

(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, 2020 and 2019**

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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, 2020 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 25, 2021



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, 2020 and 2019, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended December 31, 2020 and 2019, 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, 2020 and 2019, 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. 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, 2019 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 \$47,505,288 thousand and \$47,328,191 thousand respectively, constituting 0.82% and 0.86% of the consolidated total assets as of December 31, 2020 and 2019, respectively; and its shares of investment profits in associates accounted for using equity method amounting to \$2,173,989 thousand and \$4,004,273 thousand, respectively, constituting 1.71% and 3.16% of the related consolidated net revenue for the year ended December 31, 2020 and 2019, 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, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report:

1. The valuation of financial instruments

Please refer to Note 4(f) “Financial instruments” for related accounting policy, Note 5(b) “The fair value valuation 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, 2020 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 and subsidiaries 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 expected credit loss

Please refer to Note 4(p) “Impairment of assets” for related accounting policy, Note 5(c) “The evaluation of financial asset impairments” for the uncertainty of accounting assumptions and estimations, and Note 8 “Financial Risk Management” for the details of 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, 2020 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(d) “Insurance liabilities and reserves of insurance policy with financial instrument nature” for the uncertainty of accounting estimation and assumptions, and Note 6(ab) “Insurance contracts and financial products with discretionary participation feature” for the details of assessment of the 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.

4. Insurance Regulatory Compliance

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

Description of key audit matters

As of December 31, 2020, BTLI's capital adequacy ratio was 176.36%, and equity ratio was 3.40%. Among them, equity ratio was higher than regulated in law 3%, but capital adequacy ratio was lower than 200% regulated in Article 143-4 paragraph 1 of the Insurance Act. Hence, BTLI was categorized as an insurance company without adequate capital according to the "Regulations Governing Capital Adequacy of Insurance Companies" (hereinafter referred to as the "Regulations"). In accordance with Article 7 paragraph 2 of the Regulations and Article 143-6 of the Insurance Act, the competent authority shall adopt necessary restrictive measures, for instance, ordering such company to put forward a plan for capital increase or another corrective action plan for finance or business within the specified period. Therefore, the assessment of insurance regulatory compliance has been identified as a key audit matter in our audit.

In order to raise the capital adequacy ratio, BTLI has reinforced investment and foreign exchange hedging strategies, continued to adjust the structure of insurance products, strengthened the promotion of foreign currency insurance policies to reduce the impact of exchange gains and losses, and improved its efficiency on its fund utilization. In addition, BTLI started the capital increase assessment in September 2019, and reported to the Company. The capital increase plan was approved by the Boards of Directors of BTLI and the Company on March 24, 2020 and March 30, 2020, respectively, and resolved to include a \$11 billion capital injection to BTLI into its 2021 budget. The Company submitted a letter to the Ministry of Finance on April 28, 2020. The capital increase plan was approved in principle by the Ministry of Finance on July 10, 2020, and was approved by the Finance Committee, Legislative Yuan on January 12, 2021. The completion of the cash capital increase is expected to significantly enhance the Company's capital intensity and compliance with the laws of insurance companies.

How the matter was addressed in our audit

Our principal audit procedures included (i) obtaining BTLI's calculation documents regarding capital adequacy ratio and equity ratio to reviewing relevant declaration documents; (ii) obtaining the minutes of Board of Directors meeting, and the meeting information of the response measure to the issue that the capital adequacy is lower than the trigger ratio, and reviewing the corresponding measures to increase the capital adequacy ratio; (iii) obtaining the minutes of the company's Board of Directors and documents with the Ministry of Finance to understand the progress of the capital increase; (iv) assessing whether the disclosures are sufficient and appropriate.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Budget Law, Account Settlement Law, Uniform Regulations on Accounting Systems for Banks Governed by the Ministry of Finance, the Regulations Governing the 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 and subsidiaries' 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 and subsidiaries' 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 and subsidiaries 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 Company and subsidiaries 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, 2020 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

