total Liabilities	$4,346,270,005	295,163,648	1,700,910	1,111,455	351,095,893	7,732,225	16,494,582	(31,444,859)	4,988,123,859

	2016								
	Bank department	Department of Government Employees' Insurance	Department of Procurement	Department of Precious Metals	Insurance Business	Securities Business	Other business	Reconciliation and elimination	Total
Interest income	$ 57,731,311	1,670,627	86	761	8,964,695	142,193	948	(182,286)	68,328,335
Less: interest expense	(33,367,744)	-	-	-	(145,583)	(16,616)	(143,325)	(182,286)	(33,490,982)
Interest income, net	24,363,567	1,670,627	86	761	8,819,112	125,577	(142,377)	-	34,837,353
Non-interest income, net	38,162,294	(1,535,989)	246,552	449,037	(10,178,576)	309,670	15,587,045	(15,533,525)	27,506,508
Net revenue	62,525,861	134,638	246,638	449,798	(1,359,464)	435,247	15,444,668	(15,533,525)	62,343,861
Bad debt expenses and reserve for guarantees	(5,183,736)	-	-	-	11,687	-	-	-	(5,172,049)
Provisions for policyholder's reserve premium	(18,843,200)	-	-	-	(1,035,337)	-	-	-	(19,878,537)
Operating costs	(19,625,638)	(134,638)	(110,134)	(88,026)	(861,020)	(378,366)	(296,975)	135,973	(21,358,824)
Continuing operating income before income tax	$ 18,873,287	-	136,504	361,772	(3,244,134)	56,881	15,147,693	(15,397,552)	15,934,451
Continuing operating income after income tax	$ 17,155,780	-	136,504	361,772	(2,600,705)	43,650	15,088,616	(15,362,407)	14,823,210
Total assets	$4,506,806,527	264,873,580	2,032,309	1,908,219	352,288,054	8,583,459	289,918,443	(319,299,067)	5,107,111,524
Total Liabilities	$4,232,855,495	264,873,580	1,895,805	1,546,447	341,493,936	5,091,985	17,013,738	(30,133,840)	4,834,637,146

Prospection-Oriented

Accurately Identify Trends, Develop Innovative Services



Financial Status, Financial Performance, and Risk Management

I. Financial Status

II. Financial Performance

III. Cash Flows

IV. Impact of Material Capital Expenditures on Financial and Operating Condition in 2017

V. Policy on Strategic Investments, and the State of Its Implementation

VI. Risk Management

VII. Crisis Management Mechanism

VIII. Other Important Matters

Financial Status, Financial Performance, and Risk Management

I. Financial Status

Unit: NT$1,000

Item \ Year	2017	2016	Difference	
			Amount	%
Cash and cash equivalents	140,733	278,860	-138,127	-49.53
Receivables-net	3	5	-2	-40
Current tax Assets	289,905	306,541	-16,636	-5.43
Investment at equity recognized under equity method -net	302,173,032	288,734,901	13,438,131	4.65
Fixed assets-net	5,049	5,809	-760	-13.08
Intangible assets-net	280	292	-12	-4.11
Other assets-net	6,302	22,660	-16,358	-72.19
Total assets	302,615,304	289,349,068	13,266,236	4.58
Payables	23,813	22,193	1,620	7.3
Other loans	16,250,000	16,750,000	-500,000	-2.99
Debt reserves	121,463	102,318	19,145	18.71
Other debt	94	179	-85	-47.49
Total debt	16,395,370	16,874,690	-479,320	-2.84
Capital	90,000,000	90,000,000	0	0
Additional paid-in Capital	111,385,226	111,385,217	9	0
Retained earnings	60,272,427	54,012,622	6,259,805	11.59
Other items of shareholders' equity	24,562,281	17,076,539	7,485,742	43.84
Total shareholders' equity	286,219,934	272,474,378	13,745,556	5.04

Note: 1.Cash and cash equivalents decreased, due mainly to a decline in bank deposits.
2.Other assets posted a net decrease, due mainly to a decline in prepaid guarantee fees.
3.Other debts decreased, due mainly to a decline in guarantee deposits received.
4.Other items of shareholders' equity increased, due mainly to an unrealized valuation gain on the available-for-sale financial assets of subsidiaries.

