

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
**TAIWAN FINANCIAL HOLDING CO., LTD. AND
SUBSIDIARIES**

Consolidated Financial Statements

**With Independent Auditors' Report
For the Years Ended December 31, 2019 and 2018**

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

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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, 2019 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 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 30, 2020



安侯建業聯合會計師事務所

KPMG

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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 Company”) and its subsidiaries (“the Company and subsidiaries”), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended December 31, 2019 and 2018, 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 Company and subsidiaries as at December 31, 2019 and 2018, and its consolidated operations and cash flows for the years then ended in accordance with the Regulations Governing the Preparation 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 (“FSC”).

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Certification of Financial Statements of Financial Institutions by Certified Public Accountants, Ruling No. 10802731571 issued by the FSC and the auditing standards generally accepted in Republic of China in 2019 and in accordance with the Regulations Governing Auditing and Certification of Financial Statements of Financial Institutions by Certified Public Accountants and the auditing standards generally accepted in the Republic of China in 2018. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of 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 Company and subsidiaries are required to be examined and certified by the Ministry of Audit (“MoA”). The financial statements of the Company and subsidiaries as of, and for year ended December 31, 2018 were restated to reflect the adjustments made by the MoA. For further information, please see Note 16(b). Our opinion is not modified in respect of this matter.

Other Matter

As stated in Note 6(j), we have not audited the financial statements of Hua Nan Financial Holdings Co., Ltd. and Tai Yi Real Estate Co., Ltd. The Company and subsidiaries recognized its investments in Hua Nan Financial Holdings Co., Ltd. and Tai Yi Real Estate Co., Ltd. under equity method amounting to \$47,328,265 thousand and \$43,681,863 thousand respectively, constituting 0.86% and 0.81% of the consolidated total assets as of December 31, 2019 and 2018, respectively; and its shares of investment profits in associates accounted for using equity method amounting to \$4,004,347 thousand and \$3,669,837 thousand, respectively, constituting 3.16% and 7.22% of the related consolidated net revenue for the year ended December 31, 2019 and 2018, 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, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report:

1. The valuation of financial instruments

Please refer to Note 4(f) “Financial instruments” for related accounting policy, Note 5(a) “The fair value of non-active market or non-quoted 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 the details of 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 Company and 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 Bank as of December 31, 2019 are material to the Company and 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 asset impairments” for the uncertainty of accounting assumptions and estimations, and Note 8 “Financial Risk Management” for the details of evaluation of financial asset impairments.

Description of key audit matters

When assessing whether there is any indication that the financial assets other than measured at fair value through profit or loss may be impaired, the Company and subsidiaries rely on management for considering all kinds of observable data and using the expected credit loss model, including probability of default, loss of default, exposure at default and prospective economic factors, to calculate the impairment loss. The calculation process is complicated and involves the exercise of judgment. Furthermore, the financial assets that require impairment testing as of December 31, 2019 are material to the Company and 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, understanding the Company's and subsidiaries' procedures of the assessment of impairment of financial assets, and testing related internal control procedures; (ii) performing analytical procedures; (iii) assessing the reasonableness of the Company's and subsidiaries' assessment of impairment of financial assets and, if necessary, acquiring assistance from internal specialists; (iv) verifying the accuracy of loan loss provision based on “Regulations Governing the Procedures for Enterprises Engaging in Insurance to Evaluate Assets and Deal with Non performing/Non accrual Loans”; (v) assessing whether the impairment of financial assets is presented and disclosed fairly.

3. The assessment of insurance liabilities

Please refer to Note 4(t) “Insurance liabilities” for related accounting policies, Note 5(c) “Insurance liabilities and reserves of insurance policy with financial instrument nature” for the uncertainty of accounting estimation and assumptions, and Note 6(aa) “Insurance contracts and financial products with discretionary participation feature” for the details of assessment of insurance liabilities.

Description of key audit matters

The major business activity of Bank Taiwan 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 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.

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 Preparation 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's and 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 subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (including the Audit Committee) are responsible for overseeing the Company's and 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 appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the group financial statements. We are responsible for the direction, supervision and performance of the group audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

KPMG

Taipei, Taiwan (Republic of China)
March 30, 2020

Notes to Readers

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

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

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2019		December 31, 2018		December 31, 2019		December 31, 2018	
	Amount	%	Amount	%	Amount	%	Amount	%
Assets								
Cash and Cash Equivalents (note 6(o), (h), 7, 8 and 10)	\$ 153,888,000	3	172,694,828	3	21000	229,253,533	4	221,756,139
Placement with Central Bank and Call Loans to Banks (note 6(b), (h), 7, 8, 10 and 11)	560,586,872	10	535,130,849	10	22000	59,619,316	1	50,652,530
Financial Assets Measured at Fair Value through Profit or Loss (note 6(e), 7, 8 and 10)	293,602,050	5	270,642,770	5	22300	25,537	-	12,973
Financial Assets Measured at Fair Value through Other Comprehensive Income (note 6(d), (f), 7, 8, 10 and 11)	1,023,839,660	19	1,127,802,007	21	22500	24,497,867	-	26,562,911
Debt Investments Measured at Amortized Cost (note 6(i), (g), 7, 8 and 11)	459,013,244	8	434,340,960	8	22600	1,024,682	-	289,886
Hedging (Derivative) Financial Assets (note 6(e), 7 and 8)	1,071	-	41,693	-	23000	48,499,809	1	49,164,205
Bills and Bonds Purchased under Resell Agreements (note 6(f), 7 and 8)	7,818,111	-	9,632,135	-	23200	1,442,102	-	360,056
Receivables, net (note 6(g), 7, 8 and 10)	67,595,437	1	66,244,408	1	23500	3,963,341,498	73	4,021,597,436
Current Income Tax Assets	2,294,856	-	1,743,485	-	24000	24,998,820	-	24,998,566
Loans and Discounts, net (note 6(h), 7, 8 and 10)	2,659,985,957	49	2,540,643,384	48	24600	748,599,706	14	661,967,616
Reinsurance Assets, net	16,447	-	12,426	-	25500	2,392,308	-	689,870
Investments under Equity Method, net (note 6(j))	48,355,582	1	44,695,410	1	26000	1,403,542	-	-
Other Financial Assets, net (note 6(k), (q), 7, 8 and 10)	44,615,014	1	51,706,208	1	29300	18,682,072	-	18,327,849
Investments Property, net (note 6(l))	23,655,232	-	22,599,025	-	29500	11,036,708	-	8,343,258
Property and Equipment, net (note 6(m), (q) and 11)	140,363,879	3	98,206,850	2	31101	5,134,817,500	93	5,084,723,295
Right-of-Use Assets, net (note 6(n))	1,523,432	-	-	-	31500	103,125,000	2	90,000,000
Intangible Assets (note 6(o))	940,059	-	814,874	-	32001	140,260,226	3	111,385,226
Deferred Tax Assets (note 6(p))	3,922,257	-	3,642,009	-	32003	7,840,566	-	7,419,683
Other Assets (note 6(p) and 11)	17,288,207	-	9,185,365	-	32011	47,637,690	1	45,115,538
Total assets	\$ 5,509,305,367	100	\$ 5,389,778,686	100		\$ 5,509,305,367	100	\$ 5,389,778,686
Liabilities and Equity								
Deposits of Central Bank and Other Banks (note 6(r), 7 and 10)								
Financial Liabilities Measured at Fair Value through Profit or Loss (note 6(s) and 7)								
Hedging (Derivative) Financial Liabilities (note 6(e) and 7)								
Bills and Bonds Sold under Repurchase Agreements (note 6(f), 7 and 8)								
Commercial Paper Payables, net (note 6(t) and 7)								
Payables (note 6(u), 7 and 10)								
Current Income Tax Liabilities								
Deposits and Remittances (note 6(v), 7 and 10)								
Financial Bonds Payables (note 6(w) and 7)								
Provision (note 6(z), (aa), (ab) and (ac))								
Other Financial Liabilities (note 6(y))								
Lease Liabilities (note 6(ad))								
Deferred Tax Liabilities (note 6(ag))								
Other Liabilities (note 6(af))								
Total liabilities								
Equity attributable to owners of parent (note 6(ah)):								
Capital Stock								
Capital Surplus								
Retained earnings:								
Legal Reserve								
Special Reserve								
Unappropriated Retained Earnings								
Other Equity								
Total equity								
Total liabilities and equity								

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2019 and 2018

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

	2019		2018		Change	
	Amount	%	Amount	%	%	
Revenue and income:						
41000	Interest income (note 6(ai) and 10)	\$ 76,585,405	61	74,006,749	146	3
51000	Less: Interest expense (note 6(ai))	<u>39,340,093</u>	<u>31</u>	<u>38,250,221</u>	<u>75</u>	<u>3</u>
	Net income of interest (note 6(ai))	37,245,312	30	35,756,528	71	4
Non-interest income, net						
49800	Service fees, net (note 6(aj) and 10)	4,052,553	3	4,321,686	8	(6)
49825	Gains (losses) on real estate investment, net (note 6(l))	109,726	-	101,093	-	9
49890	Share of profits (losses) of associates and joint ventures accounted for using equity method (note 6(j))	4,007,543	3	3,361,751	7	19
49810	Premium gains (losses) (note 6(ar))	30,025,311	24	1,877,061	4	1,500
49820	Gains (losses) on financial assets or liabilities measured at fair value through profit or loss (note 6(c) and (ak))	53,531,269	42	(11,909,252)	(23)	549
49835	Realized gains (losses) from financial assets measured at fair value through other comprehensive income (note 6(al) and 10)	4,069,574	3	3,288,163	6	24
49850	Net gains (losses) from derecognition of financial assets measured at amortized cost (note 6(l))	197,707	-	356,362	1	(45)
49870	Foreign exchange gains (losses)	(5,179,588)	(4)	10,844,082	21	(148)
49880	Impairment gain and reversal (impairment loss) of assets (note 6(q))	(2,835)	-	(88,565)	-	97
49898	Profits (losses) reclassified to other comprehensive income using overlay approach (note 6(c))	(2,654,314)	(2)	1,620,030	3	(264)
	Net other non-interest income (losses)					
49943	Inventory sales income (note 6(p) and (am))	500,387	-	366,662	1	36
48100	Subsidized income from government (note 6(am))	8,774,387	7	8,892,009	17	(1)
49999	Other miscellaneous income (note 6(am))	812,741	1	1,707,533	3	(52)
58090	Excess interest expenses (note 6(g) and (am))	<u>(8,856,111)</u>	<u>(7)</u>	<u>(9,640,527)</u>	<u>(19)</u>	<u>8</u>
	Net Revenue	<u>126,633,662</u>	<u>100</u>	<u>50,854,616</u>	<u>100</u>	<u>149</u>
58100	Bad debt expense and reserve for guarantees (note 6(h))	<u>(7,340,443)</u>	<u>(6)</u>	<u>(7,297,710)</u>	<u>(14)</u>	<u>1</u>
58300	Provisions for policyholder's reserve premium	<u>(85,760,846)</u>	<u>(68)</u>	<u>(12,014,671)</u>	<u>(24)</u>	<u>614</u>
Expenses:						
58501	Employee benefits expenses (note 6(ac),(an) and 10)	(14,147,983)	(11)	(13,575,334)	(27)	4
58503	Depreciation and amortization expenses (note 6(ao))	(1,676,822)	(1)	(1,043,995)	(2)	61
58599	Other general and administrative expenses (note 6(ap))	<u>(7,201,369)</u>	<u>(6)</u>	<u>(7,437,177)</u>	<u>(15)</u>	<u>(3)</u>
	Total Expenses	<u>(23,026,174)</u>	<u>(18)</u>	<u>(22,056,506)</u>	<u>(44)</u>	<u>4</u>
	Profit from continuing operations before tax	10,506,199	8	9,485,729	18	11
61003	Less: Income Tax Expenses (note 6(ag))	<u>1,701,990</u>	<u>1</u>	<u>391,369</u>	<u>1</u>	<u>335</u>
	Net profit	<u>8,804,209</u>	<u>7</u>	<u>9,094,360</u>	<u>17</u>	<u>(3)</u>
69500	Other comprehensive income:					
69560	Components of other comprehensive income that will not be reclassified to profit or loss					
69561	Gains (losses) on remeasurements of defined benefit plans (note 6(ac))	(1,641,306)	(1)	(1,072,950)	(2)	(53)
69565	Change in fair value of financial liability attributable to change in credit risk of liability	(299,554)	-	239,502	-	(225)
69567	Unrealized gains from investments in equity instruments measured at fair value through other comprehensive income	16,512,211	13	4,375,114	9	277
69563	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss	981,218	1	(136,651)	-	818
69569	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss (note 6(ag))	<u>(17,289)</u>	<u>-</u>	<u>16,330</u>	<u>-</u>	<u>(206)</u>
	Components of other comprehensive income that will not be reclassified to profit or loss	<u>15,569,858</u>	<u>13</u>	<u>3,388,685</u>	<u>7</u>	<u>359</u>
69570	Components of other comprehensive income (loss) that will be reclassified to profit or loss					
69571	Exchange differences on translation of foreign financial statements	(447,303)	-	576,186	1	(178)
69583	Unrealized gains (losses) from investments in debt instruments measured at fair value through other comprehensive income	873,761	1	(569,427)	(1)	253
69575	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	252,530	-	(208,703)	-	221
69590	Other comprehensive income on reclassification under the overlay approach (note 6(c))	2,654,314	2	(1,620,030)	(3)	264
69579	Income tax related to components of other comprehensive income that will be reclassified to profit or loss (note 6(ag))	<u>274,391</u>	<u>-</u>	<u>(235,998)</u>	<u>-</u>	<u>216</u>
	Components of other comprehensive income that will be reclassified to profit or loss	<u>3,058,911</u>	<u>3</u>	<u>(1,585,976)</u>	<u>(3)</u>	<u>293</u>
69500	Other comprehensive income	<u>18,628,769</u>	<u>16</u>	<u>1,802,709</u>	<u>4</u>	<u>933</u>
	Total comprehensive income, net of tax for the year	<u>\$ 27,432,978</u>	<u>23</u>	<u>10,897,069</u>	<u>21</u>	<u>152</u>
	Basic earnings per share (In dollars) (note 6(aq))	<u>\$ 0.93</u>		<u>1.01</u>		

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

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

	2019	2018
Cash flows from (used in) operating activities:		
Income before income tax	\$ 10,506,199	9,485,729
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expenses	1,468,018	870,724
Amortization expenses	330,174	291,345
Allowance on bad debts	7,281,170	7,304,564
Interest expense	39,340,093	38,250,221
Interest income	(76,585,405)	(74,006,744)
Dividend income	(9,719,217)	(9,043,459)
Net change in provisions for guarantee reserves	59,273	(6,854)
Net change in other reserves	85,086,529	13,287,138
Inventory falling price loss	-	(59)
Share of profit of associates and joint ventures accounted for using equity method	(4,007,543)	(3,361,751)
Loss on disposal of property and equipment	58,426	62,805
Gain on disposal of investments	(197,707)	(356,362)
Impairment loss on financial assets	504	6,973
Impairment loss on non-financial assets	2,331	81,592
Subtotal of income of non-cash activities	<u>43,116,646</u>	<u>(26,619,867)</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
(Increase) decrease in due from the central bank and call loans to banks	(1,445,740)	27,816,799
(Increase) decrease in financial assets measured at fair value through profit or loss	(25,139,292)	2,335,202
Decrease (increase) in financial assets measured at fair value through other comprehensive income	142,126,574	(53,088,661)
Increase in investments in debt instruments measured at amortized cost	(23,817,546)	(25,149,579)
Decrease (increase) in financial assets for hedging	40,622	(18,934)
(Increase) decrease in securities purchased under agreements to resell	(650,035)	510,359
Decrease in receivables and current tax assets	1,208,365	3,929,122
Increase in discounts and loans	(126,627,675)	(269,606,882)
Decrease in other financial assets	7,073,626	2,655,374
(Increase) decrease in other assets	(3,005,890)	5,451,963
Increase in due to the central bank and banks	7,497,394	2,734,755
Increase in financial liabilities measured at fair value through profit or loss	8,966,786	15,725,581
Increase (decrease) in financial liabilities for hedging	12,564	(47,507)
Decrease in securities sold under repurchase agreement	(2,065,044)	(10,140,174)
Decrease in payable and current tax liabilities	(1,623,789)	(12,572,351)
(Decrease) increase in deposits	(58,255,938)	90,224,764
Increase (decrease) in provisions for employee benefits	1,486,448	(1,196,696)
(Decrease) increase in other liabilities	(435,661)	314,850
Subtotal of all adjustments	<u>(31,537,585)</u>	<u>(246,741,882)</u>
Cash outflow generated from operations	(21,031,386)	(237,256,153)
Interest received	76,585,405	74,006,744
Dividends received	8,947,206	8,259,883
Interest paid	(38,380,904)	(36,594,173)
Income taxes (paid) refund	(1,097,340)	13,551
Net Cash flows from (used in) operating activities	<u>25,022,981</u>	<u>(191,570,148)</u>

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

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

	2019	2018
Cash flows from (used in) investing activities:		
Acquisition of investment properties	\$ (1,105,674)	-
Acquisition of property and equipment	(1,125,914)	(834,127)
Increase in refundable deposits	(5,237,347)	(6,279,229)
Acquisition of intangible assets	(455,312)	(372,445)
Net cash flows used in investing activities	<u>(7,924,247)</u>	<u>(7,485,801)</u>
Cash flows from (used in) financing activities:		
Increase in commercial papers issued	735,000	-
Decrease in commercial papers payable	-	(900,000)
Increase in guarantee deposits received	3,129,111	-
Decrease in guarantee deposits received	-	(985,624)
Payment of lease liabilities	(569,136)	-
Increase in other financial liabilities	1,702,438	-
Decrease in other financial liabilities	-	(164,886)
Net cash flows from (used in) financing activities	<u>4,997,413</u>	<u>(2,050,510)</u>
Effect of exchange rate changes on cash and cash equivalents	(749,606)	285,995
Net increase (decrease) in cash and cash equivalents	21,346,541	(200,820,464)
Cash and cash equivalents at beginning of period	<u>917,445,741</u>	<u>1,118,266,205</u>
Cash and cash equivalents at end of period	<u>\$ 938,792,282</u>	<u>917,445,741</u>
Composition of cash and cash equivalents:		
Cash and cash equivalents reported in the statement of financial position	\$ 153,888,000	172,694,828
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	186,167,478	162,126,076
Securities purchased under resell agreements qualifying for cash and cash equivalents under the definition of IAS 7	598,736,804	582,624,837
Cash and cash equivalents at end of period	<u>\$ 938,792,282</u>	<u>917,445,741</u>

See accompanying notes to consolidated financial statements.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018

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

(1) Organization and Business Scope

(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" ("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 government approved \$90 billion as the Company's capital while it was established, and \$103.125 billion in September 2019. 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 and \$109 billion in September 2019.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 was separated from BOT on January 2, 2008, with net assets \$5 billion yielded by BOT as its owner's equity. BTLI has increased its capital by \$2 billion, \$4 billion, \$6 billion, \$5.5 billion and \$10 billion on June 30, 2009, June 30, 2010, June 28, 2013, September 30, 2015 and June 29, 2018, respectively. BTLI's capital is currently \$32.5 billion. 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 temporary Audit Committee as well as temporary Board of Directors on March 30, 2020 and then published.

(3) New Standards, Amendments and Interpretations Adopted:

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019.

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

(i) IFRS 16“Leases”

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

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

1) Definition of a lease

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

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

2) As a lessee

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

The Company and subsidiaries decided to apply recognition exemptions to short-term leases of machinery and leases of IT equipment.

- Leases classified as operating leases under IAS 17

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

3) As a lessor

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

4) Impacts on financial statements

On transition to IFRS 16, the Company and subsidiaries recognised additional \$1,578,836 thousands of lease liabilities, \$128,628 thousands of prepaid rents, and \$1,707,464 thousands of right-of-use assets, with no difference in retained earnings. When measuring lease liabilities, the Company and subsidiaries discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 0.815%, 1.165%, 0.746% and 0.815% for the Company, BOT, BTLI and BTS, respectively.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	January 1, 2019
Operating lease commitment at December 31, 2018 as disclosed in the Group's consolidated financial statements	\$ 991,050
Recognition exemption for:	
short-term leases	(892)
leases of low-value assets	(3,463)
Extension and termination options reasonably certain to be exercised	241,978
Variable lease payment based on an index or a rate	412,799
	\$ 1,641,472
Discounted using the incremental borrowing rate at January 1, 2019	\$ 1,578,836
Finance lease liabilities recognized as at December 31, 2018	-
Lease liabilities recognized at January 1, 2019	\$ 1,578,836

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2020 in accordance with Ruling No. 1080323028 issued by the FSC on July 29, 2019:

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

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

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

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2022

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

<u>Issuance / Release Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
September 11, 2014	Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	<p>The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture.</p> <p>The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.</p>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Issuance / Release Dates	Standards or Interpretations	Content of amendment
May 18, 2017	IFRS 17 “Insurance Contracts”	<p>The new standard of accounting for insurance contracts contain recognition, measurement, presentation and disclosure of insurance contracts issued, and the main amendments are as follows:</p> <ul style="list-style-type: none"> ● Recognition: the beginning of the coverage period of the group of contracts, the date when the first payment from a policyholder in the group becomes due and when the group becomes onerous shall recognize a group of insurance contracts it issues from the earliest. ● Measurement: on initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. For subsequent measurement, the entity shall estimate the cash flows, discount rates and the adjustment for non-financial risk. ● Presentation and disclosure: the presentation of insurance revenue is based on the provision of service pattern and investment components excluded from insurance revenue.

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Company and subsidiaries 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 (“MoF”). The annual financial statements are examined by the Ministry of Audit (“MoA”) to ensure that the Company and are subsidiaries 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 2018 was certified by the MoA, and the opening balances of retained earnings of 2019 are the same as those certified in the closing balances of 2018. Please refer to Note 16(b) for the government audit adjustments.

(b) Basis of 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) Financial assets measured at fair value through other comprehensive income;
 - 3) Derivative financial instruments designated as hedges which are measured at fair value;
 - 4) The defined benefit assets 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 subsidiaries are 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 subsidiaries. All financial information represented in New Taiwan dollars has been rounded to the nearest thousand.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and 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

<u>Name of Investor</u>	<u>Name of Subsidiary</u>	<u>Principal activities</u>	<u>Shareholdings</u>	
			<u>December 31, 2019</u>	<u>December 31, 2018</u>
The Company	Bank of Taiwan ("BOT")	Banking	100 %	100 %
The Company	Bank Taiwan Life Insurance ("BTLI")	Life Insurance	100 %	100 %
The Company	Bank Taiwan Securities ("BTS")	Broker	100 %	100 %
Bank of Taiwan	Bank Taiwan Insurance Brokers ("BTIB")	Life and Property insurance broker	100 %	100 %

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the Company and subsidiaries at the exchange rates of the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies of the reporting date are translated into the functional currency using the exchange rate of that date.

Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using 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.

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

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the Company's and 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 into the Company's and 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 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 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 planned nor likely in the foreseeable future, exchange differences arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

(e) Cash and cash equivalents

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

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

(f) Financial instruments

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Financial assets

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

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

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

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

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

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

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

If the credit risk of debt instruments measured at amortized cost has not increased significantly since initial recognized, the Company and subsidiaries should measure the loss allowance for financial instruments at 12 months expected credit loss at the reporting date; if the credit risk of financial instruments has increased significantly since initial recognition, the Company and subsidiaries should measure the loss allowance for debt instruments at an amount equal to lifetime expected credit loss at each reporting date. Expected credit loss (or reversal) amount should be recognized in profit or loss as impairment loss or profit.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

The write-off of non-performing loans and non-accrual loans of 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.

2) Financial assets measured at fair value through other comprehensive income (“FVOCI”)

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

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

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

3) Financial assets measured at fair value through profit or loss ("FVTPL")

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

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

4) Business model assessment

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

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

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

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

6) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Company and subsidiaries transfer substantially all the risks and rewards of ownership of the financial assets are transferred or in which the Company and subsidiaries neither transfer nor retain substantially all of the risks and rewards of ownership and it does not retain control of the financial assets.

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

7) Overlay approach

The subsidiary, BTLI, has applied IFRS 9 since 2018. To reduce the impact caused by different effective dates of IFRS 9 and the forthcoming IFRS 17, the Company and subsidiaries simultaneously adopted overlay approach under IFRS 4 to present profit or loss of designated financial assets.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

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

2) Equity instruments

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

3) Compound financial instruments

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

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

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

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

4) Financial liabilities

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

(Continued)

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

5) Derecognition of financial liabilities

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

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

6) Offsetting of financial assets and liabilities

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

7) Financial guarantee contract

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

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

(iii) Derivative financial instruments and hedge accounting

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

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

The Company and subsidiaries choose to continue to apply the hedge accounting requirements of IAS 39.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

(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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Investments in associates

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

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

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

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

When the Company and 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 subsidiaries have 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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(k) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Reclassification to investment property

When there is a change in use, the Company and 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 if it is probable that the future economic benefits associated with the expenditure will flow to the Company and subsidiaries.

(iv) Depreciation

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

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

The estimated useful lives for the current and comparative years of significant items of property, 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

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

(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 not reject to fulfill the contract obligation for the insured.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 insurance subsidiaries 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 contracts

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".

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 derivative shall be measured at fair value through profit or loss, and the change shall be recognized as current gains or losses. If the embedded derivative 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 derivative and the insurance contract in terms of recognition.

(n) Lease

Applicable from January 1, 2019

(i) Identifying a lease

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

- 1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- 2) the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 3) the customer has the right to direct the use of the asset throughout the period of use only if either:
- the customer has the right to direct how and for what purpose the asset is used throughout the period of use; or
 - the relevant decisions about how and for what purpose the asset is used are predetermined and:
 - the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
 - the customer designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

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

(ii) As a lessee

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

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

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

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

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

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

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

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

(iii) As a lessor

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

If an arrangement contains lease and non-lease components, the Company and subsidiaries apply IFRS15 to allocate the consideration in the contract.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Applicable before January 1, 2019

(i) Lessor

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

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

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

(ii) Lessee

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

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

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

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

Contingent rent is recognized as expense in the period in which it is incurred. Recognition of income arising from a sale and leaseback transaction depends upon the type of lease involved. If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortized over the lease term. If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss is recognized immediately. If the sales price is below fair value, any profit or loss shall be recognized immediately except that if the loss is compensated for by future lease payments at below-market price, it is deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used. If the sales price is above fair value, the excess over fair value is deferred and amortized over the period for which the asset is expected to be used.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For operating leases, if the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and the fair value shall be recognized immediately.

(o) Intangible assets

(i) Computer Software

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

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

(p) Impairment of assets

(i) Impairment of financial assets

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

(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 subsidiaries 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 subsidiaries 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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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 the 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 liabilities

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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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 Jin Guan Pao 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%.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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\$30 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 Tsai Pao 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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 2) According to the Tai Tsai Pao 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 Pao 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 policies 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 the 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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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The accumulated limit, provision, and offsetting of the reserve are as follows:

- (i) Limit of provision: the total amount of its foreign investments at the end of current month times the exposure ratio and fixed provision ratio to calculate the provision. In addition, the foreign exchange gain from non-hedged foreign currency assets, if any, should time additional provision ratio to calculate additional provision.
- (ii) Limit of offsetting: The foreign exchange loss from non-hedged foreign currency assets, if any, times additional offsetting ratio to calculate the offsetting amount for the current month. The balance of this reserve at the end of each month shall not be lower than 20% of the higher of the accumulated balance of the reserve last year and the average amount of the accumulated balances from 2002 through last year.
- (iii) Life insurance business can increase the provision of the reserve after approved by the authority, if necessary.
- (iv) If the current balance of the reserve decreased to the lower limit and last for more than 3 months, the ratio of setting aside non-hedging foreign assets profit shall increase to 70% until the balance bounces back to three times as high as the lower limit.

The exposure ratio mentioned in (i) refers to the ratio of total amount of foreign investments minus traditional hedge premium and then divided by total amount of foreign investments. Traditional hedging includes forward exchange agreement, FX swap, cross currency swap and non-deliverable forward.

Exchange gains and losses of non-hedged foreign assets in (i) and (ii) refer to the gains and losses generated from volatility of exchange rates, excluding the portion of hedged foreign investments.

The requirements for monthly fixed provision ratio, additional provision ratio and additional offsetting ratio mentioned in (i) and (ii) are as follows:

- (i) Fixed provision ratio is 0.05%. When it meets the condition, however, the ratio becomes 0.06%.
- (ii) Additional provision ratio and additional offsetting ratio are both 50%. When they meet the condition, however, the ratio becomes 60%.

The conditions mentioned above are applicable only when the average hedge cost of NTD/USD currency swaps from December of last year to November of the current year is greater than or equal to 2%.

(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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(w) Revenue and operating expense recognition

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

(i) Subsidiary, BOT:

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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- 5) Dividend revenue: it shall be recognized if and only if the Company and subsidiaries have right to receive the dividend revenue.
 - 6) According to the Civil Servant and Teacher Insurance Act, if GESSI experiences a loss, the loss before May 31, 1999, would be covered by the Ministry of Finance; and the loss after that date would be covered by an adjustment of the insurance premium.
 - 7) Revenue and expense that relate to the same transaction or other event are recognized simultaneously; this process is commonly referred to as the matching of revenue and expense.
- (ii) Subsidiary, BTLI:
- 1) 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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) 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.

3) 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.

(iii) The Subsidiary, BTS

- 1) Brokerage commissions, profit or loss from the sale of securities, and the relevant charges are recognized on the trade date.
- 2) 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.
- 3) Consulting revenue and underwriting business revenue and expense are recognized according to agreements on an accrual basis.
- 4) While offering future exchange supporting business, the future commission revenues received from futures commission merchants are recognized during transaction period on accrual basis.
- 5) The disposal profit and loss of equity investments measured through fair value are recognized on transaction date.
- 6) 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.
- 7) 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.
- 8) Interest revenue is calculated using the effective interest rate method.

(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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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 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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 4) For the definite benefit plan, the independent actuary of the Company and subsidiaries use the projected unit credit method to calculate the present value of the defined benefit obligation and the current service cost. The present value of the defined benefit obligation is the projected future cash flow discounted by the market yields at the end of the reporting period on the bonds that have maturity dates approximating the terms of the obligation and that are denominated in the same currency in which the benefits are expected to be paid. Remeasurements of the net defined benefit liability (asset) include (a) actuarial gains or losses, (b) return on plan assets, excluding the amounts included in the net interest on the net defined benefit liability (asset), and (c) any change in the effect of the asset ceiling, excluding the amounts included in the net interest on the net defined benefit liability (asset). The amounts recognized in other comprehensive income will not be reclassified subsequently to profit or loss. The Company and subsidiaries could transfer the amounts recognized in other comprehensive income to equity. The Company and subsidiaries decided to recognize the remeasurements of the defined benefit plan to retained earnings; actuarial gains or losses for practical experience or actuarial assumptions changes are recognized to other comprehensive income immediately. Prior period servicing costs should be recognized in profit or loss immediately. The defined benefit plan pension for the period adopts the pension cost rate determined by using the actuarial assumptions prior to the reporting date and is calculated based on the fiscal year. The pension also makes the adjustments to reflect significant market volatility, significant curtailment and settlement, or other significant non-recurring matter after the reporting date.
 - 5) The oversea branches of the bank subsidiary follow the foreign government's regulations.
- (iii) Preferential interest deposits
- 1) The Company and 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 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 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.
 - 3) As from July 1, 2018, the Company and subsidiaries terminate the preferential interest deposits for retired employees, in accordance with the rule Tai Tsai Ku No.10700624450 issued by the Ministry of Finance.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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, the Company'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%.

The Company 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 taxes comprise current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

(i) Current income tax

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Deferred Tax

When measuring the deferred tax asset and deferred tax liability, the Company and 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 deductible 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.

(iii) Combined corporate income tax return

In accordance with the Article 49 of the Financial Holding Company Act, the Company and domestic subsidiaries, in which over 90% of issued shares was held for 12 months within the same taxation year, may adopt the linked-tax system for income tax filing. Other tax matters should be conducted separately.

The measurement of income tax is treated in accordance with IAS 12 "Income Taxes" when adopting the linked-tax system for income tax filing. However, the excess or deficit payment of income tax due to a combined corporate income tax filing is charged to current tax assets (liabilities) in reasonable and consistent way.

(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 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's and subsidiaries' chief operating officer in order to decide the resource allocation and assess the segments' performance. Each segment has separate financial information.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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.

However, according to the amendment of Military Insurance Act and the official letters issued by Ministry of National Defense on March 19, 2018, the military reserve which was kept by the BTLI is now returned to Ministry of National Defense and is transmitted to military insurance reserve account on April 2, 2018.

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

The fair value of non-active market or non-quoted financial instruments is determined using valuation techniques. Such fair value is based on observable data of similar financial instruments or valuation model. If there are no observable market parameters, the fair value of financial instruments is evaluated based on appropriate assumptions. If fair value is determined by the valuation model, the model is calibrated to ensure that all output data and the results reflect the actual market price.

This valuation model use only observable data as much as possible. But for credit risk (both our own and the contracting parties credit risk), the managements shall estimate the relation and the variation.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) The evaluation of financial asset impairments

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

(c) Insurance liabilities and reserves 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 the 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.

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) Income taxes

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(e) Payments to defined contribution retirement benefit plans

The present value of retirement benefit obligation is based on several actuarial assumptions (including the decisions made by Financial Supervisory Commission, R.O.C.). Any changes on these assumptions will influence the fair value of the retirement benefit obligations. One of the assumptions used to determine net pension cost (income) is the discount rate. The Company and subsidiaries determined the appropriate discount rate at the end of each year, and used the rate to calculate the present value of future cash flows on estimated payment of retirement benefit obligation. To determine the appropriate discount rate, the Company and 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.

The major assumptions of retirement benefit obligation were based on the actuarial assumptions of prior year and adjusted according to current market conditions or regulations.

(f) 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.

(g) 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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(6) Explanation of Significant Accounts:

(a) Cash and Cash Equivalents

	December 31, 2019	December 31, 2018
Cash on hand	\$ 12,143,189	12,838,229
Foreign currency on hand	13,515,714	12,744,005
Bank deposits	9,555,192	6,808,334
Cash in transit	178,426	-
Notes and checks for clearing	4,456,443	9,914,126
Placement with banks	114,038,219	130,389,598
Cash equivalents	19,970	21,504
Less: Allowance for bad debts—placement with banks	<u>(19,153)</u>	<u>(20,968)</u>
Total	<u>\$ 153,888,000</u>	<u>172,694,828</u>

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

	December 31, 2019	December 31, 2018
Cash and cash equivalents in consolidated balance sheets	\$ 153,888,000	172,694,828
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	186,167,478	162,126,076
Investments qualifying cash and cash equivalents under the definition of IAS 7	598,736,804	582,624,837
Total	<u>\$ 938,792,282</u>	<u>917,445,741</u>

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

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (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, 2019 and 2018, 60% of the reserve deposits collected by the subsidiary, BOT, on behalf of a government institution amounting to \$4,288,120 thousand and \$4,295,362 thousand, respectively, were deposited in the Central Bank and their use is restricted according to the regulations.
- (c) Financial Assets Measured at Fair Value through Profit or Loss

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

	December 31, 2019	December 31, 2018
Financial assets designated at fair value through profit or loss	\$ 18,906,332	15,556,919
Add: Valuation adjustment	<u>455.136</u>	<u>(91.199)</u>
Subtotal	<u>19,361,468</u>	<u>15,465,720</u>
Financial assets mandatorily measured at fair value through profit or loss	218,332,332	239,757,898
Add: Valuation adjustment	<u>55,908,250</u>	<u>15,419,152</u>
Subtotal	<u>274,240,582</u>	<u>255,177,050</u>
Total	<u><u>\$ 293,602,050</u></u>	<u><u>270,642,770</u></u>

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

	December 31, 2019	December 31, 2018
Government bonds, corporate bonds, financial bonds and others	\$ 18,906,332	15,556,919
Add: Valuation adjustment	<u>455.136</u>	<u>(91.199)</u>
Total	<u><u>\$ 19,361,468</u></u>	<u><u>15,465,720</u></u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	December 31, 2019	December 31, 2018
Commercial papers	\$ 29,557,348	38,969,252
Stocks and beneficiary certificates	174,348,483	171,275,762
Corporate bonds	1,194,938	946,597
Convertible bonds	2,152,504	3,969,775
Financial bonds	8,071,500	5,941,500
Negotiable certificates of deposits	-	15,502,549
Foreign bonds	2,947,802	3,061,372
Foreign exchange call options	3,063	1,843
Bond futures margin	-	21,913
Currency futures	5,154	5,611
Commodity futures margin	51,540	61,724
Add: Valuation adjustment—Non derivative financial instruments	43,864,379	8,886,161
Valuation adjustment—Cross currency swaps	29,767	-
Valuation adjustment—Swaps	10,416,172	5,964,877
Valuation adjustment—Interest rate swaps	51,026	384,341
Valuation adjustment—Forward foreign exchange	305,761	157,825
Valuation adjustment—Asset swaps (note)	1,240,176	25,483
Valuation adjustment—Foreign exchange call options	3,790	537
Valuation adjustment—Fixed rate commercial paper	(3,148)	-
Valuation adjustment—Commodity futures	327	(72)
Total	\$ 274,240,582	255,177,050

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Foreign exchange call options	\$ 980,913	378,906
Swaps	593,909,780	740,244,839
Interest rate swaps	15,173,142	19,032,894
Forward foreign exchange	41,734,738	26,611,032
Fixed rate commercial paper	200,000	-
Asset swaps	43,366,828	4,702,455
Cross currency swaps	1,086,400	-
Commodity futures	<u>240,207</u>	<u>4,207</u>
Total	<u>\$ 696,692,008</u>	<u>790,974,333</u>

- (v) For details of the valuation of the financial assets measured at fair value through profit or loss, please see note 7, "The Fair Value and Fair Value Hierarchy of the Financial Instruments".
- (vi) Profit and loss on investments, please refer to note 6(ak).
- (vii) As of December 31, 2019, the Company's and subsidiaries' financial assets at fair value through profit or loss neither served as a guarantee or collateral, nor were they pledged.
- (viii) The financial assets related to the investing activities of the issued insurance contracts to which BTLI designates to apply the overlay approach are listed as follows:

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Financial assets at fair value through profit or loss:		
TSEC and TPEX stocks	\$ 12,854,508	9,591,574
Exchange Traded Funds	12,005,595	4,045,091
Beneficiary certificates	297,080	2,500,259
Real estate securitization	1,949,335	1,483,897
Foreign stocks	174,134	694,263
Foreign exchange traded funds	4,486,177	5,229,266
Foreign mutual funds	714,115	856,168
Financial bonds	8,420,906	6,115,685
Foreign bonds	<u>2,797,387</u>	<u>2,541,346</u>
	<u>\$ 43,699,237</u>	<u>33,057,549</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The amount reclassified between profit or loss and other comprehensive income of these designated financial assets applying the overlay approach is as follows:

	<u>2019</u>	<u>2018</u>
Profits (Losses) reported in profit or loss for applying IFRS 9	\$ 4,590,532	(258,950)
Less: profits reported in profit or loss if applied IAS 39	<u>1,936,218</u>	<u>1,361,080</u>
Profits (Losses) on reclassification under the overlay approach	<u>\$ 2,654,314</u>	<u>(1,620,030)</u>

Due to the overlay approach adjustments, profits (losses) on financial assets and liabilities at fair value through profit or loss adjust from \$4,069,574 and \$3,288,163 thousands to \$1,415,260 and \$4,908,193 thousands.