KPMG

Taipei, Taiwan (Republic of China)
March 25, 2021

Notes to Readers

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

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, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	Assets	December 31, 2020		December 31, 2019			Liabilities and Equity	December 31, 2020		December 31, 2019	
		Amount	%	Amount	%			Amount	%	Amount	%
11000	Cash and Cash Equivalents (note 6(a), 7, 8 and 10)	\$ 175,441,965	3	153,868,113	3	21000	Deposits of Central Bank and Other Banks (note 6(r), 7 and 10)	\$ 268,447,708	5	229,253,533	4
11500	Placement with Central Bank and Call Loans to Banks (note 6(b), 7, 8, 10 and 11)	593,466,945	11	560,586,872	10	21500	Loans from Central Bank (note 6(b) and (s))	15,849,400	-	-	-
12000	Financial Assets Measured at Fair Value through Profit or Loss (note 6(c), 7, 8 and 10)	364,358,784	6	293,622,020	5	22000	Financial Liabilities Measured at Fair Value through Profit or Loss (note 6(t) and 7)	31,899,064	1	59,619,316	1
12150	Financial Assets Measured at Fair Value through Other Comprehensive Income (note 6(d), (q), 7, 8, 10 and 11)	999,234,437	18	1,023,839,660	19	22300	Hedging (Derivative) Financial Liabilities (note 6(e) and 7)	49,894	-	25,537	-
12200	Debt Investments Measured at Amortized Cost (note 6(i), (q), 7, 8 and 11)	449,156,973	8	464,507,274	8	22500	Bills and Bonds Sold under Repurchase Agreements (note 6(f), 7 and 8)	9,212,050	-	24,497,867	-
12300	Hedging (Derivative) Financial Assets (note 6(e), 7 and 8)	-	-	1,071	-	22600	Commercial Paper Payables, net (note 6(u) and 7)	604,902	-	1,024,682	-
12500	Bills and Bonds Purchased under Resell Agreements (note 6(f), 7 and 8)	19,820,982	-	7,818,111	-	23000	Payables (note 6(v), 7 and 10)	51,217,836	1	48,499,809	1
13000	Receivables, net (note 6(g), 7, 8 and 10)	69,627,814	1	67,620,185	1	23200	Current Income Tax Liabilities	1,218,405	-	1,372,310	1
13200	Current Income Tax Assets	3,622,676	-	2,427,883	-	23500	Deposits and Remittances (note 6(w), 7 and 10)	4,160,605,144	72	3,963,341,498	72
13500	Loans and Discounts, net (note 6(h), 7, 8 and 10)	2,853,549,014	49	2,659,985,957	49	24000	Financial Bonds Payables (note 6(x) and 7)	24,999,085	-	24,998,820	-
13700	Reinsurance Assets, net	13,424	-	16,447	-	24600	Provision (note 6(aa), (ab), (ac) and (ad))	843,115,771	14	748,599,706	14
15000	Investments under Equity Method, net (note 6(j))	48,406,366	1	48,355,508	1	25500	Other Financial Liabilities (note 6(z))	3,943,113	-	2,392,308	-
15500	Other Financial Assets, net (note 6(k), (q), 7, 8 and 10)	50,439,313	1	44,615,014	1	26000	Lease Liabilities (note 6(ae))	1,205,735	-	1,403,542	-
18000	Investments Property, net (note 6(l))	23,577,763	-	23,655,232	-	29300	Deferred Tax Liabilities (note 6(ah))	18,888,500	-	18,680,428	-
18500	Property and Equipment, net (note 6(m), (q) and 11)	141,381,200	2	140,363,879	3	29500	Other Liabilities (note 6(ag))	12,316,639	-	11,061,457	-
18600	Right-of-Use Assets, net (note 6(n))	1,325,280	-	1,523,432	-		Total liabilities	5,443,573,246	93	5,134,770,813	93
19000	Intangible Assets (note 6(o))	1,082,826	-	940,059	-		Equity attributable to owners of parent (note 6(ai)):				
19300	Deferred Tax Assets (note 6(ah))	5,154,391	-	3,950,596	-	31101	Capital Stock	103,125,000	2	103,125,000	2
19500	Other Assets (note 6(p) and 11)	21,799,323	-	11,794,094	-	31500	Capital Surplus	140,260,226	3	140,260,226	3
							Retained earnings:				
						32001	Legal Reserve	8,527,130	-	7,840,566	-
						32003	Special Reserve	51,757,163	1	47,637,781	1
						32011	Unappropriated Retained Earnings	18,389,278	-	15,872,777	-
							Total retained earnings	78,673,571	1	71,351,124	1
						32500	Other Equity	55,827,433	1	59,984,244	1
							Total equity	377,886,230	7	374,720,594	7
	Total assets	\$ 5,821,459,476	100	5,509,491,407	100		Total liabilities and equity	\$ 5,821,459,476	100	5,509,491,407	100