II. Financial Performance

Unit: NT$1,000

Item \ Year	2017	2016	Difference	
			Amount	%
Investment Income Recognized Under Equity Method	7,577,862	15,097,003	-7,519,141	-49.81
Other Income	2,401	2,746	-345	-12.56
Operating Expenses	(155,914)	(162,772)	6,858	-4.21
Other Expenses & Losses	(142,693)	(152,885)	10,192	-6.67
Net Income Before Income Tax	7,281,656	14,784,092	-7,502,436	-50.75
Income Tax Benefits	81,001	39,118	41,883	107.07
Consolidated Net Income	7,362,657	14,823,210	-7,460,553	-50.33
Other Comprehensive Income (Loss) for the Period	6,383,909	3,967,324	2,416,585	60.91
Total Comprehensive Income(Loss) After Tax for the Period	13,746,566	18,790,534	-5,043,968	-26.84

Note: 1.Equity method investment gains of subsidiaries, affiliates, and joint ventures declined, mainly because BOT recognized a gain in 2016 following liquidation of Kaohsiung Ammonium Sulfate Co., Ltd., as a result of which equity method gains for the TFH Group were lower in 2017 than in 2016.
2.Income tax benefits increased, due mainly to an increase in income tax benefits as calculated under the consolidated tax return regime.
3.Other Comprehensive Income increased, due mainly to an unrealized valuation gain on the available-for-sale financial assets of subsidiaries.

III. Cash Flows

1. Analysis of Cash Flow Changes in 2017

Item \ Year	2017	2016	Change (%)
Cash flow ratio	2,078.43	2,100.17	-1.04
Cash flow adequacy ratio	123.15	109.95	12.01
Cash flow reinvestment ratio	59,132.14	33,244.65	77.87
Note: Cash flow reinvestment ratio increased, due mainly to a drop in net cash outflow from investing activities.			

2. Cash Liquidity in the Coming Year

Beginning cash balance	Net cash flow from operating activities for entire year	Net cash outflows for entire year	Cash surplus(or deficit)	Measures to make up for cash deficit
140,703	-211,907	351,809	280,605	None

Note:

1. Investment activities: The main investment activities involve collecting dividends and bonuses paid in by subsidiaries, and plan to conduct the capital increase at subsidiary.
2. Capital raising activities: The main capital raising activities involve paying dividends and bonuses into the national treasury, the conduct of capital increases at subsidiaries, and plan to borrow long-term debt.

IV. Impact of Material Capital Expenditures on Financial and Operating Condition in 2017: None

V. Policy on Strategic Investments, and the State of Its Implementation

1. Policy on 2017 Strategic Investments

Consolidated market position, and strengthened the core competencies of subsidiaries; stayed abreast of developments in the international financial industry, and seized upon opportunities to build up the Group's business network in countries targeted by the New Southbound Policy; took advantage of business opportunities connected with government policies, and contributed to industrial development; created synergies within the group, and generated increased impetus for sustainable growth; followed the group's development strategy, continued evaluating economic and financial conditions at home and abroad, and referred to these in adopting strategic investment strategies.

2. Main Reasons for Profits/Losses on Strategic Investments, and Plans for Addressing any Losses

TFH has three wholly owned subsidiaries. The Bank of Taiwan (BOT), driven by a focus on good faith, caring, and customer service, provided high-quality financial services and maintained outstanding asset quality. Its profits in 2017 topped NT$10 billion. BankTaiwan Securities Co., Ltd. (BTS) continued to strengthen its cybersecurity system and electronic trading platform, took pragmatic measures to promote its business, and worked to strengthen its position in capital markets. It profits in 2017 exceeded the budget target. BankTaiwan Life Insurance Co., Ltd. (BTLI) posted an operating loss, due mainly to a foreign exchange loss resulting from: (a) the NT Dollar's appreciation versus the US Dollar and other currencies; and (b) higher hedging costs. BTLI has already adopted corrective actions designed to transform product structure, control foreign exchange gains and losses, and enhance capital efficiency. Accomplishment of these objectives should help the company move toward its goals of mitigating the effect of negative margins and improving profitability.

3. 2018 Investment Plan

Acting in line with 5P (People centered, Portfolio-sound, Performance-driven, Prospection-oriented and Principle-based) and 5S (Scale, Scope, Soundness, Superior Management, and Social Responsibility) competitive strategies, TFH will strengthen management of its investee companies as a means of building up the group's business capabilities and competitive position in the market. And in response to the state of the economy and the financial industry, the group will continue to observe and carefully evaluate to identify appropriate investment targets and make timely investments in subsidiaries. The ultimate goal is to expand the group's scope of business.

VI. Risk Management

1. Risk Management Structure and Policy

(1) TFH: Please refer to Chapter VI “Financial information” on “Consolidated Financial Statements-Financial Risk Management” section at page 169~229.

(2) BOT: Please refer to Chapter VI “Financial Status” on “Consolidated Financial Statements-Financial Risk Management” section at page 169~170.

(3) BTLI: Please refer to Chapter VI “Financial Status” on “Consolidated Financial Statements-Financial Risk Management” section at page 201~204.

(4) BTS: Please refer to Chapter VI “Financial Status” on “Consolidated Financial Statements-Financial Risk Management” section at page 217~219.