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Debt instruments measured at fair value through other comprehensive income:		
Negotiable certificates deposits	\$ 718,770,000	852,920,000
Government bonds	54,402,969	57,276,878
Financial bonds	18,982,698	10,270,982
Corporate bonds	47,003,693	41,919,570
Financial asset securitization beneficiary certificates	250,716	500,000
Foreign government bonds, corporate bonds, financial bonds, and NCDs	80,794,075	80,415,018
Add: Valuation adjustment	<u>1,602,823</u>	<u>731,930</u>
Subtotal	<u>921,806,974</u>	<u>1,044,034,378</u>
Equity instruments measured at fair value through other comprehensive income:		
TSEC and TPEX stocks	45,232,631	43,115,063
Add: Valuation adjustment	<u>56,800,055</u>	<u>40,652,566</u>
Subtotal	<u>102,032,686</u>	<u>83,767,629</u>
Total	<u>\$ 1,023,839,660</u>	<u>1,127,802,007</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

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

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

1) As of December 31, 2019 and 2018, the dividends of \$3,555,239 and \$3,318,374 thousand, related to equity investments at fair value through other comprehensive income held on December 31, 2019 and 2018 separately were recognized. In addition, the dividends of \$111,187 and \$5,253 thousand, related to the investments derecognized was recognized in 2019 and 2018.

2) As of December 31, 2019 and 2018, the Company and subsidiaries sold its equity instruments measured at fair value through other comprehensive income as a result of adjustment in investment position and portfolio management. The equity instruments sold had a fair value of \$4,193,426 and \$1,592,311 thousand, and the Company and subsidiaries realized a loss of \$335,944 and \$256,163 thousand, which was already included in other comprehensive income. The loss has been transferred to retained earnings.

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

(iv) As of December 31, 2019, the Company and subsidiaries' financial assets at fair value through other comprehensive income were used as collateral, please refer to 11.

(e) Hedging Derivative Financial Instruments

The content of hedging asset is as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Fair value hedges :		
Interest rate swap	\$ <u>1,071</u>	<u>41,693</u>

The content of hedging liability is as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Fair value hedges :		
Interest rate swap	\$ <u>25,537</u>	<u>12,973</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

In order to decrease the fair value volatility caused by changes of market interest rate, the Company and 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.

<u>Hedged Item</u>	<u>Designated Hedging Instruments</u>	Hedging Investments Fair Value	
		December 31, 2019	December 31, 2018
USD financial bonds	interest rate swap	\$ (22,055)	32,993
USD corporate debts	"	(2,849)	3,954
USD government debts	"	438	(8,227)

The net gain(loss) of above hedging instruments in 2019 and 2018 are \$(58,149) thousand and \$29,480 thousand, respectively. The net gains and losses of hedged items embedded in hedging instrument in 2019 and 2018 are \$53,890 thousand and \$(67,296) thousand, respectively.

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

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

	December 31, 2019	December 31, 2018
Bills and bonds purchased under resell agreements:		
Negotiable certificates of deposit	\$ -	5,183,607
Commercial paper	6,685,600	3,966,052
Government bonds	232,131	232,000
Corporate bonds	900,380	250,476
Total	\$ 7,818,111	9,632,135
Bills and bonds sold under repurchase agreements:		
Commercial papers	\$ 29,973	29,975
Government bonds	19,976,624	6,840,195
Corporate bonds	2,700,568	3,425,574
Financial bonds	1,790,702	15,615,526
Supranational bonds	-	291,230
Foreign government bonds	-	333,911
Convertible Corporate bonds	-	26,500
Total	\$ 24,497,867	26,562,911

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(g) Receivables, net

	December 31, 2019	December 31, 2018
Accounts receivable	\$ 1,115,147	1,349,564
Long-term receivables— payment on behalf of the government	16,350,219	16,097,415
Accrued incomes	1,128,731	847,418
Interests receivable	16,997,915	16,357,530
Premiums receivable	139,660	138,389
Reinsurance current receivable	-	4,672
Notes receivable and acceptance notes receivable	1,211,379	2,958,192
Accounts receivable factoring without recourse	12,132,077	13,232,575
Margin loans receivable	3,050,109	2,522,262
Accounts receivable for settlement	3,550,932	1,823,393
Dividends receivable	500	-
Others— settlement prices	-	494,281
Others— replenishment of national treasury	7,362,748	6,299,347
Others— undelivered spot exchange	585	44
Other— ATM temporary receipts, payments and interbank difference	2,291,552	1,739,188
Others— FX Swaps	1,709,202	406,437
Others-pending settlement	414	1,306,065
Others	<u>702,886</u>	<u>836,002</u>
Subtotal	67,744,056	66,412,774
Less: allowance for doubtful accounts	<u>148,619</u>	<u>168,366</u>
Total	<u>\$ 67,595,437</u>	<u>66,244,408</u>

In accordance with Executive Yuan Tai-79-JEN-Cheng-SZU-tsu No. 14525, and regulations of Retired Civil Servants Lump-sum Retirement Payment and Old-age Benefits and Preferential Interest Deposits which excess preferential interest expenses recognized as Excess interest expenses of Non-interest income, net were \$6,375,883 thousand and \$7,265,162 thousand in 2019 and 2018, respectively, due to executing the government premium savings policy.

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(h) Loans and Discounts, net

	December 31, 2019	December 31, 2018
Discounts and export / import bills negotiations	\$ 2,044,282	3,576,638
Short-term loans and overdrafts	658,542,938	708,661,577
Short-term secured loans and secured overdrafts	73,199,038	73,236,408
Life insurance loans	5,805,338	5,892,446
Accounts receivable financing	128,708	241,732
Accounts receivable secured financing	5,138	8,757
Medium-term loans	551,295,477	490,677,869
Medium-term secured loans	258,457,388	236,955,232
Long-term loans	155,857,007	158,795,092
Long-term secured loans	996,669,757	897,796,378
Non-performing loans	<u>3,175,618</u>	<u>4,244,436</u>
Subtotal	2,705,180,689	2,580,086,565
Less: allowance for doubtful accounts	<u>45,194,732</u>	<u>39,443,181</u>
Total	<u>\$ 2,659,985,957</u>	<u>2,540,643,384</u>

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

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

	2019	2018
Bad debts	\$ 7,285,102	7,324,892
Provisions for guarantee liabilities	59,273	(6,854)
Provision for loan commitment liabilities	4,075	5,182
Provision for other liabilities	<u>(8,007)</u>	<u>(25,510)</u>
Total	<u>\$ 7,340,443</u>	<u>7,297,710</u>

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

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Financial Assets Measured at Amortized Cost

	December 31, 2019	December 31, 2018
Negotiable certificates deposits	\$ 1,305,899	11,204,833
Commercial papers	36,894,248	30,205,065
Government bonds	101,019,990	96,548,787
Foreign government bonds, corporate bonds, financial bonds, and NCDs	218,088,038	202,409,699
Financial bonds	26,262,027	31,515,443
Corporate bonds	<u>75,578,019</u>	<u>62,598,893</u>
	459,148,221	434,482,720
Less: Accumulated impairment	<u>(134,977)</u>	<u>(141,760)</u>
	<u>\$ 459,013,244</u>	<u>434,340,960</u>

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

- (i) During 2019 and 2018, the Company and subsidiaries sold bonds which were not frequently sold or whose amounts were not significant, no matter individual or aggregate, and the gain or loss arising from the disposal of bonds equaled to \$197,707 and \$356,362 thousand.
- (ii) As of December 31, 2019, the Company's and subsidiaries' financial assets measured at amortized cost were not used as collateral, please refer to 11.

(j) Investments under Equity Method, net

	December 31, 2019		December 31, 2018	
	Percentage of Ownership (%)	Amount	Percentage of Ownership (%)	Amount
Hua Nan Financial Holdings Co., Ltd.	25.07	\$ 47,306,789	25.07	43,660,779
Tang Eng Iron Works Co., Ltd.	21.37	1,027,317	21.37	1,013,547
Tai Yi Real Estate Management Co., Ltd.	30.00	<u>21,476</u>	30.00	<u>21,084</u>
Total		<u>\$ 48,355,582</u>		<u>44,695,410</u>

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

	2019	2018
Hua Nan Financial Holdings Co., Ltd.	\$ 1,223,172	(350,631)
Tang Eng Iron Works Co., Ltd.	<u>10,576</u>	<u>5,277</u>
Total	<u>\$ 1,233,748</u>	<u>(345,354)</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	<u>2019</u>	<u>2018</u>
Hua Nan Financial Holdings Co., Ltd.	\$ 4,000,302	3,665,778
Tang Eng Iron Works Co., Ltd.	3,196	(308,086)
Tai Yi Real Estate Management Co., Ltd.	<u>4,045</u>	<u>4,059</u>
Total	<u>\$ 4,007,543</u>	<u>3,361,751</u>

- (iii) Individually significant associate(s)

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

<u>Aassociates Company</u>	<u>The relations between the Combined company</u>	<u>Business place/ registration country</u>	<u>The proportion of ownership interest and voting rights</u>	
			<u>December 31, 2019</u>	<u>December 31, 2018</u>
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 subsidiaries have major affiliates of the listed or OTC companies, its fair value is as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Hua Nan Financial Holdings Co., Ltd.	\$ 67,147,859	50,652,508

- 1) Summarized of Financial Information

Hua Nan Financial Holding Co., Ltd.

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Total Assets	\$ 2,731,828,227	2,684,206,863
Total Liabilities	<u>(2,543,127,222)</u>	<u>(2,510,049,280)</u>
Net Assets	<u>\$ 188,701,005</u>	<u>174,157,583</u>
The Company holding shares	<u>\$ 47,306,789</u>	<u>43,660,779</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>2019</u>	<u>2018</u>
Net income	\$ 15,955,716	14,621,435
other comprehensive income	<u>4,879,056</u>	<u>(1,398,581)</u>
Total comprehensive income	<u>\$ 20,834,772</u>	<u>13,222,854</u>
The Company holding shares		
Investment income	\$ 4,000,302	3,665,778
Other comprehensive income	1,223,172	(350,631)

- 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 \$4,000,302 thousand and \$3,665,778 thousand in 2019 and 2018, respectively.

(iv) Maturity associate enterprise

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Total investment in book value	<u>\$ 1,048,793</u>	<u>1,034,631</u>
	<u>2019</u>	<u>2018</u>
Investment income	\$ 7,241	(304,027)
Other comprehensive income	<u>10,576</u>	<u>5,277</u>
Total comprehensive income	<u>\$ 17,817</u>	<u>(298,750)</u>

- 2) Some invested company were accounted for using the equity method and have not audited by auditors. The related investment loss is \$4,045 thousand and \$4,059 thousand in 2019 and 2018, respectively.

(v) Collateral

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(k) Other Financial Assets, net

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Short-term advances	\$ 40,091,153	45,937,904
Less: allowance for doubtful accounts—short-term advances	(44,363)	(26,843)
Remittances purchased	2,316	1,485
Less: allowance for doubtful accounts—remittances purchased	(23)	(15)
Overdue receivables	4,228	4,783
Less: allowance for doubtful accounts—overdue receivables	(4,199)	(4,156)
Separate account insurance product assets	1,429,769	11,026
Time deposits over three months	3,026,800	5,655,000
Others	109,349	127,043
Less: cumulative impairment—others	(10)	(11)
Less: allowance for doubtful accounts—others	(6)	(8)
Total	<u>\$ 44,615,014</u>	<u>51,706,208</u>

Concerning for the payment of excess interest for the government, booked under “short term payment” for December 31, 2019 and 2018, please refer to note 6(g) for further information.

(l) Investment Property

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

	<u>Land and</u> <u>improvements</u>	<u>Buildings</u>	<u>Total</u>
Cost or deemed cost:			
Balance at January 1, 2019	\$ 20,191,503	2,886,409	23,077,912
Additions	770,761	334,913	1,105,674
Reclassification	<u>10,362</u>	<u>19,626</u>	<u>29,988</u>
Balance at December 31, 2019	<u>\$ 20,972,626</u>	<u>3,240,948</u>	<u>24,213,574</u>
Balance at December 31, 2018 (equal to the balance at January 1, 2019)	<u>\$ 20,191,503</u>	<u>2,886,409</u>	<u>23,077,912</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>Land and improvements</u>	<u>Buildings</u>	<u>Total</u>
Depreciation:			
Balance at January 1, 2019	\$ -	478,887	478,887
Depreciation	-	72,967	72,967
Reclassification from property and equipment	-	6,488	6,488
Balance at December 31, 2019	<u>\$ -</u>	<u>558,342</u>	<u>558,342</u>
Balance at January 1, 2018	\$ -	409,850	409,850
Depreciation	-	69,037	69,037
Balance at December 31, 2018	<u>\$ -</u>	<u>478,887</u>	<u>478,887</u>
Carrying amounts:			
December 31, 2019	<u>\$ 20,972,626</u>	<u>2,682,606</u>	<u>23,655,232</u>
January 1, 2018	<u>\$ 20,191,503</u>	<u>2,476,559</u>	<u>22,668,062</u>
December 31, 2018	<u>\$ 20,191,503</u>	<u>2,407,522</u>	<u>22,599,025</u>

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Fair value of investment properties	<u>\$ 24,853,563</u>	<u>23,405,263</u>

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

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

<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter relationship between key unobservable inputs and fair value measurement</u>
The management evaluate and measure the effect of using techniques of comparison approach or Land development analysis approach. After evaluating, the bank make judgment about the assessment that is using to align the market participants.	<ul style="list-style-type: none"> ● The rate of return ● Overall capital interest rate 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> ● the rate of return were lower (higher); or ● the overall capital interest rate were lower (higher).

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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The investment property was subsequently measured at cost, and the fair value was tested according to real estate impairment testing working guidelines on each financial reporting date. After evaluating, BOT did not recognized impairment loss during 2019 and 2018.

2) The Bank Taiwan 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, 2019	December 31, 2018
Capitalization of earning percentage	2.10%~3.35%	1.16%~3.37%

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

Location	2019	2018
Rental revenue	\$ 265,526	251,962
Direct operating cost of the investment property for the period (comprise maintenance fee)	(155,800)	(150,869)
Net profit of investment property	\$ 109,726	101,093

(iv) As of December 31, 2019 and 2018, the Company's and 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 subsidiaries for the year ended 2019 and 2018 were as follows:

	Land and Land improvements	Buildings	Machinery and equipment	Transportatio n equipment	Miscellaneous equipment	Leasehold improvements	Construction in progress and prepayment for equipment	Total
Cost:								
Balance at January 1, 2019	\$ 87,382,427	15,727,185	6,033,282	1,118,972	1,005,099	874,327	743,622	112,884,914
Additions	42,277,550	42,092	502,563	82,279	26,223	20,872	174,335	43,125,914
Disposals	(27,747)	(118,764)	(377,329)	(69,096)	(41,428)	(18,839)	-	(653,203)
Reclassification	(10,362)	286,976	105,108	11,731	12,772	31,111	(512,581)	(75,245)
Effect of change in exchange rates	-	-	(2,038)	(500)	(561)	(2,844)	-	(5,943)
Balance at December 31, 2019	129,621,868	15,937,489	6,261,586	1,143,386	1,002,105	904,627	405,376	155,276,437
Balance at January 1, 2018	87,402,203	15,590,228	5,791,393	1,081,548	1,016,332	838,125	725,393	112,445,222
Additions	-	5,168	366,517	93,202	31,373	32,252	305,615	834,127
Disposals	(19,776)	(31,271)	(218,674)	(61,877)	(47,137)	(18,660)	-	(397,395)
Reclassification	-	163,060	93,639	5,827	3,660	19,847	(287,386)	(1,353)
Effect of change in exchange rates	-	-	407	272	871	2,763	-	4,313
Balance at December 31, 2018	87,382,427	15,727,185	6,033,282	1,118,972	1,005,099	874,327	743,622	112,884,914

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	Land and Land improvements	Buildings	Machinery and equipment	Transportatio n equipment	Miscellaneous equipment	Leasehold improvements	Construction in progress and prepayment for equipment	Total
Accumulated depreciation:								
Balance at January 1, 2019	14,966	7,538,595	4,536,923	865,618	825,070	772,023	-	14,553,195
Depreciation	-	316,759	409,085	45,686	30,399	37,357	-	839,286
Disposal	-	(118,604)	(352,461)	(67,683)	(37,190)	(18,839)	-	(594,777)
Reclassification	-	(6,488)	-	-	-	-	-	(6,488)
Effect of change in exchange rates	-	-	(1,348)	(343)	(527)	(2,524)	-	(4,742)
Balance at December 31, 2019	<u>14,966</u>	<u>7,730,262</u>	<u>4,592,199</u>	<u>843,278</u>	<u>817,752</u>	<u>788,017</u>	<u>-</u>	<u>14,786,474</u>
Balance at January 1, 2018	14,966	7,259,931	4,340,037	885,206	836,908	744,982	-	14,082,030
Depreciation	-	306,344	391,659	40,591	30,074	33,019	-	801,687
Disposal	-	(27,680)	(195,126)	(60,264)	(42,651)	(8,869)	-	(334,590)
Effect of change in exchange rates	-	-	353	85	739	2,891	-	4,068
Balance at December 31, 2018	<u>14,966</u>	<u>7,538,595</u>	<u>4,536,923</u>	<u>865,618</u>	<u>825,070</u>	<u>772,023</u>	<u>-</u>	<u>14,553,195</u>
Accumulated impairment:								
Balance at January 1, 2019	\$ 124,869	-	-	-	-	-	-	124,869
Impairment loss	1,215	-	-	-	-	-	-	1,215
Balance at December 31, 2019	<u>126,084</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>126,084</u>
Balance at January 1, 2018	47,850	-	-	-	-	-	-	47,850
Impairment loss	77,019	-	-	-	-	-	-	77,019
Balance at December 31, 2018	<u>124,869</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>124,869</u>
Carrying amounts:								
December 31, 2019	\$ <u>129,480,818</u>	<u>8,207,227</u>	<u>1,669,387</u>	<u>300,108</u>	<u>184,353</u>	<u>116,610</u>	<u>405,376</u>	<u>140,363,879</u>
January 1, 2018	\$ <u>87,339,387</u>	<u>8,330,297</u>	<u>1,451,356</u>	<u>196,342</u>	<u>179,424</u>	<u>93,143</u>	<u>725,393</u>	<u>98,315,342</u>
December 31, 2018	<u>\$ 87,247,592</u>	<u>8,188,590</u>	<u>1,496,359</u>	<u>253,354</u>	<u>180,029</u>	<u>102,304</u>	<u>743,622</u>	<u>98,206,850</u>

The Company and 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, 2019 and 2018, the total revaluation increments for land were \$81,563,186 thousand and \$81,590,877 thousand. The total revaluation increments for Buildings were both \$142,852 thousand.

Based on the assessment in December, 2019, the carrying amount of the lands which have indicators of impairment was determined to be \$171,067 thousand higher than its recoverable amount of \$169,852 thousand, and an impairment loss amounted to \$1,215 thousand was recognized. In 2018, the carrying amount of the lands which have indicator of impairment was determined to be \$247,713 thousand higher than its recoverable amount of \$170,694 thousand. Therefore, the amount of \$77,019 thousand, which was initially recognized as impairment, has been reversed.

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

As of December 31, 2019, the Company's and subsidiaries' property and equipment neither served as a guarantee or collateral, nor were they pledged.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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(n) Right-of-use assets

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

	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Transportation equipment</u>	<u>Miscellaneous equipment</u>	<u>Total</u>
Cost:						
Balance at January 1, 2019	\$ -	-	-	-	-	-
Effects of retrospective application	<u>11,283</u>	<u>1,634,058</u>	<u>22,219</u>	<u>39,852</u>	<u>52</u>	<u>1,707,464</u>
Balance at January 1, 2019	11,283	1,634,058	22,219	39,852	52	1,707,464
Additions	9,477	287,051	9,122	60,437	-	366,087
Changes in leases	189	3,412	(39)	703	-	4,265
Leases expired	<u>(460)</u>	<u>(29,731)</u>	<u>(73)</u>	<u>(3,842)</u>	<u>(52)</u>	<u>(34,158)</u>
Balance at December 31, 2019	<u>\$ 20,489</u>	<u>1,894,790</u>	<u>31,229</u>	<u>97,150</u>	<u>-</u>	<u>2,043,658</u>
Accumulated depreciation and impairment losses:						
Balance at January 1, 2019	\$ -	-	-	-	-	-
Depreciation	4,941	508,013	6,420	36,339	52	555,765
Leases expired	(451)	(29,731)	(73)	(3,842)	(52)	(34,149)
Changes in leases	-	(86)	-	-	-	(86)
Effect of changes in exchange rates	<u>4</u>	<u>(1,301)</u>	<u>(7)</u>	<u>-</u>	<u>-</u>	<u>(1,304)</u>
Balance at December 31, 2019	<u>\$ 4,494</u>	<u>476,895</u>	<u>6,340</u>	<u>32,497</u>	<u>-</u>	<u>520,226</u>
Carrying value:						
December 31, 2019	<u>\$ 15,995</u>	<u>1,417,895</u>	<u>24,889</u>	<u>64,653</u>	<u>-</u>	<u>1,523,432</u>

(o) Intangible Assets

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

	<u>Computer software</u>
Costs:	
Balance at January 1, 2019	\$ 3,948,804
Additions	<u>455,312</u>
Balance at December 31, 2019	<u>\$ 4,404,116</u>
Balance at January 1, 2018	\$ 3,576,360
Additions	<u>372,444</u>
Balance at December 31, 2018	<u>\$ 3,948,804</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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	<u>Computer software</u>	
Amortization and Impairment loss:		
Balance at January 1, 2019	\$ 3,133,930	
Amortization for the year	<u>330,127</u>	
Balance at December 31, 2019	<u>\$ 3,464,057</u>	
Balance at January 1, 2018	\$ 2,842,640	
Amortization for the year	<u>291,290</u>	
Balance at December 31, 2018	<u>\$ 3,133,930</u>	
Carrying value:		
Balance at December 31, 2019	<u>\$ 940,059</u>	
Balance at January 1, 2018	<u>\$ 733,720</u>	
Balance at December 31, 2018	<u>\$ 814,874</u>	
 (p) Other Assets		
	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Foreclosed collaterals and residuals taken over, net	\$ 1,079,309	1,080,460
Advance payments	7,733,122	4,864,052
Operating guarantee deposits and settlement funds	136,674	91,920
Refundable deposits	6,935,924	1,698,577
Temporary payments and suspense accounts	618,988	748,195
Inventories	716,557	701,832
Others	<u>67,633</u>	<u>329</u>
Total	<u>\$ 17,288,207</u>	<u>9,185,365</u>
 (i) Foreclosed collaterals and residuals taken over, net		
	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Foreclosed collaterals and residuals taken over	<u>\$ 1,079,309</u>	<u>1,080,460</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Advance payment

	December 31, 2019	December 31, 2018
Prepaid expenses	\$ 266,162	418,169
Prepaid interests	9,968	12,745
Business tax carry forward	810	686
Other prepayment—Interbank Fund Transfer Special Accounts	7,380,247	4,300,622
Other prepayment—other	<u>75,935</u>	<u>131,830</u>
Total	<u>\$ 7,733,122</u>	<u>4,864,052</u>

(iii) Inventories

	December 31, 2019	December 31, 2018
Inventories	<u>\$ 716,557</u>	<u>701,832</u>

The effects on the cost of goods sold derived from the inventory write-off or reversal for the year ended 2019 and 2018 were as follows:

	2019	2018
Inventory reversal	<u>\$ -</u>	<u>59</u>

(q) Impairment

For the year ended 2019 and 2018, the movements of the accumulated impairment were as follows:

	2019	2018
Beginning balance	\$ 354,738	62,899
Adjustment for retrospective application due to IFRS 9	-	202,464
Impairment loss recognized for the current period	33,571	168,214
Reversal of impairment loss for the current period	(30,736)	(79,649)
Effect of change in exchange rates and others	<u>(415)</u>	<u>810</u>
Ending balance	<u>\$ 357,158</u>	<u>354,738</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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Details of accumulated impairment were as follows:

	December 31, 2019	December 31, 2018
Financial assets measured at amortized cost	\$ 134,977	141,760
Other financial assets	10	11
Property and equipment	126,084	124,869
Financial assets at fair value through other comprehensive income	90,576	83,543
Other assets	<u>5,511</u>	<u>4,555</u>
Total	<u>\$ 357,158</u>	<u>354,738</u>

(r) Deposits of Central Bank and other banks

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

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

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

	December 31, 2019	December 31, 2018
Financial liabilities held for trading	\$ 4,148	2,893
Add: Valuation adjustment	<u>13,415,817</u>	<u>4,794,327</u>
Subtotal	<u>13,419,965</u>	<u>4,797,220</u>
Financial liabilities designated at fair value through profit or loss	44,985,000	46,102,500
Add: Valuation adjustment	<u>1,214,351</u>	<u>(247,190)</u>
Subtotal	<u>46,199,351</u>	<u>45,855,310</u>
Total	<u>\$ 59,619,316</u>	<u>50,652,530</u>

(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”.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Financial liabilities held for trading

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Foreign exchange options premium	\$ 4,148	2,893
Add: Valuation adjustment—Foreign exchange options premium	2,702	(508)
Valuation adjustment—Swaps	12,285,995	3,990,088
Valuation adjustment—Cross currency swaps	29,367	-
Valuation adjustment—Interest rate swaps	429,439	295,412
Valuation adjustment—Forward foreign exchanges	152,582	134,427
Valuation adjustment—Asset swaps	<u>515,732</u>	<u>374,908</u>
Total	<u>\$ 13,419,965</u>	<u>4,797,220</u>

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

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

The details of the financial bonds for BOT were as follow:

Name of bond	Conditions			Face value	Type	Bond	
	Beginning date	Maturity date	Coupon rate			Amount	
						December 31, 2019	December 31, 2018
2017-1 Senior unsecured financial bonds-A	2017/04/07	2047/04/07	0 %	USD \$500 million	Senior unsecured financial bond	\$ 14,995,000	15,367,500
2017-1 Senior unsecured financial bonds-B	2017/04/07	2047/04/07	0 %	USD \$380 million	Senior unsecured financial bond	11,396,200	11,679,300
2018-1 Senior unsecured financial bonds-A	2018/02/26	2048/02/26	0 %	USD \$150 million	Senior unsecured financial bond	4,498,500	4,610,250
2018-1 Senior unsecured financial bonds-B	2018/02/26	2048/02/26	0 %	USD \$470 million	Senior unsecured financial bond	14,095,300	14,445,450
				Valuation adjustment		<u>1,214,351</u>	<u>(247,190)</u>
						<u>\$ 46,199,351</u>	<u>45,855,310</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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. For the bonds issued in 2018, the call option may be exercised 2 years for bond A, and 5 years for bond B, after the issuing date. If the call options are not exercised prior to the bonds maturity date, BOT will pay the principal and interests accrued in full upon maturity.

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

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Foreign exchange options premium	\$ 1,001,177	371,765
Swaps	845,841,506	559,887,222
Cross currency swaps	1,086,400	-
Interest rate swaps	21,898,329	15,310,983
Forward foreign exchanges	40,279,631	11,423,307
Asset swaps	<u>6,784,488</u>	<u>46,498,490</u>
Total	<u>\$ 916,891,531</u>	<u>633,491,767</u>

(t) Commercial paper payables, net

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

	<u>December 31, 2019</u>		
	<u>Guarantee or</u> <u>acceptance</u> <u>institution</u>	<u>Range of</u> <u>interest rates</u>	<u>Amount</u>
Commercial paper payables	International Bills Finance Corporation	0.628%~0.798%	\$ 180,000
	China Bills Finance	0.628%~0.798%	245,000
	Taishin International Bank	0.628%~0.788%	100,000
	Taiwan Cooperative Bills Finance	0.698%~0.798%	115,000
	Yuanta Bank	0.638%~0.798%	<u>385,000</u>
			1,025,000
Less: discount			<u>(318)</u>
Total			<u>\$ 1,024,682</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2018			
	Guarantee or acceptance institution	Range of interest rates	Amount
Commercial paper payables	International Bills Finance Corporation	0.498%~0.838%	\$ 40,000
	China Bills Finance	0.658%~0.808%	250,000
			290,000
Less: discount			(114)
Total			\$ 289,886

The Company and subsidiaries have no assets which were served as a guarantee or collateral, nor they were pledged for the short-term notes payable.

(u) Payables

	December 31, 2019	December 31, 2018
Accounts payables	\$ 5,591,008	10,579,796
Collection payables	1,666,695	1,093,940
Accrued expenses	3,073,601	3,013,578
Other tax payables	486,490	466,514
Accrued interests	15,385,517	14,426,124
Banker's acceptance payables	1,194,544	2,918,255
Payables to representative organizations	829,639	586,198
Construction payables	946	3,004
Commission payables	146,030	103,998
Accounts payables — factoring receivables without recourse	375,438	565,938
Other payables — undelivered spot exchange	3	834
Other payables — collection bills	2,337,855	977,184
Other payables — payments awaiting transfer	9,003,123	7,806,182
Other payables — ATM temporary receipts, payments and inter branch difference	2,590,082	2,220,329
Other payables — foreign exchange awaiting transfer	740,078	721,384
Other payables — amounts awaiting settlement	325,153	180,579
Other payables — settlement accounts payable	2,953,420	2,241,220
Other payables — cost of settlement	615,958	-
Other payables — overdue accounts	199,043	191,135
Other payables — check deposit	119,600	103,026
Other payables — collections	19,571	11,986
Other payables — others	846,015	953,001
Total	\$ 48,499,809	49,164,205

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) Deposits and Remittances

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Check deposits	\$ 39,246,121	35,255,756
Government deposits	310,980,305	283,267,747
Demand deposits	394,142,603	370,095,014
Time deposits	683,416,685	746,703,592
Remittances	554,595	736,124
Savings account deposits:		
Demand savings deposits	939,345,417	983,561,781
Staff accounts	15,284,296	24,562,808
Club saving deposits	608,632	690,497
Non-drawing time savings deposits	417,758,369	402,536,104
Interest withdrawal on principal deposited	795,291,873	808,083,173
Staff time savings deposits	9,174,191	-
Preferential interest deposits	<u>357,538,411</u>	<u>366,104,840</u>
Total	<u>\$ 3,963,341,498</u>	<u>4,021,597,436</u>

(w) Financial Bonds Payables

Name of bond	Beginning date	Condition		Type	Bond	
		Maturity date	Interest rate		Amount	
					December 31, 2019	December 31, 2018
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		(1,180)	(1,434)
					<u>\$ 24,998,820</u>	<u>24,998,566</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(x) Borrowings

As of December 31, 2019 and 2018, the credit loan and guarantee loan were both 0 thousand, and the short term borrowings which were not utilized by the Company's subsidiary, BankTaiwan Securities, were 14,449,850 thousand, and 17,461,025 thousand, respectively.