(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, 2020 and 2019

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

		2020		2019		Change
		Amount	%	Amount	%	%
Revenue and income:						
41000	Interest income (note 6(aj) and 10)	\$ 64,396,419	50	76,585,405	61	(16)
51000	Less: Interest expense (note 6(aj))	<u>26,558,059</u>	<u>21</u>	<u>39,340,093</u>	<u>31</u>	(32)
	Net income of interest (note 6(aj))	37,838,360	29	37,245,312	30	2
Non-interest income, net						
49800	Service fees, net (note 6(ak) and 10)	4,591,055	4	4,052,553	3	13
49825	Gains (losses) on real estate investment, net (note 6(l))	86,080	-	109,726	-	(22)
49890	Share of profits (losses) of associates and joint ventures accounted for using equity method (note 6(j))	2,031,735	2	4,007,469	3	(49)
49810	Premium gains (losses) (note 6(as))	27,705,605	22	30,025,311	24	(8)
49820	Gains (losses) on financial assets or liabilities measured at fair value through profit or loss (note 6(c) and (al))	65,751,691	51	53,531,269	42	23
49835	Realized gains (losses) from financial assets measured at fair value through other comprehensive income (note 6(am) and 10)	3,852,288	3	4,069,574	3	(5)
49850	Net gains (losses) from derecognition of financial assets measured at amortized cost (note 6(i))	2,366,851	2	197,707	-	1,097
49870	Foreign exchange gains (losses)	(16,790,704)	(13)	(5,179,588)	(4)	(224)
49880	Impairment gain and reversal (impairment loss) of assets (note 6(q))	(49,764)	-	(2,835)	-	(1,655)
49898	Profits (losses) reclassified to other comprehensive income using overlay approach (note 6(c))	(476,817)	-	(2,654,314)	(2)	82
	Net other non-interest income (losses)					
49943	Inventory sales income (note 6(p) and (an))	846,871	1	500,387	-	69
48100	Subsidized income from government (note 6(an))	7,784,351	6	8,774,387	7	(11)
49999	Other miscellaneous income (note 6(ae) and (an))	144,509	-	812,741	1	(82)
58090	Excess interest expenses (note 6(g) and (an))	<u>(8,538,127)</u>	<u>(7)</u>	<u>(8,856,111)</u>	<u>(7)</u>	4
	Net Revenue	<u>127,143,984</u>	<u>100</u>	<u>126,633,588</u>	<u>100</u>	-
58100	Bad debt expense and reserve for guarantees (note 6(h))	<u>(307,686)</u>	<u>-</u>	<u>(7,340,443)</u>	<u>(6)</u>	(96)
58300	Provisions for policyholder's reserve premium	<u>(95,364,651)</u>	<u>(75)</u>	<u>(85,760,846)</u>	<u>(68)</u>	11
Expenses:						
58501	Employee benefits expenses (note 6(ao) and 10)	(14,555,773)	(11)	(14,147,983)	(11)	3
58503	Depreciation and amortization expenses (note 6(ap))	(1,755,957)	(1)	(1,676,822)	(1)	5
58599	Other general and administrative expenses (note 6(aq))	<u>(6,622,762)</u>	<u>(5)</u>	<u>(7,201,369)</u>	<u>(6)</u>	(8)
	Total Expenses	<u>(22,934,492)</u>	<u>(17)</u>	<u>(23,026,174)</u>	<u>(18)</u>	-
	Profit from continuing operations before tax	8,537,155	8	10,506,125	8	(19)
61003	Less: Income Tax Expenses (note 6(ah))	<u>(457,776)</u>	<u>-</u>	<u>1,469,189</u>	<u>1</u>	(131)
	Net profit	<u>8,994,931</u>	<u>8</u>	<u>9,036,936</u>	<u>7</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))	(1,074,332)	(1)	(1,641,306)	(1)	35
69565	Change in fair value of financial liability attributable to change in credit risk of liability	23,007	-	(299,554)	-	108
69567	Unrealized gains from investments in equity instruments measured at fair value through other comprehensive income	(4,964,232)	(4)	16,512,211	13	(130)
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 (note 6(j))	(135,409)	-	981,218	1	(114)
69569	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss (note 6(ah))	<u>(17,143)</u>	<u>-</u>	<u>(17,289)</u>	<u>-</u>	1
	Components of other comprehensive income that will not be reclassified to profit or loss	<u>(6,133,823)</u>	<u>(5)</u>	<u>15,569,858</u>	<u>13</u>	(139)
69570	Components of other comprehensive income (loss) that will be reclassified to profit or loss					
69571	Exchange differences on translation of foreign financial statements	(1,087,934)	(1)	(447,303)	-	(143)
69583	Unrealized gains (losses) from investments in debt instruments measured at fair value through other comprehensive income	1,039,193	1	873,761	1	19
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 (note 6(j))	(131,695)	-	252,530	-	(152)
69590	Other comprehensive income on reclassification under the overlay approach (note 6(c))	476,817	-	2,654,314	2	(82)
69579	Income tax related to components of other comprehensive income that will be reclassified to profit or loss (note 6(ah))	<u>16,392</u>	<u>-</u>	<u>274,391</u>	<u>-</u>	(94)
	Components of other comprehensive income that will be reclassified to profit or loss	<u>279,989</u>	<u>-</u>	<u>3,058,911</u>	<u>3</u>	(91)
69500	Other comprehensive income	<u>(5,853,834)</u>	<u>(5)</u>	<u>18,628,769</u>	<u>16</u>	(131)
	Total comprehensive income, net of tax for the year	<u>\$ 3,141,097</u>	<u>3</u>	<u>27,665,705</u>	<u>23</u>	(89)
	Basic earnings per share (In dollars) (note 6(ar))	<u>\$ 0.87</u>		<u>0.96</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 Changes in Equity
For the years ended December 31, 2020 and 2019
(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent												
	Share capital		Retained earnings				Total other equity interest						
							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	Total equity
	Common stock	Capital surplus	Legal reserve	Special reserve	Undistributed earnings	Total							
Balance at January 1, 2019	\$ 90,000,000	111,385,226	7,419,683	45,115,538	11,950,770	64,485,991	(659,082)	41,961,868	192,912	4,193	(2,315,717)	39,184,174	305,055,391
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	-	-	-	(3,055)	3,055	-	-	-	-	-	-	-	-
Net income for the period	-	-	-	-	9,036,936	9,036,936	-	-	-	-	-	-	9,036,936
Other comprehensive income	-	-	-	-	(1,721,760)	(1,721,760)	(746,501)	18,934,886	(302,148)	(238)	2,464,530	20,350,529	18,628,769
Total comprehensive income	-	-	-	-	7,315,176	7,315,176	(746,501)	18,934,886	(302,148)	(238)	2,464,530	20,350,529	27,665,705
Capital increase based on land pricing	13,125,000	28,875,000	-	-	-	-	-	-	-	-	-	-	42,000,000
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	(449,541)	(449,541)	-	449,541	-	-	-	449,541	-
Changes in special reserve	-	-	-	-	(502)	(502)	-	-	-	-	-	-	(502)
Balance at December 31, 2019	103,125,000	140,260,226	7,840,566	47,637,781	15,872,777	71,351,124	(1,405,583)	61,346,295	(109,236)	3,955	148,813	59,984,244	374,720,594
Appropriation and distribution of retained earnings:													
Legal reserve appropriated	-	-	686,564	-	(686,564)	-	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	4,119,382	(4,119,382)	-	-	-	-	-	-	-	-
Net income for the period	-	-	-	-	8,994,931	8,994,931	-	-	-	-	-	-	8,994,931
Other comprehensive income	-	-	-	-	(1,126,378)	(1,126,378)	(1,527,486)	(3,698,866)	23,007	32	475,857	(4,727,456)	(5,853,834)
Total comprehensive income	-	-	-	-	7,868,553	7,868,553	(1,527,486)	(3,698,866)	23,007	32	475,857	(4,727,456)	3,141,097
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	(570,645)	(570,645)	-	570,645	-	-	-	570,645	-
Changes in special reserve	-	-	-	-	24,539	24,539	-	-	-	-	-	-	24,539
Balance at December 31, 2020	\$ 103,125,000	140,260,226	8,527,130	51,757,163	18,389,278	78,673,571	(2,933,069)	58,218,074	(86,229)	3,987	624,670	55,827,433	377,886,230