2. Methods for measuring and controlling risks, exposure quantification information:

(1). Ordinary disclosures

1) TFH: Please refer to Chapter VI “Financial Status” on “Consolidated Financial Statements-Financial Risk Management” section at page 169~229.
2) BOT: Please refer to Chapter VI “Financial Status” on “Consolidated Financial Statements-Financial Risk Management” section at page 170~201.
3) BTLI: Please refer to Chapter VI “Financial Status” on “Consolidated Financial Statements-Financial Risk Management” section at page 204~217.
4) BTS: Please refer to Chapter VI “Financial Status” on “Consolidated Financial Statements-Financial Risk Management” section at page 220~229.

(2). Scope and Characteristics of the Operational Risk Reporting and Measurement System

1) BOT

A. Credit Risk

(A) Exposure and Accrued Capital Following Risk Mitigation Using the Standardized Credit Risk Approach

Unit: NT$1,000

Type of Exposure / Time	Exposure Following Risk Mitigation		Credit risk-weighted assets		Accrued Capital	
	2017.12.31	2018.3.31	2017.12.31	2018.3.31	2017.12.31	2018.3.31
Sovereign Nations	1,768,273,565	1,820,278,667	2,120,443	2,095,515	196,141	206,932
Non-Central Government Public Sector	532,759,080	590,488,747	178,173,386	186,232,950	16,481,038	18,390,504
Banks (Including Multilateral Development Banks)	451,899,419	360,951,594	147,215,787	130,716,472	13,617,460	12,908,252
Enterprises (Including Securities and Insurance Firms)	867,352,976	859,218,299	782,748,940	773,173,059	72,404,277	76,350,840
Retail Loans	394,556,335	385,977,146	226,044,635	221,467,489	20,909,129	21,869,915
Residential Real Estate	566,583,614	563,729,818	258,795,652	257,104,778	23,938,598	25,389,097
Equity Investment	8,495,752	9,991,066	8,495,752	9,991,066	785,857	986,618
Other Assets	160,663,467	156,237,955	120,038,120	123,695,882	11,103,526	12,214,968
Total	4,750,584,208	4,746,873,292	1,723,632,715	1,704,477,211	159,436,026	168,317,125

Note 1：Accrued Capital = Exposure Following Risk Mitigation × Capital Adequacy Ratio Minimum Requirement.

(1) Capital Adequacy Ratio Minimum Requirement in 2017 was 9.25%.

(2) Capital Adequacy Ratio Minimum Requirement in 2018 is 9.875%.

Note 2：From January 2013, the Bank adopted Basel III and introduced the concept of credit valuation adjustment (CVA) into calculations of counterparty credit risk. As of end-December 2017, credit risk-weighted assets (including CVA charge) stood at NT$1,546,700,000, making for a capital charge of NT$143,070,000.

Note 3：Securitization risk has been factored into the figures in this table.

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

Dec. 31, 2017

Unit: NT$1,000

Bank / Book \ Type of Exposure		Asset Class	Traditional					Synthetic		Total		
			Risk Exposure				Accrued Capital (2)	Risk Exposure	Accrued Capital (4)	Risk Exposure (5)=(1)+(3)	Accrued Capital (6)=(2)+(4)	Accrued Capital Before Securitization
			Retention or Purchasing	The provision of liquidity facilities	The provision of credit enhancement	Subtotal (1)		Retention or Purchasing (3)				
Non-Originating Bank	Banking Book	CDO	499,335	0	0	499,335	23,094	0	0	499,335	23,094	
	Trading Book											
	Subtotal		499,335	0	0	499,335	23,094	0	0	499,335	23,094	
Originating Bank	Banking Book											
	Trading Book											
	Subtotal											
Total			499,335	0	0	499,335	23,094	0	0	499,335	23,094	

Note: The accrued capital is calculated based on capital adequacy ratio minimum requirement in 2017 (9.25%).

Mar. 31, 2018

Unit: NT$1,000

Bank / Book \ Type of Exposure		Asset Class	Traditional					Synthetic		Total		
			Risk Exposure				Accrued Capital (2)	Risk Exposure	Accrued Capital (4)	Risk Exposure (5)=(1)+(3)	Accrued Capital (6)=(2)+(4)	Accrued Capital Before Securitization
			Retention or Purchasing	The provision of liquidity facilities	The provision of credit enhancement	Subtotal (1)		Retention or Purchasing (3)				
Non-Originating Bank	Banking Book	CDO	499,689	0	0	499,689	24,672	0	0	499,689	24,672	
	Trading Book											
	Subtotal		499,689	0	0	499,689	24,672	0	0	499,689	24,672	
Originating Bank	Banking Book											
	Trading Book											
	Subtotal											
Total			499,689	0	0	499,689	24,672	0	0	499,689	24,672	

Note: The accrued capital is calculated based on capital adequacy ratio minimum requirement in 2018(9.875%).