December 31, 2019			
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	5,000,000	Itemized bargaining

December 31, 2018			
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	5,000,000	Itemized bargaining
	Guaranteed loans	-	0.40 %
Chinatrust Commercial Bank	Short-term loans	1,000,000	Itemized bargaining
	Overdrafts	-	0.18 %
First Bank	Short-term loans	2,000,000	Itemized bargaining
	Overdrafts	-	0.30 %
	Guaranteed loans	-	0.50 %

(y) Other Financial Liabilities

	December 31, 2019	December 31, 2018
Appropriated loan funds	\$ 16,474	26,825
Liability of insurance product-separate account	1,429,769	11,026
Principal from structured products	946,065	652,019
Total	<u>\$ 2,392,308</u>	<u>689,870</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(z) Provision

	December 31, 2019	December 31, 2018
Reserve for unearned premiums	\$ 381,947	372,090
Claims reserve	87,816	85,306
Liability reserve	382,653,606	341,234,973
Special reserve	28,758	48,415
Reserve for premium deficiency	2,156,307	3,087,105
Foreign exchange volatility reserve	465,900	1,214,234
Employee benefit obligations	19,736,061	18,249,613
Guarantee reserve	953,505	894,392
Reserve for government employees insurance	341,738,589	296,379,792
Others	377,993	386,084
Loan commitments reserve	19,224	15,612
Total	<u>\$ 748,599,706</u>	<u>661,967,616</u>

(aa) Insurance contracts 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, 2019 and 2018 were as follows:

(i) Details of reserve for unearned premium:

	December 31, 2019		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	\$ 9,544	-	9,544
Personal injury insurance	70,562	-	70,562
Personal health insurance	125,956	-	125,956
Group insurance	175,835	-	175,835
Investment-linked insurance	50	-	50
Total	<u>381,947</u>	<u>-</u>	<u>381,947</u>
Deduction of reserve for unearned premium outward:			
Personal life insurance	\$ 1,091	-	1,091
Personal injury insurance	3,446	-	3,446
Group insurance	4,531	-	4,531
Investment-linked insurance	-	-	-
Total	<u>9,068</u>	<u>-</u>	<u>9,068</u>
Net	<u>\$ 372,879</u>	<u>-</u>	<u>372,879</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	December 31, 2018		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	\$ 13,779	43	13,822
Personal injury insurance	65,280	-	65,280
Personal health insurance	122,063	-	122,063
Group insurance	170,877	-	170,877
Investment-linked insurance	48	-	48
Total	<u>372,047</u>	<u>43</u>	<u>372,090</u>
Deduction of reserve for unearned premium outward:			
Personal life insurance	\$ 1,138	-	1,138
Personal injury insurance	3,525	-	3,525
Group insurance	4,796	-	4,796
Investment-linked insurance	-	-	-
Total	<u>9,459</u>	<u>-</u>	<u>9,459</u>
Net	<u>\$ 362,588</u>	<u>43</u>	<u>362,631</u>

The reconciliations of reserve for unearned premium were listed below:

	2019		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2019	\$ 372,047	43	372,090
Provision	365,749	-	365,749
Reclaim	(355,821)	(43)	(355,864)
Other	(28)	-	(28)
Balance at December 31, 2019	<u>381,947</u>	<u>-</u>	<u>381,947</u>
Deduction of reserve for unearned premium outward			
Balance at January 1, 2019, net	9,459	-	9,459
Provision	9,068	-	9,068
Reclaim	(9,459)	-	(9,459)
Balance at December 31, 2019, net	<u>9,068</u>	<u>-</u>	<u>9,068</u>
Balance at December 31, 2019	<u>\$ 372,879</u>	<u>-</u>	<u>372,879</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	2018		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2018	\$ 378,144	504	378,648
Provision	360,923	43	360,966
Reclaim	(366,997)	(504)	(367,501)
Other	(23)	-	(23)
Balance at December 31, 2018	<u>372,047</u>	<u>43</u>	<u>372,090</u>
Deduction of reserve for unearned premium outward			
Balance at January 1, 2018, net	9,882	13	9,895
Provision	9,459	-	9,459
Reclaim	(9,882)	(13)	(9,895)
Balance at December 31, 2018, net	<u>9,459</u>	<u>-</u>	<u>9,459</u>
Balance at December 31, 2018	<u>\$ 362,588</u>	<u>43</u>	<u>362,631</u>

(ii) Details of claims reserve:

	December 31, 2019		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life Insurance			
Reported but not paid	\$ 10,105	2,632	12,737
Not reported and not paid	605	3	608
Personal injury insurance			
Reported but not paid	662	-	662
Not reported and not paid	9,297	-	9,297
Personal health insurance			
Reported but not paid	10,917	-	10,917
Not reported and not paid	15,961	-	15,961
Group insurance			
Reported but not paid	1,445	-	1,445
Not reported and not paid	<u>36,189</u>	<u>-</u>	<u>36,189</u>
Total	<u>85,181</u>	<u>2,635</u>	<u>87,816</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	December 31, 2019		
	Insurance Contract	Financial products with discretionary participation feature	Total
Deduction of claims reserve- outward:			
Personal life Insurance	\$ 28	-	28
Personal injury insurance	116	-	116
Personal health insurance	3,783	-	3,783
Group insurance	616	-	616
Total	<u>4,543</u>	<u>-</u>	<u>4,543</u>
Net	<u>\$ 80,638</u>	<u>2,635</u>	<u>83,273</u>
	December 31, 2018		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life Insurance			
Reported but not paid	\$ 9,827	5,490	15,317
Not reported and not paid	952	8	960
Personal injury insurance			
Reported but not paid	261	-	261
Not reported and not paid	13,519	-	13,519
Personal health insurance			
Reported but not paid	3,740	-	3,740
Not reported and not paid	19,883	-	19,883
Group insurance			
Reported but not paid	1,363	-	1,363
Not reported and not paid	<u>30,263</u>	<u>-</u>	<u>30,263</u>
Total	<u>79,808</u>	<u>5,498</u>	<u>85,306</u>
Deduction of claims reserve- outward:			
Personal life Insurance	\$ 161	2	163
Personal injury insurance	600	-	600
Personal health insurance	53	-	53
Group insurance	131	-	131
Total	<u>945</u>	<u>2</u>	<u>947</u>
Net	<u>\$ 78,863</u>	<u>5,496</u>	<u>84,359</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The reconciliations of claims reserve were listed below:

	2019		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2019	\$ 79,808	5,498	85,306
Provision	393,366	12,879	406,245
Recovery	<u>(387,993)</u>	<u>(15,742)</u>	<u>(403,735)</u>
Balance at December 31, 2019	<u>85,181</u>	<u>2,635</u>	<u>87,816</u>
Deduction of claims reserve- outward			
Balance at January 1, 2019, net	945	2	947
Provision	10,905	1	10,906
Recovery	<u>(7,307)</u>	<u>(3)</u>	<u>(7,310)</u>
Balance at December 31, 2019, net	<u>4,543</u>	<u>-</u>	<u>4,543</u>
Closing balance	<u>\$ 80,638</u>	<u>2,635</u>	<u>83,273</u>
	2018		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2018	\$ 89,994	4,409	94,403
Provision	353,683	11,242	364,925
Recovery	<u>(363,869)</u>	<u>(10,153)</u>	<u>(374,022)</u>
Balance at December 31, 2018	<u>79,808</u>	<u>5,498</u>	<u>85,306</u>
Deduction of claims reserve- outward			
Balance at January 1, 2018, net	224	6	230
Provision	13,370	14	13,384
Recovery	<u>(12,649)</u>	<u>(18)</u>	<u>(12,667)</u>
Balance at December 31, 2018, net	<u>945</u>	<u>2</u>	<u>947</u>
Closing balance	<u>\$ 78,863</u>	<u>5,496</u>	<u>84,359</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Details of liability reserve:

	December 31, 2019		
	Insurance Contract	Financial products with discretionary participation feature	Total
Life insurance	\$ 327,970,226	219	327,970,445
Health insurance	9,022,983	-	9,022,983
Annuity insurance	52,206	44,299,903	44,352,109
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	\$ 338,353,484	44,300,122	382,653,606
	December 31, 2018		
	Insurance Contract	Financial products with discretionary participation feature	Total
Life insurance	\$ 287,109,285	15,744	287,125,029
Health insurance	8,157,573	-	8,157,573
Annuity insurance	48,432	44,595,870	44,644,302
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	\$ 296,623,359	44,611,614	341,234,973

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The reconciliation of the above mentioned changes in liability reserve is listed below:

	2019		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2019	\$ 296,623,359	44,611,614	341,234,973
Provision	60,375,623	2,584,572	62,960,195
Reclaim	(17,862,368)	(2,866,158)	(20,728,526)
Gain from cancellation of insurance	(110,534)	(29,906)	(140,440)
Effect of changes in exchange rates	(647,147)	-	(647,147)
Others	(25,449)	-	(25,449)
Balance at December 31, 2019	<u>\$ 338,353,484</u>	<u>44,300,122</u>	<u>382,653,606</u>
	2018		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2018	\$ 274,670,767	55,126,375	329,797,142
Provision	53,465,309	2,510,343	55,975,652
Reclaim	(32,313,363)	(13,005,480)	(45,318,843)
Gain from cancellation of insurance	(90,026)	(19,624)	(109,650)
Effect of changes in exchange rates	804,027	-	804,027
Effect of changes in exchange rates	86,645	-	86,645
Balance at December 31, 2018	<u>\$ 296,623,359</u>	<u>44,611,614</u>	<u>341,234,973</u>

(iv) Details of special reserve:

	December 31, 2019		
	Insurance Contract	Financial products with discretionary participation feature	Total
Provision for dividend policy	\$ <u>28,758</u>	<u>-</u>	<u>28,758</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	December 31, 2018		
	Insurance Contract	Financial products with discretionary participation feature	Total
Provision for dividend policy	\$ 48,415	-	48,415

The movements of special reserve were listed below:

	2019		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2019	\$ 48,415	-	48,415
Provision of dividend policy	27,060	-	27,060
Recovery of dividend policy	(47,344)	-	(47,344)
Others	627	-	627
Balance at December 31, 2019	\$ 28,758	-	28,758

	2018		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2018	\$ 147,645	-	147,645
Provision of dividend policy	68,289	-	68,289
Recovery of dividend policy	(256)	-	(256)
Adjustment of retrospective application	(167,263)	-	(167,263)
Balance at December 31, 2018	\$ 48,415	-	48,415

(v) Reserve for premium deficiency:

	December 31, 2019		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	\$ 2,069,913	-	2,069,913
Personal health insurance	86,394	-	86,394
Total	\$ 2,156,307	-	2,156,307

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	December 31, 2018		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	\$ 3,053,722	-	3,053,722
Personal health insurance	33,383	-	33,383
Total	\$ 3,087,105	-	3,087,105

The reconciliations of reserve for premium deficiency were listed as below:

	2019		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2019	\$ 3,087,105	-	3,087,105
Provision	216,260	-	216,260
Reclaim	(1,145,984)	-	(1,145,984)
Effect of changes in exchange rates	(1,074)	-	(1,074)
Balance at December 31, 2019	\$ 2,156,307	-	2,156,307

	2018		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2018	\$ 3,975,837	-	3,975,837
Provision	252,127	-	252,127
Reclaim	(1,143,330)	-	(1,143,330)
Effect of changes in exchange rates	2,471	-	2,471
Balance at December 31, 2018	\$ 3,087,105	-	3,087,105

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(vi) Details of provision for liability adequacy:

- 1) Information on provision for liability adequacy of the subsidiary, BTLI, as of December 31, 2019 and 2018 was as follows:

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Liability reserve	\$ 382,559,163	341,136,306
Reserve for unearned premium	188,206	184,261
Special reserve	28,758	48,415
Reserve for premium deficiency	<u>2,156,307</u>	<u>3,087,105</u>
Book value of insurance liability	<u>\$ 384,932,434</u>	<u>344,456,087</u>
Estimate of present cash flow	<u>\$ 344,947,351</u>	<u>322,578,940</u>

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.

- 2) As of December 31, 2019 and 2018, the short-term insurance of liability adequacy reserve of the Company is summarized as follows:

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Claim and reserve within a year	\$ 78,603	83,258
Less: Premium not received within a year	<u>1,069</u>	<u>1,251</u>
Subtotal	<u>\$ 77,534</u>	<u>82,007</u>
Unearned premium reserve	<u>\$ 193,742</u>	<u>187,829</u>
Liability adequacy reserve	<u>\$ -</u>	<u>-</u>

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.

Inward reinsurance: Starting 2015, the Central Reinsurance Corporation ceased to continue to transfer its reinsurance business to BTLI due to its reinsurance policy adjustment. It is not required to conduct a liability adequacy test for inward reinsurance.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 3) The liability adequacy test methods used by the subsidiary, BTLI, were listed below:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
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 2018 (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 2017 (with steady state assumption for discount rates after 30 year).

(ab) Foreign exchange volatility reserves

- (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, 2019 and 2018, the primary foreign exchange exposures were USD assets, amounting \$67,714,630 thousand and \$64,428,390 thousand, respectively.

- (ii) The movements in foreign exchange volatility reserve were as follows:

	<u>2019</u>	<u>2018</u>
Balance at 1 January	\$ 1,214,234	279,466
Current provision:		
Compulsory provision	439,412	351,253
Additional provision	<u>1,250,863</u>	<u>1,274,408</u>
Subtotal	<u>1,690,275</u>	<u>1,625,661</u>
Current write-off	<u>(2,438,609)</u>	<u>(690,893)</u>
Balance as at 31 December	<u>\$ 465,900</u>	<u>1,214,234</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (iii) Comparisons table shows the effects on profit/loss, liability, equity and earnings per share due to not applying this rule was as follow:

<u>Items</u>	<u>Amount not applied</u>	<u>Amount applied</u>	<u>Changes</u>
Liability and equity			
December 31, 2019			
Reserve for foreign exchange valuation	\$ -	465,900	(465,900)
Equity	374,860,587	374,487,867	372,720
December 31, 2018			
Reserve for foreign exchange valuation	-	1,214,234	(1,214,234)
Equity	306,026,778	305,055,391	971,387
<u>Items</u>	<u>Amount not applied</u>	<u>Amount applied</u>	<u>Changes</u>
Income (loss) after tax and earnings (loss) per share			
2019			
Income (loss) after tax	\$ 8,205,542	8,804,209	(598,667)
Earnings (loss) per share	0.87	0.93	(0.06)
2018			
Income (loss) after tax	9,842,175	9,094,360	747,815
Earnings (loss) per share	1.09	1.01	0.08

- (ac) Employee benefit obligations

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Recognized in Consolidated Balance Sheet:		
— Defined benefit plans	\$ 13,269,457	11,781,898
— Employees preferential interest deposits	6,291,336	6,387,449
— Three Chinese festival bonus	5,527	5,168
— Civil servant and teacher insurance excess	169,741	75,098
Total	<u>\$ 19,736,061</u>	<u>18,249,613</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 1) The reconciliation of the defined benefit obligations at present value and plan assets at fair value are as follows:

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Present value of the defined benefit obligations	\$ 28,516,431	26,650,001
Less: fair value of the plan assets	<u>(8,780,370)</u>	<u>(8,400,388)</u>
Net defined benefit obligations	<u>\$ 19,736,061</u>	<u>18,249,613</u>

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

	<u>2019</u>	<u>2018</u>
Defined benefit obligation at January 1	\$ 26,650,001	27,285,692
Current service costs	1,331,879	1,287,675
Remeasurements of the defined benefit plans in other comprehensive income		
— Actuarial gains and losses in demographic changes in assumptions	883,378	901,813
— Experience adjustments	836,215	217,645
— Changes in actuarial gains and losses in financial assumptions	38,405	26,333
Past service cost	1,652,423	1,443,374
Benefit payments	<u>(2,875,870)</u>	<u>(4,512,531)</u>
Defined benefit obligation at December 31	<u>\$ 28,516,431</u>	<u>26,650,001</u>

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

	<u>2019</u>	<u>2018</u>
Fair value of plan assets at January 1	\$ 8,400,388	7,839,381
Interest revenues	94,012	88,907
Remeasurements of defined benefit plans in other comprehensive income		
— Return on plan assets	70,999	46,092
Contribution made by the plan participant	1,037,942	1,119,168
Benefit payments	<u>(822,971)</u>	<u>(693,160)</u>
Fair value of plan assets at December 31	<u>\$ 8,780,370</u>	<u>8,400,388</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

4) Expenses recognized in profit or loss

	<u>2019</u>	<u>2018</u>
Current service costs	\$ 849,528	772,202
Net interest of the defined benefit obligations	388,339	426,566
Past service costs	1,652,423	1,443,374
Remeasurements of defined benefit plans in other comprehensive income	41,303	15,169
Total	<u>\$ 2,931,593</u>	<u>2,657,311</u>

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

The Company's and subsidiaries' re-measurement of the net defined benefit liability (asset) recognized in other comprehensive income for the years ended December 31, 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Accumulated amount at January 1	\$ 4,646,190	3,573,240
Recognized during the period	<u>1,641,306</u>	<u>1,072,950</u>
Accumulated amount at December 31	<u>\$ 6,287,496</u>	<u>4,646,190</u>

6) Actuarial assumptions

For the defined benefit obligations at present value :

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Discount rate	0.75%~1.31%	1.10%~4.00%
Future of salary increases	1.50%~3.00%	0.50%~2.00%
Assets expected rate of return	0.75%	1.00%~1.10%

For cost of the defined benefit plan :

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Discount rate	0.75%~1.31%	1.10%~4.00%
Future of salary increases	1.50%~3.00%	0.50%~2.00%
Assets expected rate of return	0.75%	1.00%~1.10%

The estimated future mortality rate used to calculate of the defined benefit plan of the Company and subsidiaries are based on the fifth round of the Taiwan Life Experience Life Table.

The Company and subsidiaries expect to pay the benefits amounting to \$1,011,061 within one year.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

7) Sensitivity analysis

The followings could impact the present value of the defined benefit obligations as of December 31, 2019 and 2018 if the actuarial assumptions change as follows:

	Impact on the defined benefit obligation		
	Actuarial assumption changes (%)	Actuarial assumption increase	Actuarial assumption decrease
December 31, 2019			
Discount rate	0.25%	\$ 27,725,458	29,260,578
Salary increase rate	0.50%	23,237,510	21,220,457
December 31, 2018			
Discount rate	0.25%	25,921,928	27,363,138
Salary increase rate	0.50%	21,331,293	19,328,897

The aforementioned sensitivity 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 sensitivity analysis.

There were no changes in the method and assumptions used in the preparation of sensitivity analysis for 2018 and 2019.

(ad) Lease liabilities

The Company and subsidiaries's lease liabilities were as follow:

	December 31,
	2019
Current	\$ <u>1,403,542</u>

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

The amounts recognized in profit or loss were as follows:

	2019
Interest on lease liabilities	\$ <u>18,680</u>
Variable lease payments not included in the measurement of lease liabilities	\$ <u>2,333</u>
Expenses relating to short-term leases	\$ <u>3,024</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	\$ <u>2,406</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The amounts recognized in the statement of cash flows for the Company and subsidiaries was as follows:

	2019
Total cash outflow for leases	\$ 576,899

(i) Real estate leases

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

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

(ii) Other leases

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

(ae) Operating lease

(i) Subsidiary, BOT

1) Leases as lessee

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

2) Leases as lessor

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

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The subsidiary leases out its investment properties. The future minimum lease payments under non-cancellable leases are as follows:

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

(ii) Subsidiary, BTLI

1) Leases as lessee

Non-cancellable operating lease rentals payable was as follows:

	December 31, 2018
Less than one year	\$ 7,834
Between one and five years	15,668
	\$ 23,502

The subsidiary leases several office and equipment under operating leases. The leases typically run for a period of 2 to 5 years, with an option to renew the lease after that date. Lease payments are increased periodically to reflect market rentals. Some leases provide for additional rent payments that are based on changes in a local price index.

During 2018 an amount of \$10,581 thousand was recognized as an expense in profit or loss in respect of operating leases.

The lease contract of office was signed with the lease of land and buildings as a whole. As (i) ownership of the land was not transferred to the subsidiary (ii) lease payments to the land owner of the building are increased periodically to market rentals. (iii) residual value of the buildings was not received by the subsidiary and (iv) all the risks and rewards incidental were not transferred, the subsidiary has classified these leases as operating leases.

2) Leases as lessor

The subsidiary leases out its investment property. The subsidiary has classified these leases as operating leases because it does not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Please refer to note 6 (1).

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	December 31, 2019
Less than one year	\$ 258,934
One to two years	179,830
Two to three years	147,970
Three to four years	56,827
Four to five years	10,609
Total undiscounted lease payments	\$ 654,170

The subsidiary leases out its investment properties. The future minimum lease payments under non-cancellable leases are as follows:

	December 31, 2018
Less than one year	\$ 240,705
Between one and five years	370,290
More than five years	167
	\$ 611,162

Rental income from investment properties and direct expenses arising from investment properties please refer to note 6 (l).

(iii) Subsidiary, BTS

1) Leases as lessee

Non-cancellable operating lease rentals payable was as follows:

	December 31, 2018
Less than one year	\$ 10,774
Between one and five years	32,269
	\$ 43,043

The subsidiary leases office, operating sites and parking lots under operating leases. The leases typically run for a period of 1 to 5 years.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Leases as lessor

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

	December 31, 2019
Less than one year	\$ 10,072
One to two years	10,076
Two to three years	9,990
Three to four years	7,746
Four to five years	3,384
Total undiscounted lease payments	\$ 41,268

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

	December 31, 2018
Less than one year	\$ 9,778
Between one and five years	26,357
More than five years	450
	\$ 36,585

(af) Other Liabilities

	December 31, 2019	December 31, 2018
Advance collections	\$ 2,246,952	2,607,018
Guarantee deposits received	7,119,928	3,990,817
Temporary receipt awaiting suspense accounts	342,906	467,579
Other liabilities to be settled	8,239	8,239
Compensation arising from land revaluation	1,264,803	1,264,803
Deferred service revenues	53,864	-
Collections for underwriting stock value	16	4,802
Total	\$ 11,036,708	8,343,258

(ag) Income Tax Expenses

(i) Income tax expenses (benefits)

The income tax expenses for 2019 and 2018 were as follows:

	2019	2018
Current income tax expenses	\$ 2,564,363	1,261,515
Adjustment for prior periods	(2,012)	(28,813)
Deferred tax expenses	(860,361)	(841,333)
Income tax expenses (benefits)	\$ 1,701,990	391,369

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	<u>2019</u>	<u>2018</u>
Exchange differences on translation of foreign operations	\$ (304)	193
Unrealized gains (losses) on debt instruments measured at fair value through other comprehensive income	(12,912)	(71,262)
Unrealized valuation gains (losses) on equity instruments measured at fair value through other comprehensive income	41,726	11,434
Other comprehensive profits (losses) reclassified using overlay approach	232,969	(164,929)
Actuarial gains (losses) on defined benefit plans	<u>(4,377)</u>	<u>4,896</u>
	<u>\$ 257,102</u>	<u>(219,668)</u>

Reconciliations of income tax expenses (benefits) and profit before tax for 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Profit before tax	\$ <u>10,506,199</u>	<u>9,485,729</u>
Income tax based on domestic tax rate	2,101,240	1,897,145
Income tax expense of overseas branches	561,565	357,969
Changes in deferred tax assets and liabilities	(549,026)	173,794
Tax-exempt income	(944,324)	(1,811,861)
Others	<u>532,535</u>	<u>(225,678)</u>
Total	<u>\$ 1,701,990</u>	<u>391,369</u>

(ii) Deferred Tax Assets and Liabilities

1) Unrecognized deferred tax assets

Unrecognized deferred tax assets are as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Deductible temporary difference	<u>\$ 6,268,724</u>	<u>5,819,532</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Recognized deferred tax assets and liabilities

Changes in deferred tax assets and liabilities for 2019 and 2018 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, 2019	\$ 142,353	650,478	1,511,033	1,338,145	3,642,009
Recognized in profit or loss	4,390	194,750	989,478	(19,689)	1,168,929
Recognized in other comprehensive income	-	(211,527)	304	(224)	(211,447)
Recognized in equity	-	-	-	127	127
Turns to income tax refund	-	-	-	(677,361)	(677,361)
Balance at December 31, 2019	\$ 146,743	633,701	2,500,815	640,998	3,922,257
Balance at January 1, 2018	\$ 139,476	295,072	2,218,933	4,512	2,657,993
Adjustment for retrospective application	-	9,722	(15,220)	-	(5,498)
Recognized in profit or loss	2,877	89,893	(692,487)	1,312,622	712,905
Recognized in other comprehensive income	-	255,791	(193)	21,011	276,609
Balance at December 31, 2018	\$ 142,353	650,478	1,511,033	1,338,145	3,642,009

Deferred Tax Liabilities:

	Defined benefit plans	Land value increment tax	Fair value gains	Other	Total
Balance at January 1, 2019	\$ 11,419	18,244,209	71,343	878	18,327,849
Recognized in profit or loss	(439)	(6,871)	315,878	-	308,568
Recognized in other comprehensive income	(4,377)	-	50,256	(224)	45,655
Balance at December 31, 2019	\$ 6,603	18,237,338	437,477	654	18,682,072
Balance at January 1, 2018	\$ 5,798	18,200,128	282,489	-	18,488,415
Adjustment for retrospective application	-	47,295	(136,374)	-	(89,079)
Recognized in profit or loss	724	(3,214)	(125,938)	-	(128,428)
Recognized in other comprehensive income	4,897	-	51,166	878	56,941
Balance at December 31, 2018	\$ 11,419	18,244,209	71,343	878	18,327,849

(ah) 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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

A resolution was passed during the meetings of the Company's board of directors, acting on behalf of the board of shareholders, on April 25 and June 27, 2019 for the issuance of ordinary shares paid in land under private placement, with selling price of \$32 per share and September 6, 2019 as the date of capital increase. The total amount of the capital injection was \$42 billion. The issuance was approved by the FSC (Ruling No. 10801305310) and the Ministry of Economic Affairs (Ruling No. 10801133970) on July 17 and October 18, 2019, respectively. The relevant statutory registration procedures have been completed.

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

As of December 31, 2019 and 2018, the Company's authorized and issued capital were \$103,125,000 thousand (\$90,000,000 thousand was under public offering and \$13,125,000 thousand was under private placement) and \$90,000,000 thousand, respectively.

(ii) Capital surplus

	December 31, 2019	December 31, 2018
Changes in equity of associates and joint ventures accounted for using equity method	\$ 9	9
Equity premium- premium from merger	111,385,217	111,385,217
Equity premium- capital increase based on land pricing	28,875,000	-
Total	<u>\$ 140,260,226</u>	<u>111,385,226</u>

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 offsetting the deficit. Capital surplus cannot be used for distribution of cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring capital surplus in excess of par value should not exceed a certain of the total common stock outstanding. 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 from cash premium on capital stock. According to the new amendment of the ROC Company Act, the Company can pay stock or cash dividend with capital surplus when there is no loss and a resolution was passed by the shareholders.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

In accordance with the laws and regulations regarding government-run businesses as well as the Banks' s article of Incorporation, however, only current year earnings, undistributed earnings accumulated from prior years and the portion of legal reserve permitted to be distributed can be used as a resource for cash distribution. Capital surplus will not be not included and allowed for distributing cash dividend. Also, in the light of the Ruling No. 10801091260 issued by the FSC on August 23, 2019, the Company has had a meeting with BOT on December 12, 2019 to discussed their capital plan and the mechanism of internal control over the appropriateness to use the premium of \$28,875,000 thousand generated from the capital injected with land in 2019 to distribute cash dividend in the future. The Company will follow the related guidance going forward.

(iii) Legal reserve

When a company incurs no loss, it may, pursuant to a resolution by a shareholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash, and only the portion of legal reserve which exceeds 25% of capital may be distributed.

(iv) Appropriation of earnings

The articles of incorporation of the Company and 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 subsidiaries elect to transfer to retained earnings by application of the exemption under IFRSs No. 1, the Company and subsidiaries shall set aside an equal amount of special reserve. When the Company and 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) According to the budget approved by the Executive Yuan and the Legislative Yuan, the Company will not distribute its 2019 and 2018 surplus as dividend to the Ministry of Finance.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) Other equity(net of tax)	Exchange differences on translation of foreign operations	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Change in fair value of financial liability attributable to change in credit risk of liability	Gains (losses) on financial instruments for hedging	Other Comprehensive income reclassified by applying overlay approach	Total
Balance at January 1, 2019	\$ (659,082)	41,961,868	192,912	4,193	(2,315,717)	39,184,174
Exchange differences on translation of foreign operations	(746,501)	-	-	-	-	(746,501)
Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	-	18,934,886	-	-	-	18,934,886
Gains (losses) of associates and joint ventures accounted for using equity method on financial Instruments for hedging	-	-	-	(238)	-	(238)
Change in fair value of financial liability attributable to change in credit risk of liability	-	-	(302,148)	-	-	(302,148)
Other Comprehensive income reclassified by applying overlay approach	-	-	-	-	2,464,530	2,464,530
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	449,541	-	-	-	449,541
Balance at December 31, 2019	<u>\$ (1,405,583)</u>	<u>61,346,295</u>	<u>(109,236)</u>	<u>3,955</u>	<u>148,813</u>	<u>59,984,244</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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	Exchange differences on translation of foreign operations	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Gains (losses) on effective portion of cash flow hedges	Change in fair value of financial liability attributable to change in credit risk of liability	Gains (losses) on financial instruments for hedging	Other Comprehensive income reclassified by applying overlay approach	Total
Balance at January 1, 2018	\$ (1,340,730)	-	25,929,021	3,991	(43,770)	-	-	24,548,512
Effects of retrospective application	(2,787)	38,114,593	(25,929,021)	(3,991)	-	3,991	(825,780)	11,353,005
Equity at beginning of period after adjustments	(1,343,517)	38,114,593	-	-	(43,770)	3,991	(825,780)	35,901,517
Exchange differences on translation of foreign operations	684,435	-	-	-	-	-	-	684,435
Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	-	3,580,017	-	-	-	-	-	3,580,017
Gains (losses) of associates and joint ventures accounted for using equity method on financial instruments for hedging	-	-	-	-	-	202	-	202
Other Comprehensive income reclassified by applying overlay approach	-	-	-	-	-	-	(1,485,937)	(1,485,937)
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	267,258	-	-	-	-	-	267,258
Change in fair value of financial liability attributable to change in credit risk of liability	-	-	-	-	236,682	-	-	236,682
Balance at December 31, 2018	\$ (659,082)	41,961,868	-	-	192,912	4,193	(2,315,717)	39,184,174

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ai) Net interest income

	2019	2018
Interest income:		
Loans and discounts	\$ 43,712,913	40,439,521
Placement with Central Bank and call loans to banks	9,390,736	10,196,761
Securities investment	22,359,402	22,041,817
Credit cards	25,118	25,191
Bonds purchased under resell agreements	61,792	51,453
Others	<u>1,035,444</u>	<u>1,252,006</u>
Subtotal	<u>76,585,405</u>	<u>74,006,749</u>
Interest expense:		
Deposits from customers	33,365,560	33,812,107
Deposits of Central Banks and other banks	5,433,135	3,758,265
Bonds sold under repurchased agreements	123,706	288,784
Financial bonds	304,830	304,470
Structured deposits	30,952	22,686
Others	<u>81,910</u>	<u>63,909</u>
Subtotal	<u>39,340,093</u>	<u>38,250,221</u>
Total	<u>\$ 37,245,312</u>	<u>35,756,528</u>

(aj) Service fees, net

	2019	2018
Service fees revenues:		
Bank business	\$ 5,244,527	5,345,491
Insurance business	136,041	108,571
Securities business	<u>445,515</u>	<u>496,400</u>
Subtotal	<u>5,826,083</u>	<u>5,950,462</u>
Service fees expenses:		
Bank business	692,347	659,034
Insurance business	1,043,635	935,769
Securities business	<u>37,548</u>	<u>33,973</u>
Subtotal	<u>1,773,530</u>	<u>1,628,776</u>
Total	<u>\$ 4,052,553</u>	<u>4,321,686</u>

The Company and subsidiaries provide custody, trust, investment management and advisory services to third parties, therefore, the Company's and 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 subsidiaries.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	<u>2019</u>	<u>2018</u>
Gain (loss) on financial assets or liabilities measured at fair value through profit or loss:		
Dividend income	\$ 6,163,979	5,725,087
Net interest income	(1,205,172)	(924,891)
Net gain on disposal	<u>19,548,343</u>	<u>1,365,123</u>
	<u>24,507,150</u>	<u>6,165,319</u>
Gain (loss) on financial assets or liabilities measured at fair value through profit or loss – valuation:		
Net gain on valuation	<u>29,024,119</u>	<u>(18,074,571)</u>
Total	<u>\$ 53,531,269</u>	<u>(11,909,252)</u>

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

	<u>2019</u>	<u>2018</u>
Dividend income	\$ 3,555,239	3,318,373
Gain (loss) on disposal	<u>514,335</u>	<u>(30,210)</u>
Total	<u>\$ 4,069,574</u>	<u>3,288,163</u>

(am) Other non-interest income (expenses)

	<u>2019</u>	<u>2018</u>
Sales revenue, net	\$ 500,387	366,662
Subsidized income from government	8,774,387	8,892,009
Others	812,742	1,707,533
Excess preferential interest expenses	<u>(8,856,111)</u>	<u>(9,640,527)</u>
Total	<u>\$ 1,231,405</u>	<u>1,325,677</u>

Note: According to the 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. Please refer to note 16(c) for the supplementary information for government employees' insurance department of BOT.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(an) Employee benefits expenses

	<u>2019</u>	<u>2018</u>
Salaries	\$ 12,221,855	11,766,668
Director's emoluments	8,541	6,525
Labor and health insurances	580,681	570,738
Pensions	1,017,159	927,182
Others	<u>319,747</u>	<u>304,221</u>
Total	<u>\$ 14,147,983</u>	<u>13,575,334</u>

(ao) Depreciation and amortization expenses

	<u>2019</u>	<u>2018</u>
Depreciation expenses	\$ 1,346,648	752,650
Amortization expenses	<u>330,174</u>	<u>291,345</u>
Total	<u>\$ 1,676,822</u>	<u>1,043,995</u>

(ap) Other general and administrative expenses

	<u>2019</u>	<u>2018</u>
Taxes	\$ 3,226,626	3,135,649
Rental expenses	7,763	827,574
Insurance expenses	1,003,944	985,260
Postage and phone / fax expenses	253,340	277,100
Utilities	195,518	201,105
Supplies expense	179,124	175,090
Repair and maintenance expenses	422,584	428,598
Marketing expenses	437,293	424,681
Professional service fees	843,138	474,187
Others	<u>632,039</u>	<u>507,933</u>
Total	<u>\$ 7,201,369</u>	<u>7,437,177</u>

(aq) 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 2019 and 2018 are \$8,804,209 thousand and \$9,094,360 thousand, respectively. The weighted average outstanding shares are 9,420,719 thousand and 9,000,000 thousand, respectively.

The Company's basic earnings per share were calculated as follows:

	<u>2019</u>	<u>2018</u>
Consolidated net income	<u>\$ 8,804,209</u>	<u>9,094,360</u>
Weighted average outstanding shares (in thousand shares)	<u>9,420,719</u>	<u>9,000,000</u>
Basic earnings per share (in dollars)	<u>\$ 0.93</u>	<u>1.01</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ar) Insurance income, net

	2019		
	BOT government employees' insurance department	BTLI	Total
Premium income	\$ 23,511,625	52,250,889	75,762,514
Amortized reinsurance claims payment	-	47,869	47,869
Income on insurance product-separated account	-	721	721
Insurance business income	<u>23,511,625</u>	<u>52,299,479</u>	<u>75,811,104</u>
Reinsurance expense	-	135,984	135,984
Direct business expenses	-	815	815
Insurance claims payment	24,671,785	20,858,312	45,530,097
Disbursement toward industry stability	-	118,176	118,176
Disbursement on insurance product separated account	-	721	721
Insurance business expenses	<u>24,671,785</u>	<u>21,114,008</u>	<u>45,785,793</u>
Net income from insurance business	<u>\$ (1,160,160)</u>	<u>31,185,471</u>	<u>30,025,311</u>
	2018		
	BOT government employees' insurance department	BTLI	Total
Premium income	\$ 24,863,334	46,059,435	70,922,769
Amortized reinsurance claims payment	-	44,600	44,600
Income on insurance product-separated account	-	(302)	(302)
Insurance business income	<u>24,863,334</u>	<u>46,103,733</u>	<u>70,967,067</u>
Reinsurance expense	-	111,820	111,820
Direct business expenses	-	665	665
Insurance claims payment	23,242,767	45,610,696	68,853,463
Disbursement toward industry stability	-	124,360	124,360
Disbursement on insurance product separated account	-	(302)	(302)
Insurance business expenses	<u>23,242,767</u>	<u>45,847,239</u>	<u>69,090,006</u>
Net income from insurance business	<u>\$ 1,620,567</u>	<u>256,494</u>	<u>1,877,061</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The retained earned premium and retained benefits and claims paid were as follow:

(i) Retained earned premiums

	2019		
	Insurance Contract	Financial products with discretionary participation feature	Total
Direct written premium	\$ 50,513,468	1,737,421	52,250,889
Less: Reinsurance premium ceded	135,984	-	135,984
Net change in unearned premium reserve	10,291	(43)	10,248
	<u>146,275</u>	<u>(43)</u>	<u>146,232</u>
Retained earned premium	<u>\$ 50,367,193</u>	<u>1,737,464</u>	<u>52,104,657</u>
	2018		
	Insurance Contract	Financial products with discretionary participation feature	Total
Direct written premium	\$ 44,500,076	1,559,359	46,059,435
Less: Reinsurance premium ceded	111,820	-	111,820
Net change in unearned premium reserve	(5,674)	(448)	(6,122)
	<u>106,146</u>	<u>(448)</u>	<u>105,698</u>
Retained earned premium	<u>\$ 44,393,930</u>	<u>1,559,807</u>	<u>45,953,737</u>

(ii) Retained benefits and claims paid

	2019		
	Insurance Contract	Financial products with discretionary participation feature	Total
Claims payment incurred	\$ 17,993,982	2,864,308	20,858,290
Reinsurance claims	22	-	22
Insurance claims payment	17,994,004	2,864,308	20,858,312
Less: Claims payment recovered from reinsures	47,869	-	47,869
Retained benefits and claims paid	<u>\$ 17,946,135</u>	<u>2,864,308</u>	<u>20,810,443</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	2018		
	Insurance Contract	Financial products with discretionary participation feature	Total
Claims payment incurred	\$ 32,607,265	13,003,374	45,610,639
Reinsurance claims	58	-	58
Insurance claims payment	32,607,323	13,003,374	45,610,697
Less: Claims payment recovered from reinsures	44,600	-	44,600
Retained benefits and claims paid	<u>\$ 32,562,723</u>	<u>13,003,374</u>	<u>45,566,097</u>

(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 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, 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, financial assets at fair value through other comprehensive income 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 after adjusting unamortized discount or premium and accumulated impairment loss.
- (iv) Deposits and Remittances: The Company and subsidiaries 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.
- (v) Financial Bonds Payable: It refers to the convertible corporate bonds and financial bonds issued by the Company and subsidiaries. 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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(vi) 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 participants 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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Fair value measurement

(i) The fair value hierarchy

The following tables present for each of the fair value hierarchy levels of the Company's and subsidiaries' assets and liabilities that are measured at fair value on a recurring basis.