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, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	2020	2019
Cash flows from (used in) operating activities:		
Income before income tax	\$ 8,537,155	10,506,125
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expenses	1,517,078	1,468,018
Amortization expenses	367,515	330,174
Allowance on bad debts	307,686	7,281,170
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	(48,543,912)	(29,024,119)
Interest expense	26,558,059	39,340,093
Interest income	(64,396,419)	(76,585,405)
Dividend income	(9,442,611)	(9,719,217)
Net change in provisions for guarantee reserves	77,477	59,273
Net change in other reserves	93,486,346	85,086,529
Share of profit of associates and joint ventures accounted for using equity method	(2,031,735)	(4,007,469)
Profit reclassified by applying overlay approach	476,817	2,654,314
Loss on disposal of property and equipment	29,415	58,426
Gain on disposal of investments	(2,366,851)	(197,707)
Impairment loss on financial assets	48,298	504
Impairment loss on non-financial assets	1,466	2,331
Subtotal of income of non-cash activities	(3,911,371)	16,746,915
Changes in operating assets and liabilities:		
Changes in operating assets:		
Increase in due from the central bank and call loans to banks	(2,048,699)	(1,445,740)
(Increase) decrease in financial assets measured at fair value through profit or loss	(23,278,262)	1,210,543
(Increase) decrease in financial assets measured at fair value through other comprehensive income	(6,734,892)	142,126,574
Decrease (increase) in investments in debt instruments measured at amortized cost	9,360,181	(29,311,576)
Decrease in financial assets for hedging	1,071	40,622
Decrease (increase) in securities purchased under agreements to resell	248,884	(650,035)
(Increase) decrease in receivables and current tax assets	(6,474,972)	1,183,617
Increase in discounts and loans	(193,855,930)	(126,627,675)
(Increase) decrease in other financial assets	(5,824,299)	7,073,626
(Increase) decrease in other assets	(2,280,955)	2,488,223
Increase in due to the central bank and banks	39,194,175	7,497,394
(Decrease) increase in financial liabilities measured at fair value through profit or loss	(27,720,252)	8,966,786
Increase in financial liabilities for hedging	24,357	12,564
Decrease in securities sold under repurchase agreement	(15,285,817)	(2,065,044)
Increase (decrease) in payable and current tax liabilities	7,979,493	(1,623,789)
Increase (decrease) in deposits	197,263,646	(58,255,938)
Increase in provisions for employee benefits	952,231	1,486,448
Increase (decrease) in other liabilities	605,819	(410,912)
Subtotal of all adjustments	(31,785,592)	(31,557,397)
Cash outflow generated from operations	(23,248,437)	(21,051,272)
Interest received	67,860,782	76,585,405
Dividends received	10,449,320	8,947,206
Interest paid	(31,819,305)	(38,380,904)
Income taxes paid	(1,886,645)	(1,097,341)
Net Cash flows from operating activities	21,355,715	25,003,094