B. Liquidity Risk

(A) New Taiwan Dollars-Denominated Maturity Date Structure

Unit: NT$1,000

Date	Item	Total	Amounts by Time Remaining before Maturity					
			1~10days	11~30days	31~90days	91~180days	181days to 1year	Over 1 year
2017. 12.31	Major inflows of matured funds	4,662,121,436	739,299,500	529,571,609	545,439,286	473,784,961	586,757,497	1,787,268,583
	Major outflows of matured funds	6,220,177,857	255,400,881	381,292,536	760,860,621	756,668,519	1,357,513,594	2,708,441,706
	Period gap	-1,558,056,421	483,898,619	148,279,073	-215,421,335	-282,883,558	-770,756,097	-921,173,123
2018. 03.31	Major inflows of matured funds	4,703,945,315	431,109,026	622,351,428	579,664,875	633,651,266	682,892,903	1,754,275,817
	Major outflows of matured funds	6,155,124,895	217,477,956	374,241,156	730,920,082	843,833,988	1,282,705,015	2,705,946,698
	Period gap	-1,451,179,580	213,631,070	248,110,272	-151,255,207	-210,182,722	-599,812,112	-951,670,881

(B) U.S. Dollars-Denominated Maturity Date Structure

Unit: US$1,000

Date	Item	Total	Amounts by Time Remaining before Maturity				
			1~30 days	31~90days	91~180days	181 days to 1 year	Over 1 year
2017. 12.31	Major inflows of matured funds	51,904,325	9,480,751	11,092,430	5,574,245	2,871,724	22,885,175
	Major outflows of matured funds	51,904,325	11,034,343	8,087,184	4,763,223	4,422,098	23,597,477
	Period gap	0	-1,553,592	3,005,246	811,022	-1,550,374	-712,302
2018. 03.31	Major inflows of matured funds	53,340,521	10,019,922	11,660,618	5,552,619	2,910,546	23,196,816
	Major outflows of matured funds	53,340,521	11,053,457	8,550,539	5,653,124	4,269,883	23,813,518
	Period gap	0	-1,033,535	3,110,079	-100,505	-1,359,337	-616,702

Note: This table was prepared with reference to the Assets and Liabilities Management Committee's "Bank of Taiwan US Dollar Liquidity Risk Analysis Report."

C. Market Risk

Market Risk Accrued Capital

Unit: NT$1,000

Risk Category	Accrued Capital	
	2017.12.31	2018.03.31
Interest rate risk	2,777,214	2,352,523
Equity security risk	1,899,194	2,163,022
Foreign exchange risk	2,971,167	3,080,669
Option risk	0	109,628
Commodity risk	495	852
Total	7,648,070	7,706,693

D. Operation Risk

Operational Risk Accrued Capital

Unit: NT$1,000

Main Area of Business Operations	2015		2016		2017		Beta factor(β)
	Gross income (1)	Capital charge (1) x β	Gross income (2)	Capital charge (2) x β	Gross income (3)	Capital charge (3) x β	
Corporate financial planning and financing	557,189	100,294	470,706	84,727	465,344	83,762	18%
Trading and sales	3,821,385	687,849	1,707,366	307,326	6,187,293	1,113,713	18%
Consumer Banking	12,059,116	1,447,094	11,525,200	1,383,024	10,658,005	1,278,961	12%
Corporate Banking	13,272,137	1,990,821	25,237,773	3,785,666	10,660,918	1,599,138	15%
Payment and settlement	322,842	58,112	178,869	32,196	51,440	9,259	18%
Custodial and agency services	464,195	69,629	444,220	66,633	494,269	74,140	15%
Asset management	-	-	-	-	-	-	12%
Retail brokerage	1,545,098	185,412	1,867,398	224,088	1,346,318	161,558	12%
Aggregate capital charge		4,539,210 (4)		5,883,660 (5)		4,320,531 (6)	
Operational Risk Accrued Capital =[（4）+（5）+（6）] / 3	4,914,467						

Note: The capital charge for operational risk is measured in accordance with the standardized method, on the basis of CPA-reviewed figures for the preceding three years. If figures for the most recent year have not yet been reviewed by a CPA, a tentative capital charge is first recorded on the basis of the company's own unaudited figures. Once financial statements for the most recent year have been audited and confirmed by a CPA, the capital charge for the current year's capital charge for operational risk will not be changed any further.