Financial instruments measured at fair value	December 31, 2019			
	Total	Level 1	Level 2	Level 3
<u>Non derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss	\$ 281,498,422	247,885,048	33,414,584	198,790
Designated at fair value through profit or loss	19,361,468	-	19,361,468	-
Bond investments	19,361,468	-	19,361,468	-
Mandatorily measured at fair value through profit or loss	262,136,954	247,885,048	14,053,116	198,790
Stock investments	104,937,651	104,738,861	-	198,790
Bond investments	15,253,110	1,199,994	14,053,116	-
Others	141,946,193	141,946,193	-	-
Financial assets at fair value through other comprehensive income	1,023,839,660	806,843,558	193,896,216	23,099,886
Stock investments	102,032,686	78,932,800	-	23,099,886
Bond investments	920,672,860	726,776,644	193,896,216	-
Others	1,134,114	1,134,114	-	-
Liabilities:				
Financial liabilities designated at fair value through profit or loss	46,199,351	-	46,199,351	-
Designated at fair value through profit or loss	46,199,351	-	46,199,351	-
<u>Derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss	\$ 12,103,628	57,021	12,046,607	-
Hedging Derivative Financial assets	1,071	-	1,071	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	13,419,965	-	13,419,965	-
Hedging Derivative Financial liabilities	25,537	-	25,537	-

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Financial instruments measured at fair value	December 31, 2018			
	Total	Level 1	Level 2	Level 3
<u>Non derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss	\$ 264,018,689	180,988,901	82,815,080	214,708
Designated at fair value through profit or loss	15,465,720	-	15,465,720	-
Bond investments	15,465,720	-	15,465,720	-
Mandatorily measured at fair value through profit or loss	248,552,969	180,988,901	67,349,360	214,708
Stock investments	96,321,702	96,106,994	-	214,708
Bond investments	68,248,845	899,485	67,349,360	-
Others	83,982,422	83,982,422	-	-
Financial assets at fair value through other comprehensive income	1,127,802,007	927,595,171	183,571,226	16,635,610
Stock investments	83,767,629	67,132,019	-	16,635,610
Bond investments	1,044,034,378	860,463,152	183,571,226	-
Liabilities:				
Financial liabilities designated at fair value through profit or loss	45,855,310	-	45,855,310	-
Designated at fair value through profit or loss	45,855,310	-	45,855,310	-
<u>Derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss	\$ 6,624,081	89,174	6,534,907	-
Hedging Derivative Financial assets	41,693	-	41,693	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	4,797,220	-	4,797,220	-
Hedging Derivative Financial liabilities	12,973	-	12,973	-

(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, fair value measurement assumes that the transaction takes place in the principal (or most advantageous) market in which an orderly transaction would take place for the asset or liability, and assumes market participants would use the assumptions about pricing the asset or liability, and assumes market participants make decisions based on their own best interests.

Financial instruments are recognized initially at fair values. In many case, they usually refer 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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 subsidiaries refer 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 subsidiaries 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 subsidiaries not only refer 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 subsidiaries 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's and subsidiaries' 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 subsidiaries.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Credit risk valuation adjustment

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

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

The key inputs of the measurement of credit risk and the quality of the Company's and subsidiaries' 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 subsidiaries refer 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 subsidiaries may also use other alternative PD assumptions if data availability is limited. Moreover, the Company and subsidiaries 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's and subsidiaries' creditworthiness.

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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(iv) Reconciliation of Level 3 fair values

Reconciliation of Level 3 fair values in 2019 and 2018:

	<u>Fair value through profit or loss</u>	<u>Fair value through other comprehensive income</u>	
	<u>Non derivative mandatorily measured at fair value through profit or loss (Unquoted equity instruments)</u>	<u>Unquoted equity instruments</u>	<u>Total</u>
Opening balance, January 1, 2019	\$ 214,708	16,635,610	16,850,318
Total gains and losses recognized:			
In profit or loss	(15,918)	-	(15,918)
In other comprehensive income	-	5,631,721	5,631,721
Purchased	-	832,555	832,555
Ending Balance, December 31, 2019	<u>\$ 198,790</u>	<u>23,099,886</u>	<u>23,298,676</u>
Opening balance, January 1, 2018	206,925	15,981,226	16,188,151
Total gains and losses recognized:			
In profit or loss	7,783	-	7,783
In other comprehensive income	-	810,291	810,291
Purchased	-	35,643	35,643
Derecognized or repaid	-	(191,550)	(191,550)
Ending Balance, December 31, 2018	<u>214,708</u>	<u>16,635,610</u>	<u>16,850,318</u>

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

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

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

The Company and subsidiaries consider the valuation techniques used by the Company and 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, 2019 and 2018.

The analysis only reflects the effects of changes in a single input, and it does not include the inter relationships with another input.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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- (vii) The sensitivity analysis for the financial assets measured at fair value classified to the Level 3.

the Company's and subsidiaries' financial instruments that use Level 3 inputs to measure fair value include “financial assets measured at fair value through profit or loss – equity investments” and “fair value through other comprehensive income – equity investments”.

Quantified information of significant unobservable inputs was as follows:

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

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

- (i) Fair value information

In addition to the following items, the Company's and 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.

<u>Item</u>	<u>Book value</u>	<u>Fair value</u>
December 31, 2019		
Financial assets:		
Financial assets measured at amortized cost	459,013,244	470,155,932
December 31, 2018		
Financial assets:		
Financial assets measured at amortized cost	434,340,960	414,525,358

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Fair value hierarchy

		December 31, 2019		
		Quoted prices in active markets for identical asset (Level1)	Significant other observable inputs (Level2)	Significant observable inputs (Level3)
Assets and liabilities item	Total			
Financial Assets:				
Financial assets measured at amortized cost	\$470,155,932	188,462,304	281,693,628	-
		December 31, 2018		
		Quoted prices in active markets for identical asset (Level1)	Significant other observable inputs (Level2)	Significant observable inputs (Level3)
Assets and liabilities item	Total			
Financial Assets:				
Financial assets measured at amortized cost	\$414,525,358	129,351,195	285,174,163	-

(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 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 Company's and subsidiaries' risk management practices, keeping track of the progress of the execution of resolutions 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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (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 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 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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Risk management structure

The risk management structure of BOT is composed of the Board of Directors, risk management committee, risk management department, other operational unit and other 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) Other 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) Other 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), including:

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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 (including loan commitments and financial guarantees)

1. Credit assets categories and post-loan management

BOT has established the “Operational Manual of Evaluating the Impairment of Loans and Receivables” and has classified the credit assets into five categories. Except for the normal credit assets that are classified at the first category, the other bad credit rating assets are classified as the second category requiring attention, the third category collectable, the fourth category hard to collect, and the fifth category impossible to collect by assessing the collaterals and overdue days. In order to reinforce the post loan management, BOT set the “Credit Review and Follow up Evaluations Provision” and “Warning Mechanism Provision” and evaluate and monitor the quality of credit assets regularly. Also, the BOT audits credit cases by sampling according to the ratings of the cases, conduct credit reviewing in the following month and checks significant credit cases periodically, to enhance the management of abnormal credit, and to achieve the purpose of warning and interim monitor.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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 balance the credit risk and earnings target, they strengthen the market competitiveness of products, strive for customer identification and broaden the business. The following are the credit process of corporate finance and consumer finance.

a. Corporate Finance

BOT sets up the terms and interest rate based on a borrower's credit ratings, including the ones from external credit rating agencies and BOT's internal scorecards. The clients are classified into two types based on the scorecards, the large scale enterprise and the medium to small scale enterprise. Then BOT allocates the clients into 13 ratings according to their enterprise scale, financial and business status, business management and industry characteristic.

b. Consumer Finance

BOT uses the credit application scorecard and behavior scorecard, both of them have seven grades for the purpose of credit risk evaluation and differential pricing. Unsecured consumer loans are graded based on seven scoring items and are classified into the seventh rating. 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 financial instruments

BOT identifies and manages credit risk of debt instruments by reviewing the external ratings, creditworthiness of bonds, and geographic region of its counterparties.

Most of the 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).

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

c) Measurement of credit risk

i) Categories for credit risk quality

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

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

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

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

BOT's credit business scoring model and risk degree were as follows:

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

a. Loans and Discounts and credit related receivables

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

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

b. Receivable related to credit cards business

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

2. Debt investments and placement with central bank and call loans to banks

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

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

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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iii) Definitions for default and credit impairment of financial assets

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

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

a. Loans and discounts and credit related receivables

i. Quantitative indicators

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

ii. Qualitative indicators

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

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

b. Credit card business

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

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

iv) Write off policy

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

1. The loan cannot be recovered in full or in part because the issuers or debtors have dissolved, gone into hiding, reached a settlement, declared bankruptcy, or for other reasons.
2. The collateral and property of the primary/subordinate debtors or issuers have been appraised at a very low value or become insufficient to repay the loan after the subtraction of senior mortgages; or the execution cost approaches or possibly exceeds the amount that BOT might collect from the debtors where there is no financial benefit in execution.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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3. The primary/subordinate debtor or an issuer's collateral has failed to sell at successive auctions where the price of such collateral has been successively lowered, and there is no financial benefit to be derived from the BOT's taking possession of such collateral.
4. More than two years have elapsed since the maturity date of the non performing loans or non accrual loans, and the efforts of collection have failed.

v) Amendments of contractual cash flows of financial assets

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

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

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

BOT will periodically review changes of credit risk after amendments in accordance with related policy.

vi) Expected credit loss measurement

1. Adopted methods and assumptions

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

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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Default probability is how likely the issuer or the counterparty breaches the contract, and the loss given default is the rate of loss due to default by the issuer or the counterparty. The default probability and loss given default used by BOT, related impairment assessments are based on international credit rating agencies (S&P and Moody' s), regularly publish information on default rate and loss given default, or internal historical information and calculate based on current observable data and forward looking general economic information after adjusting historical data.

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

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

2. Forward looking information considerations

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

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

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

- i. When the issuer's credit rating outlook is "Negative" or credit rating observation is "-", the BOT uses the average of the long-term PD and one level reduced PD.
- ii. Otherwise, the PD will remain unchanged.

- d) 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's and 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 spread the country risks, BOT allocates different credit amount, based on the ranking of the countries in "Euromoney", to the Financing Department, OBU, and foreign branches. The covered businesses are loan assets, transaction assets (i.e. due and call loans, investment securities, derivatives, and foreign exchanges).

- e) 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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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 (i.e., certificates of deposit; various bonds, stocks) or other rights, 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.

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

i) As of December 31, 2019 and 2018, the amounts of maximum Credit risk exposure to the credit risk displayed by credit rating are as follows:

	Discounts and loans				Total
	December 31, 2019				
Credit rating	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Credit impairments of originated or purchased new financial assets— impaired	
Low	\$ 930,791,741	17,869	155,942	-	930,965,552
Medium	960,430,171	54,963,853	2,371,916	-	1,017,765,940
High	26,639,778	29,449,744	5,749,253	-	61,838,775
Others	<u>693,302,928</u>	<u>592,129</u>	<u>16,819,383</u>	-	<u>710,714,440</u>
Gross carrying amount	2,611,164,618	85,023,595	25,096,494	-	2,721,284,707
Allowance for bad debts	(21,113,435)	(1,606,276)	(7,150,936)	-	(29,870,647)
Impairment recognized in accordance with the Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans					(15,272,836)
Total	<u>\$ 2,590,051,183</u>	<u>83,417,319</u>	<u>17,945,558</u>	<u>-</u>	<u>2,676,141,224</u>

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Discounts and loans					
December 31, 2018					
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Credit impairments of originated or purchased new financial assets— impaired	Total
Credit rating					
Low	\$ 852,843,775	13,694	172,377	-	853,029,846
Medium	908,380,450	32,983,797	2,178,188	-	943,542,435
High	34,148,546	23,860,376	2,377,382	-	60,386,304
Others	<u>720,769,597</u>	<u>566,568</u>	<u>18,120,028</u>	-	<u>739,456,193</u>
Gross carrying amount	2,516,142,368	57,424,435	22,847,975	-	2,596,414,778
Allowance for bad debts	(20,114,026)	(1,805,624)	(4,887,531)	-	(26,807,181)
Impairment recognized in accordance with the Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans					(12,580,303)
Total	<u>\$ 2,496,028,342</u>	<u>55,618,811</u>	<u>17,960,444</u>	<u>-</u>	<u>2,557,027,294</u>
Debt instruments measured at fair value through other comprehensive income					
December 31, 2019					
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Credit impairments of originated or purchased new financial assets— impaired	Total
Credit rating					
Aaa~Baa3	\$ 913,067,917	-	-	-	913,067,917
Ba1~Ba3	<u>2,821,595</u>	<u>302,385</u>	-	-	<u>3,123,980</u>
Gross carrying amount	915,889,512	302,385	-	-	916,191,897
Allowance for impairment	(80,477)	(8,801)	-	-	(89,278)
Valuation adjustment	-	-	-	-	1,602,351
Total	<u>\$ 915,809,035</u>	<u>293,584</u>	<u>-</u>	<u>-</u>	<u>917,704,970</u>
Debt instruments measured at fair value through other comprehensive income					
December 31, 2018					
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Credit impairments of originated or purchased new financial assets— impaired	Total
Credit rating					
Aaa~Baa3	\$ 1,036,587,799	-	-	-	1,036,587,799
Ba1~Ba3	<u>2,599,246</u>	<u>1,092,208</u>	-	-	<u>3,691,454</u>
Gross carrying amount	1,039,187,045	1,092,208	-	-	1,040,279,253
Allowance for impairment	(76,773)	(6,172)	-	-	(82,945)
Valuation adjustment	<u>731,461</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>731,461</u>
Total	<u>\$ 1,039,841,733</u>	<u>1,086,036</u>	<u>-</u>	<u>-</u>	<u>1,040,927,769</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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Debt instruments measured at amortized cost					
December 31, 2019					
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Credit impairments of originated or purchased new financial assets— impaired	Total
Credit rating					
Aaa~Baa3	\$ 159,586,690	-	-	-	159,586,690
Ba1~Ba3	17,663,192	-	-	-	17,663,192
Gross carrying amount	177,249,882	-	-	-	177,249,882
Accumulated impairment	(43,107)	-	-	-	(43,107)
Total	<u>\$ 177,206,775</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>177,206,775</u>
Debt instruments measured at amortized cost					
December 31, 2018					
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Credit impairments of originated or purchased new financial assets— impaired	Total
Credit rating					
Aaa~Baa3	\$ 156,881,045	-	-	-	156,881,045
Ba1~Ba3	10,993,183	-	-	-	10,993,183
Gross carrying amount	167,874,228	-	-	-	167,874,228
Accumulated impairment	(49,536)	-	-	-	(49,536)
Total	<u>\$ 167,824,692</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>167,824,692</u>
Letter of Credit Receivables and Guarantee for Trade Receivables					
December 31, 2019					
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Credit impairments of originated or purchased new financial assets— impaired	Total
Credit rating					
Low	\$ 56,314,438	2,345	-	-	56,316,783
Medium	59,114,017	2,592,907	650,649	-	62,357,573
High	91,214	136,774	5,800	-	233,788
Others	6,178,217	350,944	29,352	-	6,558,513
Gross carrying amount	121,697,886	3,082,970	685,801	-	125,466,657
Allowance for bad debts(Guarantee reserve and other reserve)	(358,951)	(11,252)	(99,529)	-	(469,732)
Impairment recognized in accordance with the Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans					(861,766)
Total	<u>\$ 121,338,935</u>	<u>3,071,718</u>	<u>586,272</u>	<u>-</u>	<u>124,135,159</u>

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Letter of Credit Receivables and Guarantee for Trade Receivables					
December 31, 2018					
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Credit impairments of originated or purchased new financial assets— impaired	Total
Credit rating					
Low	\$ 60,379,626	217,144	709	-	60,597,479
Medium	45,743,181	1,243,038	296,427	-	47,282,646
High	188,282	567,393	130,011	-	885,686
Others	4,982,111	-	29,599	-	5,011,710
Gross carrying amount	111,293,200	2,027,575	456,746	-	113,777,521
Allowance for bad debts (Guarantee reserve and other reserve)	(375,494)	(33,540)	(153,403)	-	(562,437)
Impairment recognized in accordance with the Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans					(718,039)
Total	\$ 110,917,706	1,994,035	303,343	-	112,497,045
Loan Commitments					
December 31, 2019					
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Credit impairments of originated or purchased new financial assets— impaired	Total
Credit rating					
Low	\$ 2,574,360	-	-	-	2,574,360
Others	420,467,884	227,556	482	-	420,695,922
Gross carrying amount	423,042,244	227,556	482	-	423,270,282
Allowance for bad debts (Loan commitments reserve)	(17,118)	(1,817)	(289)	-	(19,224)
Total	\$ 423,025,126	225,739	193	-	423,251,058
Loan Commitments					
December 31, 2018					
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Credit impairments of originated or purchased new financial assets— impaired	Total
Credit rating					
Low	\$ 2,205,098	98,762	63	-	2,303,923
Medium	-	140,328	371	-	140,699
High	53,145	-	-	-	53,145
Others	412,585,699	-	-	-	412,585,699
Gross carrying amount	414,843,942	239,090	434	-	415,083,466
Allowance for bad debts (Loan commitments reserve)	(13,309)	(2,067)	(236)	-	(15,612)
Total	\$ 414,830,633	237,023	198	-	415,067,854

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Notes to the Consolidated Financial Statements

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

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

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

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

Note 1: The gross carrying amount of the table was not included BOT' s restrictive deposit \$19,469 thousand and Department of Government Employees' Insurance' s accounts receivable \$7,283,748 thousand evaluated by simplification method.

Note 2: The allowance for bad debts of the table were not included BOT' s accumulated impairment recognized in restrictive deposit \$11 thousand and Department of Government Employees' Insurance' s allowance for impairment \$1,022 thousand evaluated by simplification method.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- ii) 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:

<u>December 31, 2019</u>	<u>Collateral</u>	<u>General agreement of net amount settlement</u>	<u>Enhancement of other credits</u>	<u>Total</u>
<u>In balance sheet:</u>				
Receivables				
Others	\$ 1,195	171	3,945	5,311
Loans and discounts	1,450,838	-	1,270,447	2,721,285
Financial assets measured at fair value through profit or loss				
Others	3,328	-	-	3,328
<u>Off-balance sheet</u>				
Irrevocable loan commitments	262	-	423,008	423,270
Standby letters of credit	1,754	-	37,826	39,580
Financial guarantees	7,640	-	78,247	85,887
Total	<u>\$ 1,465,017</u>	<u>171</u>	<u>1,813,473</u>	<u>3,278,661</u>
<u>December 31, 2018</u>	<u>Collateral</u>	<u>General agreement of net amount settlement</u>	<u>Enhancement of other credits</u>	<u>Total</u>
<u>In balance sheet:</u>				
Receivables				
Others	\$ 1,284	379	2,765	4,428
Loans and discounts	1,342,677	-	1,253,738	2,596,415
Financial assets measured at fair value through other comprehensive income				
Others	112	-	-	112
<u>Off-balance sheet</u>				
Irrevocable loan commitments	-	-	415,083	415,083
Standby letters of credit	1,650	-	25,026	26,676
Financial guarantees	7,581	-	79,520	87,101
Total	<u>\$ 1,353,304</u>	<u>379</u>	<u>1,776,132</u>	<u>3,129,815</u>

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

December 31, 2019				
	Gross carrying amount	Allowance for impairment	Exposure amount (Amortized cost)	Fair value of collateral
Impaired financial assets:				
Receivables				
Credit card business	\$ 5,999	4,787	1,212	-
Others	164,155	75,154	89,001	9,699
Loans and discounts	<u>25,096,494</u>	<u>7,150,936</u>	<u>17,945,558</u>	<u>9,182,561</u>
Total amount of impaired financial assets	<u>\$ 25,266,648</u>	<u>7,230,877</u>	<u>18,035,771</u>	<u>9,192,260</u>

December 31, 2018				
	Gross carrying amount	Allowance for impairment	Exposure amount (Amortized cost)	Fair value of collateral
Impaired financial assets:				
Receivables				
Credit card business	\$ 5,238	4,122	1,116	-
Others	104,489	44,886	59,603	-
Loans and discounts	<u>22,847,975</u>	<u>4,887,531</u>	<u>17,960,444</u>	<u>9,291,496</u>
Total amount of impaired financial assets	<u>\$ 22,957,702</u>	<u>4,936,539</u>	<u>18,021,163</u>	<u>9,291,496</u>

- iv) Financial assets not applicable for rules of impairment:

	December 31, 2019	December 31, 2018
Financial assets measured fair value through profit or loss		
Debt instruments	\$ 142,285,938	144,477,290
Derivatives	10,699,762	6,404,769

- g) 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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

Industry type	December 31, 2019		December 31, 2018	
	Book Value (Note 1)	%	Book Value (Note 2)	%
Finance and insurance	1,274,240	30.83 %	1,396,688	33.84 %
Individuals	957,805	23.17 %	869,958	21.08 %
Manufacturing	389,801	9.43 %	391,096	9.48 %
Government agencies	699,735	16.93 %	710,576	17.22 %
Shipping, warehousing and communications	167,643	4.06 %	151,845	3.68 %
Electricity and gas supply	124,155	3.00 %	107,084	2.59 %
Others	519,823	12.58 %	499,570	12.11 %
Total	\$ 4,133,202	100.00 %	4,126,817	100.00 %

Note 1: December 31, 2019

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

Note 2: December 31, 2018

- (1) The carrying amounts include loans (\$2,596,415 million), call loans to banks, overdraft of banks and placement with banks (\$210,945 million), security investments (\$1,319,457 million) and so on. Loans refer to discounts, overdrafts, government overdrafts, secured overdrafts, short-term loans, short-term secured loans, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, import bill advance and nonperforming loans (\$4,221 million). Security investments include bonds and stocks. Bonds are measured at fair value. However the bonds classified as held-to-maturity financial assets or bond investments in non-active market are carried at cost. Equity investments are measure at fair value but those classified as cost of long-term equity investments under the equity method and financial assets carried at cost are measured at cost.
- (2) This table excluded the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

ii) Region

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Note 1: December 31, 2019

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

Note 2: December 31, 2018

- (1) The carrying amounts include loans (\$2,596,415 million), call loans to banks, overdraft of banks and placement with banks (\$210,945 million), security investments (\$1,319,457 million) and so on. Loans refer to discounts, overdrafts, government overdrafts, secured overdrafts, short-term loans, short-term secured loans, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, import bill advance and nonperforming loans (\$4,221 million). Security investments include bonds and stocks. Bonds are measured at fair value. However the bonds classified as held-to-maturity financial assets or bond investments in non-active market are carried at cost. Equity investments are measure at fair value but those classified as cost of long-term equity investments under the equity method and financial assets carried at cost are measured at cost.
- (2) This table excluded the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

iii) Collateral

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

Note 1: The carrying amounts only contain loans which refer to discounts, overdrafts, government overdrafts, secured overdrafts, short-term loans, short-term secured loans, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, import bill advance and non-performing loans (\$3,154 million at December 31, 2019; \$4,221 million at December 31, 2018).

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

- h) BOT Changes in loss allowance
- i) Changes in loss allowance of discounts and loans

1. As of December 31, 2019 and 2018, the reconciliations of the beginning and ending balances for loss allowance of discounts and loans were as follows:

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

	2018						
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Lifetime ECLs (purchased or originated credit impaired financial assets)	The loss allowances measured in accordance with IFRS 9	Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming/Nota cruar Loans	Total
Beginning balance	\$ 17,285,609	3,337,527	3,728,448	-	24,351,584	8,664,330	33,015,914
Changes due to financial instruments recognized as at beginning:							
— Transfer to lifetime expected credit losses	(160,911)	344,957	(184,046)	-	-	-	-
— Transfer to lifetime ECL not credit impaired	(21,777)	(74,769)	96,546	-	-	-	-
— Transfer to 12month expected credit losses	2,529,490	(2,452,291)	(77,199)	-	-	-	-
-- Financial assets that have been derecognized during the period	(207,323)	(2,498)	(3,693,297)	-	(3,903,118)	-	(3,903,118)
Originated or purchased new financial assets	3,115,270	459,339	2,109,276	-	5,683,885	-	5,683,885
Impairment difference recognized in accordance with the Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Notiacruar Loans	-	-	-	-	-	3,915,973	3,915,973
Bad debts written off	(454,830)	-	(1,661,290)	-	(2,116,120)	-	(2,116,120)
The recovery of bad debts written off	-	-	994,434	-	994,434	-	994,434
Foreign exchange and other movements	(1,971,502)	193,359	3,574,659	-	1,796,516	-	1,796,516
Ending balance	\$ 20,114,026	1,805,634	4,887,531	-	26,807,181	12,580,303	39,387,484

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

- ii) Changes in loss allowance of debt instruments measured at fair value through other comprehensive income
1. As of December 31, 2019 and 2018, the reconciliations of the beginning and ending balances for loss allowance of debt instruments measured at fair value through other comprehensive income were as follows:

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

	2018				Total
	12 month ECLs	Lifetime ECLs	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Lifetime ECLs (purchased or originated credit impaired financial assets)	
Beginning balance	\$ 78,918	-	-	-	78,918
Changes due to financial instruments recognized as at beginning:					
-- Transfer to lifetime expected credit losses	(5,858)	5,858	-	-	-
-- Financial assets that have been derecognized during the period	(15,785)	-	-	-	(15,785)
Originated or purchased new financial assets	20,599	-	-	-	20,599
Foreign exchange and other movements	(1,101)	314	-	-	(787)
Ending balance	<u>\$ 76,773</u>	<u>6,172</u>	<u>-</u>	<u>-</u>	<u>82,945</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

	2018			
	12 month ECLs	Lifetime ECLs	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Lifetime ECLs (purchased or originated credit impaired financial assets)
Beginning balance	\$ 48,723	-	-	48,723
— Financial assets that have been derecognized during the period	(13,706)	-	-	(13,706)
Originated or purchased new financial assets	17,247	-	-	17,247
Foreign exchange and other movements	(2,728)	-	-	(2,728)
Ending balance	<u>\$ 49,536</u>	<u>-</u>	<u>-</u>	<u>49,536</u>
			The loss allowances measured in accordance with IFRS 9	Total
			48,723	48,723
			(13,706)	(13,706)
			17,247	17,247
			(2,728)	(2,728)
			49,536	49,536

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

	2018				Total
	12 month ECLs	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Lifetime ECLs (purchased or originated credit impaired financial assets)	Total	
Beginning balance	\$ 147,836,435	-	-	-	147,836,435
-- Financial assets that have been derecognized during the period	(31,546,259)	-	-	-	(31,546,259)
Originated or purchased new financial assets	51,409,494	-	-	-	51,409,494
Other movements	174,558	-	-	-	174,558
Ending balance	<u>\$ 167,874,228</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>167,874,228</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

iv) Changes in guarantee reserve and other reserve

1. As of December 31, 2019 and 2018, the reconciliations of the beginning and ending balances for loss allowance of letter of credit receivables and guarantee for trade receivables (guarantee reserve and other reserve) were as follows:

	2019					
	12 month ECLs	Lifetime ECLs	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Lifetime ECLs (purchased or originated credit impaired financial assets)	The loss allowances measured in accordance with IFRS 9	Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming/Nonaccrual Loans"
Beginning balance	\$ 375,494	33,540	153,403	-	562,437	718,039
Changes due to financial instruments recognized as at beginning:						
- Transfer to lifetime expected credit losses	(73)	73	-	-	-	-
- Transfer to 12month expected credit losses	15,457	(15,408)	(49)	-	-	-
- Financial assets that have been derecognized during the period	(213,801)	(7,863)	(133,860)	-	(355,524)	(355,524)
Originated or purchased new financial assets	188,100	2,869	11,551	-	202,520	202,520
Impairment difference recognized in accordance with the Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming/Nonaccrual Loans	-	-	-	-	-	143,727
Foreign exchange and other movements	(6,226)	(1,952)	68,484	-	60,299	60,299
Ending balance	\$ 358,951	11,252	99,529	-	469,732	861,766
						1,331,498

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

2018

	12 month ECLs	Lifetime ECLs	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Lifetime ECLs ^a (purchased or originated credit impaired financial assets)	The loss allowances measured in accordance with IFRS 9	Impairment difference recognized in accordance with Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming/Nonaccrual Loans	Total
Beginning balance	\$ 706,762	73,177	196,387	-	976,326	336,157	1,312,483
Changes due to financial instruments recognized as at beginning:							
— Transfer to lifetime expected credit losses	(7,332)	7,332	-	-	-	-	-
— Transfer to lifetime expected credit losses	(4,823)	-	4,823	-	-	-	-
— Transfer to 12 month expected credit losses	62,325	(62,325)	-	-	-	-	-
— Financial assets that have been derecognized during the period	(421,918)	(12,380)	(52,985)	-	(487,283)	-	(487,283)
Originated or purchased new financial assets	142,536	6,574	5,162	-	154,272	-	154,272
Impairment difference recognized in accordance with the Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming/Nonaccrual Loans	-	-	-	-	-	381,882	381,882
Foreign exchange and other movements	(102,056)	21,162	16	-	(80,878)	-	(80,878)
Ending balance	\$ 375,494	33,540	153,403	-	562,437	718,039	1,280,476

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

	2018				Total
	12 month ECLs	Lifetime ECLs	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Lifetime ECLs (purchased or originated credit impaired financial assets)	
Beginning balance	\$ 102,108,066	8,095,456	254,064	-	110,457,586
— Transfer to lifetime expected credit losses	(1,156,684)	1,156,684	-	-	-
— Transfer to lifetime ECL not credit impaired	(100,104)	(51,433)	151,537	-	-
— Transfer to 12month expected credit losses	6,520,097	(6,520,097)	-	-	-
— Financial assets that have been derecognized during the period	(50,324,989)	(1,862,162)	(191,086)	-	(52,378,237)
Originated or purchased new discounts and loans	55,053,614	360,711	242,231	-	55,656,556
Other movements	(806,800)	848,416	-	-	41,616
Ending balance	<u>\$ 111,293,200</u>	<u>2,027,575</u>	<u>456,746</u>	<u>-</u>	<u>113,777,521</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

v) Changes in loan commitments reserve

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

1. As of December 31, 2019 and 2018, the reconciliations of the beginning and ending balances for loss allowance of receivables were as follows:

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

Note 1: Not included BOT's accumulated impairment recognized in restrictive deposit \$11 thousand and Department of Government Employees' Insurance's allowance for impairment \$1,022 thousand evaluated by simplification method.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

		2018					
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Lifetime ECLs (purchased or originated credit impaired financial assets)	The loss allowances measured in accordance with IFRS 9	Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming/Nonaccrual Loans"	Total
Beginning balance (Note 1)	\$ 50,863	12,145	95,308	-	158,316	84,043	242,359
Changes due to financial instruments recognized as at beginning:							
-- Transfer to lifetime expected credit losses	(1,273)	1,648	(375)	-	-	-	-
-- Transfer to lifetime ECL not credit impaired	(20)	(630)	650	-	-	-	-
-- Transfer to 12month expected credit losses	5,037	(4,728)	(309)	-	-	-	-
-- Financial assets that have been derecognized during the period	(43,063)	(5,514)	(75,005)	-	(123,582)	-	(123,582)
Originated or purchased new financial assets	57,300	8,168	23,507	-	88,975	-	88,975
Impairment difference recognized in accordance with the Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans	-	-	-	-	-	(35,264)	(35,264)
Bad debts written off	(800)	(924)	(9,767)	-	(11,491)	-	(11,491)
The recovery of bad debts written off	70	-	10,471	-	10,541	-	10,541
Foreign exchange and other movements	1,505	1,987	4,528	-	8,020	-	8,020
Ending balance (Note 2)	\$ 69,619	12,152	49,008	-	130,779	48,779	179,558

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

Note 2: Not included BOT's accumulated impairment recognized in restrictive deposit \$11 thousand and Department of Government Employees' Insurance's allowance for impairment \$1,022 thousand evaluated by simplification method.

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

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

Note 1: Not included BOT's gross carrying amount of restricted deposit \$19,469 thousand and Department of Government Employees' Insurance's accounts receivables \$7,283,748 thousand evaluated by simplification method.

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

	2018			
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Lifetime ECLs (purchased or originated credit impaired financial assets)
Beginning balance (Note 1)	\$ 98,555,440	819,759	274,468	99,649,667
— Transfer to lifetime expected credit losses	(333,056)	335,528	(2,472)	-
— Transfer to lifetime ECL not credit impaired	(3,277)	(20,951)	24,228	-
— Transfer to 12month expected credit losses	250,596	(248,650)	(1,946)	-
— Financial assets that have been derecognized during the period	(33,675,724)	(600,581)	(137,734)	(34,414,039)
Originated or purchased new discounts and loans	32,451,447	538,775	49,599	33,039,821
Bad debts written off	(800)	(924)	(9,767)	(11,491)
Other movements	(1,821)	16,401	(86,649)	(72,069)
Ending balance (Note 2)	<u>\$ 97,242,805</u>	<u>839,357</u>	<u>109,727</u>	<u>98,191,889</u>

Note 1: Not included BOT's gross carrying amount of restricted deposit \$18,478 thousand and Department of Government Employees' Insurance's accounts receivables \$12,203,403 thousand evaluated by simplification method.

Note 2: Not included BOT's gross carrying amount of restricted deposit \$19,469 thousand and Department of Government Employees' Insurance's accounts receivables \$7,283,748 thousand evaluated by simplification method.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

BOT's department of government employees' insurance adopts simplification method to estimate expected credit losses of receivables (including accrued income, premiums receivable, and other receivable). These notes receivables and account receivables are classified based on credit risk characteristics reflected the borrower's ability to meet its contractual obligations. Analysis of receivables held by BOT's department of government employees' insurance at December 31, 2019 and 2018 are shown below:

	December 31, 2019		
	Gross amounts of account receivables	Weighted average expected loss rate	Allowance for expected credit loss for a life time
Non-overdue	\$ 7,730,746	0%	-
Overdue less than 30 days	4,430	0%	-
Overdue 31~60 days	622	0%	-
Overdue 61~90 days	-	0%	-
Overdue more than 91 days	<u>697</u>	65.85%	<u>13</u>
	<u>\$ 7,736,495</u>		<u>13</u>
	December 31, 2018		
	Gross amounts of account receivables	Weighted average expected loss rate	Allowance for expected credit loss for a life time
Non-overdue	\$ 7,282,726	0%	-
Overdue more than 91 days	<u>1,022</u>	100%	<u>1,022</u>
	<u>\$ 7,283,748</u>		<u>1,022</u>

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

	2018
Beginning balance (under IAS 39)	\$ 1,022
Adjustment for retrospective application due to IFRS 9	-
Beginning balance (under IFRS 9) (equal to ending balance)	<u>\$ 1,022</u>
	2019
Beginning balance	\$ 1,022
Impairment losses recognized	13
Write off uncollectable amounts	<u>(1,022)</u>
Beginning balance	<u>\$ 13</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

i) Asset Quality of overdue loans and receivables

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

December 31, 2018							
Type / Item	Amount of overdue loans (Note 1)	Total amount of loans	Ratio (%) (Note 2)	Allowance for doubtful debt	Coverage ratio (%) (Note 3)		
Enterprise	Secured	1,613,717	555,425,190	0.29 %	11,850,338	734.35 %	
	Non secured	411,776	1,219,569,860	0.03 %	21,460,074	5,211.59 %	
Consumer	House mortgage (Note 4)	2,020,486	579,538,061	0.35 %	3,305,763	163.61 %	
	Cash card	-	-	- %	-	- %	
	Micro credit (Note 5)	24,018	4,610,709	0.52 %	211,695	881.40 %	
finance	Others	Secured	1,222,024	207,712,918	0.59 %	2,082,759	170.44 %
		(Note 6) Non secured	215,050	29,558,040	0.73 %	476,855	221.74 %
Total		5,507,071	2,596,414,778	0.21 %	39,387,484	715.22 %	
		Overdue receivables	Account receivable	Ratio (%)	Allowance for bad debt	Cover ratio	
Credit card business		2,498	816,123	0.31 %	9,849	394.28 %	
Non-recourse factoring (Note 7)		-	13,232,575	- %	67,352	- %	

Note 1: Nonperforming loans are reported to the authorities and disclosed to the public, as required by the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Non-accrued Loans." Nonperforming credit card receivables are reported to the authorities and disclosed to the public, as required by the Banking Bureau's letter dated July 6, 2005 (Ref. No. 094400378).

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. 094400494), 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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

ii) Non performing Loans and Overdue Receivables Exempted from Reporting

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

iii) Concentration of Credit Risk

Units: In Millions of NTD, %

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

	December 31, 2019		December 31, 2018	
	Average	Average interest rate (%)	Average	Average interest rate (%)
Interest earnings assets				
Call loans and placement with banks	\$ 219,739,225	2.65	273,478,077	2.37
Placement with Central Bank	418,045,686	0.70	439,388,837	0.69
Financial assets	1,070,713,737	1.01	1,282,180,900	0.91
Negotiation, discounts and total loans	2,733,570,115	1.60	2,389,866,529	1.69
Interest bearing liabilities				
Deposit of Central Bank	14,603,311	-	15,077,628	-
Deposits and call loans from banks	278,077,443	1.76	221,694,751	1.46
Demand deposit	393,322,729	0.24	398,352,371	0.22
Demand savings	1,002,993,486	0.47	947,078,863	0.48
Time savings	1,578,862,716	1.48	1,630,869,080	1.52
Time deposits	682,266,007	1.92	721,675,689	1.83
Government deposits	299,605,555	0.18	280,344,637	0.18
Structured products	1,109,138	2.79	908,476	2.50
Financial bonds	25,000,000	1.22	25,000,000	1.22

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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.