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, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	2020	2019
Cash flows from (used in) investing activities:		
Acquisition of investment properties	\$ -	(1,105,674)
Acquisition of property and equipment	(1,971,581)	(1,125,914)
Proceeds from disposal of property and equipment	1,203	-
Increase in refundable deposits	(6,298,741)	(5,237,347)
Acquisition of intangible assets	(508,742)	(455,312)
Net cash flows used in investing activities	(8,777,861)	(7,924,247)
Cash flows from (used in) financing activities:		
Increase in due to the central bank and banks	15,849,400	-
Increase in commercial papers issued	-	735,000
Decrease in commercial papers payable	(420,000)	-
Increase in guarantee deposits received	649,363	3,129,111
Payment of lease liabilities	(537,934)	(569,136)
Increase in other financial liabilities	1,550,805	1,702,438
Cash dividends paid	(1,424,582)	-
Net cash flows from financing activities	15,667,052	4,997,413
Effect of exchange rate changes on cash and cash equivalents	(1,540,766)	(749,606)
Net increase (decrease) in cash and cash equivalents	26,704,140	21,326,654
Cash and cash equivalents at beginning of period	938,772,395	917,445,741
Cash and cash equivalents at end of period	\$ 965,476,535	938,772,395
Composition of cash and cash equivalents:		
Cash and cash equivalents reported in the statement of financial position	\$ 175,441,965	153,868,113
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	217,017,313	186,167,478
Securities purchased under resell agreements qualifying for cash and cash equivalents under the definition of IAS 7	18,937,355	6,685,600
Other items qualifying for cash and cash equivalents under the definition of IAS 7	554,079,902	592,051,204
Cash and cash equivalents at end of period	\$ 965,476,535	938,772,395

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

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

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

(1) Organization and Business Scope

(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 on March 24, 2021 as well as Board of Directors on March 25, 2021 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 details of impact on the Company and subsidiaries’s adoption of the new amendments beginning January 1, 2020 are as follows:

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

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

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

- (ii) Other amendments

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

- Amendments to IFRS 3 “Definition of a Business”

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

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

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

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

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

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

1) Change in basis for determining cash flows

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

As of December 31, 2020, the Company and subsidiaries had \$29,542 million bond, \$97,231 million loans and derivatives with notional amount of \$1,754 million expected to be subject to LIBOR reform.

2) Hedge accounting

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

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

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

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

3) Disclosure

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

4) Transition

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

(ii) Other amendments

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

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

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

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

Standards or Interpretations	Content of amendment	Effective date per IASB
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	<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>	Effective date to be determined by IASB

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

(4) 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.

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

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

(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.

(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.

(Continued)

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

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, 2020</u>	<u>December 31, 2019</u>
The Company	Bank of Taiwan (“BOT”)	Banking	100 %	100 %
The Company	BankTaiwan Life Insurance (“BTLI”)	Life Insurance	100 %	100 %
The Company	BankTaiwan Securities (“BTS”)	Broker	100 %	100 %
Bank of Taiwan	BankTaiwan Insurance Brokers (“BTIB”)	Life and Property insurance broker	100 %	100 %

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated 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.

(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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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 or joint venture that includes a foreign operation while retaining significant or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, 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.

(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").

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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.

- 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.

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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.

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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.

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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(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 the Company and subsidiaries 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.

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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.

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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.

(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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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.

(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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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.

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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".

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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 the whole contract is measured at fair value through profit or loss and its change of fair value is recognised as current gains or losses, the company does not need to separate the embedded derivative and the insurance contract in terms of recognition.

(n) Lease

(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
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- 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
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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.

As a practical expedient, the Company and subsidiaries elect not to assess whether all rent concessions that meets all the following conditions are lease modifications or not:

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

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

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(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.

(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.

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(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.

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. ECLs(or reversal) should be recognized as impairment loss (gain) in profit or loss.