2) BTLI

Exposure and Accrued Capital

Unit: NT$1,000

Risk Category	2017.12.31		2018.03.31	
	RBC	Share of pre-adjusted total RBC (%)	RBC	Share of pre-adjusted total RBC (%)
Asset Risk	9,007,344	48.04%	8,906,206	46.32%
Insurance Risk	1,269,330	6.77%	1,279,519	6.65%
Interest Rate Risk	7,282,625	38.84%	7,828,165	40.71%
Other Risk	1,188,615	6.34%	1,214,939	6.32%
Total RBC (before adjustment)	18,747,915	100.00%	19,228,829	100.00%
Total RBC	6,301,672		6,469,025	

3) BTS

Unit: NT$1,000

	2017.12.31	2018.03.31
1.BIS Ratio	511%	456%
2.Eligible Capital, net	2,779,856	2,626,857
2.1 Tier 1 Capital	2,779,856	2,626,857
2.2 Tier 2 Capital	0	0
2.3 Eligible used Tier 3 capital	0	0
3.Management risk equivalent	543,474	575,508
3.1 Credit risk equivalent	317,387	330,827
3.2 Operational risk equivalent	94,929	94,929
3.3 Market risk equivalent	131,158	149,753

(3) Impact of changes to important domestic and foreign policies or laws upon the company's financial and operating condition, and the group's response

i. The FSC in 2017 amended the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries." The amended provisions: require financial holding companies and banks to attach more importance to compliance AML/CFT systems; set stricter requirements regarding the qualifications, professional training, and roles of legal compliance staff and officer’s compliance personnel and officers; and enhance the reporting mechanisms of financial holding companies and banks. These amendments will help to enhance the soundness of internal control and internal audit systems.

ii. The FSC in 2017 adjusted the risk weights for "claims secured by residential property" and "equity securities investments," which are factored into the capital adequacy ratios of domestic banks. These adjustments bring Taiwan's capital adequacy rules more closely in line with international systems, and were adopted with an eye to the likely direction of future adjustments to be made by the Basel Committee on Banking Supervision. In addition, they will help to ensure that the capital adequacy ratios of domestic banks more closely reflect their actual risk-bearing capacity.

iii. The FSC amended the "Regulations Governing Investment in Real Estate by Commercial Banks" in 2017. The key points of the amendments include the following: (a) When a bank participates in an urban renewal project in accordance with the "Urban Renewal Act" or other legislation that seeks to accelerate the rebuilding of hazardous and dilapidated buildings, the bank's self-use portion of the real estate acquired through such participation may be as low as 20%. (b) The Banking Act prohibits a bank from investing in real estate other than for self-use, unless the real estate will be used for self-use in the near future. The term "near future" formerly meant "within two years," but has been redefined to mean "seven years." This change is intended to give banks more incentive to take part in urban renewal projects.

iv. The FSC amended the "Regulations Governing Foreign Investments by Insurance Companies" in 2017 to achieve the following objectives: (a) improve insurers' risk control for investments in foreign financial bonds, international bonds, real estate in foreign countries and mainland China, and overseas insurance-related enterprises; (b) improve insurers' ability to properly match assets and liabilities; and (c) increase the performance and flexibility of their investments in foreign corporate bonds and private equity funds. The amendments can be expected to improve BTLI's capital efficiency.

v. The FSC amended the "Regulations Governing Use of Insurer's funds in Special Projects, Public Utilities, and Social Welfare Enterprises" in 2017 to comply with the government's policy of encouraging insurers to invest in Taiwan in long-term care facilities, public infrastructure projects, green energy technology, the Asia Silicon Valley Development Plan, the biotechnology and pharmaceutical industries, the national defense industry, smart machinery, new agriculture, and the circular economy. The government is seeking to afford insurers a greater range of investment choices and simplify operating procedures. This would help insurers achieve better capital efficiency.

(4) Impact of changing technologies and industries on financial and operating condition, and the group's response

The rapid pace of FinTech development and the widespread usage of intelligent mobile devices are bringing continual change in customer needs and behavior patterns. In order to seize opportunities to steal a beat on the competition, the TFH Group encourages its subsidiaries to devote resources to the development of financial technologies and rely on patent strength to launch products and services that are innovative, user-friendly, and have value-added. If we can develop digital financial services that become indispensable to customers' daily lives, it will increase customer loyalty, consolidate our customer base, and bolster our niche strengths. In addition, cybersecurity is a prerequisite for FinTech development, so the TFH Group will continue to integrate its information resources, and strengthen information security management and protection in order to properly safeguard customer information and maintain the group's interests.

(5) Impact of changes in the image of TFH and its subsidiaries, and the group's response

The TFH group is guided by a "customer first" philosophy. It continues to take active part in community service activities, donate to support social welfare organization and the underprivileged, and sponsor a wide range of cultural, arts, and sport activities in order to pay back to the public and fulfill corporate social responsibility. BOT had another banner year for awards in 2017: (a) for the fourth consecutive year received the Joint Credit Information Center's Golden Quality Award and Golden Security Award for information security management and credit reporting; and (b) received its twelfth consecutive gold award in the Reader's Digest Trusted Brands survey. BTLI was recognized by the FSC for its excellent performance in promoting sales of micro-insurance. Meanwhile, BTLI and BTIB received recognition at the Insurance Faith, Hope & Love (FHL) Awards for "best fulfillment of corporate social responsibility" and "best insurance professionalism," respectively.