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, interest floating policy holder terminates the policy ahead of time 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 conducts necessary monitoring. Risk Management Department prepares risk-monitoring reports periodically and reports to Risk Management Committee and then the Board of Directors.
- 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. Short term gap analysis: Calculate 1~10 day and 11~30 day gaps which should be greater than zero.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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3. 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 the FSC and Central Bank, the ratio shall be higher than 100%.
 4. Net stable funding ratio: Calculate their net stable funding ratio and report it to the authorities on a monthly basis. In accordance with the “Standards Implementing the Net Stable Funding Ratio of Banks” announced by FSC and Central Bank, the ratio shall be higher than 100%.
 5. Foreign currency gap management: Make sure the ratio of accumulated capital liquidity gap to each currency assets of the major foreign currencies of BOT measured for every month and every term under one year between $\pm 50\%$ and $\pm 40\%$.
 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 of BOT’s major currencies according to the unexpired term of the contracts. The disclosed amounts are presented on the basis of contract cash flows, so some disclosed items are not correspond to the accounts in the financial statements. These tables do not include BankTaiwan Insurance Brokers.

Maturity analysis of assets and liabilities (United State Dollars)

Unit: In thousand USD

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

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

Maturity analysis of assets and liabilities (New Taiwan Dollars)

Unit: In thousand NTD

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

December 31, 2019	1-30days	31-90days	91-180days	181day/year	Over one year	Total
Deposits from banks, bank overdrafts, and call loans from bank	59,343,738	6,126,358	8,092,401	13,532,890	7,262,774	94,358,161
Demand deposits	56,056,764	41,078,634	38,557,562	52,349,306	1,294,940,898	1,482,983,164
Time deposits	385,266,473	252,470,787	285,386,675	737,654,628	163,632,039	1,824,410,602
Bills and bonds sold under repurchase agreements	1,784,484	17,289,302	697,820	2,563	-	19,774,169
Borrowings	25	3,587	4,048	4,777	25,004,036	25,016,473
Interest payables	5,027,425	698,414	1,254,603	795,019	395,420	8,170,881
Loan Commitments	93,619,947	187,056,686	280,676,633	561,353,266	709,386,373	1,832,092,905
Equities	-	-	-	-	376,479,551	376,479,551
Other expired items	178,401,682	291,454,294	166,532,442	79,521,986	140,840,739	856,751,145
Total major matured capital outflow	779,500,538	796,178,062	781,202,184	1,445,214,437	2,717,941,830	6,520,037,051

Maturity analysis of assets and liabilities (United State Dollars)

Unit: In thousand USD

December 31, 2018	1-30days	31-90days	91-180days	181day/year	Over one year	Total
Cash and placement with banks	733,223	92,000	39,550	46,550	943	912,266
Call loans to banks and overdrafts	905,000	948,000	275,000	355,000	-	2,483,000
Investment securities	50,400	68,435	89,085	119,508	1,660,622	1,988,050
Loans (including overdue loans)	651,046	495,734	325,227	253,169	4,215,327	5,940,503
Interest receivables and income receivables	20,128	20,428	8,339	4,158	55,588	108,641
Other expired items	9,077,528	7,312,653	7,487,994	3,816,275	3,786,310	31,480,760
Total major matured capital inflow	11,437,325	8,937,250	8,225,195	4,594,660	9,718,790	42,913,220

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December 31, 2018	1-30days	31-90days	91-180days	181day/year	Over one year	Total
Deposits from banks, bank overdrafts, and call loans from bank	2,350,755	728,700	138,000	-	30,000	3,247,455
Demand deposits	872,953	881,191	1,321,787	-	816,700	3,892,631
Time deposits	2,738,632	3,990,237	2,095,007	3,494,759	-	12,318,635
Bills and bonds sold under repurchase agreements	600,000	-	-	-	-	600,000
Borrowings	-	-	-	-	1,500,000	1,500,000
Interest payables	33,935	33,705	18,250	11,817	62,377	160,084
Loan Commitments	372,680	75,852	339,246	408,081	756,112	1,951,971
Equities	-	-	-	-	(29,239)	(29,239)
Other expired items	5,842,470	5,501,033	3,799,972	543,788	4,530,252	20,217,515
Total major matured capital outflow	12,811,425	11,210,718	7,712,262	4,458,445	7,666,202	43,859,052

Maturity analysis of assets and liabilities (New Taiwan Dollars)

Unit: In thousand NTD

December 31, 2018	1-30days	31-90days	91-180days	181day/year	Over one year	Total
Cash and placement with banks	62,641,140	207,866,979	75,915,116	68,287,753	46,728,229	461,439,217
Call loans to banks and overdrafts	28,565,000	-	-	-	10,000	28,575,000
Investment securities	698,753,368	52,746,345	94,758,612	264,243,329	232,833,911	1,343,335,565
Loans (including overdue loans)	177,994,043	235,838,634	290,925,948	385,556,753	1,264,332,745	2,354,648,123
Interest receivables and income receivables	3,045,670	2,589,786	1,835,638	1,315,878	106,356	8,893,328
Other expired items	199,992,760	131,705,103	99,654,174	13,685,935	219,639,092	664,677,064
Total major matured capital inflow	1,170,991,981	630,746,847	563,089,488	733,089,648	1,763,650,333	4,861,568,297

December 31, 2018	1-30days	31-90days	91-180days	181day/year	Over one year	Total
Deposits from banks, bank overdrafts, and call loans from bank	68,374,187	6,384,285	7,105,680	12,329,177	6,717,822	100,911,151
Demand deposits	62,280,862	38,851,395	33,068,172	5,041,784	1,343,635,449	1,482,877,662
Time deposits	158,954,887	257,910,512	296,021,871	732,412,354	379,501,013	1,824,800,637
Bills and bonds sold under repurchase agreements	2,442,473	3,553,108	634,463	7,003	-	6,637,047
Borrowings	25	4,847	5,470	6,529	25,009,954	25,026,825
Interest payables	5,306,528	658,627	852,310	1,326,182	312,572	8,456,219
Loan Commitments	77,334,309	154,832,462	232,166,771	464,497,385	709,607,821	1,638,438,748
Equities	-	-	-	-	308,486,503	308,486,503
Other expired items	271,073,338	211,900,608	198,808,152	119,913,803	114,337,772	916,033,673
Total major matured capital outflow	645,766,609	674,095,844	768,662,889	1,335,534,217	2,887,608,906	6,311,668,465

d) Maturity analysis of derivatives

December 31, 2019	1. Overdue less than 1 month	2. Overdue 1 to 3 months	3. Overdue 3 to 6 months	4. Overdue 6 months to 1 year	5. Overdue 1 to 5 years	6. Overdue more than 5 years	Total
Financial assets and liabilities measured at fair value through profit or loss, Derivative instruments (Foreign exchange)							
Foreign exchange outflow	9,840,477	9,448,269	2,071,580	766,000	201,192	-	22,327,518
Foreign exchange inflow	10,023,135	9,498,981	2,139,416	790,015	201,192	-	22,652,739
Financial assets and liabilities measured at fair value through profit or loss, Derivative instruments (Interest)							
Interest outflow	210,855,823	449,604,048	271,949,337	124,996,618	3,611,166	-	1,061,016,992
Interest inflow	201,111,370	454,297,984	278,779,509	134,182,065	3,247,741	-	1,071,618,669
Hedging derivative financial instruments (Interest)							
Interest outflow	5,540	124,629	48,370	110,265	623,987	-	912,791
Interest inflow	8,313	99,369	65,775	89,530	464,554	-	727,541
Hedging derivative financial instruments (Foreign exchange)							
Foreign exchange outflow	471,695	-	-	-	-	-	471,695
Foreign exchange inflow	461,259	-	-	-	-	-	461,259

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December 31, 2018 Derivative financial instruments	1. Overdue less than 1 month	2. Overdue 1 to 3 months	3. Overdue 3 to 6 months	4. Overdue 6 months to 1 year	5. Overdue 1 to 5 years	6. Overdue more than 5 years	Total
Financial assets and liabilities measured at fair value through profit or loss, Derivative instruments (Foreign exchange)							
Foreign exchange outflow	10,223,061	9,560,999	2,409,367	1,489,024	163,842	1,607	23,847,900
Foreign exchange inflow	10,197,799	9,643,345	1,810,879	1,489,024	163,842	1,607	23,306,496
Financial assets and liabilities measured at fair value through profit or loss, Derivative instruments (Interest)							
Interest outflow	400,981,674	345,120,973	280,552,565	116,063,674	1,355,589	13,543	1,144,088,018
Interest inflow	390,596,031	331,184,919	273,717,175	98,828,449	1,390,496	4,392	1,095,721,462
Hedging derivative financial instruments (Interest)							
Interest outflow	13,010	44,751	49,645	-	-	-	107,406
Interest inflow	14,671	33,483	49,459	-	-	-	97,613
Financial assets and liabilities measured at fair value through profit or loss, Derivative instruments (Commodity)							
Interest outflow	-	-	-	-	-	-	-
Interest inflow	-	(72)	-	-	-	-	(72)

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

December 31, 2018	0-30 days	31-90 days	91-180days	181 days-1 year	Over 1 year	Total
Irrevocable loan commitment	-	211,375,700	1,280,000	202,000,000	188,242	414,843,942
Irrevocable credit card commitment	-	-	-	-	239,524	239,524
Letter of credit receivables	8,665,257	1,940,266	4,163,251	7,861,398	4,046,012	26,676,184
Guarantee receivables	56,869,848	2,312,070	4,151,114	11,885,401	11,882,902	87,101,335
Total	65,535,105	215,628,036	9,594,365	221,746,799	16,356,680	528,860,985

f) Maturity analysis of lease agreements and capital expenditures

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

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

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December 31, 2018	Less than 1 year	1-5 year	Over 5 year	Total
Lease commitments				
Operating lease payments (Lessee)	(330,878)	(557,578)	(1,805)	(890,261)
Operating lease income(Lessor)	144,332	256,379	-	400,711
Total	(186,546)	(301,199)	(1,805)	(489,550)

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) (excluding BankTaiwan Insurance Brokers)

2019

Unit: In Thousands of NTD

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

2018

Unit: In Thousands of NTD

	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	\$ 4,861,568,297	613,718,976	557,273,005	630,746,847	563,089,488	733,089,648	1,763,650,333
Major matured capital outflow	6,311,668,465	261,875,331	383,891,278	674,095,544	768,662,889	1,335,534,217	2,887,608,906
Capital gap	(1,450,100,168)	351,843,645	173,381,727	(43,348,997)	(205,573,401)	(602,444,569)	(1,123,958,573)

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

2019

Unit: In Thousand of USD

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

2018

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	\$ 42,913,220	11,437,325	8,937,250	8,225,195	4,594,660	9,718,790
Major matured capital outflow	43,859,052	12,811,425	11,210,718	7,712,262	4,458,445	7,666,202
Capital gap	(945,832)	(1,374,100)	(2,273,468)	512,933	136,215	2,052,588

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

c) Procedure of market risk management

i) Identification

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

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ii) Evaluation and 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 market value every day; 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 prices from TWSE, electronic screen or independent brokerage firms) and Level-2 inputs (those which can be directly or indirectly observed in the market) are available. When the aforementioned inputs are not available, the related instruments shall be classified to Level 3. The sources from which 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 conducts various risks monitoring for ordinary trading activities, prepares risk monitoring reports and reports it to the Risk Management Committee and the Board of Directors. The monitoring includes controls of market risk position, profit and loss, exposure, quota of investments, degree of concentration, the sensitivity analysis and the stress testing. BOT also has communication mechanism. Each operating unit put forward transaction information to the supervisory periodically in order to ensure the accuracy and effectiveness. While trading amounts excess the limitation or in other abnormal conditions, the related operating units should alert it in time.

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

BOT formulates "Bank of Taiwan 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, the Bank ensures that Level-1 inputs (i.e. quoted prices in an active market, such as prices from TWSE, electronic screen or independent brokerage firms) and Level-2 inputs (which can be directly or indirectly observed in the market) are available. When the aforementioned inputs are not available, the related instruments shall be classified to Level 3. The sources from which BOT obtains inputs largely remain the same as prior periods and the Bank will check if a financial instrument can be reasonably measured before entering into a transaction.

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iii) Measurement Method

1. Monitoring the trading book of risk exposure including stocks, funds, bonds, spot exchanges, forward exchanges, rate swap, option, future contracts, etc. Checking the ratio of risk exposure with total investment everyday and reporting monthly.
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) Management policies of trading book interest risk

i) Definition of interest risk

“Interest risk” is the risk derived from changes in interest rate that may lead to changes in fair value of BOT's position or losses to earnings. Main position includes interest related securities and derivatives.

ii) Management procedures for trading book interest risk

BOT sets different quotas and stop-loss points for commercials, bonds, and interest related derivatives. Each trading department assesses market price of the trading book position daily, reports to the department of risk management monthly, and reports to the committee of risk management and the board quarterly.

iii) Measurement Method

Except setting up quotas and stop-loss point, BOT also monitors its position affected by interest risk with PV01.

f) Interest rate risk management for banking book

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

i) Strategy

The interest rate risk management increases BOT's flexibility in order to measure, manage and hedge the interest rate risk. BOT formulates “Liquidity and Interest Rate Management Strategies” to reinforce the management and maintain proper liquidity and adjust the interest rate sensitivity gap for the steady long-term profitability and business.

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ii) Management procedure

In order to adapt the economic financial environment changes and to fulfill the capital requirement, BOT conducts different pricing management strategies, such as adopting variable or fixed interest rate, and use financial futures, foreign exchange swaps, interest rate swaps to manage the interest rate sensitivity gap. To adjust the interest rate sensitivity gap properly, the risk management department monitors the ratio of interest rate sensitivity assets to interest rate sensitivity liabilities, the ratio of NTD capital gap to equity and the interest rate sensitivity gap of foreign exchange and report monthly to the risk management committee and board of directors.

iii) Measurement method

BOT uses the “Assets and Liabilities Management Information System” to identify interest rate sensitivity assets and liabilities and analyses the maturity gap and changes of maturity structure as the basis of interest rate risk management and pricing strategies. They also make proper financial transfer and adjust the capital structure to lower the liquidity risk and increase the profit.

g) 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 $\pm 3\%$ changes of exchange rate for every currency. The relevant statements are disclosed at sensitivity analysis.

h) 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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 $\pm 15\%$ changes of equity security price. The relevant statements are disclosed at sensitivity analysis.

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

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, 2019 and 2018. Under this assumption, the income after tax will increase \$796 million and \$1,410 million, respectively.

If the exchange rate depreciates by 3%, the income after tax will decrease \$796 million and \$1,410 million, respectively.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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, 2019 and 2018. Under this assumption, the income after tax will increase \$6,524 million and \$6,482 million, respectively and the other comprehensive income will increase \$14,293 million and \$11,507 million, respectively.

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

iv) Sensitivity analysis is as follows:

Units: In Millions of NTD

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

Units: In Millions of NTD

December 31, 2018			
Main risk	Range	Amount Influence	
		Equity	Gain or loss
Interest rate risk	Interest rate curve rise 100BPS	(6,369)	53
Interest rate risk	Interest rate curve fall 100BPS	6,659	(57)
Exchange rate risk	Other foreign currency/ NTD rise 3%		1,410
Exchange rate risk	Other foreign currency / NTD fall 3%		(1,410)
Price of equity stock risk	Price of equity stock rise 15%	11,507	6,482
Price of equity stock risk	Price of equity stock fall 15%	(11,507)	(6,482)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

j) Net position of major foreign currencies

Units: In Thousands of stated currencies

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

December 31, 2018		
	Amount in original currency	Amount in New Taiwan Dollars
USD	939,761	28,883,554
CNY	1,209,269	5,404,223
JPY	2,985,129	828,075
GBP	18,272	710,781
AUD	28,452	616,128

Note 1: The major foreign currencies were the top 5 currencies by position expressed in New Taiwan Dollars after exchange rate conversion.

Note 2: The net position represented the absolute value of each currency.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

All held foreign financial assets and liabilities are classified by currencies and represented using the carrying amounts. The following tables are the information at December 31, 2019 and 2018, respectively.

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2019			
Liabilities	USD to NTD	Other currency to NTD	Total NTD
Deposits of Central Bank and other banks	\$ 64,126,309	70,769,063	134,895,372
Financial liabilities measured at fair value through profit or loss	45,722,494	152,587	45,875,081
Hedging derivative financial liabilities	-	25,537	25,537
Bills and Bonds Sold under Repurchase Agreements	-	1,790,702	1,790,702
Payables	7,431,896	1,789,738	9,221,634
Current income tax liabilities	10,001	123,997	133,998
Deposits and remittances	423,630,859	241,217,178	664,848,037
Other financial liabilities	380,155	565,910	946,065
Provisions	4,854	17,982	22,836
Deferred income tax liabilities	-	19,312	19,312
Other liabilities	<u>133,362,499</u>	<u>41,542,081</u>	<u>174,904,580</u>
Total liabilities	<u>\$ 674,669,067</u>	<u>358,014,087</u>	<u>1,032,683,154</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2018			
Assets	USD to NTD	Other currency to NTD	Total NTD
Cash and cash equivalents	\$ 43,760,141	62,182,412	105,942,553
Placement with Central Bank and call loans to banks	49,080,583	56,035,227	105,115,810
Financial assets measured at fair value through profit or loss, net	66,053,621	18,865,443	84,919,064
Financial assets measured at fair value through other comprehensive income	15,097,620	74,984,013	90,081,633
Debt investments measured at amortized cost	20,099,228	21,975,671	42,074,899
Hedging derivative financial assets	-	41,693	41,693
Receivables, net	10,629,303	4,778,805	15,408,108
Current income tax assets	170,067	175,802	345,869
Loans and Discounts, net	141,013,561	97,830,017	238,843,578
Other financial assets, net	108,944	19,758	128,702
Property and equipment, net	63,559	52,505	116,064
Intangible assets	14,435	5,124	19,559
Deferred income tax assets, net	127,740	62,149	189,889
Other assets, net	41,697,422	(39,551,956)	2,145,466
Total assets	\$ 387,916,224	297,456,663	685,372,887

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2018			
Liabilities	USD to NTD	Other currency to NTD	Total NTD
Deposits of Central Bank and other banks	\$ 68,635,480	52,209,508	120,844,988
Financial liabilities measured at fair value through profit or loss	46,316,712	63,924	46,380,636
Hedging derivative financial liabilities	-	12,973	12,973
Bills and Bonds Sold under Repurchase Agreements	18,441,000	-	18,441,000
Payables	7,612,984	2,264,724	9,877,708
Current income tax liabilities	42,749	6,888	49,637
Deposits and remittances	469,398,377	249,114,004	718,512,381
Other financial liabilities	385,459	266,559	652,018
Provisions	11,301	5,305	16,606
Deferred income tax liabilities	-	21,541	21,541
Other liabilities	<u>112,470,812</u>	<u>33,217,502</u>	<u>145,688,314</u>
Total liabilities	<u>\$ 723,314,874</u>	<u>337,182,928</u>	<u>1,060,497,802</u>

k) 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, 2019					
Item	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest rate sensitive assets	\$ 1,682,531,290	1,712,946,163	156,966,532	309,160,967	3,861,604,952
Interest rate sensitive liabilities	457,257,294	2,933,664,471	246,325,207	87,470,984	3,724,717,956
Interest rate sensitive gap	1,225,273,996	(1,220,718,308)	(89,358,675)	221,689,983	136,886,996
Net worth					375,466,219
Ratio of interest rate sensitive assets to liabilities (%)					103.68
Ratio of interest rate sensitive gap to net worth (%)					36.46

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2018					
Item	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest rate sensitive assets	\$ 1,673,382,215	1,638,302,711	266,935,209	307,311,037	3,885,931,172
Interest rate sensitive liabilities	422,546,294	2,955,016,635	331,223,291	77,972,260	3,786,758,480
Interest rate sensitive gap	1,250,835,921	(1,316,713,924)	(64,288,082)	229,338,777	99,172,692
Net worth					308,486,502
Ratio of interest rate sensitive assets to liabilities (%)					102.62
Ratio of interest rate sensitive gap to net worth (%)					32.15

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

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

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

Note 4: Ratio of interest-rate-sensitivity assets to liabilities=Interest-rate-sensitivity assets/Interest-rate-sensitivity liabilities (in New Taiwan Dollars).

ii) Assets and liabilities interest rate sensitivity analysis (United States Dollars)

Unit: In Thousand of USD

December 31, 2019					
Item	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest rate sensitive assets	\$ 29,245,574	6,754,671	4,912,995	994,744	41,907,984
Interest rate sensitive liabilities	19,341,698	10,012,659	5,449,048	1,541,441	36,344,846
Interest rate sensitive gap	9,903,876	(3,257,988)	(536,053)	(546,697)	5,563,138
Net worth					(59,401)
Ratio of interest rate sensitive assets to liabilities (%)					115.31
Ratio of interest rate sensitive gap to net worth (%)					(9,365.39)

Unit: In Thousand of USD

December 31, 2018					
Item	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest rate sensitive assets	\$ 25,735,649	7,127,788	5,381,028	756,158	39,000,623
Interest rate sensitive liabilities	23,004,234	8,930,311	4,038,545	1,539,087	37,512,177
Interest rate sensitive gap	2,731,415	(1,802,523)	1,342,483	(782,929)	1,488,446
Net worth					(30,512)
Ratio of interest rate sensitive assets to liabilities (%)					103.97
Ratio of interest rate sensitive gap to net worth (%)					(4,878.23)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 banking book

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

a) Strategy

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

b) Management procedure

In order to adapt the economic financial environment changes and to fulfill the capital requirement, BOT conducts different pricing management strategies, such as adopting variable or fixed interest rate, and use financial futures, foreign exchange swaps, interest rate swaps to manage the interest rate sensitivity gap. To adjust the interest rate sensitivity gap properly, the risk management department monitors the ratio of interest rate sensitivity assets to interest rate sensitivity liabilities, the ratio of NTD capital gap to equity and the interest rate sensitivity gap of foreign exchange and report monthly to the risk management committee and board of directors.

c) Measurement method

BOT uses the Assets and Liabilities Management Information System to identify interest rate sensitivity assets and liabilities and analyses the maturity gap and changes of maturity structure as the basis of interest rate risk management and pricing strategies. They also make proper financial transfer and adjust the capital structure to lower the liquidity risk and increase the profit.

7) Other risks

a) Operational risk and legal risk

BOT has identified, measured and monitored operational risk and legal risk and also disclosed qualitative and quantitative information in accordance with the Information of the Capital Adequacy and the Risk Managements and the FSC's requirements.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

According to 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

To conduct the planning, management and execution of BOT's legal compliance, the Department of Compliance has set up the Regulations and Guidelines of Legal Compliance which clearly states the responsibility of the competent unit (Department of Compliance), the task 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 (Training Institute), and the self-assessment unit (each operational unit, excluding Department of Internal Auditing Board of Directors). The Department of Compliance also holds the responsibility of planning, managing and executing the overall legal compliance of the Bank. For instance, the task 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 BOT'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.

BOT's "Declaration of Operation Risk Appetite" stresses that BOT should attach importance not only to the direct financial loss caused 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, BOT 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, BOT also avoids internal fraud by emphasizing the importance of compliance with regulations and laws. Any events that may damage BOT's reputation will be reported as part of operation risk to the appropriate management level.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

In the future, BOT shall meet the requirements proposed by the authorities. Moreover, BOT 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

BOT 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. BOT 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 BOT appointed the Chief Compliance Officer to serve as AML/CFT Responsible Officer, and set up "AML Center" under The Department of Compliance in January 16, 2017. A Supervisor and a Vice Supervisor are set up in the center, and the Deputy Chief Compliance Officer is appointed to serve as the Supervisor. So far, there are 17 members in the center.

ii) Setting up AML/CFT Committee

BOT sets up "Legal Compliance, 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 18 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 BOT's AML/CFT managerial mechanisms, BOT has already hired independent third parties to audit the effectiveness of the AML/CFT managerial mechanisms since 2017. Against the findings of the audit, BOT then would hire external consultants to assist BOT for improvement if necessary. The external consultants also participated and provided suggestions in the establishment of BOT's AML/CFT information systems.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 BOT’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-examining 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. BOT will strengthen its policies and procedures regarding ongoing monitoring of accounts and transactions by applying risk-based approach and the assistance of information systems. In order to verify the effectiveness of the systems, consultants are hired to conduct independent tests, provide recommendations for setting transaction monitoring thresholds, and continuously optimize the system.
 - 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, BOT sets up an AML/CFT website within its internal network. This measure simplifies the procedures of collecting related information, and is beneficial to BOT 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, BOT hired external expert to hold orientation training for BOT’s responsible officers and supervisors. BOT 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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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. BOT also drew up “Understanding AML Q&A”, and held online exam about the Q&A. BOT 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.

vii) Reporting the properties (including its related interests and their locations) designated by the Counter-Terrorism Financing Act and suspicious transactions to Investigation Bureau, Ministry of Justice .

viii) Updating personal information of customers

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

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 or equity securities under lending agreements. The right to receive cash flow is transferred and reflects the associated liabilities to repurchase transferred financial assets at a fixed price in the future period, BOT cannot use, sell or pledge these transferred financial assets during the valid transaction period. However, since BOT still bears the interest rate risks and credit risks, transferred financial assets are not completely derecognized. Analysis of financial assets without overall derecognition and the associated liabilities are as follows:

Financial assets type	December 31, 2019				
	Transferred financial assets book value	Financial liability book value	Transferred financial assets fair value	Financial liability fair value	Net fair
Financial assets at fair value through profit or loss					
Issued under repurchase agreement	\$ 29,964	29,973	29,964	29,973	(9)
Financial assets at fair value through other comprehensive income					
Issued under repurchase agreement	19,308,726	19,744,196	19,308,726	19,744,196	(435,470)
Financial assets type	December 31, 2018				
	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	\$ 5,577,177	5,272,516	5,577,177	5,272,516	304,661
Financial assets at fair value through other comprehensive income					
Issued under repurchase agreement	21,193,500	19,805,531	21,193,500	19,805,531	1,387,969

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

9) Offsetting of financial assets and financial liabilities

BOT holds financial instruments which meet the Section 42 of the IAS 32 endorsed by the FSC. Therefore, the financial instrument will be offset on the balance sheet.

Although BOT 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, 2019						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
Description	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)	Relevant amount not offset on the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instrument (note)	Cash received as collaterals	
Derivative financial assets	\$ 10,589,277	-	10,589,277	994,022	2,462,130	7,133,125

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

Note: Netting settlement agreement and non-cash financial collaterals are included.

December 31, 2018						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
Description	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)	Relevant amount not offset on the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instrument (note)	Cash received as collaterals	
Derivative financial assets	\$ 6,298,504	-	6,298,504	1,735,071	38,214	4,525,219

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2018						
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
Description	Total recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheets (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instrument (note)	Pledged cash Collaterals	
Derivative financial liabilities	\$ 4,646,438	-	4,646,438	1,735,071	387,813	2,523,554

Note: Netting settlement agreement and non-cash financial collaterals are included.

(iv) 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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to the Consolidated Financial Statements**

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.

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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 subsidiaries can limit their potential damage to a reasonable and acceptable level.

2) Credit risk

As engaging in financial transactions, BTLI has exposure to credit risk, including issuer credit risk, counterparty credit risk, and credit risk of underlying assets:

- Issuer credit risk is the risk that an issuer of financial debt instruments or a bank will default and be unable to fulfill the repayment obligation, or go into bankruptcy or liquidation, and thereby cause BTLI to suffer a financial loss.
- Counterparty credit risk is the risk that a counterparty will default on a transaction and fail to pay due to price movement in the underlying securities of BTLI's derivatives, and thereby cause BTLI to suffer a financial loss.
- Credit risk of underlying assets is the risk that an underlying asset of an instrument held by BTLI will have its credit quality weakened, its risk premium increased, or its credit rating downgraded, or that the issuer will be unable to meet the contractual obligation, and thereby cause BTLI to suffer a financial loss.

a) 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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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, 2019						
Financial assets						
Cash and cash equivalents	\$ 24,226,460	-	-	-	-	-
Receivables	656,567	594,333	-	56,113	21,134	1,112,071
Financial assets at fair value through profit or loss	10,547,408	2,797,387	-	-	-	-
Financial assets measured at fair value through other comprehensive income — debt instruments	1,060,207	1,134,114	-	-	-	-
Financial assets measured at amortized cost — debt instruments	158,729,434	58,063,781	-	7,770,207	1,801,586	55,441,461
Other financial assets, net	3,026,800	-	-	-	-	-
Loans	-	-	197,000	-	807,022	8,040,711
Guarantee deposits paid	30,079	5,444,081	-	-	-	2,436

Item	Finance	Government	Petrochemical Industry	Manufacturing	Electricity	Other
December 31, 2018						
Financial assets						
Cash and cash equivalents	\$ 19,546,772	-	-	-	-	-
Receivables	927,224	341,442	-	21,261	7,941	747,727
Financial assets at fair value through profit or loss	6,363,661	2,541,346	-	-	-	-
Financial assets measured at fair value through other comprehensive income — debt instruments	1,565,961	373,632	-	-	-	102,010
Financial assets measured at amortized cost — debt instruments	196,546,414	35,426,083	-	3,349,879	1,198,535	24,409,278
Other financial assets, net	5,655,000	-	-	-	-	-
Loans	-	-	1,415,938	-	20,692	7,979,461
Guarantee deposits paid	-	5,446,789	-	-	-	2,439

ii) Region

Item	Taiwan	America	Europe	Asia	Oceania	Other
December 31, 2019						
Financial assets						
Cash and cash equivalents	\$ 24,226,460	-	-	-	-	-
Receivables	1,386,948	606,598	200,858	220,076	25,738	-
Financial assets at fair value through profit or loss	10,355,491	2,797,387	-	191,917	-	-
Financial assets measured at fair value through other comprehensive income — debt instruments	1,060,207	129,304	-	1,004,810	-	-
Financial assets measured at amortized cost — debt instruments	70,129,078	106,523,799	58,160,462	35,090,522	11,902,608	-
Other financial assets, net	3,026,800	-	-	-	-	-
Loans	9,044,733	-	-	-	-	-
Guarantee deposits paid	5,476,596	-	-	-	-	-

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Item	Taiwan	America	Europe	Asia	Oceania	Other
December 31, 2018						
<u>Financial assets</u>						
Cash and cash equivalents	\$ 19,546,772	-	-	-	-	-
Receivables	1,240,876	323,001	375,380	79,624	26,714	-
Financial assets at fair value through profit or loss	6,348,234	2,541,346	-	15,427	-	-
Financial assets measured at fair value through other comprehensive income — debt instruments	1,667,991	373,632	-	-	-	-
Financial assets measured at amortized cost — debt instruments	70,068,559	92,322,643	63,903,876	18,694,696	15,940,415	-
Other financial assets, net	5,655,000	-	-	-	-	-
Loans	9,416,091	-	-	-	-	-
Guarantee deposits paid	5,449,228	-	-	-	-	-

b) Credit Quality Analysis of the subsidiary, BTLI:

i) Categories for credit risk quality

BTLI internally categorizes the credit risk into three levels, which are low risk, high risk and impaired risk. The definition of each level is as follows:

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

BTLI determines whether the credit risk of financial instruments applying the impairment requirements in IFRS 9 increased significantly since the initial recognition on each reporting date. For this assessment, BTLI considers the reasonable and supportable information (including forward looking information) which shows that the credit risk has increased significantly since initial recognition. The main considerations include:

1. Credit business (including related interest receivables)

The main consideration for the credit business is the information pertinent to overdue status of counterparties. If the contract payments are overdue for more than 30 days, BTLI determines that the credit risk of the related financial assets has significantly increased since initial recognition.

Business	Combination	Definition
Loan on real estate	Current: 0 DPD	Credit risk has not significantly increased
	M1: 1-30/31 DPD	Credit risk has significantly increased
	M2: 31-60 DPD	
	M3: 61-90 DPD	
	D: 91 DPD/Defaulted Mark=Y	Credit has impaired

2. Debt investments (including related interest receivables)

If, at the reporting date, the external credit rating of financial assets has declined equal to or over one credit rating and the financial assets are classified as high risk, BTLI determines that the credit risk of financial assets has significantly increased since initial recognition.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Details of the correlation between credit risk quality of debt investments and external credit rating are as follows:

Credit risk quality	Credit rating of domestic credit rating agencies (Taiwan Ratings)
Low risk	twAAA
	twAA+
	twAA
	twAA-
	twA+
	twA
	twA~twBBB+
	twBBB
High risk	twBBB-
	twBB+~twBB
	twBB~twB+
	twB~twB-
	twCCC

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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Credit risk quality	Credit rating of international credit rating agencies (S&P)
Low risk	AAA
	AA+
	AA
	AA-
	A+
	A
	A-
	BBB+
	BBB
High risk	BBB-
	BB+
	BB
	BB-
	B+
	B
	B-
	CCC

All types of credit assets owned by BTLI are not applicable to the following assumption: if the credit risk of the credit assets is low, BTLI may consider that the credit risk of financial assets has not significantly increased since initial recognition.

iii) Definitions for default and credit impairment of financial assets

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

1. Quantitative indicators

When financial assets receivables are overdue for more than 90 days.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2. Qualitative indicators

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

- The borrower / issuer has filed for bankruptcy or is likely to file a bankruptcy.
- The borrower / issuer has died or the company is dissolved.
- The financial instrument's contract of the borrower's or issuer's has defaulted.
- The financial market of the financial asset disappeared due to the financial difficulties of the borrower or the issuer.
- Due to financial or contractual reasons related to the financial difficulties of the borrower / issuer, the creditor of the borrower / issuer gives the borrower a concession that would not have been considered.
- Purchase or originate financial assets at a substantial discount that reflects the credit losses have occurred.

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

If a financial asset no longer meets the definition of default and credit impairment for a period of time, it is deemed to return to the state of compliance and is no longer considered defaulted and credit impaired.

iv) Write off policy

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

1. The loan cannot be recovered in full or in part because the debtors have dissolved, gone into hiding, reached a settlement, declared bankruptcy, or for other reasons.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2. The collateral and property of the primary/subordinate debtors have been appraised at a very low value or become insufficient to repay the loan after the subtraction of senior mortgages; or the execution cost approaches or possibly exceeds the amount that BTLI might collect from the debtors where there is no financial benefit in execution.
 3. The primary/subordinate debtor's collateral has failed to sell at successive auctions where the price of such collateral has been successively lowered, and there is no financial benefit to be derived from BTLI 's taking possession of such collateral.
 4. More than two years have elapsed since the maturity date of the non performing loans or non accrual loans, and the efforts of collection have failed.
- v) Expected credit loss measurement
1. Adopted methods and assumptions

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

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

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

BTLI uses financial assets at amortized cost to measure Exposure at default (“EAD”).

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

vi) Forward looking information considerations

BTLI takes forward looking information into account when judging whether the credit risk of a financial instrument has increased significantly since its initial recognition, and when the expected credit loss is measured. BTLI uses historical data to analyze and identify the economic factors that affect the credit risk and expected credit losses of various asset portfolios. Regarding the economic factors and its impact on expected credit losses vary according to the types of financial instruments.

1. Credit business (including related interest receivables)

BTLI provides predicted information of relevant economic factors (basic economic situation) every season. The information includes the best estimation of future economic status within a year, and average long term probability of default predicted by Stepwise Reversion Method.

The relevant economic factors that BTLI identifies for credit business in 2019 are chain linked GDP and the total value of import in Taiwan.