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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The Company and subsidiaries categorize and recognize allowance for doubtful accounts according to the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans and subsidiaries' own administration guideline. The Company and subsidiaries use the higher amounts of these two rules above as allowance for doubtful accounts.

Period of loans under one year is recognized as short-term; over one year but under seven years is recognized as medium-term; over seven years is recognized as long-term. Loans with fully mortgage, pledge or other legal guarantee object are recognized as secured loans. Nonperforming loans refer to loans whose repayment of principal or interest have been overdue for more than 3 months, as well as any loan whose principal debtors and surety have been sued for non-payment or the underlying collateral has been disposed, although the repayment of principal or interest have not been overdue for more than 3 months. All non-performing loans shall be transferred to non-accrual loans account item within six months after the end of the payment period. However, those restructured loans to be performed in accordance with the agreement shall not be subject to this restriction. Interest shall not be accrued to nonperforming loans that are transferred to non-accrual loans account item. However, loan collection shall continue as per the terms of the relevant agreement, and accrued interest shall continue to be posted to the interest column of the non-accrual loans account for each borrower, or a notation of such shall be made.

The write-off of non-performing loans and non-accrual loans shall be audited by auditing department, and then be authorized by the general manager and the Board of Managing Directors / Directors. Also, the audit committee shall be notified. If the write-off is authorized by the Board of Managing Directors, it should be reported to the Board of Directors for future reference additionally. When recovering non-accrual loans, the Bank should credit account "allowance for doubtful accounts."

(ii) Impairment loss of non financial assets

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.

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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.

(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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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(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.

(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.

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

- 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.

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%.

(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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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.

- 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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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.

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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- (iii) Life insurance businesses are allowed to increase their provision for reserve after obtaining approval from the authority, if necessary.
- (iv) If the accumulated balance of the reserve decreases to 20% of its accumulated balance at the end of the previous year and lasts for 3 months, the rate of the provision for foreign exchange gain from the non-hedged foreign currency assets shall be raised to 75%, and the accumulated balance shall be restored at least up to 3 times of the lower limit of offsetting.

The exposure ratio mentioned in (i) refers to the ratio of the 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 etc.

Exchange gains and losses of non-hedged foreign assets in (i) and (ii) refer to the gains and losses generated from the 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 condition mentioned above is the average hedge cost, which is greater than or equals to 2%, based on the transaction date of 12 months, with a total period of one year currency swaps with NTD against USD from December of last year to November of the current year.

(v) Future trader's equity

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

(w) Revenue and operating expense recognition

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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- 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.
- 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.

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

(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.

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 investment property 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.

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

(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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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(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
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- 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 overseas 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
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(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 are recognized in profit or loss.

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

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

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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Deferred tax assets and liabilities are offset if the following criteria are met:

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

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.

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

(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.

(Continued)

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

(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.

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

(a) Judgment of whether the Group has substantive control over its investees

The Company and subsidiaries hold 21.37% of the outstanding voting shares of Tang Eng Iron Works Co., Ltd., 25.07% of the outstanding voting shares of Hua Nan Financial Holdings Co., Ltd., 17.84% of the outstanding voting shares of Taiwan Fire & Marine Insurance Company, Ltd., 16.21% of the outstanding voting shares of Taiwan Business Bank and 10.01% of the outstanding voting shares of Taiwan Stock Exchange Corporation. The Company and subsidiaries are the single largest shareholder of the investees. Although the remaining shares of these companies are not concentrated within specific shareholders, the Company and subsidiaries still cannot obtain more than half of the total number of these companies' directors, and they also cannot obtain more than half of the voting rights at a shareholders' meeting. Therefore, the Company and subsidiaries do not have significant influence on these companies.

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

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

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

(Continued)

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

(c) 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.

(d) 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 4 — 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.

(e) 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

(f) 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.

(g) 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.

(h) 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, 2020	December 31, 2019
Cash on hand	\$ 13,254,327	12,143,189
Foreign currency on hand	14,339,317	13,515,714
Bank deposits	21,321,401	9,535,305
Cash in transit	-	178,426
Notes and checks for clearing	4,641,210	4,456,443
Placement with banks	121,875,661	114,038,219
Cash equivalents	29,329	19,970
Less: Allowance for bad debts — placement with banks	(19,280)	(19,153)
Total	<u>\$ 175,441,965</u>	<u>153,868,113</u>