(6) Expected benefits of any mergers or acquisitions, as well as possible risks and any response measures being or to be taken: None

(7) Concentration Risks and Response Measures

To avoid allowing our business to become overly concentrated, TFH's banking subsidiary has set limits on the percentage of loans and investments that can go to any particular type of customer or economic sector, or to affiliated enterprises. TFH has a detailed and comprehensive integrated risk control system to exercise rigorous monitoring and control over the degree of concentration of large risk exposures to any single party, single group of related parties, or single group of related enterprises.

(8) Impact from Material Share Transferring of a Director, Supervisor, or Shareholder with more than 1% Stake in TFH.

None (TFH is a state-owned enterprise, with its shares owned by MOF. All our directors and supervisors are the Ministry's juristic-person representatives.)

(9) Effect upon and risk to company associated with any change in governance personnel or top management, and response measures being or to be taken:

None (TFH is a state-owned enterprise wholly owned by the Ministry of Finance. There has been no change in top management.).

(10) Litigious and non-litigious matters

Lawsuit filed by BOT to terminate contract with Tang Eng Iron Works Co., Ltd. for collaborative construction project:

1. Matter at issue: In 1984, BOT exercised a lien on a textile factory in Taoyuan belonging to the former Fu Hsin Textile Company and listed the property on its books as "foreclosed collateral."

On 15 November 1993, BOT and Tang Eng Iron Works Co., Ltd. ("Tang Eng") entered into a "Collaborative Development Contract to Use the Land at the Taoyuan Factory of the Former Fu Hsin Textile Company for the Construction of a Building." A dispute subsequently arose between the two parties over the question of whether the contract had entered into force, and multiple discussions between BOT and Tang Eng failed to yield a resolution. For this reason, a resolution was adopted at the 2nd meeting of the 3rd BOT Board of Directors on 24 November 2006 that the company would file a lawsuit against Tang Eng seeking termination of contract.

2. Value of the claim: Approximately NT$4.37 billion, said figure representing the 2016 announced current value of the property at issue
3. Date of commencement of proceedings: 2 March 2007.
4. Main parties: BOT and Tang Eng.
5. Current status of the proceedings: BOT received a favorable judgment of first instance, and an unfavorable judgment of second instance. After an appeal to the court of third instance, the Supreme Court ruled on 20 June 2012 that the appeal had merit, and therefore vacated the judgment of second instance and remanded the case for a retrial by the Kaohsiung Branch Court of the Taiwan High Court (hereinafter, "Kaohsiung High Court"). The Kaohsiung High Court issued a judgment on 18 February 2014 (Ref.: Judgment Chong-Shang-Geng (1) Zi No. 13) that: (a) upheld the judgment of first instance, which had found that the contract for a collaborative construction project had been lawfully terminated by BOT; and (b) dismissed the appeal of Tang Eng. Tang Eng objected to this judgement and appealed once again to the Supreme Court. On 2 April 2015, the Supreme Court issued a judgement (Ref.: Judgment Tai-Shang Zi No. 555) that: (a) found the appeal had merit; (b) vacated the judgment of first instance, which had been favorable to BOT; and (c) remanded the case for a retrial by the Kaohsiung High Court. The second retrial of the case is still ongoing at the Kaohsiung High Court.