2. Debt investments (including related interest receivables)

The probability of default which BTLI utilizes to assess related impairment is based on the information issued by the domestic credit rating agencies (Taiwan Rating) and international credit rating agencies (S&P). The aforementioned information includes forward looking macroeconomic information.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

vii) Changes in loss allowance of the subsidiary, BTLI

1. Changes in loss allowance of receivables

As of December 31, 2019 and 2018, the reconciliations of the beginning and ending balances for loss allowance of receivables were as follows:

	2019						Total
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (individually assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Lifetime ECLs (purchased or originated credit impaired financial assets)	The loss allowances measured in accordance with IFRS 9	
Beginning balance	478	-	17,196	4	-	17,678	17,713
Changes due to financial instruments recognized as at beginning:							
-- Transfer to 12month expected credit losses	1	-	-	(1)	-	-	-
-- Financial assets that have been derecognized during the period	(46)	-	-	(1)	-	(47)	(47)
Originated or purchase new financial assets	237	-	-	-	-	237	237
Impairment difference recognized in accordance with the Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans	-	-	-	-	-	-	(1)
Foreign exchange and other movements	(82)	-	-	2	-	(80)	(80)
Ending balance	<u>588</u>	<u>-</u>	<u>17,196</u>	<u>4</u>	<u>-</u>	<u>17,788</u>	<u>17,822</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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	2018					
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (individually assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Lifetime ECLs (purchased or originated credit impaired financial assets)	Total
Beginning balance	450	-	18,198	1	-	18,649
Changes due to financial instruments recognized as at beginning:						
— Financial assets that have been derecognized during the period	(75)	-	-	-	-	(75)
Originated or purchase new financial assets	125	-	-	-	-	125
Impairment difference recognized in accordance with the Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans	-	-	-	-	-	-
The recovery of bad debts written off	-	-	(1,002)	-	-	(1,002)
Foreign exchange and other movements	(22)	-	-	3	-	(19)
Ending balance	478	-	17,196	4	-	17,678
	-	-	-	-	35	-
	-	-	-	-	-	18,088

In 2019 and 2018, there were no significant change in the allowance loss resulting from significant changes in the total carrying amount.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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2. Changes in loss allowance of secured loans (including non-accrual loans)

As of December 31, 2019 and 2018, the reconciliations of the beginning and ending balances for loss allowance of secured loans (including accrual loans) were as follows:

	2019							
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (individually assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Lifetime ECLs (purchased or originated credit impaired financial assets)	The loss allowances measured in accordance with IFRS 9	Impairment difference recognized in accordance with the Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming/Non-accrual Loans	Total
Beginning balance	392	29	-	1,002	-	1,423	54,274	55,697
Changes due to financial instruments recognized as at beginning:								
— Transfer to lifetime expected credit losses	(7)	7	-	-	-	-		-
— Transfer to 12month expected credit losses	132	(15)	-	(117)	-	-		-
— Financial assets that have been derecognized during the period	(91)	(1)	-	(79)	-	(171)		(171)
Originated or purchase new financial assets	311	-	-	-	-	311		311
Impairment difference recognized in accordance with the Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans	-	-	-	-	-	-	(5,182)	(5,182)
The recovery of bad debts written off	805	-	-	-	-	805		805
Foreign exchange and other movements	(210)	153	-	(154)	-	(211)		(211)
Ending balance	<u>1,332</u>	<u>173</u>	<u>-</u>	<u>652</u>	<u>-</u>	<u>2,157</u>	<u>49,092</u>	<u>51,249</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

2018

	12 month ECLs	Lifetme ECLs (collectively assessed)	Lifetme ECLs (individually assessed)	Lifetme ECLs (not purchased or originated or impaired financial assets)	Lifetme ECLs (purchased or originated or impaired financial assets)	The loss allowances measured in accordance with IFRS 9	Impairment difference recognized in accordance with the Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming/Nonaccrual Loans	Total
Beginning balance	1,306	57	-	416	-	1,779	59,280	61,059
Changes due to financial instruments recognized as at beginning:								
— Transfer to lifetime expected credit losses	(1)	1	-	-	-	-	-	-
— Transfer to 12month expected credit losses	37	(37)	-	-	-	-	-	-
— Financial assets that have been derecognized during the period	(48)	-	-	(272)	-	(320)	-	(320)
Impairment difference recognized in accordance with the Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans	-	-	-	-	-	-	(5,006)	(5,006)
The recovery of bad debts written off	680	-	-	-	-	680	-	680
Foreign exchange and other movements	(1,582)	8	-	858	-	(716)	-	(716)
Ending balance	\$ 392	29	-	1,002	-	1,423	54,274	55,697

In 2019 and 2018, there were no significant change in the allowance loss resulting from significant changes in the total carrying amount.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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3. Changes in loss allowance of debt instruments measured at amortized cost

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

	2019					Total
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (individually assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Lifetime ECLs (purchased or originated credit impaired financial assets)	
Beginning balance	92,224	-	-	-	-	92,224
Changes due to financial instruments recognized as at beginning:						
-- Financial assets that have been derecognized during the period	(15,640)	-	-	-	-	(15,640)
Originated or purchase new financial assets	23,901	-	-	-	-	23,901
Foreign exchange and other movements	(8,615)	-	-	-	-	(8,615)
Ending balance	<u>91,870</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>91,870</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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	2018					Total
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (individually assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Lifetime ECLs (purchased or originated credit impaired financial assets)	
Beginning balance	87,459	-	-	-	-	87,459
Changes due to financial instruments recognized as at beginning:						
— Financial assets that have been derecognized during the period	(7,518)	-	-	-	-	(7,518)
Originated or purchase new financial assets	13,249	-	-	-	-	13,249
Foreign exchange and other movements	(966)	-	-	-	-	(966)
Ending balance	<u>\$ 92,224</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>92,224</u>

In 2019 and 2018, there were no significant change in the allowance loss resulting from significant changes in the total carrying amount.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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4. Changes in loss allowance of debt instruments measured at fair value through other comprehensive income

	2019					
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (individually assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Lifetime ECLs (purchased or originated credit impaired financial assets)	Total
Beginning balance	429	-	-	-	-	429
Changes due to financial instruments recognized as at beginning:						
— Financial assets that have been derecognized during the period	(1)	-	-	-	-	(1)
Originated or purchase new financial assets	351	-	-	-	-	351
Foreign exchange and other movements	(37)	-	-	-	-	(37)
Ending balance	<u>742</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>742</u>

	2018					
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (individually assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Lifetime ECLs (purchased or originated credit impaired financial assets)	Total
Beginning balance	1,033	-	-	-	-	1,033
Changes due to financial instruments recognized as at beginning:						
— Financial assets that have been derecognized during the period	(303)	-	-	-	-	(303)
Foreign exchange and other movements	(301)	-	-	-	-	(301)
Ending balance	<u>429</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>429</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

5. In 2019 and 2018, BTLI does not have originated or purchased new financial assets whose credit are impaired.

c) Credit risk exposure

i) The gross carrying amounts of receivables with maximum credit risk exposure are as follows:

	Receivables				Total
	December 31, 2019				
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Credit impairments of originated or purchased new financial assets— impaired	
Low risk	\$ 2,416,737	46	-	-	2,416,783
High risk	24,044	-	17,213	-	41,257
Gross carrying amount	2,440,781	46	17,213	-	2,458,040
Allowance for impairment	(588)	-	(17,200)	-	(17,788)
Impairment difference recognized in accordance with the Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans				(34)	(34)
Total	\$ 2,440,193	46	13	(34)	2,440,218
	December 31, 2018				
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Credit impairments of originated or purchased new financial assets— impaired	Total
Low risk	\$ 2,016,660	13	-	-	2,016,673
High risk	29,420	-	17,215	-	46,635
Gross carrying amount	2,046,080	13	17,215	-	2,063,308
Allowance for impairment	(478)	-	(17,200)	-	(17,678)
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans				(35)	(35)
Total	\$ 2,045,602	13	15	(35)	2,045,595

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- ii) The gross carrying amounts of secured loans (including non accrual loans) with maximum credit risk exposure are as follows:

	Secured loans				Total
	December 31, 2019				
	12 month ECLs	Lifetime ECLs—not impaired	Lifetime ECLs—impaired	Credit impairments of originated or purchased new financial assets—impaired	
Current 0~M1	\$ 3,251,892	-	-	-	3,251,892
M2~M3	-	14,472	-	-	14,472
Default (D)	-	-	24,280	-	24,280
Gross carrying amount	3,251,892	14,472	24,280	-	3,290,644
Allowance for impairment	(1,332)	(173)	(652)	-	(2,157)
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans				(49,092)	(49,092)
Total	\$ 3,250,560	14,299	23,628	(49,092)	3,239,395
	December 31, 2018				
	12 month ECLs	Lifetime ECLs—not impaired	Lifetime ECLs—impaired	Credit impairments of originated or purchased new financial assets—impaired	Total
Current 0~M1	\$ 3,548,772	-	-	-	3,548,772
M2~M3	-	3,271	-	-	3,271
Default (D)	-	-	27,299	-	27,299
Gross carrying amount	3,548,772	3,271	27,299	-	3,579,342
Allowance for impairment	(392)	(29)	(1,002)	-	(1,423)
Impairment difference recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans				(54,274)	(54,274)
Total	\$ 3,548,380	3,242	26,297	(54,274)	3,523,645

1. Collateral and other credit enhancements

BTLI adopts a series of policies and measures to mitigate credit risks in relation to credit business, and one of the most common methods is requesting the borrower for the collateral. BTLI sets up the scope of collateral that can be recovered and the appraisal, as well as the management and disposing procedures to ensure the credit right. The major collateral of BTLI is real estate.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

On the other hand, the loan security, terms of collateral, conditions to offset are addressed in the credit extending contract. The reduced facility and shortened repayment period or whether or not a loan is deemed matured are all well defined to mitigate credit risk in case that the credit event does incur.

The collateral policies and the overall quality of collateral of BTLI do not change significantly during 2019 and 2018.

BTLI observes the collateral value of financial instruments closely and determines whether the credit impaired financial assets have further impairment. The details of credit impaired financial assets and collateral value which reduces potential losses are as follows:

	December 31, 2019		
	Exposures	Allowance for impairment	Fair value of collateral
Impaired financial assets:			
Secured loans (including non-accrual loans)	\$ 24,280	(652)	471,013
Gross impaired financial assets	\$ 24,280	(652)	471,013

	December 31, 2018		
	Exposures	Allowance for impairment	Fair value of collateral
Impaired financial assets:			
Secured loans (including non-accrual loans)	\$ 27,299	(1,002)	447,727
Gross impaired financial assets	\$ 27,299	(1,002)	447,727

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- iii) The gross carrying amounts of financial assets with maximum credit risk exposure are as follows:

Debt instruments measured at amortized cost					
December 31, 2019					
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Credit impairments of originated or purchased new financial assets— impaired	Total
Low risk	\$ 277,898,339	-	-	-	277,898,339
High risk	4,000,000	-	-	-	4,000,000
Gross carrying amount	281,898,339	-	-	-	281,898,339
Allowance for impairment	(91,870)	-	-	-	(91,870)
Total	<u>\$ 281,806,469</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>281,806,469</u>
December 31, 2018					
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Credit impairments of originated or purchased new financial assets— impaired	Total
Low risk	\$ 256,772,413	-	-	-	256,772,413
High risk	4,250,000	-	-	-	4,250,000
Gross carrying amount	261,022,413	-	-	-	261,022,413
Allowance for impairment	(92,224)	-	-	-	(92,224)
Total	<u>\$ 260,930,189</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>260,930,189</u>

- iv) The gross carrying amounts of financial assets with maximum credit risk exposure are as follows:

Debt instruments measured at fair value through other comprehensive income					
December 31, 2019					
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Credit impairments of originated or purchased new financial assets— impaired	Total
Credit rating	\$ 2,112,310	-	-	-	2,112,310
Gross carrying amount	2,112,310	-	-	-	2,112,310
Allowance for impairment	(742)	-	-	-	(742)
Fair value adjustments	82,011	-	-	-	82,011
Total	<u>\$ 2,193,579</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,193,579</u>
December 31, 2018					
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Credit impairments of originated or purchased new financial assets— impaired	Total
Low risk	\$ 2,010,948	-	-	-	2,010,948
Gross carrying amount	2,010,948	-	-	-	2,010,948
Allowance for impairment	(429)	-	-	-	(429)
Fair value adjustments	30,675	-	-	-	30,675
Total	<u>\$ 2,041,194</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,041,194</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- v) The amount of maximum credit risk exposure of the financial instruments not applicable to impairment requirements is as follows:

	December 31, 2019	December 31, 2018
Debt instruments	\$ 11,218,293	8,657,031

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, 2019				
	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	\$ (12,297)	1,680	-	-	(10,617)

Derivatives settled in net

	December 31, 2018				
	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	\$ (25,453)	-	-	-	(25,453)

Derivatives settled in total

	December 31, 2018				
	1 year	1~2 years	2~5 years	Over 5 years	Total
Financial liabilities measured at fair value through profit or loss					
— Foreign exchange outflow	\$ (31,700,100)	-	-	-	(31,700,100)
— Foreign exchange inflow	31,425,580	-	-	-	31,425,580
Subtotal of outflows	\$ (31,700,100)	-	-	-	(31,700,100)
Subtotal of inflows	\$ 31,425,580	-	-	-	31,425,580
Net cash flows	\$ (274,520)	-	-	-	(274,520)

Maturity analysis of non-derivative:

	December 31, 2019				
	1 year	1~2 years	2~5 years	Over 5 years	Total
<u>Assets</u>					
Cash and cash equivalents	\$ 24,234,187	-	-	-	24,234,187
Receivables	51,184	-	-	-	51,184
Non derivative financial assets measured at fair value through profit or loss	577,325	543,467	2,604,118	18,259,865	21,984,775
Financial assets measured at fair value through other comprehensive income	962,747	48,104	144,337	2,215,526	3,370,714
Financial assets measured at amortized cost	56,574,813	16,955,391	32,995,089	481,137,491	587,662,784
Other financial assets, net	3,047,489	-	-	-	3,047,489
Guarantee deposits paid	-	-	-	5,444,081	5,444,081
Total assets	\$ 85,447,745	17,546,962	35,743,544	507,056,963	645,795,214

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2019					
Liabilities	1 year	1~2 years	2~5 years	Over 5 years	Total
Payables	\$ 760,346	-	-	-	760,346
Lease liabilities	7,422	3,875	4,225	-	15,522
Total liabilities	\$ 767,768	3,875	4,225	-	775,868
December 31, 2018					
Assets	1 year	1~2 years	2~5 years	Over 5 years	Total
Cash and cash equivalents	\$ 19,551,550	-	-	-	19,551,550
Receivables	13,293	-	-	-	13,293
Non derivative financial assets measured at fair value through profit or loss	485,072	463,705	2,762,601	12,002,713	15,714,091
Financial assets measured at fair value through other comprehensive income	629,217	927,165	36,941	574,158	2,167,481
Financial assets measured at amortized cost	34,942,576	18,948,411	16,053,286	563,454,382	633,398,655
Other financial assets, net	5,682,293	-	-	-	5,682,293
Guarantee deposits paid	-	-	-	5,446,789	5,446,789
Total assets	\$ 61,304,001	20,339,281	18,852,828	581,478,042	681,974,152
Liabilities	1 year	1~2 years	2~5 years	Over 5 years	Total
Payables	\$ 758,694	-	-	-	758,694
Total liabilities	\$ 758,694	-	-	-	758,694

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, 2019			December 31, 2018		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
Financial assets						
AUD	\$ 102,083	21.0150	2,145,278	248,272	21.6550	5,376,337
CAD	26,244	22.9800	603,086	25,230	22.5800	569,702
EUR	1,901	33.6400	63,964	4,963	35.1800	174,605
HKD	3	3.8510	11	388,380	3.9230	1,523,613
USD	7,207,880	29.9900	216,164,314	6,104,321	30.7350	187,616,295
CNY	1,063,840	4.2950	4,569,193	1,669,776	4.4690	7,462,229
SGD	80,070	22.2600	1,782,363	76,733	22.4400	1,721,892
Financial liabilities						
USD	864,189	29.9900	25,917,042	758,633	30.7350	23,316,597

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

ii) The concentration of the exchange rate risk is as follows:

	December 31, 2019										Total
	USD	AUD	HKD	EUR	CAD	NZD	CNY	JPY	ZAR	SGD	
Foreign financial assets											
Cash and cash equivalents	\$ 3,152,264	54,391	-	19,077	2,411	-	31,653	-	-	22	3,259,818
Financial assets at fair value through profit or loss	8,126,925	-	-	44,887	-	-	-	-	-	-	8,171,812
Financial assets measured at fair value through other comprehensive income	1,134,114	-	-	-	-	-	-	-	-	-	1,134,114
Loans and receivables	996,765	23,281	11	-	-	-	62,419	-	-	-	1,082,476
Financial assets measured at amortized cost	202,752,080	2,067,606	-	-	600,675	-	4,475,121	-	-	1,782,341	211,677,823
Total	\$ 216,162,148	2,145,278	11	63,964	603,086	-	4,569,193	-	-	1,782,363	225,326,043

	December 31, 2019										Total
	USD	AUD	HKD	EUR	CAD	NZD	CNY	JPY	ZAR	ZAR	
Foreign financial liabilities											
Payables	\$ 12,852	-	-	-	-	-	-	-	-	-	12,852
Temporary Credits	99,562	-	-	-	-	-	-	-	-	-	99,562
Insurance liabilities	25,804,628	-	-	-	-	-	-	-	-	-	25,804,628
Total	\$ 25,917,042	-	-	-	-	-	-	-	-	-	25,917,042

Note: December 31, 2019: 1 USD = 29.990 NTD; 1 AUD = 21.015 NTD; 1 HKD = 3.851 NTD; 1 EUR = 33.64 NTD; 1 CAD = 22.98 NTD; 1 NZD = 20.20 NTD; 1 CNY = 4.295 NTD; 1 JPY = 0.2761 NTD; 1 ZAR = 2.12 NTD; 1 SGD = 22.26 NTD

	December 31, 2018										Total
	USD	AUD	HKD	EUR	CAD	NZD	CNY	JPY	ZAR	SGD	
Foreign financial assets											
Cash and cash equivalents	\$ 2,526,182	21,219	94,998	6,199	2,358	-	23,088	-	-	22	2,674,066
Financial assets at fair value through profit or loss	7,724,026	-	1,428,611	168,406	-	-	-	-	-	-	9,321,043
Financial assets measured at fair value through other comprehensive income	373,632	-	-	-	-	-	-	-	-	-	373,632
Loans and receivables	466,645	247,303	4	-	-	-	122,114	-	-	-	836,066
Financial assets measured at amortized cost	176,147,312	5,107,815	-	-	567,344	-	7,317,027	-	-	1,721,870	190,861,368
Total	\$ 187,237,797	5,376,337	1,523,613	174,605	569,702	-	7,462,229	-	-	1,721,892	204,066,175

	December 31, 2018										Total
	USD	AUD	HKD	EUR	CAD	NZD	CNY	JPY	ZAR	ZAR	
Foreign financial liabilities											
Payables	\$ 7,430	-	-	-	-	-	-	-	-	-	7,430
Temporary Credits	48,206	-	-	-	-	-	-	-	-	-	48,206
Insurance liabilities	23,260,961	-	-	-	-	-	-	-	-	-	23,260,961
Total	\$ 23,316,597	-	-	-	-	-	-	-	-	-	23,316,597

Note: December 31, 2018: 1 USD = 30.735 NTD; 1 AUD = 21.655 NTD; 1 HKD = 3.923 NTD; 1 EUR = 35.18 NTD; 1 CAD = 22.58 NTD; 1 NZD = 20.63 NTD; 1 CNY = 4.469 NTD; 1 JPY = 0.2774 NTD; 1 ZAR = 2.12 NTD; 1 SGD = 22.44 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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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c) Sensitivity analysis

The subsidiary, BTLI, uses risk value analysis and sensitivity analysis to manage the market risk. The sensitivity analysis is used as the basis for BTLI to perform risk analysis, risk alarming and business management. The sensitivity analysis measures the effects of changes in each risk factors on the value of the portfolios, easier for BTLI to realize the influences of risk factors in possible extreme variation on the portfolios.

Units: In 100 Millions of NTD

December 31, 2019			
Main risk	Range	Amount Influence	
		Equity	Gain or loss
Exchange rate risk	Other foreign currencies / NTD rise 5%	4.65	38.33
Exchange rate risk	Other foreign currencies / NTD fall 5%	(4.65)	(38.33)
Interest rate risk	Interest rate curve rises 50BPS	(29.45)	-
Interest rate risk	Interest rate curve falls 50BPS	30.75	-
Price of equity stock risk	Price of equity stock rises 10% (Monetary market funds rises 2%)	39.70 (39.70)	- -
Price of equity stock risk	Price of equity stock falls 10% (Monetary market funds rises 2%)		

Units: In 100 Millions of NTD

December 31, 2018			
Main risk	Range	Amount Influence	
		Equity	Gain or loss
Exchange rate risk	Other foreign currencies / NTD rise 5%	4.84	39.24
Exchange rate risk	Other foreign currencies / NTD fall 5%	(4.84)	(39.24)
Interest rate risk	Interest rate curve rises 50BPS	(13.15)	-
Interest rate risk	Interest rate curve falls 50BPS	16.13	-
Price of equity stock risk	Price of equity stock rises 10% (Monetary market funds rises 2%)	29.41 (29.41)	- -
Price of equity stock risk	Price of equity stock falls 10% (Monetary market funds rises 2%)		

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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, 2019		
	Change in assumption	Changes in profit or loss before tax	Changes in shareholder's equity
Death rate	X1.1	(9,413)	(7,530)
Morbidity	X1.1	(46,935)	(37,548)
Contract Default Rate	X0.9	(34,408)	(27,256)
Expense	X1.1	(275,384)	(220,307)
Ratio of Return on Investment	(0.25)%	(886,404)	(709,123)

	December 31, 2018		
	Change in assumption	Changes in profit or loss before tax	Changes in shareholder's equity
Death rate	X1.1	(9,870)	(7,896)
Morbidity	X1.1	(47,070)	(37,656)
Contract Default Rate	X0.9	(35,856)	(28,685)
Expense	X1.1	(260,859)	(208,687)
Ratio of Return on Investment	(0.25)%	(830,881)	(664,705)

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

iii) Claim development trend

I. Development trend of direct business loss

The development trends of the accumulated claims for the past ten years on December 31, 2019 and 2018 are as follows:

2019

Occurrence year	Development year										Claim Provision
	1	2	3	4	5	6	7	8	9	10	
2010	152,429	200,447	207,531	208,831	208,911	209,021	209,039	209,070	209,093	209,154	-
2011	157,164	202,797	210,339	210,855	210,897	210,900	210,943	211,012	211,857	211,924	67
2012	172,033	225,026	228,896	229,148	229,226	229,243	229,249	229,309	229,731	229,805	496
2013	183,057	239,642	244,851	245,084	245,515	246,094	246,154	246,209	246,791	246,860	706
2014	192,357	239,493	247,394	249,777	250,065	250,156	250,193	250,254	250,703	250,782	626
2015	192,869	242,805	247,428	248,088	248,283	248,431	248,469	248,533	248,977	249,057	774
2016	186,359	243,701	248,963	250,577	250,756	250,909	250,945	251,004	251,505	251,580	1,003
2017	200,818	259,966	270,252	271,546	271,734	271,896	271,936	272,001	272,510	272,593	2,341
2018	173,367	226,413	232,494	233,556	233,723	233,866	233,903	233,965	234,394	234,473	8,060
2019	150,586	195,006	200,494	201,451	201,594	201,717	201,745	201,792	202,194	202,254	51,668

Provision for unreported and within 1 year unpaid claims

65,741

Add: over 1 year reported but unpaid claims

22,075

Unreported provision claims

87,816

2018

Occurrence year	Development year										Claim Provision
	1	2	3	4	5	6	7	8	9	10	
2009	160,616	202,266	207,255	208,577	208,657	208,739	208,740	208,740	208,743	208,783	-
2010	150,536	200,284	207,399	208,700	208,778	208,889	208,907	208,937	208,961	209,006	45
2011	158,363	203,032	210,554	211,065	211,107	211,110	211,153	211,222	211,233	211,278	56
2012	174,121	224,805	228,749	229,003	229,080	229,096	229,102	229,140	229,151	229,197	95
2013	184,487	240,404	246,748	247,020	247,450	248,029	248,048	248,084	248,100	248,154	125
2014	194,819	238,026	245,923	248,279	248,542	248,688	248,709	248,749	248,761	248,809	267
2015	194,813	243,357	248,027	248,696	248,847	248,997	249,017	249,058	249,070	249,120	424
2016	189,755	244,369	249,639	250,847	251,006	251,160	251,179	251,218	251,231	251,282	1,643
2017	202,733	259,431	266,039	267,312	267,476	267,636	267,658	267,700	267,713	267,766	8,335
2018	176,786	225,563	231,264	232,299	232,443	232,587	232,607	232,647	232,659	232,706	55,920

Provision for unreported and within 1 year unpaid claims

66,910

Add: over 1 year reported but unpaid claims

18,396

Unreported provision claims

85,306

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2. Development trend of retained business loss

The development trends of the accumulated claims for the past ten years on December 31, 2019 and 2018 are as follows:

2019

Occurrence year	Development year										Claim Provision
	1	2	3	4	5	6	7	8	9	10	
2010	144,995	189,570	196,377	197,571	197,651	197,761	197,780	197,810	197,834	197,894	-
2011	151,666	195,551	202,714	203,229	203,271	203,274	203,317	203,386	203,981	204,048	67
2012	164,825	217,019	220,888	221,140	221,219	221,235	221,241	221,301	221,699	221,772	471
2013	175,908	229,493	234,302	234,535	234,966	235,545	235,605	235,660	236,193	236,263	658
2014	189,857	234,578	242,479	244,862	245,150	245,241	245,278	245,339	245,764	245,843	602
2015	191,275	239,146	243,628	244,288	244,483	244,628	244,666	244,730	245,155	245,235	752
2016	183,641	240,983	246,245	247,859	248,035	248,186	248,222	248,281	248,770	248,845	986
2017	198,068	254,915	264,801	266,061	266,245	266,404	266,444	266,509	267,001	267,084	2,283
2018	170,662	223,709	229,688	230,734	230,898	231,040	231,077	231,139	231,559	231,638	7,929
2019	149,086	193,136	198,579	199,523	199,665	199,787	199,815	199,862	200,260	200,320	51,234

2018

Occurrence year	Development year										Claim Provision
	1	2	3	4	5	6	7	8	9	10	
2009	153,588	193,488	198,157	199,358	199,438	199,521	199,521	199,522	199,524	199,565	-
2010	143,101	189,407	196,245	197,440	197,518	197,629	197,647	197,677	197,701	197,744	43
2011	152,753	195,787	202,928	203,439	203,481	203,484	203,527	203,596	203,607	203,650	54
2012	166,896	216,798	220,742	220,995	221,073	221,089	221,094	221,132	221,143	221,187	93
2013	177,338	230,255	236,199	236,471	236,901	237,480	237,499	237,535	237,550	237,601	121
2014	192,319	233,110	241,007	243,364	243,626	243,769	243,789	243,830	243,841	243,887	261
2015	193,219	239,697	244,227	244,896	245,043	245,189	245,210	245,251	245,262	245,311	415
2016	187,037	241,651	246,921	248,110	248,266	248,418	248,437	248,476	248,489	248,559	1,618
2017	199,983	254,781	261,234	262,470	262,630	262,788	262,810	262,852	262,865	262,917	8,136
2018	174,831	223,069	228,690	229,706	229,848	229,991	230,011	230,051	230,062	230,108	55,277

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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, 2019			
<u>Name</u>	<u>Credit rating</u>		
	<u>agent</u>	<u>Credit rating</u>	<u>Date of rating</u>
Central Re	S&P	A	2013.06.10
Munich Re	S&P	AA-	2006.12.22
Swiss Re	S&P	AA-	2011.10.28
Cologne Re	S&P	AA+	2010.02.04
Gibraltar Re	S&P	A+	2015.09.17
France Re	S&P	AA-	2015.09.07
Dai-ichi Mutual Life	S&P	A+	2014.11.26

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2018			
Name	Credit rating agent	Credit rating	Date of rating
Central Re	S&P	A	2013.06.10
Munich Re	S&P	AA-	2006.12.22
Swiss Re	S&P	AA-	2011.10.28
Cologne Re	S&P	AA+	2010.02.04
Gibraltar Re	S&P	A+	2015.09.17
France Re	S&P	AA-	2015.09.07
Dai-ichi Mutual Life	S&P	A+	2014.11.26

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, 2019, 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, 2019 and 2018 are as follows:

Units: In Millions of NTD				
Undiscounted expected cash outflow (inflow) on December 31, 2019				
< 12 months	1~5 years	>5 years	total	
\$ (18,242)	55,113	1,090,798	\$	1,127,669
Undiscounted expected cash outflow (inflow) on December 31, 2018				
< 12 months	1~5 years	>5 years	total	
\$ (15,657)	41,703	965,815	\$	991,861

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, 2019, the undertaken risk is within the acceptable level.

- c) Information regarding risk exposure for embedded insurance contracts not measured using fair value: None.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 meet 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, 2019						
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	\$ <u>2,126,502</u>	<u>-</u>	<u>2,126,502</u>	<u>1,654</u>	<u>-</u>	<u>2,124,848</u>

December 31, 2019						
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	\$ <u>58,105</u>	<u>-</u>	<u>58,105</u>	<u>58,105</u>	<u>-</u>	<u>-</u>

Note: Include master netting arrangement and non-cash collateral.

December 31, 2018						
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	\$ <u>247,976</u>	<u>-</u>	<u>247,976</u>	<u>124,933</u>	<u>-</u>	<u>123,043</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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December 31, 2018						
<u>Financial liabilities subject to offsetting, enforceable master netting arrangement or similar agreement</u>						
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	\$ <u>148,789</u>	<u>-</u>	<u>148,789</u>	<u>148,789</u>	<u>-</u>	<u>-</u>

Note: Include master netting arrangement and non-cash collateral.

(v) 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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Financial risk management

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

Credit risk is the risk that the counterparties of the financial instruments held by BTS and BTS's clients will default on the contracts, and thereby cause BTS to suffer a financial loss. The main considerations are the financial debts instruments and account receivables.

BTS has exposure to credit risk, including issuer credit risk, counterparty credit risk, and credit risk of underlying assets.

- Issuer credit risk is the risk that an issuer of financial debt instruments or a bank will default and be unable to fulfill the repayment obligation, or go into bankruptcy or liquidation, and thereby cause BTS to suffer a financial loss.
- Counterparty credit risk is the risk that a counterparty will default on a transaction and fail to pay due to price movement in the underlying securities of BTS's financial instrument derivative, and thereby cause BTS to suffer a financial loss.
- Credit risk of underlying assets is the risk that an underlying asset of an instrument held by BTS will have its credit quality weakened, its risk premium increased, or its credit rating downgraded, or that the issuer will be unable to meet the contractual obligation, and thereby cause BTS to suffer a financial loss.

a) Categories for credit risk quality

BTS internally categorizes the credit risk into three levels, which are low risk, high risk and impaired risk. The definition of each level is as follows:

- i) Low risk: The issuers or the counterparties are rated as robust or above to fulfill their obligation of the contracts. Even under various negative news or disadvantageous economic conditions, BTS is capable of dealing with the situations.
- ii) High risk: The possibility that the issuers or counterparties fulfill their obligation is remote and mainly relies on the business environment. Negative news or disadvantageous economic conditions will lower their ability and willingness to fulfill their obligation.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

iii) Impaired risk: the counterparties or the target did not perform its obligation according to the contracts, and the potential estimated loss of the Company has reached the standard of impairment

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

BTS determines whether the credit risk of financial instruments applying the impairment requirements in IFRS 9 increased significantly since the initial recognition on each reporting date. For this assessment, BTS considers the reasonable and supportable information (including forward looking information) that shows the credit risk increased significantly since initial recognition (including forward looking information). The main considerations include: internal/external credit rating, overdue situation, credit spreads, other marketing information relating to the borrowers, issuers or the counterparties, and other financial instruments of the same borrower have significantly increased their credit risk.

c) Definitions for default and credit impairment of financial assets

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

i) Qualitative indicators

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

1. The counterparty / issuer has filed for bankruptcy or is likely to file a bankruptcy.
2. The financial instrument's contract of the counterparty's or issuer's has defaulted.
3. The financial market of the financial asset disappeared due to the financial difficulties of the counterparty or the issuer.
4. Purchase or originate financial assets at a substantial discount that reflects the credit losses have occurred.

ii) If a financial asset no longer meets the definition of default and credit impairment for a period of time, it is deemed to return to the state of compliance and is no longer considered defaulted and credit impaired.

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

d) Expected credit loss measurement

i) Adopted methods and assumptions

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

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

Default probability is how likely the issuer or the counterparty breaches the contract, and the loss given default is the rate of loss due to default by the issuer or the counterparty. The default probability and loss given default used by BTS, related impairment assessments are based on domestic credit rating agencies (Taiwan Rating), regularly publish information on default rate and loss given default, or internal historical information (such as credit losses experience, etc.) and calculate based on current observable data and forward looking general economic information (such as gross domestic production and GDP growth rate) after adjusting historical data.

BTS measures the exposure at default ("EAD") based on the amortized cost of financial assets.

The estimation techniques or material assumptions made by BTS to assess expected credit losses have no significant changes during 2019 and 2018.

ii) Forward looking information considerations

BTS takes forward looking information into account when judging whether the credit risk of a financial instrument has increased significantly since its initial recognition, and when the expected credit loss is measured.

BTS related impairment assessments are based on domestic credit rating agencies (Taiwan Rating), regularly publish information on default rate and loss given default, and regulate based on forward looking general economic information.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

e) 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:

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Cash and cash equivalents	\$ 99,673	80,192
Financial assets measured at fair value through profit or loss – current	601,388	448,315
Financial assets measured at fair value through other comprehensive income – current	1,818,405	982,041
Financial assets measured at amortized cost	-	89,380
Loans and receivables	6,688,993	4,944,495
Other receivables (note)	321	1,427
	<u>\$ 9,208,780</u>	<u>6,545,850</u>

The gross carrying amounts of financial assets with maximum credit risk exposure are based on risk rating as follows:

<u>Debt instruments measured at fair value through other comprehensive income</u>					
<u>December 31, 2019</u>					
	<u>12 month</u> <u>ECLs</u>	<u>Lifetime</u> <u>ECLs – not</u> <u>impaired</u>	<u>Lifetime</u> <u>ECLs –</u> <u>impaired</u>	<u>Credit</u> <u>impairments</u> <u>of originated</u> <u>or purchased</u> <u>new financial</u> <u>assets –</u> <u>impaired</u>	<u>Total</u>
Low risk	\$ 1,818,405	-	-	-	1,818,405
Gross carrying amount	1,818,405	-	-	-	1,818,405
Allowance for impairment	(556)	-	-	-	(556)
Total	<u>\$ 1,817,849</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,817,849</u>
<u>Debt instruments measured at fair value through other comprehensive income</u>					
<u>December 31, 2018</u>					
	<u>12 month</u> <u>ECLs</u>	<u>Lifetime</u> <u>ECLs – not</u> <u>impaired</u>	<u>Lifetime</u> <u>ECLs –</u> <u>impaired</u>	<u>Credit</u> <u>impairments</u> <u>of originated</u> <u>or purchased</u> <u>new financial</u> <u>assets –</u> <u>impaired</u>	<u>Total</u>
Low risk	\$ 982,041	-	-	-	982,041
Gross carrying amount	982,041	-	-	-	982,041
Allowance for impairment	(169)	-	-	-	(169)
Total	<u>\$ 981,872</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>981,872</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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	Debt instruments measured at amortized cost				Total
	December 31, 2018				
	12 month ECLs	Lifetime ECLs—not impaired	Lifetime ECLs— impaired	Credit impairments of originated or purchased new financial assets— impaired	
Low risk	\$ 89,380	-	-	-	89,380
Gross carrying amount	89,380	-	-	-	89,380
Allowance for impairment	-	-	-	-	-
Total	\$ 89,380	-	-	-	89,380

The amount of maximum credit risk exposure of the financial instruments not applicable to impairment requirements is as follows:

	December 31, 2019	December 31, 2018
Debt instruments	<u>\$ 509,312</u>	<u>440,121</u>

The maximum exposure amounts by regions are as follows:

	December 31, 2019 (Taiwan)	December 31, 2018 (Taiwan)
Cash and cash equivalents	\$ 99,673	80,192
Financial assets measured at fair value through profit or loss—current	601,388	448,315
Financial assets at fair value through other comprehensive income—current	1,818,405	982,041
Financial assets measured at amortized cost	-	89,380
Loans and receivables	6,688,993	4,944,495
Other receivables (note)	321	1,427
	<u>\$ 9,208,780</u>	<u>6,545,850</u>

The maximum exposure amounts by counterparties are as follows:

	Exchange	Finance	Other companies	Individuals	Total
December 31, 2019					
Cash and cash equivalents	\$ -	99,673	-	-	99,673
Financial assets measured at fair value through profit or loss— current	-	130,886	470,502	-	601,388
Financial assets at fair value through other comprehensive income—current	-	204,192	1,614,213	-	1,818,405
Loans and receivables	14,641	775	-	6,673,577	6,688,993
Other receivables (note)	-	-	-	321	321
	<u>\$ 14,641</u>	<u>435,526</u>	<u>2,084,715</u>	<u>6,673,898</u>	<u>9,208,780</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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	<u>Exchange</u>	<u>Finance</u>	<u>Other companies</u>	<u>Individuals</u>	<u>Total</u>
December 31, 2018					
Cash and cash equivalents	\$ -	80,192	-	-	80,192
Financial assets measured at fair value through profit or loss—current	-	40,533	407,782	-	448,315
Financial assets at fair value through other comprehensive income—current	-	-	982,041	-	982,041
Financial assets measured at amortized cost	-	89,380	-	-	89,380
Loans and receivables	546,413	141	120	4,397,821	4,944,495
Other receivables (note)	-	-	-	1,427	1,427
	<u>\$ 546,413</u>	<u>210,246</u>	<u>1,389,943</u>	<u>4,399,248</u>	<u>6,545,850</u>

Note: recorded in other current assets

f) Impairment loss

Aging analysis of loans and receivables:

	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 1,094	323
Allowance	322	771
Reversal	(406)	-
Transferred to non-accrual	(930)	-
Ending balance	<u>\$ 80</u>	<u>1,094</u>

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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g) The credit quality information

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

As of December 31, 2019 and 2018, the reconciliations of the beginning and ending balances for loss allowance of debt instruments measured at fair value through other comprehensive income were as follows:

	2019					Total	2018					Total
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (individually assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Lifetime ECLs (purchased or originated credit impaired financial assets)		12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (individually assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Lifetime ECLs (purchased or originated credit impaired financial assets)	
Beginning balance	\$ 169	-	-	-	-	169	\$ 459	-	-	-	-	459
Foreign exchange and other movements	387	-	-	-	-	387	(290)	-	-	-	-	(290)
Ending balance	\$ 556	-	-	-	-	556	\$ 169	-	-	-	-	169

In 2019 and 2018, there were no significant change in the allowance loss resulting from significant changes in the total carrying amount.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

iii) Changes in loss allowance of notes and accounts receivable and other receivables

As of December 31, 2019 and 2018, the reconciliations of the beginning and ending balances for loss allowance of notes and accounts receivable and other receivables were as follows:

		2019					
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (individually assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Lifetime ECLs (purchased or originated credit impaired financial assets)	The loss allowances measured in accordance with IFRS 9	Total
Beginning balance	\$ 1,095	-	-	-	-	1,095	1,095
Foreign exchange and other movements	(977)	-	-	-	-	(977)	(977)
Ending balance	\$ 118	-	-	-	-	118	118

		2018					
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (individually assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Lifetime ECLs (purchased or originated credit impaired financial assets)	The loss allowances measured in accordance with IFRS 9	Total
Beginning balance	\$ 331	-	-	-	-	331	331
Foreign exchange and other movements	764	-	-	-	-	764	764
Ending balance	\$ 1,095	-	-	-	-	1,095	1,095

In 2019 and 2018, there were no significant change in the allowance loss resulting from significant changes in the total carrying amount.