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

	December 31, 2020	December 31, 2019
Cash and cash equivalents in consolidated balance sheets	\$ 175,441,965	153,868,113
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	217,017,313	186,167,478
Bills & Bonds Purchased under Resell Agreements qualifying cash and cash equivalents under the definition of IAS 7	18,937,355	6,685,600
Investments qualifying cash and cash equivalents under the definition of IAS 7	554,079,902	592,051,204
Total	<u>\$ 965,476,535</u>	<u>938,772,395</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, 2020	December 31, 2019
Call loans to banks	\$ 177,294,860	164,756,870
Less: allowance for doubtful accounts — call loans to banks	107,101	88,767
Deposit reserve — account A and account B	119,322,908	97,220,751
Deposit reserve — foreign — currency deposits	751,888	696,546
Deposits in Central Bank — oversea branches	1,892,003	4,513,352
Deposits in Central Bank	294,312,387	293,488,120
Total	<u>\$ 593,466,945</u>	<u>560,586,872</u>

(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, 2020 and 2019, 60% of the reserve deposits collected by the subsidiary, BOT, on behalf of a government institution amounting to \$5,112,387 thousand and \$4,288,120 thousand, respectively, were deposited in the Central Bank and their use is restricted according to the regulations.
- (iii) For the purpose of coordinating with the Central Bank to provide relives to the businesses affected by Covid-19 and alleviating the economic impact, the subsidiary, BOT, applied to the Central Bank for a project loan of 30 billion completely guaranteed by deposit reserve account B. Please refer to note 6(s) for the amount drawn down as of December 31, 2020.
- (c) Financial Assets Measured at Fair Value through Profit or Loss
- (i) Financial assets measured at fair value through profit or loss were as follows:

	December 31, 2020	December 31, 2019
Financial assets designated at fair value through profit or loss	\$ 18,125,821	18,906,332
Add: Valuation adjustment	<u>903,754</u>	<u>455,136</u>
Subtotal	<u>19,029,575</u>	<u>19,361,468</u>
Financial assets mandatorily measured at fair value through profit or loss	240,600,296	218,352,302
Add: Valuation adjustment	<u>104,728,913</u>	<u>55,908,250</u>
Subtotal	<u>345,329,209</u>	<u>274,260,552</u>
Total	<u><u>\$ 364,358,784</u></u>	<u><u>293,622,020</u></u>

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

	December 31, 2020	December 31, 2019
Government bonds, corporate bonds, financial bonds and others	\$ 18,125,821	18,906,332
Add: Valuation adjustment	<u>903,754</u>	<u>455,136</u>
Total	<u><u>\$ 19,029,575</u></u>	<u><u>19,361,468</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, 2020	December 31, 2019
Commercial papers	\$ 33,549,681	29,557,348
Stocks and beneficiary certificates	194,319,678	174,348,483
Corporate bonds	736,878	1,194,938
Convertible bonds	2,264,583	2,152,504
Financial bonds	9,671,500	8,071,500
Foreign bonds	-	2,947,802
Foreign exchange call options	1,950	3,063
Bond futures margin	333	19,970
Currency futures	5,195	5,154
Commodity futures margin	50,498	51,540
Add: Valuation adjustment—Non derivative financial instruments	91,069,251	43,864,379
Valuation adjustment—Cross currency swaps	313,673	29,767
Valuation adjustment—Swaps	11,922,947	10,416,172
Valuation adjustment—Interest rate swaps	496	51,026
Valuation adjustment—Forward foreign exchange	185,434	305,761
Valuation adjustment—Asset swaps (note)	1,244,816	1,240,176
Valuation adjustment—Foreign exchange call options	(248)	3,790
Valuation adjustment—Fixed rate commercial paper	(7,456)	(3,148)
Valuation adjustment—Commodity futures	-	327
Total	\$ 345,329,209	274,260,552

(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:

	December 31, 2020	December 31, 2019
Foreign exchange call options	\$ 498,163	980,913
Swaps	540,928,666	593,909,780
Interest rate swaps	281,000	15,173,142
Forward foreign exchange	49,109,008	41,734,738
Fixed rate commercial paper	800,000	200,000
Asset swaps	14,303,927	43,366,828
Cross currency swaps	10,615,900	1,086,400
Commodity futures	-	240,207
Total	<u>\$ 616,536,664</u>	<u>696,692,008</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(al).
- (vii) As of December 31, 2020, 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:

	December 31, 2020	December 31, 2019
Financial assets at fair value through profit or loss:		
TSEC and TPEX stocks	\$ 11,772,594	12,854,508
Exchange Traded Funds	3,285,086	12,005,595
Beneficiary certificates	222,015	297,080
Real estate securitization	2,294,699	1,949,335
Foreign stocks	515,952	174,134
Foreign exchange traded funds	2,953,105	4,486,177
Foreign mutual funds	565,199	714,115
Financial bonds	10,116,071	8,420,906
Foreign bonds	-	2,797,387
	<u>\$ 31,724,721</u>	<u>43,699,237</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:

	2020	2019
Profits reported in profit or loss for applying IFRS 9	\$ 3,678,642	4,590,532
Less: profits reported in profit or loss if applied IAS 39	<u>3,201,825</u>	<u>1,936,218</u>
Profits on reclassification under the overlay approach	<u><u>\$ 476,817</u></u>	<u><u>2,654,314</u></u>

Due to the overlay approach adjustments, profits (losses) on financial assets and liabilities at fair value through profit or loss adjust from \$65,751,691 and \$53,531,269 thousands to \$65,274,874 and \$50,876,955 thousands in 2020 and 2019, respectively.