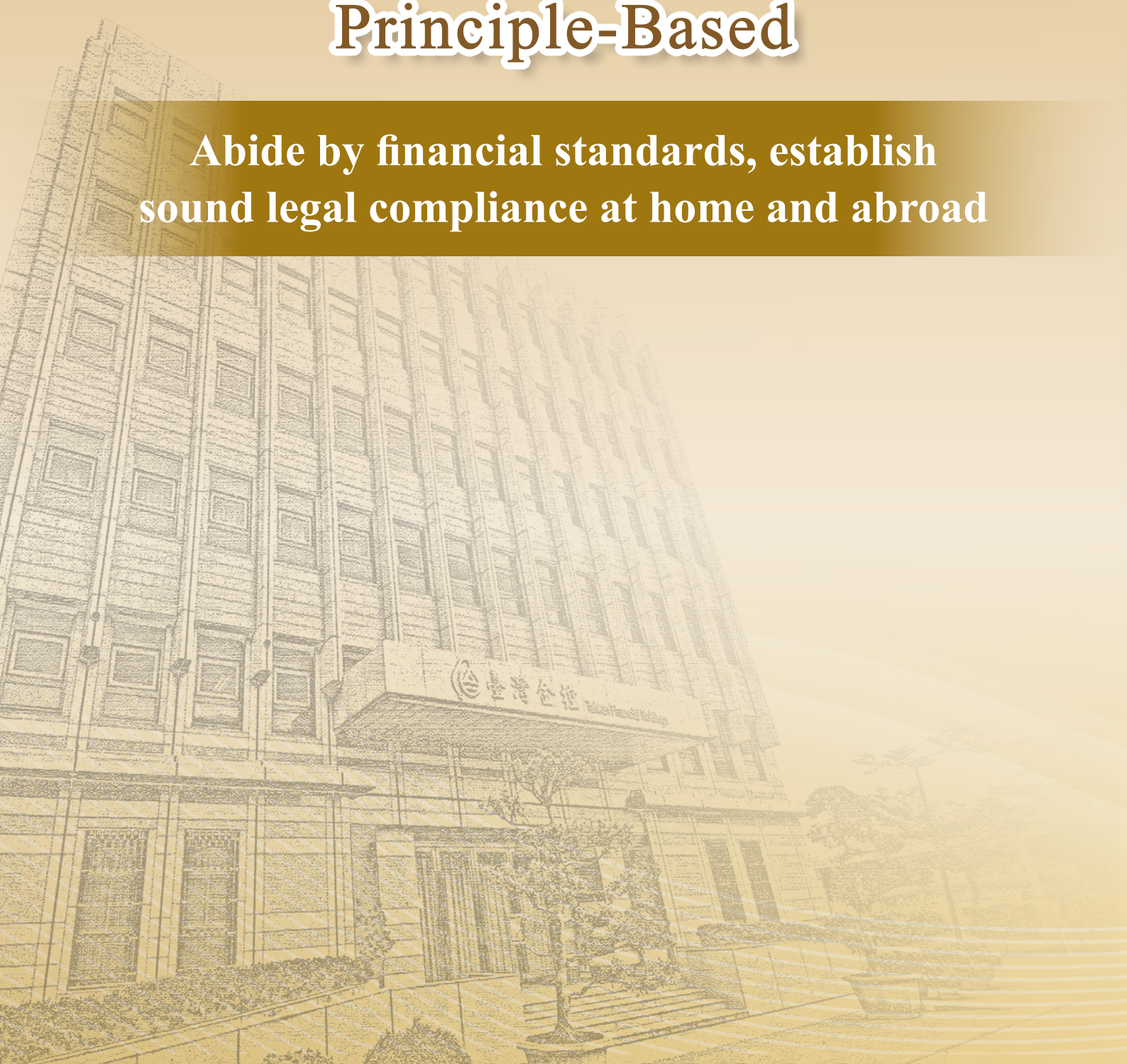
VII. Crisis Management Mechanism

In order to establish a groupwide system for preventing the occurrence of emergency situations, to respond promptly and effectively once they do occur, and to follow up with remedial action to deal with the aftermath, TFH and its subsidiaries have adopted a number of emergency response measures and contingency plans. We have set up an Emergency Response Taskforce and Spokesperson system, and when an emergency occurs we will be prepared to activate our Groupwide Emergency Notification and Communications System. Specified emergency response units are now in place to take charge in case of emergency and handle events in accordance with established operating procedures.

VIII. Other Important Matters: None

Principle-Based

Abide by financial standards, establish sound legal compliance at home and abroad



Miscellaneous

I. TFH Affiliates

II. Private Placement of Securities in 2017

III. Holding or Disposal of Shares in the Company by the Company's Subsidiaries in 2017

IV. Other Matters that Require Additional Description

V. Any of the Situations which might Materially Affect Shareholders' Equity or the Price of the Company's Securities in 2017

VI. Directory of Head Office and Branches

Miscellaneous

I. Information on Affiliated Enterprises

1. Charts and Relations within the TFH Group:

Please refer to Chapter III “Corporate Governance” on “Organization” section at page 17.

2. TFH Affiliates

Dec. 31, 2017

Name	Date Founded	Address	Paid-in Capital	Main Businesses
BOT	May 20, 1946	No. 120, Sec.1, Chongqing S. Rd., Taipei City, Taiwan	NT$95 billion	Banking
BTLI	Jan. 2, 2008	6F., No.69, Sec.2, Dunhua S. Rd., Taipei City, Taiwan	NT$22.5 billion	Life Insurance
BTS	Jan. 2, 2008	4-9F., No.58, Sec.1, Chongqing S. Rd., Taipei City, Taiwan	NT$3 billion	Securities
BTIB	Jan. 23, 2013	4F., No.49, Sec.1, Wuchang St., Taipei City, Taiwan	NT$20 million	Insurance Brokerage

3. Controlling and subordinate relation presumption based on Article 369-3 of the Company Law: None

4. Types of business conducted by TFH affiliates:

Including banking, securities, insurance and insurance brokerage.