(Continued)

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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.

	<u>1~30 days</u>	<u>31~90 days</u>	<u>91days ~ 1 year</u>	<u>Over 1 year</u>	<u>Total</u>
December 31, 2019					
Non derivatives financial liabilities					
Commercial paper payable	\$ 1,024,682	-	-	-	1,024,682
Bonds sold under repurchase agreements	2,100,460	832,536	-	-	2,932,996
Accounts payables	3,599,321	-	-	-	3,599,321
Collections	9,093	-	-	-	9,093
Other payables	68,419	-	-	-	68,419
Other payables—related party	81,171	-	-	-	81,171
Guaranteed price deposits received from securities borrowers	29,653	29,653	59,306	-	118,612
Deposits received from securities borrowers	27,016	27,016	54,032	-	108,064
Lease liabilities—current	890	1,752	7,960	-	10,602
Other current liabilities	106	-	-	-	106
Lease liabilities—non-current	-	-	-	21,420	21,420
Other non-current liabilities	-	-	-	6,145	6,145
	<u>\$ 6,940,811</u>	<u>890,957</u>	<u>121,298</u>	<u>27,565</u>	<u>7,980,631</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2018	<u>1~30 days</u>	<u>31~90 days</u>	<u>91days ~ 1 year</u>	<u>Over 1 year</u>	<u>Total</u>
Non derivatives financial liabilities					
Commercial paper payable	\$ 289,886	-	-	-	289,886
Bonds sold under repurchase agreements	1,484,864	-	-	-	1,484,864
Accounts payables	2,278,325	-	-	-	2,278,325
Accounts payables—related party	2	-	-	-	2
Collections	11,769	-	-	-	11,769
Other payables	64,213	-	-	-	64,213
Other payables—related party	68,612	-	-	-	68,612
Guaranteed price deposits received from securities borrowers	37,509	37,509	75,019	-	150,037
Deposits received from securities borrowers	34,637	34,637	69,275	-	138,549
Other current liabilities	106	-	-	-	106
Other non-current liabilities	-	-	-	5,772	5,772
	<u>\$ 4,269,923</u>	<u>72,146</u>	<u>144,294</u>	<u>5,772</u>	<u>4,492,135</u>

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	
	<u>Equity</u>	<u>Gain or loss</u>
December 31, 2019		
Price increases 10%	6.73	121.30
Price decreases 10%	(14.41)	(36.61)
December 31, 2018		
Price increases 10%	0.58	76.06
Price decreases 10%	(0.34)	(27.36)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

b) Interest rate risk

The overview of the financial instruments held with interest rates is as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Financial instruments with fixed rate :		
Convertible bonds	\$ 509,312	440,121
Corporate bonds	1,614,213	1,071,421
Financial bonds	<u>204,192</u>	<u>-</u>
	<u>\$ 2,327,717</u>	<u>1,511,542</u>

5) Currency Risk

	<u>December 31, 2019</u>		
	<u>Foreign currency (in thousand dollars)</u>	<u>Exchange rate (in dollars)</u>	<u>NTD</u>
Financial assets:			
Monetary items:			
CNY	1	4.2950	2
USD	159	29.9900	4,781
	<u>December 31, 2018</u>		
	<u>Foreign currency (in thousand dollars)</u>	<u>Exchange rate (in dollars)</u>	<u>NTD</u>
Financial assets:			
Monetary items:			
CNY	20,338	4.4690	91,116
USD	120	30.7350	3,691

The currency risk mainly arises from the cash and cash equivalents, accounts receivables, financial assets measured at fair value through profit or loss-current, financial assets measured at fair value through other comprehensive income-current, financial assets measured at amortized cost and short-term debt 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 \$48 thousand and \$948 thousand, respectively, in 2019 and 2018. The analysis assumes that all other variables in particular interest rates remained constant.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

6) 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.

Financial assets type	December 31, 2019				
	Transferred financial assets book value	Financial liability book value	Transferred financial assets fair value	Financial liability fair value	Net fair value
Financial asset measured at fair value through other comprehensive income					
Issued under repurchase agreement	\$ 1,818,405	1,800,316	1,818,405	1,800,316	18,089
Financial assets type	December 31, 2018				
	Transferred financial assets book value	Financial liability book value	Transferred financial assets fair value	Financial liability fair value	Net fair value
Financial asset measured at fair value through profit or loss					
Issued under repurchase agreement	\$ 27,914	26,500	27,914	26,500	1,414
Financial asset measured at fair value through other comprehensive income					
Issued under repurchase agreement	982,041	975,183	982,041	975,183	6,858

(9) Capital Management:

(a) The capital management objectives and processes

The Company's and subsidiaries' basic objective of capital management shall be in compliance with the capital requirements of the 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 subsidiaries also make appropriate and effective capital allocation to react the different capital portfolio and risk characteristics.

The Company and 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 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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Capital adequacy ratio

2019

Unit: %

Item	the financial holding company's shareholding in the subsidiary	net eligible capital	statutory capital requirement
Name			
The Company	100 %	374,487,867	399,476,056
Subsidiary BOT	100 %	297,573,020	220,690,409
Subsidiary BTS	100 %	2,915,456	919,964
Subsidiary BTLI	100 %	17,552,243	15,762,218
Deducted Amount	-	(407,787,377)	(399,387,377)
Subtotal		284,741,209	237,461,270
The Company's and subsidiaries' Capital Adequacy Ratio			119.91

2018

Unit: %

Item	the financial holding company's shareholding in the subsidiary	net eligible capital	statutory capital requirement
Name			
The Company	100 %	305,180,349	330,666,302
Subsidiary BOT	100 %	250,482,752	197,062,535
Subsidiary BTS	100 %	2,913,777	632,695
Subsidiary BTLI	100 %	17,997,060	13,926,914
Deducted Amount	-	(341,528,290)	(330,628,290)
Subtotal		235,045,648	211,660,156
The Company's and subsidiaries' Capital Adequacy Ratio			111.05

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 Company's and subsidiaries' net eligible capital divided by the Company's and subsidiaries' statutory capital requirement.

3. Do not need to prepare the format for the first and third quarters.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Financial holding company's eligible capital

December 31, 2019	
Item	Amount
Common stock	103,125,000
Capital instruments with Tier 1 capital	-
Other preferred stock and subordinated bonds	-
Advance receipts for common stock	-
Capital surpluses	140,260,227
Legal reserve	7,840,566
Special reserve	47,637,691
Cumulative gain or loss	15,640,140
Other equity	59,984,243
Reduce : Goodwill and other intangible assets	-
Reduce : Deferred assets	-
Reduce : Treasury stocks	-
Total qualifying capital	374,487,867

December 31, 2018	
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	7,419,683
Special reserve	45,115,538
Cumulative gain or loss	11,950,770
Other equity	39,184,174
Reduce : Goodwill and other intangible assets	-
Reduce : Deferred assets	-
Reduce : Treasury stocks	-
Total qualifying capital	305,055,391

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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(10) Related-party Transactions:

(a) Name of related party and relationship

<u>Name</u>	<u>Relationship</u>
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
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
Deutsche Bank Taipei Branch	Directors, supervisors, managers and their relatives up to the second degree, affiliates and so on (no longer a related party since September 2nd, 2019)
Chang Hwa Commercial Bank	Related-Party
Others	Directors, supervisors, managers and their relatives up to the second degree, affiliates and so on

(b) Key management personnel compensation

- (i) The related information about the salaries and bonus for the key management personnel in 2019 and 2018 were as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Short-term employee benefits	\$ 51,834	54,319
Retired benefits	838	11,310
	<u>\$ 52,672</u>	<u>65,629</u>

(c) Other related-party transactions

- (i) Placement with banks

<u>Name</u>	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u>Amount</u>	<u>Percentage of account balance</u>	<u>Amount</u>	<u>Percentage of account balance</u>
Hua Nan Financial Holdings Co., Ltd.	<u>\$ 287,698</u>	<u>0.21</u>	<u>54,571</u>	<u>0.04</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Bank deposits

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

(iii) Call loans to banks

	December 31, 2019			
	Highest balance	Ending balance	Interest rate range (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	\$ 18,372,412	<u>2,023,490</u>	0.17~3.25	<u>59,275</u>

	December 31, 2018			
	Highest balance	Ending balance	Interest rate range (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	\$ 19,663,275	<u>1,299,175</u>	0.178~5.08	<u>46,634</u>

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

	December 31, 2019			
	Highest balance	Ending balance	Interest rate range (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	\$ 20,909,960	<u>-</u>	0.17~3.10	<u>22,093</u>

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

The lending rates for the related party have no difference with the others.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) Deposits

Name	December 31, 2019		December 31, 2018	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	\$ <u>366,176</u>	<u>0.01</u>	<u>371,497</u>	<u>0.01</u>

The deposits rates for the above related parties are calculated using the board rates and the conditions are not different from the others.

(vi) Financial assets at fair value through profit or loss/Financial assets measured at fair value through other comprehensive income

Name	Summary	December 31, 2019	December 31, 2018
Hua Nan Financial Holdings Co., Ltd.	Financial bonds (recorded in the Financial assets at fair value through profit or loss)	\$ 2,000,000	800,000
	Financial bonds (recorded in the Financial assets measured at fair value through other comprehensive income)	900,000	900,000
	Valuation adjustment	<u>65,913</u>	<u>59,235</u>
	Carrying amount	<u>\$ 2,965,913</u>	<u>1,759,235</u>
	Interest receivable	<u>\$ 24,206</u>	<u>12,475</u>

The interest income for the year ended 2019 and 2018 derived from the BTLI's financial bond investment on related party are \$52,219 thousand and \$33,136 thousand.

(vii) Loans

Category	House holder amount or name of related party	Highest balance in current period	Ending balance	December 31, 2019		Type of collateral	Differences in transaction terms between related and non related parties
				Status of performance	Performing loans		
Consumer loans	24 households	12,193	9,172	9,172	-	None	None
House mortgages	200 households	883,375	720,660	720,660	-	Land and buildings	None
Call loans to banks	Land Bank of Taiwan Co., Ltd.	8,000,000	4,498,500	4,498,500	-	None	None
Call loans to banks	Hua Nan Financial Holdings Co., Ltd.	15,000,000	-	-	-	None	None

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2019							
Category	House holder amount or name of related party	Highest balance in current period	Ending balance	Status of performance		Type of collateral	Differences in transaction terms between related and non related parties
				Performing loans	Non-performing loans		
Call loans to banks	Taiwan Business Bank Co., Ltd.	1,220,200	599,800	599,800	-	None	None
Call loans to banks	Cathy United Bank Co., Ltd.	11,500,000	-	-	-	None	None
Call loans to banks	The Export Import Bank of the Republic of China	2,200,000	-	-	-	None	None
Call loans to banks	Chang Hwa Commercial Bank Co., Ltd.	8,000,000	-	-	-	None	None
Secured overdrafts loans	Tang Eng Iron Works Co., Ltd.	88,431	41,119	41,119	-	Land and factory	None
Short term secured loans	Tang Eng Iron Works Co., Ltd.	100,000	100,000	100,000	-	Land and factory	None
Short term secured loans	Tang Eng Iron Works Co., Ltd.	1,500,000	900,000	900,000	-	Land and factory	None
Medium term secured loans	Tang Eng Iron Works Co., Ltd.	1,800,000	1,200,000	1,200,000	-	Land and factory	None

December 31, 2018							
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	30 households	15,070	9,374	9,374	-	None	None
House mortgages	191 households	721,580	622,246	622,246	-	Land and buildings	None
Call loans to banks	Land Bank of Taiwan Co., Ltd.	19,500,000	-	-	-	None	None
Call loans to banks	Hua Nan Financial Holdings Co., Ltd.	15,000,000	-	-	-	None	None
Call loans to banks	Taiwan Business Bank Co., Ltd.	2,000,000	-	-	-	None	None
Call loans to banks	Cathy United Bank Co., Ltd.	11,000,000	-	-	-	None	None
Call loans to banks	The Export Import Bank of the Republic of China	2,300,000	1,050,000	1,050,000	-	None	None
Call loans to banks	Deutsche Bank Taipei Branch	3,500,000	-	-	-	None	None
Secured overdrafts loans	Tang Eng Iron Works Co., Ltd.	67,405	67,405	67,405	-	Land and factory	None
Short term secured loans	Tang Eng Iron Works Co., Ltd.	100,000	100,000	100,000	-	Land and factory	None
Short term secured loans	Tang Eng Iron Works Co., Ltd.	1,882,984	1,200,000	1,200,000	-	Land and factory	None
Medium term secured loans	Tang Eng Iron Works Co., Ltd.	1,800,000	1,800,000	1,800,000	-	Land and factory	None

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Note 1: The consumer loans to staff and mortgage loans to staff are 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, 2019			
	Highest balance	Ending balance	Interest rate range (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$ 960,000	-	0.300	120

	December 31, 2018			
	Highest balance	Ending balance	Interest rate range (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$ 1,000,000	-	0.300	137

(ix) Payables

Name	Summary	December 31, 2019	December 31, 2018
Hua Nan Financial Holdings Co., Ltd.	Agent fee	\$ 143	123
Hua Nan Financial Holdings Co., Ltd.	Interest expense	-	2
		\$ 143	125

(x) Commission expenses

Name	Nature	2019	2018
Hua Nan Financial Holdings Co., Ltd.	Agent fee	\$ 6,427	4,681

(xi) Service charges

Name	Nature	2019	2018
Hua Nan Financial Holdings Co., Ltd.	Remittance fee and insurance agent fee	\$ 465	63

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(xii) Other operating expenses

Name	Nature	2019	2018
Hua Nan Financial Holdings Co., Ltd.	Sales charge	\$ -	12
Hua Nan Financial Holdings Co., Ltd.	Business expense	946	961
Hua Nan Financial Holdings Co., Ltd.	Service charge	-	16
Total		<u>\$ 946</u>	<u>989</u>

(xiii) The Company and subsidiaries 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 subsidiaries 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
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
Cathy United Bank	Related- Party

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Name	Relationship
Chang Hwa Commercial Bank	Related- Party
Deutsche Bank Taipei Branch	Holding company's directors, supervisors, managers and their relatives up to the second degree, affiliates and so on (no longer a related party since September 2nd, 2019)
Others	Directors, supervisors, managers and their relatives up to the second degree, affiliates and so on

2) Other related party transactions

a) Call loans to banks

	December 31, 2019			
	Highest balance	Ending balance	Interest rate range (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	\$ 18,372,412	<u>2,023,490</u>	0.17~3.25	<u>59,275</u>

	December 31, 2018			
	Highest balance	Ending balance	Interest rate range (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	\$ 19,663,275	<u>1,299,175</u>	0.18~5.08	<u>46,434</u>

b) Deposits of banks

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

c) Call loans from banks (recorded in Deposit of Central Bank and Other Bank)

	December 31, 2019			
	Highest balance	Ending balance	Interest rate range (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	\$ 20,909,960	<u>-</u>	0.17~3.10	<u>22,093</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

		December 31, 2018			
		Highest balance	Ending balance	Interest rate range (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.		\$ 10,670,305	<u>245,880</u>	0.09~4.40	<u>8,693</u>
d) Deposits					
		December 31, 2019		December 31, 2018	
Name	Amount	Percentage of account balance	Amount	Percentage of account balance	
Taiwan Financial Holding Co., Ltd.	\$ 198,724	0.01	291,908	0.01	
BankTaiwan Life Insurance Co., Ltd.	6,335,035	0.16	2,485,748	0.06	
BankTaiwan Securities Co., Ltd.	252,990	0.01	263,988	0.01	
Hua Nan Financial Holdings Co., Ltd.	366,176	0.01	371,497	0.01	
Tang Eng Iron Works Co., Ltd.	674	-	-	-	
Total	<u>\$ 7,153,599</u>	<u>0.19</u>	<u>3,413,141</u>	<u>0.09</u>	
e) Interest income					
		2019		2018	
Name	Amount	Percentage of account balance	Amount	Percentage of account balance	
Taiwan Financial Holding Co., Ltd.	\$ 207,025	0.31	170,324	0.27	
BankTaiwan Securities Co., Ltd.	573	-	657	-	
Total	<u>\$ 207,598</u>	<u>0.31</u>	<u>170,981</u>	<u>0.27</u>	
f) Service fee income					
		2019		2018	
Name	Amount	Percentage of account balance	Amount	Percentage of account balance	
BankTaiwan Life Insurance Co., Ltd.	\$ 618,722	10.55	609,563	10.23	
BankTaiwan Securities Co., Ltd.	3,366	0.06	3,643	0.06	
Total	<u>\$ 622,088</u>	<u>10.61</u>	<u>613,206</u>	<u>10.29</u>	

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

Name	2019		2018	
	Amount	Percentage of account balance	Amount	Percentage of account balance
BankTaiwan Life Insurance Co., Ltd.	\$ 1,134,250	2.32	697,995	(15.48)
BankTaiwan Securities Co., Ltd.	(3,400)	(0.01)	(6,614)	0.15
Total	<u>\$ 1,130,850</u>	<u>2.31</u>	<u>691,381</u>	<u>(15.33)</u>

- h) Other non-interest income (loss)

Name	2019		2018	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holding Co., Ltd.	\$ 26,623	(0.06)	28,177	1.68
BankTaiwan Life Insurance Co., Ltd.	38,329	(0.08)	43,634	2.59
BankTaiwan Securities Co., Ltd.	<u>30,582</u>	<u>(0.07)</u>	<u>30,915</u>	<u>1.84</u>
Total	<u>\$ 95,534</u>	<u>(0.21)</u>	<u>102,726</u>	<u>6.11</u>

- i) Loans

Category	House holder amount or name of related party	December 31, 2019					
		Highest balance in current period	Ending balance	Status of performance		Type of collateral	Differences in transaction terms between related and non related parties
				Performing loans	Non-performing loans		
Consumer loans	24 households	12,193	9,172	9,172	-	None	None
House mortgages	211 households	883,375	720,660	720,660	-	Land and buildings	None
Call loans to banks	Land Bank of Taiwan Co., Ltd.	8,000,000	4,498,500	4,498,500	-	None	None
Call loans to banks	Hua Nan Financial Holdings Co., Ltd.	15,000,000	-	-	-	None	None
Call loans to banks	Taiwan Business Bank Co., Ltd.	1,220,200	599,800	599,800	-	None	None
Call loans to banks	Cathy United Bank Co., Ltd.	11,500,000	-	-	-	None	None
Call loans to banks	The Export Import Bank of the Republic of China	3,754,000	-	-	-	None	None
Call loans to banks	Chang Hwa Commercial Bank Co., Ltd.	8,000,000	-	-	-	None	None
Short term loans	Taiwan Financial Holdings Co., Ltd.	25,200,000	25,200,000	25,200,000	-	None	None
Short term secured loans	Bank Taiwan Securities Co., Ltd.	500,000	-	-	-	Government (or financial institutions) guarantee	None

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

December 31, 2019							
Category	House holder amount or name of related party	Highest balance in current period	Ending balance	Status of performance		Type of collateral	Differences in transaction terms between related and non related parties
				Performing loans	Non-performing loans		
Secured overdrafts loans	Tang Eng Iron Works Co., Ltd.	88,431	41,119	41,119	-	Land and factory	None
Short term secured loans	Tang Eng Iron Works Co., Ltd.	100,000	100,000	100,000	-	Land and factory	None
Short term secured loans	Tang Eng Iron Works Co., Ltd.	1,500,000	900,000	900,000	-	Land and factory	None
Medium term secured loans	Tang Eng Iron Works Co., Ltd.	1,800,000	1,200,000	1,200,000	-	Land and factory	None

December 31, 2018							
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	30 households	15,070	9,374	9,374	-	None	None
House mortgages	191 households	721,580	622,246	622,246	-	Land and buildings	None
Call loans to banks	Land Bank of Taiwan Co., Ltd.	19,500,000	-	-	-	None	None
Call loans to banks	Hua Nan Financial Holdings Co., Ltd.	15,000,000	-	-	-	None	None
Call loans to banks	Taiwan Business Bank Co., Ltd.	2,000,000	-	-	-	None	None
Call loans to banks	Cathy United Bank Co., Ltd.	11,000,000	-	-	-	None	None
Call loans to banks	The Export Import Bank of the Republic of China	2,300,000	1,050,000	1,050,000	-	None	None
Call loans to banks	Deutsche Bank Taipei Branch Co., Ltd.	3,500,000	-	-	-	None	None
Short term secured loans	Bank Taiwan Securities Co., Ltd.	500,000	-	-	-	Government (or financial institutions) guarantee	None
Secured overdrafts loans	Tang Eng Iron Works Co., Ltd.	67,405	67,405	67,405	-	Land and factory	None
Short term secured loans	Tang Eng Iron Works Co., Ltd.	100,000	100,000	100,000	-	Land and factory	None
Short term secured loans	Tang Eng Iron Works Co., Ltd.	1,882,984	1,200,000	1,200,000	-	Land and factory	None
Medium term secured loans	Tang Eng Iron Works Co., Ltd.	1,800,000	1,800,000	1,800,000	-	Land and factory	None
Short term loans	Bank Taiwan Securities Co., Ltd.	25,800,000	25,800,000	25,800,000	-	None	None

Note 1: The consumer loans to staff and mortgage loans to staff are 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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

j) Derivative instruments

December 31, 2019						
Name of relative party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Balance sheet	
					Account name	Amount
BankTaiwan Life Insurance Co., Ltd.	Swap agreement	2010.08.20~2020.12.11	43,656,372	138,905	Valuation adjustment of financial assets measured at fair value through profit or loss - swap	(722,419)

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

(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 manager, employees with credit amounts, their spouses and their first or second degree relatives on December 31, 2019 and 2018 are as follows:

Name	December 31, 2019	December 31, 2018
Real estate secured loans	\$ 144,802	187,427
Interest receivables	\$ 76	138

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

All interest rate collars on December 31, 2019 and 2018 are 0.820%~1.657% and 0.820%~2.280%, respectively.

b) Bank deposits

The bank deposits in the related banks and the relevant interest revenues on December 31, 2019 and 2018 were as follows:

Name	Account	December 31, 2019		December 31, 2018	
		Amount	Percentage of account balance	Amount	Percentage of account balance
Bank of Taiwan Co., Ltd	Bank deposits	\$ 7,992,640	32.99	3,586,044	18.35
Hua Nan Financial Holdings	Bank deposits	272,312	1.12	52,913	0.27
		<u>\$ 8,264,952</u>		<u>3,638,957</u>	

The relevant interest revenues of the subsidiary, BTLI, in 2019 and 2018 were \$31,908 thousand and \$48,800 thousand, respectively.

c) Current tax assets

Name	Summary	December 31, 2019	December 31, 2018
Taiwan Financial Holdings	Refundable tax	\$ <u>1,070,398</u>	<u>401,814</u>

d) Financial assets at fair value through profit or loss/Financial assets measured at fair value through other comprehensive income

Name	Summary	Transactions	December 31, 2019	December 31, 2018
Hua Nan Financial Holdings Co., Ltd.	Financial bonds (recorded in the Financial assets at fair value through profit or loss)	Cost	\$ 2,000,000	800,000
	Financial bonds (recorded in the Financial assets measured at fair value through other comprehensive income)		900,000	900,000
		Valuation adjustment	<u>65,913</u>	<u>59,235</u>
		Carrying amount	\$ <u>2,965,913</u>	<u>1,759,235</u>
		Interest receivables	\$ <u>24,206</u>	<u>12,475</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Both of the interest revenues from the aforementioned financial bonds in 2019 and 2018 are \$52,219 thousand and \$33,136 thousand, respectively.

e) Derivatives

December 31, 2019						
Name of relative party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Balance sheet	
					Account name	Amount
Bank of Taiwan Co., Ltd.	Swap agreement	2019.04.10~2020.12.09	USD1,441,000	22,228	Valuation Adjustment on Financial Assets Designated as at Fair Value through Profit or Loss	722,636
			USD -	(160,916)	Valuation adjustment of financial liabilities measured at fair value through profit or loss - current- held for trading-swap	-

December 31, 2018						
Name of relative party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Balance sheet	
					Account name	Amount
Bank of Taiwan Co., Ltd.	Swap agreement	2018.10.05~2019.01.31	USD 755,000	(61)	Valuation Adjustment on Financial Assets Designated as at Fair Value through Profit or Loss	29,336
			USD -	(54,569)	Valuation adjustment of financial liabilities measured at fair value through profit or loss - current- held for trading-swap	(21,240)

f) Loss on disposal of investments

Name	Summary	2019	2018
Bank of Taiwan	Loss on disposal of investment	\$ (995,345)	(643,528)

Both of the gains (losses), including exchange gains and losses on disposed of derivative investment with related party in 2019 and 2018, amounted to \$18,528 thousand and \$575,165 thousand, respectively.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

g) Commission fees expense

Name	Summary	2019	2018
Bank of Taiwan Co., Ltd	Sales charge	\$ 15	5,405
BankTaiwan Insurance Brokers Co., Ltd	Agent fee	564,020	560,892
Hua Nan Financial Holding	Agent fee	<u>6,427</u>	<u>4,681</u>
Total		<u>\$ 570,462</u>	<u>570,978</u>

(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, 2019 and 2018 were as follows:

	December 31, 2019	December 31, 2018
Cash and cash equivalents	\$ 72,649	50,147
Operation guarantee deposits (recorded in other current assets)	180,000	180,000
Amounts awaiting delivery (recorded in other current assets)	341	28,971
Collections for underwriting stock value (recorded in other current assets)	-	4,770
	<u>\$ 252,990</u>	<u>263,888</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The bank deposits in the Hua Nan Financial Holdings on December 31, 2019 and 2018 were as follows:

	December 31, 2019	December 31, 2018
Cash and cash equivalents	\$ 385	1,658

The interest revenues from the deposits in the Bank of Taiwan on December 31, 2019 and 2018 were \$762 thousand and \$734 thousand, respectively.

b) Short-term loans borrowings

December 31, 2019					
Name	Highest balance	Ending balance	Interest rate range (%)		Interest expense, net
			NTD	Foreign currency	
Bank of Taiwan Co., Ltd	\$ 563,040	-		2.400%~3. 230%	573
Hua Nan Financial Holdings Co., Ltd.	960,000	-	0.300%	-	120

December 31, 2018					
Name	Highest balance	Ending balance	Interest rate range (%)		Interest expense, net
			NTD	Foreign currency	
Bank of Taiwan Co., Ltd	\$ 559,190	-	-	2.000%~2. 650%	657
Hua Nan Financial Holdings Co., Ltd.	\$ 1,000,000	-	0.300%	-	137

3) Transaction conditions

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(11) Pledged Assets:

The carrying amounts of the pledged assets offered by the Company and subsidiaries are as follows:

(a) Parent company-Taiwan Financial Holding Co., Ltd.: None.

(b) The subsidiary, BOT

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

(c) The subsidiary, BTLI

<u>Pledged assets</u>	<u>Purpose of pledge</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Government bonds (accounted in refundable deposits)	Operating guarantee	\$ 5,444,081	5,446,789
Cash (accounted in refundable deposits)	Lease guarantee	2,436	2,439
Cash (accounted in refundable deposits)	Futures exchange guarantee	30,079	-
		<u>\$ 5,476,596</u>	<u>5,449,228</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(d) The subsidiary, BTS

<u>Pledged assets</u>	<u>Purpose of pledge</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Property and Equipment—Land	Short-term borrowings	\$ 379,309	379,309
Property and Equipment— Building	Short-term borrowings	70,794	74,564
		<u>\$ 450,103</u>	<u>453,873</u>

(12) Commitments and Contingencies:

(a) Commitments and contingencies

(i) Commitments and contingencies of the subsidiary, BOT

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

(ii) Commitments and contingencies of the subsidiary, BTLI

The contract guarantees on behalf of counter parties of the subsidiary, BTLI, are \$6,487 thousand and \$5,201 thousand on December 31, 2019 and 2018, respectively.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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, BOT

Disclosures in accordance with the Article 17 of the Enforcement Rules of the Trust Enterprise Act are as follows:

Trust assets	December 31, 2019		December 31, 2018	
	Amount	%	Amount	%
Deposits				
Deposits in BOT	\$ 36,138,913	6	29,268,129	5
Deposits in other banks	2,381	-	310,038	-
Short term investments				
Investment in funds	165,849,799	25	164,389,046	27
Investment in bonds	281,239,879	43	260,782,413	43
Common stock investments— marketable securities	48,761,636	7	51,622,134	9
Receivables				
Interest receivables	1,865,932	-	1,376,314	-
Cash dividend receivables	669	-	1,267	-
Receivables from trading securities	198,510	-	292,965	-
Receivables from forward contracts	3,133,135	1	5,553,635	1
Real estate				
Land	20,361,587	3	22,894,616	4
Buildings	160,332	-	121,199	-
Construction in progress	4,502,672	1	3,691,800	1
Marketable securities under custody	91,090,437	14	61,541,774	10
Total of trust assets	\$ 653,305,882	100	601,845,330	100

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

Notes: The funds invested by the OBU branch of the subsidiary, BOT, are included. The amounts as of December 31, 2019 and 2018 are \$275,887 thousand and \$291,683 thousand, respectively.

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

(13) Profitability:

(a) The Company

Item		Unit: %	
		December 31, 2019	December 31, 2018
Return on Assets (note 6)	pre-tax	4.13	5.16
	after-tax	4.15	5.16
Return on Equity (Note 8)	pre-tax	4.45	5.53
	after-tax	4.47	5.53
Profit Margin		98.89	98.63

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) The Company and subsidiaries

Unit: %

Item		December 31, 2019	December 31, 2018
Return on Assets (note 7)	pre-tax	0.33	0.34
	after-tax	0.30	0.33
Return on Equity (note 8)	pre-tax	4.97	5.67
	after-tax	4.47	5.53
Profit Margin		6.95	17.88

(c) The subsidiary, BOT

Unit: %

Item		December 31, 2019	December 31, 2018
Return on Assets (note 7)	pre-tax	0.42	0.40
	after-tax	0.37	0.38
Return on Equity (note 8)	pre-tax	5.69	6.26
	after-tax	5.09	5.84
Profit Margin		26.46	25.97

(d) The subsidiary, BTLI

Unit: %

Item		December 31, 2019	December 31, 2018
Return on Assets	pre-tax	(0.66)	(0.51)
	after-tax	(0.58)	(0.27)
Return on Equity	pre-tax	(14.99)	(14.10)
	after-tax	(13.15)	(7.52)
Profit Margin		(5.78)	(10.04)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(e) The subsidiary, BTS

Unit: %

Item	December 31, 2019	December 31, 2018
Return on Assets	pre-tax	2.24
	after-tax	1.93
Return on Equity	pre-tax	6.15
	after-tax	5.30
Profit Margin	29.67	20.86

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 2019 and 2018.

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 Company and subsidiaries are 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.