5. Information on Chairperson, Directors, Supervisors and President of TFH’s Subsidiaries

Dec. 31, 2017

Company Name	Position	Representative Name	Shareholding		Legal Representative
			Shares	%	
BOT	Chairman Managing Director Independent Managing Director Managing Director Managing Director Independent Director Independent Director Director Director Director Director Director Labor Director Labor Director Labor Director	Joseph Jye-Cherng Lyu Jan-Lin Wei Yi-Hsiung Hsu Cheng-Chen Yang Jain-Rong Su Bai-Xian Peng Ming-Chin Chen Chiu-Xiang Lyu Chuan-His Chen Wei-Yu Kuo Chin-Long Yang waiting for assignment Chin-Chuan Hu Ma Hsu waiting for assignment	9.5 billion	100	Taiwan Financial Holding Co., Ltd.

Company Name	Position	Representative Name	Shareholding		Legal Representative
			Shares	%	
BTLI	Chairperson Managing Director Independent Director Independent Director Director Director Director Labor Director Labor Director Supervisor Supervisor	Yu-Chih Liu Fred Chiu Jin-Ji Chen Ai-Ru Shao Man-Yi Chu Austin Chan Hong-Chi Chang Zong-Zheng Lyu Siou-Sia Cai Lian-Ying Wu Jhem-Ying Huang	2.25 billion	100	Taiwan Financial Holding Co., Ltd.
BTS	Chairman Managing Director Independent Director Independent Director Director Director Director Labor Director Labor Director Supervisor Supervisor	Arthur J. Lin Shih-Tien Chiang Miao-Ling Chen Ming-Fang Tsai Xiao-Hui Ma Lily Lee Rong-Yaw Pan Yong-Tai Lin Shu-Ye Huang Gang-Cin Wu Zhen-Xiong Kuo	0.3 billion	100	Taiwan Financial Holding Co., Ltd.
BTIB	Chairman Managing Director Director Supervisor	Fu-Deng Hsieh Fan Kang waiting for assignment Ching-Hwa Juan	2 million	100	Bank of Taiwan Co., Ltd.

6. Operation Overview of TFH Affiliates in 2017

Unit: NT$1,000

Name	Capital	Total Assets	Total Liabilities	Equity	Operating Revenue	Operating Profits	Income (After Tax)	EPS
BOT	95,000,000	4,928,287,772	4,639,183,001	289,104,771	33,086,844	11,297,096	10,403,590	1.10
BTLI	22,500,000	360,448,327	351,095,893	9,352,434	50,336,107	-3,974,900	-3,034,163	-1.35
BTS	3,000,000	11,448,052	7,732,225	3,715,827	700,726	216,508	208,434	0.69
BTIB	20,000	489,753	99,212	390,541	1,676,090	235,587	194,809	97.40

Note: Figures for BOT reflect net income, as well as EBT from continuing operations. Figures for the other companies reflect operating revenues and operating profits.

7. Consolidated Financial Statements Covering Affiliated Enterprises:

The companies that TFH is required, pursuant to the provisions of the "Regulations Governing Preparation of Consolidated Business Reports Covering Affiliated Enterprises, Consolidated Financial Statements Covering Affiliated Enterprises, and Reports on Affiliations," to include in its FY2017 (January 1, 2017 to December 31, 2017) consolidated financial statements covering affiliated enterprises, are the same as the companies it is required, pursuant to the provisions of the FSC-endorsed International Financial Reporting Standard No. 10, to include in its consolidated financial statements covering the parent company and its subsidiaries. The information that the Company is required to disclose in its consolidated financial statements covering affiliated enterprises has all been disclosed in the aforementioned consolidated financial statements covering the parent company and its subsidiaries, therefore the Company has not separately prepared consolidated financial statements for individual affiliated enterprises. (Please refer to page 74~267).

II. Private placement of securities in 2017: None

III. Holding or disposal of shares in the company by the company's subsidiaries in 2017: None

IV. Other matters that require additional description: None

V. Any of the situations listed in Article 36, paragraph 3, subparagraph 2 of the Securities and Exchange Act, which might materially affect shareholders' equity or the price of the company's securities in 2017 : None

VI. Directory of Head Office and Branches

1. Domestic and Overseas Branches of BOT

Please refer to BOT website: www.bot.com.tw/english

2. Domestic Branches of BTLI

Please refer to BTLI website: www.twfhclife.com.tw

3. Domestic Branches of BTS

Please refer to BTS website: www. twfhcsec.com.tw

4. Domestic Service Units of BTIB

Please refer to BTIB website: www. botib.com.tw