(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	2019			2018		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	61,699	12,221,855	12,283,554	62,839	11,766,668	11,829,507
Labor and health insurance	111,220	580,681	691,901	105,387	570,738	676,125
Pension	3,105	1,017,159	1,020,264	2,984	927,182	930,166
Director and supervisor compensation payment	-	8,541	8,541	-	6,525	6,525
Others	-	319,747	319,747	-	304,221	304,221
Depreciation	121,370	1,346,648	1,468,018	118,074	752,650	870,724
Amortization	-	330,174	330,174	-	291,345	291,345

The number of employees in 2019 and 2018 were 9,122 and 9,043, respectively.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(b) Government audit adjustments for fiscal year ended 2018

The accounting records as at and for the year ended 2018, have been audited and examined by the MoA, and the resulting adjustments were summarized as follows:

The Company and subsidiaries

<u>Balance Sheet</u>	<u>As Previously Reported December 31, 2018</u>	<u>Adjustments — Increase (Decrease)</u>	<u>As Audited by the MoA, December 31, 2018</u>
Assets			
Cash and cash equivalents	\$ 172,687,920	6,908	172,694,828
Financial assets measured at fair value through profit or loss, net	270,621,265	21,505	270,642,770
Receivables, net	66,216,316	28,092	66,244,408
Current income tax assets	1,868,145	(124,660)	1,743,485
Debt investments measured at amortized cost	428,844,261	5,496,699	434,340,960
Deferred tax assets	3,642,431	(422)	3,642,009
Other assets, net	14,710,472	(5,525,107)	9,185,365
Liabilities			
Current income tax liabilities	360,175	(119)	360,056
Other liabilities, net	8,315,166	28,092	8,343,258
Equity			
Special reserve	45,115,479	59	45,115,538
Unappropriated retained earnings	12,075,787	(125,017)	11,950,770
Income statement			
<u>Income statement</u>	<u>As Previously Reported 2018</u>	<u>Adjustments — Increase (Decrease)</u>	<u>As Audited by the MoA, 2018</u>
Interest income	\$ 74,006,744	5	74,006,749
Net income before income tax	9,485,724	5	9,485,729
Income tax expenses (benefits)	266,406	124,963	391,369
Net income	9,219,318	(124,958)	9,094,360

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Taiwan Financial Holding

Government audit adjustments for fiscal year ended December 31, 2018:

<u>Balance Sheet</u>	<u>As Previously Reported December 31, 2018</u>	<u>Adjustments — Increase (Decrease)</u>	<u>As Audited by the MoA, December 31, 2018</u>
Assets			
Current income tax assets	\$ 229,785	(1,248)	228,537
Investments under equity method, net	330,628,290	(123,710)	330,504,580
Equity			
Special reserve	45,115,479	59	45,115,538
Unappropriated retained earnings	12,075,787	(125,017)	11,950,770
<u>Income statement</u>	<u>As Previously Reported 2018</u>	<u>Adjustments — Increase (Decrease)</u>	<u>As Audited by the MoA, 2018</u>
Share of profit of associates and joint ventures accounted for using equity method	\$ 9,515,764	(123,710)	9,392,054
Net income before income tax	9,192,337	(123,710)	9,068,627
Income tax benefits	(26,981)	1,248	(25,733)
Net income	9,219,318	(124,958)	9,094,360

Revised entries by the MoA in 2018 were as follows:

Item	Adjustment accounts	Amount revised by the MoA		Explanation of revision by the MoA
1.	Income tax benefits	\$ 1,248		Adjusted taxable income by amendment.
	Share of profit (loss) of associates and joint ventures accounted for using equity method	123,710		
	Investments under equity method-net		123,710	
	Current income tax assets		1,248	
2.	Unappropriated retained earnings	59		Reversal of special reserve.
	Special reserve		59	

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Bank of Taiwan

Government audit adjustments for fiscal year ended December 31, 2018:

<u>Balance Sheet</u>	<u>As Previously Reported December 31, 2018</u>	<u>Adjustments — Increase (Decrease)</u>	<u>As Audited by the MoA, December 31, 2018</u>
Assets			
Current income tax assets	\$ 1,236,103	(122,969)	1,113,134
Liabilities			
Equity			
Unappropriated retained earnings	17,742,711	(122,969)	17,619,742
<u>Income statement</u>	<u>As Previously Reported 2018</u>	<u>Adjustments — Increase (Decrease)</u>	<u>As Audited by the MoA, 2018</u>
Income tax expenses	\$ 1,108,160	122,969	1,231,129
Net income	10,368,175	(122,969)	10,245,206

Revised entries by the MoA in 2018 were as follows:

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

BankTaiwan Life Insurance

The accounting records as at and for the year ended 2018, have been audited and examined by the MoA, and the resulting adjustments were summarized as follows:

Government audit adjustments for fiscal year ended December 31, 2018:

<u>Balance Sheet</u>	<u>As Previously Reported December 31, 2018</u>	<u>Adjustments – Increase (Decrease)</u>	<u>As Audited by the MoA, December 31, 2018</u>
Assets			
Cash and cash equivalents	\$ 19,546,768	4	19,546,772
Current income tax assets	402,257	(443)	401,814
Deferred tax assets	3,319,494	(422)	3,319,072
Equity			
Accumulated deficit	(14,400,824)	(861)	(14,401,685)
Income statement			
	<u>As Previously Reported 2018</u>	<u>Adjustments – Increase (Decrease)</u>	<u>As Audited by the MoA, 2018</u>
Interest income	\$ 10,175,943	4	10,175,947
Net loss before income taxes	(1,835,861)	4	(1,835,857)
Income tax expenses (benefits)	857,828	(865)	856,963
Net gains (losses)	(978,033)	(861)	(978,894)

Revised entries by the MoA in 2018 were as follows:

Item	Adjustment accounts	Amount revised by the MoA		Explanation of revision by the MoA
1.	Cash and cash equivalents	\$ 4		Adjusted interest revenues.
	Interest income		4	
2.	Income tax expenses	865		Adjusted taxable income by amendment.
	Deferred tax assets		422	
	Current income tax assets		443	

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

BankTaiwan Securities

Government audit adjustments for fiscal year ended December 31, 2018:

<u>Balance Sheet</u>	<u>As Previously Reported December 31, 2018</u>	<u>Adjustments – Increase (Decrease)</u>	<u>As Audited by the MoA, December 31, 2018</u>
Assets			
Financial assets measured at fair value through profit or loss	\$ 957,599	1	957,600
Liabilities			
Other payables-relatives	68,731	(119)	68,612
Equity			
Retained earnings	684,500	120	684,620
<u>Income statement</u>	<u>As Previously Reported 2018</u>	<u>Adjustments – Increase (Decrease)</u>	<u>As Audited by the MoA, 2018</u>
Other benefits and losses	\$ 11,107	1	11,108
Income tax expenses	43,055	(119)	42,936
Net income	125,622	120	125,742

Revised entries by the MoA in 2018 were as follows:

Item	Adjustment accounts	Amount revised by the MoA		Explanation of revision by the MoA
1.	Financial assets measured at fair value through profit or loss	\$ 1		Adjusted interest revenues.
	Other benefits and losses		1	
2.	Other payables-relatives	\$ 119		Adjusted income tax.
	Income tax expenses		119	

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Supplementary information for government employees' insurance department

(i) Balance sheets

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Income statements

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

Note: According to Government Employees and School Staff Insurance Act, if GESSI experiences a loss, the loss before May 30, 1999, would be covered by the Ministry of Finance; and the loss after that date would be covered by an adjustment of the insurance premium. Besides, according to the same Act, the expenses to carry on government employees and school staff insurance are subsidized by the budget designated by the Ministry of Civil Service.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(d) Financial information classified by business type

2019

Items	Businesses	Banking business	Insurance business	Securities business	Government insurance	Other operations	Total
Net interest income		23,861,011	10,618,344	121,591	2,644,359	7	37,245,312
Non-interest income, net		61,481,792	29,853,352	546,920	(2,486,546)	(7,168)	89,388,350
Net revenues		85,342,803	40,471,696	668,511	157,813	(7,161)	126,633,662
Bad debt expenses		(7,342,988)	5,105	(320)	(2,240)	-	(7,340,443)
Provisions		(45,358,796)	(40,402,050)	-	-	-	(85,760,846)
Operating expenses		(21,421,494)	(901,267)	(404,977)	(155,573)	(142,863)	(23,026,174)
Net income before income tax		11,219,525	(826,516)	263,214	-	(150,024)	10,506,199
Income tax expenses		(2,053,543)	312,814	(31,709)	-	70,448	(1,701,990)
Net income		9,165,982	(513,702)	231,505	-	(79,576)	8,804,209

2018

Items	Businesses	Banking business	Insurance business	Securities business	Government insurance	Other operations	Total
Net interest income		23,415,507	10,102,313	149,878	2,088,822	8	35,756,528
Non-interest income, net		15,723,286	856,506	466,177	(1,944,837)	(3,044)	15,098,088
Net revenues		39,138,793	10,958,819	616,055	143,985	(3,036)	50,854,616
Bad debt expenses		(7,298,849)	5,961	(1,183)	(3,639)	-	(7,297,710)
Provisions		(1,371,850)	(10,642,821)	-	-	-	(12,014,671)
Operating expenses		(20,492,969)	(887,436)	(411,532)	(140,346)	(124,223)	(22,056,506)
Net income before income tax		9,975,125	(565,477)	203,340	-	(127,259)	9,485,729
Income tax expenses		(1,231,131)	856,963	(42,935)	-	25,734	(391,369)
Net income		8,743,994	291,486	160,405	-	(101,525)	9,094,360

- (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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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 supervise and the management of the company, and are responsible for the Company's overall operations. In accordance with the Article 26-3 of the Securities and Exchange Act, and the 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 the Article 51 of the Financial Holding Company Act and the 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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 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 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 12 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.

(Continued)

Statements of Comprehensive Income
For the years ended December 31, 2019 and 2018
(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Common Share)

	2019		2018		Change	
	Amount	%	Amount	%	%	
Revenue and income:						
47000	Share of profit of associates and joint ventures accounted for using equity method	\$ 9,115,306	100	9,392,054	100	(3)
49999	Other miscellaneous income	2,596	-	5,365	-	(52)
		9,117,902	100	9,397,419	100	(3)
Expenses:						
58500	Operating expenses	(169,224)	2	(152,401)	2	11
58598	Other expenses and losses	(214,917)	2	(176,391)	2	22
		(384,141)	(4)	(328,792)	(4)	17
	Profit (loss) from continuing operations before tax	8,733,761	96	9,068,627	96	(4)
61003	Less: Income tax expenses	(70,448)	(1)	(25,733)	-	174
	Profit (loss)	8,804,209	97	9,094,360	96	(3)
69500	Other comprehensive income:					
69560	Components of other comprehensive income that will not be reclassified to profit or loss					
69561	Gains (losses) on remeasurements of defined benefit plans	(18,130)	-	3,389	-	(635)
69567	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	(525)	-	-	-	-
69564	Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method, components of other comprehensive income that will not be reclassified to profit or loss	15,588,513	171	3,385,296	36	360
69569	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-	-
		15,569,858	171	3,388,685	36	359
69570	Components of other comprehensive income (loss) that will be reclassified to profit or loss					
69576	Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	3,058,911	34	(1,585,976)	(17)	293
69579	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	-	-	-	-	-
	Components of other comprehensive income that will be reclassified to profit or loss	3,058,911	34	(1,585,976)	(17)	293
69500	Other comprehensive income	18,628,769	205	1,802,709	19	933
	Total comprehensive income (loss), net of tax for the year	\$ 27,432,978	302	10,897,069	115	152
	Basic earnings per share (In dollars)	\$ 0.93		1.01		

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

	Share capital				Retained earnings				Total other equity interest				Total
	Common stock	Capital surplus	Legal reserve	Special reserve	Unallocated earnings	Excesses on differences on foreign operations	Unrealized gain (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gain (losses) on available-for-sale financial assets	Gain (losses) on effective purchase of cash flow hedges	Gain (losses) on financial instrument for hedging	Other comprehensive income reclassified by applying average approach	Change in fair value of financial assets attributable to change in credit risk of liabilities	
Balance at January 1, 2018	90,000,000	111,385,226	6,793,236	41,335,207	12,124,133	66,271,160	(1,340,760)	38,114,593	25,929,021	-	-	(43,770)	24,546,312
Effects of retrospective application	-	-	-	-	-	-	-	-	-	-	-	-	-
Impact of beginning of period after adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-
Appropriation and distribution of retained earnings:													
Legal reserve appropriated	-	-	626,453	-	(626,453)	-	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	3,788,723	(3,788,723)	-	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(1,992)	1,992	-	-	-	-	-	-	-	-
Net income for the period	-	-	-	9,094,360	9,094,360	9,094,360	-	-	-	-	-	-	9,094,360
Other comprehensive income	-	-	-	-	(1,212,690)	684,435	3,580,017	3,580,017	-	202	(1,485,927)	236,682	3,015,599
Total comprehensive income	-	-	-	-	7,881,670	684,435	3,580,017	3,580,017	-	202	(1,485,927)	236,682	3,015,599
Dividend of investments in equity instruments designated at fair value through other	-	-	-	-	(257,258)	(257,258)	-	-	-	-	-	-	257,258
Change in special reserve	-	-	-	-	(1,772)	(1,772)	-	-	-	-	-	-	-
Balance at December 31, 2018	90,000,000	111,385,226	7,419,689	45,115,518	11,950,770	64,845,991	(650,083)	41,904,808	-	4,193	(2,315,717)	392,912	39,505,591
Appropriation and distribution of retained earnings:													
Legal reserve appropriated	-	-	420,883	-	(420,883)	-	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	2,525,298	(2,525,298)	-	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(3,186)	3,186	-	-	-	-	-	-	-	-
Net income for the period	-	-	-	8,804,209	8,804,209	8,804,209	-	-	-	-	-	-	8,804,209
Other comprehensive income	-	-	-	-	(1,721,760)	1746,501	18,934,806	18,934,806	-	(219)	2,464,520	(92,148)	20,340,529
Total comprehensive income	-	-	-	-	7,082,449	3,084,741	18,934,806	18,934,806	-	(219)	2,464,520	(92,148)	20,340,529
Capital increase based on fund pricing	13,125,000	29,875,000	-	-	-	-	-	-	-	-	-	-	-
Dividend of investments in equity instruments measured at fair value through other	-	-	-	-	(40,541)	(40,541)	40,541	40,541	-	-	-	-	40,541
Comprehensive income	-	-	-	-	(593)	(593)	-	-	-	-	-	-	-
Change in special reserve	-	-	-	-	15,607,608	15,607,608	(1,085,588)	61,146,205	-	3,955	148,813	(109,216)	59,984,344
Balance at December 31, 2019	103,125,000	141,260,226	7,840,266	60,723,126	27,558,370	80,453,599	(1,685,591)	103,091,013	-	4,149	2,613,333	1,002,766	113,747,867

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

	2019	2018
Cash flows from (used in) operating activities:		
Income before income tax	\$ 8,733,761	9,068,627
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	17,568	1,075
Amortization expense	153	124
Interest expense	207,025	170,324
Interest income	(398)	(520)
Share of profit of associates and joint ventures accounted for using equity method	(9,115,306)	(9,392,054)
Loss on disposal of property and equipment	191	18
Subtotal of income of non-cash activities	(8,890,767)	(9,221,033)
Changes in operating assets and liabilities:		
Increase in other assets	(495)	(119)
(Decrease) increase in payable and current tax liabilities	(1,373)	3,537
Increase in provisions for employee benefits	2,603	207
(Decrease) increase in other liabilities	(68,965)	68,965
Subtotal of all adjustments	(8,958,997)	(9,148,443)
Cash outflow generated from operations	(225,236)	(79,816)
Interest received	400	516
Dividends received	879,429	745,211
Income taxes refund	68,156	140,623
Net Cash flows used in operating activities	722,749	806,534
Cash flows from (used in) investing activities:		
Acquisition of financial assets measured at fair value through other comprehensive income	-	(25,000)
Acquisition of investments accounted for using equity method	-	(10,000,000)
Acquisition of property and equipment	(2,728)	(2,197)
Proceeds from disposal of property and equipment	2	3
Increase in refundable deposits	-	(45)
Acquisition of intangible assets	(644)	(232)
Net cash flows used in investing activities	(3,370)	(10,027,471)
Cash flows from (used in) financing activities:		
Increase in short-term loans	-	25,800,000
Decrease in short-term loans	(600,000)	(16,250,000)
Increase in guarantee deposits received	67	-
Decrease in guarantee deposits received	-	(2)
Payment of lease liabilities	(16,112)	-
Interest paid	(206,572)	(167,802)
Net cash flows from financing activities	(822,617)	9,382,196
Net increase (decrease) in cash and cash equivalents	(103,238)	161,259
Cash and cash equivalents at beginning of period	301,992	140,733
Cash and cash equivalents at end of period	\$ 198,754	301,992
Composition of cash and cash equivalents:		
Cash and cash equivalents reported in the statement of financial position	\$ 198,754	301,992
Cash and cash equivalents at end of period	\$ 198,754	301,992

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) The balance sheets and income statements of the subsidiaries

(i) Balance sheets

	Bank of Taiwan (Individual)	
	December 31, 2019	December 31, 2018
Cash and cash equivalents	\$ 144,312,778	165,864,930
Placement with Central Bank and call loans to banks	560,586,872	535,130,849
Financial assets measured at fair value through profit or loss	244,193,929	236,408,718
Hedging derivative financial assets, net	1,071	41,693
Receivables, net	58,497,703	59,258,329
Current income tax assets	993,628	1,113,134
Loans and discounts, net	2,676,141,224	2,557,027,294
Financial assets measured at fair value through other comprehensive income	1,013,078,126	1,117,727,277
Debt investments measured at amortized cost	177,206,775	167,824,692
Investments under equity method, net	41,546,961	38,434,590
Other financial assets, net	40,158,445	46,040,182
Property and equipment, net	138,125,216	96,222,499
Right-of-use assets, net	1,603,487	-
Investment property, net	15,238,207	15,238,207
Intangible assets, net	873,217	764,829
Deferred tax assets, net	870,221	308,336
Other assets, net	11,553,574	8,986,040
Total assets	\$ 5,124,981,434	5,046,391,599
Deposits of Central Bank and other banks	\$ 229,253,533	221,756,139
Financial liabilities measured at fair value through profit or loss	60,283,847	50,554,317
Hedging derivative financial liabilities, net	25,537	12,973
Bills and bonds sold under repurchase agreements	21,564,871	25,078,047
Payables	43,827,118	45,769,665
Current tax liabilities	1,343,857	262,675
Deposits and remittances	3,972,246,112	4,026,190,539
Financial bonds payable	24,998,820	24,998,566
Other financial liabilities	962,539	678,843
Provisions	361,813,702	315,017,702
Lease liabilities	1,479,132	-
Deferred tax liabilities	18,235,065	18,191,904
Other liabilities	10,694,864	7,751,184
Total liabilities	4,746,728,997	4,736,262,554

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	Bank of Taiwan (Individual)	
	December 31, 2019	December 31, 2018
Capital stock	\$ 109,000,000	95,000,000
Capital surplus	108,453,043	80,453,043
Retained earnings		
Legal reserve	44,692,790	42,037,924
Special reserve	36,640,733	33,103,998
Unappropriated retained earnings	<u>20,140,122</u>	<u>17,619,742</u>
	<u>101,473,645</u>	<u>92,761,664</u>
Other equity	<u>59,325,749</u>	<u>41,914,338</u>
Total equity	<u>378,252,437</u>	<u>310,129,045</u>
Total liabilities and stockholders' equity	<u>\$ 5,124,981,434</u>	<u>5,046,391,599</u>
	Bank Taiwan Life Insurance	
	December 31, 2019	December 31, 2018
Cash and cash equivalents	\$ 24,226,460	19,546,772
Receivables	2,440,218	2,045,595
Current income tax assets	1,070,398	401,814
Financial assets measured at fair value through profit or loss	48,828,589	33,305,525
Financial assets measured at fair value through other comprehensive income	8,812,981	9,063,105
Financial assets measured at amortized cost	281,806,469	260,930,189
Investments under equity method, net	7,246,022	6,687,570
Other financial assets, net	3,026,800	5,655,000
Real estate investments	9,207,201	7,853,960
Loans	9,044,733	9,416,091
Reinsurance assets	16,447	17,098
Property and equipment	948,155	994,058
Right-of-use assets	15,465	-
Intangible assets	44,166	32,286
Deferred tax assets	3,037,340	3,319,072
Other assets	5,591,358	5,550,965
Separate account-insurance assets	<u>1,429,769</u>	<u>11,026</u>
Total assets	<u>\$ 406,792,571</u>	<u>364,830,126</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	BankTaiwan Life Insurance	
	December 31, 2019	December 31, 2018
Payables	\$ 760,346	758,694
Financial liabilities measured at fair value through profit or loss	58,105	148,789
Lease liabilities	15,522	-
Insurance liabilities	385,308,434	344,827,889
Foreign exchange volatility reserves	465,900	1,214,234
Provisions	683,230	642,181
Deferred tax liabilities	352,665	41,164
Other liabilities	351,071	495,992
Separate account-insurance liabilities	<u>1,429,769</u>	<u>11,026</u>
Total liabilities	<u>389,425,042</u>	<u>348,139,969</u>
Capital stock	32,500,000	32,500,000
Capital surplus	360,000	360,000
Retained earnings		
Legal reserve	96,557	96,557
Special reserve	1,096,217	866,206
Unappropriated retained earnings	<u>(17,347,077)</u>	<u>(14,401,685)</u>
	<u>(16,154,303)</u>	<u>(13,438,922)</u>
Other equity	<u>661,832</u>	<u>(2,730,921)</u>
Total equity	<u>17,367,529</u>	<u>16,690,157</u>
Total liabilities and equity	<u>\$ 406,792,571</u>	<u>364,830,126</u>
	BankTaiwan Securities	
	December 31, 2019	December 31, 2018
Current assets	\$ 11,162,840	7,586,754
Property and equipment	489,203	487,473
Right-of-use assets	31,893	-
Intangible assets	21,217	17,264
Deferred tax assets	9,459	10,647
Other assets—noncurrent	<u>309,302</u>	<u>314,561</u>
Total assets	<u>\$ 12,023,914</u>	<u>8,416,699</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	BankTaiwan Securities	
	December 31, 2019	December 31, 2018
Current liabilities	\$ 7,953,066	4,486,363
Employee benefit liabilities reserves—noncurrent	181,530	144,406
Lease liabilities—noncurrent	21,420	-
Deferred tax liabilities	94,342	94,781
Other liabilities—noncurrent	6,145	5,772
Total liabilities	8,256,503	4,731,322
Capital stock	3,000,000	3,000,000
Retained earnings		
Legal reserve	114,079	102,966
Special reserve	383,809	361,584
Unappropriated retained earnings	272,336	220,070
	770,224	684,620
Other equity	(2,813)	757
Total equity	3,767,411	3,685,377
Total liabilities and equity	\$ 12,023,914	8,416,699
	BankTaiwan Insurance Broker	
	December 31, 2019	December 31, 2018
Cash and cash equivalents	\$ 460,291	451,466
Receivables	58,208	74,101
Property and equipment	3,702	3,528
Right-of-use assets	14,332	-
Intangible asset	581	107
Deferred tax assets	5,237	3,955
Other assets	3,815	3,882
Total assets	\$ 546,166	537,039

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	BankTaiwan Insurance Broker	
	December 31, 2019	December 31, 2018
Payables	\$ 69,263	78,546
Current tax liabilities	17,074	28,769
Lease liabilities	14,415	-
Other liabilities	200	50
Provision	7,897	2,923
Total liabilities	108,849	110,288
Capital stock	20,000	20,000
Retained earnings		
Legal reserve	126,552	107,347
Special reserve	126,552	107,347
Unappropriated retained earnings	164,213	192,057
	<u>417,317</u>	<u>406,751</u>
Total equity	437,317	426,751
Total liabilities and equity	\$ 546,166	537,039

(ii) Income statements

	Bank of Taiwan (Individual)	
	2019	2018
Interest income	\$ 66,034,226	63,883,640
Less: interest expense	(39,355,438)	(38,258,657)
Net interest income	26,678,788	25,624,983
Other non-interest income	15,345,231	13,668,495
Net revenues	42,024,019	39,293,478
Bad debt expense and reserve for guarantees	(7,345,228)	(7,302,488)
Operating expenses	(21,507,754)	(20,563,400)
Net income before income tax	13,171,037	11,427,590
Income tax expenses	(2,013,351)	(1,182,384)
Net income	11,157,686	10,245,206
Other comprehensive income	15,765,706	3,365,802
Total comprehensive income (loss) after tax for the period	26,923,392	13,611,008
Basic earnings per share (In dollars)	1.13	1.08

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	BankTaiwan Life Insurance	
	2019	2018
Operating income	\$ 62,112,253	56,098,583
Operating cost	(63,732,900)	(56,975,255)
Operating expenses	(938,487)	(925,398)
Operating losses	(2,559,134)	(1,802,070)
Non operating income (expense)	6,505	(33,787)
Net income (loss) before income tax	(2,552,629)	(1,835,857)
Income tax benefits	312,814	856,963
Net losses	(2,239,815)	(978,894)
Other comprehensive income	2,917,689	(1,551,616)
Total comprehensive income (loss) after tax for the period	677,874	(2,530,510)
Basic earnings per share (In dollars)	(0.69)	(0.35)
	BankTaiwan Securities	
	2019	2018
Revenues	\$ 696,571	673,438
Cost and expenses	(506,261)	(515,868)
Net operating income	190,310	157,570
Non operating income	38,833	11,108
Net income before income tax	229,143	168,678
Income tax expenses	(31,709)	(42,936)
Net income	197,434	125,742
Other comprehensive income	(35,971)	(14,865)
Total comprehensive income after tax for the period	161,463	110,877
Basic earnings per share (In dollars)	0.66	0.42
	BankTaiwan Insurance Brokers	
	2019	2018
Operating income	\$ 1,545,800	1,716,215
Operating cost	(1,212,028)	(1,345,626)
Operating expenses	(125,589)	(125,935)
Operating profits	208,183	244,654
Non operating expenses	(806)	(929)
Net income before income tax	207,377	243,725
Income tax expenses	(40,193)	(48,745)
Net income	167,184	194,980
Other comprehensive income	(2,971)	(2,923)
	164,213	192,057
Basic earnings per share (In dollars)	8.36	9.75

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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 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				
Bank of Taiwan	No.111, Songyu Section, Shilin Dist., Taipei City. 56 pieces of land in total.	2019.9.25	42,000,000	The Company increases capital in land pricing	Century Development Co., Ltd.	Related party	Republic of China (intendant: National Property Administration, Ministry of Finance)	Sharehold of the Company	2019.9.6	42,000,000	Referred to appraisal reports	Comply with government policy	None
Bank/Taiwan Life Insurance	Fur Easton Century Place	2019.1.10	340,500	345,500	Kingfisher Technology Corp.	Non-related party				-	Referred to appraisal reports	Asset allocation and real estate investment	None
Bank/Taiwan Life Insurance	Reading European	2019.11.1	305,000	305,000	Wu *** Yu	Non-related party				-	Referred to appraisal reports	Asset allocation and real estate investment	None
Bank/Taiwan Life Insurance	Taichung CBD Times Square	2019.11.13	760,588	760,588	Do-Yuan Construction Corp.	Non-related party				-	Referred to appraisal reports	Asset allocation and real estate investment	None
The Company	No.111, Songyu Section, Shilin Dist., Taipei City. 56 pieces of land in total.	2019.9.6	42,000,000	Sharehold increases capital in land pricing	Republic of China (intendant: National Property Administration, Ministry of Finance)	Related party	Bank of Taiwan	Subsidiary of the Company	2002.7.4 – 2007.2.15	-	Referred to appraisal reports	Increasing subsidiary's capital in land pricing	None

- (iii) Disposal 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	Type of property	Transaction date	Acquisition date	Book value	Transaction amount	Amount actually receivable	Gain from disposal	Counter-party	Nature of relationship	Purpose of disposal	Price reference	Other terms
The Company	No.111, Songyu Section, Shilin Dist., Taipei City. 56 pieces of land in total.	2019.9.25	2019.9.6	42,000,000	42,000,000	Unapplicable	-	Bank of Taiwan	Subsidiary of the Company	Increasing subsidiary's capital in land pricing	Referred to appraisal reports	None

- (iv) Service charge discounts on transactions with related parties in an aggregate amount of NT\$5 million or more: None
- (v) Receivables from related parties with amounts exceeding the lower of NT\$300 million or 10% of the capital stock:None
- (vi) Information on NPL disposal transaction:
- 1) Summary table of NPL disposal:None
 - 2) Disposal of a single batch of NPL up to NT\$1 billion and information on each transaction:None
- (vii) Types of securitization instruments approved to be issued pursuant to financial assets securitization rules or real estate securitization rules and other relevant information:None
- (viii) Other significant transactions that may have substantial influence upon the decisions made by financial report users:None

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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 %	47,306,789	4,000,302	3,052,175,412	-	3,052,175,412	25.07 %	
Tang Eng Iron Works Co., Ltd.	Kaohsiung	Iron Industry	21.37 %	21.37%	1,027,317	3,196	74,802,414	-	74,802,414	21.37 %	
Tai Yi Real Estate Management Co., Ltd.	Taipei	Real Estate Service	30.00 %	30.00%	21,476	4,045	1,500,000	-	1,500,000	30.00 %	
Bank of Taiwan	Taipei	Banking	100.00%	100.00%	378,252,437	11,157,686	10,900,000,000	-	10,900,000,000	100.00%	note 3
Bank Taiwan Life Insurance	Taipei	Life insurance	100.00%	100.00%	17,367,529	(2,239,815)	3,250,000,000	-	3,250,000,000	100.00%	note 3
Bank Taiwan Securities	Taipei	Securities	100.00%	100.00%	3,767,411	197,454	300,000,000	-	300,000,000	100.00%	note 3
Bank Taiwan Insurance Brokers	Taipei	Insurance broker	100.00%	100.00%	437,401	167,267	2,000,000	-	2,000,000	100.00%	note 3

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 the 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: 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, 2018	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2018	Net income from investee	% of shares	The highest % of shares in the midterm	Investment income recognized as of December 31, 2018	Carrying value as of December 31, 2018	Accumulated inward remittance of earnings as of December 31, 2018
					Outflow	Regain							
Bank of Taiwan, Shanghai Branch	Banking business	4,295,000 CNY1,000,000	(3)	4,295,000 CNY1,000,000	-	-	4,295,000 CNY1,000,000	142,368	100 %	- %	142,368	5,780,772	-
Bank of Taiwan, Guangzhou Branch	Banking business	4,295,000 CNY1,000,000	(3)	4,295,000 CNY1,000,000	-	-	4,295,000 CNY1,000,000	112,694	100 %	- %	112,694	4,890,325	-
Bank of Taiwan, Fuzhou Branch	Banking business	4,295,000 CNY1,000,000	(3)	4,295,000 CNY1,000,000	-	-	4,295,000 CNY1,000,000	74,973	100 %	- %	74,973	4,703,100	-

Note 1: Three types of investments are as follows:

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

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

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

(iii) Significant transactions with the invested company in China:None

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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. Besides, transactions related to derivatives, please refer to note 6(c), 6(s) and 7.

(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	198,724	Same as regular transaction	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Receivables, net	5	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Other assets-net	2,762	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Short-term borrowings	25,200,000	"	0.46 %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Other payables	6,213	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Right-of-use assets	65,242	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Accumulated depreciation - right-of-use assets	16,311	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Lease liabilities	49,130	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Interest income	391	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Other non-interest income	621	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Other general and administrative expenses	26,623	"	0.03 %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Interest income	207,025	"	0.27 %
0	Taiwan Financial Holdings	Bank-Taiwan Life Insurance	1	Other non-interest income	548	"	- %
0	Taiwan Financial Holdings	Bank-Taiwan Securities	1	Other receivables, net	1	"	- %
0	Taiwan Financial Holdings	Bank-Taiwan Securities	1	Other non-interest income	564	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Deposits and remittances	198,724	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Payables	5	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Other liabilities	2,762	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Loans and discounts, net	25,200,000	"	0.46 %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Receivables, net	6,213	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Temporary receipt awarding suspense accounts	199	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Interest expenses	391	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Employee benefits expenses	621	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Other non-interest income	26,623	"	0.03 %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Interest income	207,025	"	0.27 %
1	Bank of Taiwan	Bank-Taiwan Life Insurance	3	Receivables, net	10,409	"	- %
1	Bank of Taiwan	Bank-Taiwan Life Insurance	3	Other assets, net	5,887	"	- %
1	Bank of Taiwan	Bank-Taiwan Life Insurance	3	Payables	1,179	"	- %
1	Bank of Taiwan	Bank-Taiwan Life Insurance	3	Deposits and remittance	7,992,639	"	0.15 %
1	Bank of Taiwan	Bank-Taiwan Life Insurance	3	Financial liabilities measured at fair value through profit or loss	722,636	"	0.01 %
1	Bank of Taiwan	Bank-Taiwan Life Insurance	3	Right-of-use assets	120,275	"	- %
1	Bank of Taiwan	Bank-Taiwan Life Insurance	3	Accumulated depreciation - right-of-use assets	33,675	"	- %
1	Bank of Taiwan	Bank-Taiwan Life Insurance	3	Lease liabilities	82,160	"	- %
1	Bank of Taiwan	Bank-Taiwan Life Insurance	3	Temporary receipt awarding suspense accounts	33	"	- %
1	Bank of Taiwan	Bank-Taiwan Life Insurance	3	Service fee, net	54,684	"	0.07 %
1	Bank of Taiwan	Bank-Taiwan Life Insurance	3	Gain (loss) on financial assets or liabilities measured at fair value through profit or loss	1,134,033	"	1.48 %
1	Bank of Taiwan	Bank-Taiwan Life Insurance	3	Other non-interest income	41,288	"	0.05 %
1	Bank of Taiwan	Bank-Taiwan Life Insurance	3	Interest expenses	31,772	"	0.04 %

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 Life Insurance	3	Other general and administrative expenses	36,688	"	0.05 %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Other liabilities	493	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Other assets, net	14	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Payables	51	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Deposits and remittance	252,990	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Other liabilities	1,795	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Right-of-use assets	255	Same as regular transaction	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Accumulated depreciation - right-of-use assets	85	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Lease liabilities	171	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Temporary receipt awaiting suspense accounts	129	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Interest income	573	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Service fee, net	3,364	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Other non-interest income	30,582	"	0.04 %
1	Bank of Taiwan	BankTaiwan Securities	3	Interest expenses	762	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Other general and administrative expenses	86	"	- %
2	BankTaiwan Life Insurance	Taiwan Financial Holdings	2	Employee benefits expenses	548	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Payables, net	10,409	"	0.01 %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Other liabilities	5,887	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Receivables, net	1,179	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Financial assets measured at fair value through profit or loss	722,636	"	0.01 %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Advance revenues - general rent	5,280	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Cash and cash equivalents	7,992,639	"	0.15 %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Right-of-use assets	11,666	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Accumulated depreciation - right-of-use assets	2,916	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Lease liabilities	8,782	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Temporary receipt awaiting suspense accounts	840	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Other assets, net	493	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Service fee, net	54,684	"	0.07 %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Gain (loss) on financial assets or liabilities measured at fair value through profit or loss	1,134,033	"	1.48 %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Investments Property income, net	36,687	"	0.05 %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Interest income	31,772	"	0.04 %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Other general and administrative expenses	41,288	"	0.05 %
2	BankTaiwan Life Insurance	BankTaiwan Insurance Brokers	3	Payables, net	26,400	"	- %
2	BankTaiwan Life Insurance	BankTaiwan Insurance Brokers	3	Service fee, net	564,020	"	0.74 %
3	BankTaiwan Securities	Taiwan Financial Holdings	2	Other payables, net	1	"	- %
3	BankTaiwan Securities	Taiwan Financial Holdings	2	Employee benefit liabilities reserve	564	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Other liabilities, net	1,808	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Receivable, net	51	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Other assets, net	180,259	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Cash and cash equivalents	72,731	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Right-of-use assets	42,524	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Accumulated depreciated - right-of-use assets	10,631	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Lease liabilities	32,022	"	- %

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Number	Name of Company	Name of the counter-party	Existing relationship State of transaction with the counter-party	Percentage of the total consolidated revenues or total assets			
				Account name	Amount	Terms of trading	Percentage of the total consolidated revenues or total assets
3	Bank Taiwan Securities	Bank of Taiwan	3	Temporary receipt awaiting suspense accounts	1	"	- %
3	Bank Taiwan Securities	Bank of Taiwan	3	Interest expenses	573	"	- %
3	Bank Taiwan Securities	Bank of Taiwan	3	Service fee, net	3,508	"	- %
3	Bank Taiwan Securities	Bank of Taiwan	3	Other general and administrative expenses	19,998	"	0.05 %
3	Bank Taiwan Securities	Bank of Taiwan	3	Interest income	762	"	- %
3	Bank Taiwan Securities	Bank of Taiwan	3	Other non-interest income	86	"	- %
3	Bank Taiwan Securities	Bank Taiwan Insurance Brokers	3	Service fee, net	164	"	- %
4	Bank Taiwan Insurance Brokers	Bank Taiwan Life Insurance	3	Receivables, net	26,400	Same as regular transaction	- %
4	Bank Taiwan Insurance Brokers	Bank Taiwan Life Insurance	3	Service fee, net	564,020	"	0.74 %
4	Bank Taiwan Insurance Brokers	Bank Taiwan Securities	3	Service fee, net	164	"	- %

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 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 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's and 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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2019									
	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	\$ 63,375,552	2,644,359	15	14,300	10,650,429	140,873	808	(240,931)	76,585,405
Less: interest expense	(39,355,438)	-	-	-	(389)	(19,393)	(207,677)	(242,804)	(39,340,093)
Interest income, net	24,020,114	2,644,359	15	14,300	10,650,040	121,480	(206,869)	1,873	37,245,312
Non-interest income, net	62,516,926	(2,486,546)	389,490	284,157	28,249,572	562,865	9,442,819	(9,570,933)	89,388,350
Net revenue	86,537,040	157,813	389,505	298,457	38,899,612	684,345	9,235,950	(9,569,060)	126,633,662
Bad debt expenses and reserve for guarantees	(7,342,988)	(2,240)	-	-	5,105	(320)	-	-	(7,340,443)
Provisions for policyholder's reserve premium	(45,358,796)	-	-	-	(40,402,050)	-	-	-	(85,760,846)
Operating costs	(21,150,580)	(155,573)	(110,831)	(90,771)	(932,220)	(435,939)	(294,813)	144,553	(23,026,174)
Continuing operating income before income tax	\$ 12,684,676	-	278,674	207,686	(2,429,553)	248,086	8,941,137	(9,424,507)	10,506,199
Continuing operating income after income tax	\$ 10,671,325	-	278,674	207,686	(2,742,220)	216,377	8,971,392	(8,799,025)	8,804,209
Total assets	\$ 4,780,964,131	341,837,704	2,520,539	1,934,694	406,792,573	12,023,914	400,451,807	(437,219,995)	5,509,305,367
Total Liabilities	\$ 4,403,198,054	341,837,704	2,241,865	1,727,008	389,425,043	8,256,503	25,526,622	(37,395,299)	5,134,817,500

2018									
	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	\$ 61,793,949	2,088,822	12	857	10,175,943	167,573	896	(221,303)	74,006,749
Less: interest expense	(38,258,657)	-	-	-	(24,929)	(17,619)	(170,324)	(221,308)	(38,250,221)
Interest income, net	23,535,292	2,088,822	12	857	10,151,014	149,954	(169,428)	5	35,756,528
Non-interest income, net	16,286,681	(1,944,837)	316,780	381,720	(426,270)	452,720	9,883,826	(9,852,532)	15,098,088
Net revenue	39,821,973	143,985	316,792	382,577	9,724,744	602,674	9,714,398	(9,852,527)	50,854,616
Bad debt expenses and reserve for guarantees	(7,298,861)	(3,639)	-	12	5,961	(1,183)	-	-	(7,297,710)
Provisions for policyholder's reserve premium	(1,371,850)	-	-	-	(10,642,821)	-	-	-	(12,014,671)
Operating costs	(20,220,693)	(140,346)	(109,528)	(92,833)	(923,745)	(432,814)	(278,336)	141,789	(22,056,506)
Continuing operating income before income tax	\$ 10,930,569	-	207,264	289,756	(1,835,861)	168,677	9,436,062	(9,710,738)	9,485,729
Continuing operating income after income tax	\$ 9,748,185	-	207,264	289,756	(978,033)	125,622	9,413,842	(9,712,276)	9,094,360
Total assets	\$ 4,751,235,673	296,414,148	2,002,026	1,479,559	364,830,987	8,416,698	331,734,464	(366,334,869)	5,389,778,686
Total Liabilities	\$ 4,441,603,648	296,414,148	1,794,762	1,189,803	348,139,969	4,731,441	26,128,019	(35,278,495)	5,084,723,295