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

	December 31, 2020	December 31, 2019
Debt instruments measured at fair value through other comprehensive income:		
Negotiable certificates deposits	\$ 666,115,000	718,770,000
Government bonds	49,830,499	54,402,969
Financial bonds	22,775,874	18,982,698
Corporate bonds	72,022,673	47,003,693
Financial asset securitization beneficiary certificates	-	250,716
Foreign government bonds, corporate bonds, financial bonds, and NCDs	87,617,925	80,794,075
Add: Valuation adjustment	<u>2,673,204</u>	<u>1,602,823</u>
Subtotal	<u>901,035,175</u>	<u>921,806,974</u>
Equity instruments measured at fair value through other comprehensive income:		
TSEC and TPEX stocks	45,951,152	45,232,631
Add: Valuation adjustment	<u>52,248,110</u>	<u>56,800,055</u>
Subtotal	<u>98,199,262</u>	<u>102,032,686</u>
Total	<u><u>\$ 999,234,437</u></u>	<u><u>1,023,839,660</u></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.

(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, 2020 and 2019, the dividends of \$3,457,100 and \$3,555,239 thousand, related to equity investments at fair value through other comprehensive income held on December 31, 2020 and 2019 separately were recognized. In addition, the dividends of \$134,411 and \$111,187 thousand, related to the investments derecognized was recognized in 2020 and 2019.
- 2) As of December 31, 2020 and 2019, 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 \$4,204,565 and \$4,193,426 thousand, and the Company and subsidiaries realized a loss of \$367,204 and \$335,944 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(am).

(iv) As of December 31, 2020, 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:

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

The content of hedging liability is as follows:

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

(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.

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

The net gains(losses) of above hedging instruments in 2020 and 2019 are \$(44,188) thousand and \$(58,149) thousand, respectively. The net gains(losses) of hedged items embedded in hedging instrument in 2020 and 2019 are \$23,952 thousand and \$53,890 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, 2020	December 31, 2019
Bills and bonds purchased under resell agreements:		
Negotiable certificates of deposit	\$ 2,210,212	-
Commercial paper	16,727,143	6,685,600
Government bonds	582,594	232,131
Corporate bonds	301,033	900,380
Total	\$ 19,820,982	7,818,111
	December 31, 2020	December 31, 2019
Bills and bonds sold under repurchase agreements:		
Commercial papers	\$ 29,984	29,973
Government bonds	5,034,485	19,976,624
Corporate bonds	2,201,380	2,700,568
Financial bonds	1,936,198	1,790,702
Convertible Corporate bonds	10,003	-
Total	\$ 9,212,050	24,497,867

(Continued)

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

(g) Receivables, net

	December 31, 2020	December 31, 2019
Accounts receivable	\$ 997,473	1,115,147
Long-term receivables — payment on behalf of the government	15,592,889	16,350,219
Accrued incomes	1,150,015	1,128,731
Interests receivable	13,533,552	16,997,915
Premiums receivable	110,495	139,660
Other tax refund receivable	510	-
Reinsurance current receivable	1,039	-
Notes receivable and acceptance notes receivable	2,274,229	1,236,127
Accounts receivable factoring without recourse	9,753,258	12,132,077
Margin loans receivable	3,187,032	3,050,109
Accounts receivable for settlement	6,073,764	3,550,932
Dividends receivable	6,449	500
Others — settlement prices	595,236	-
Others — replenishment of national treasury	8,034,163	7,362,748
Others — undelivered spot exchange	-	585
Other — ATM temporary receipts, payments and interbank difference	2,076,853	2,291,552
Others — FX Swaps	68,342	1,709,202
Others — pending settlement	2,035,870	414
Others	493,665	669,830
Others — Investment	3,787,951	33,056
Subtotal	69,772,785	67,768,804
Less: allowance for doubtful accounts	144,971	148,619
Total	<u><u>\$ 69,627,814</u></u>	<u><u>67,620,185</u></u>

In accordance with Executive Yuan Tai-79-JEN-Cheng-SZU-tsu No. 14525, and regulations of Retired Civil Servants Lump-sum Retirement Payment and Old-age Benefits and Preferential Interest Deposits which excess preferential interest expenses recognized as Excess interest expenses of Non-interest income, net were \$5,931,823 thousand and \$6,375,883 thousand in 2020 and 2019, respectively, due to executing the government premium savings policy.

(Continued)

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

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

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

(h) Loans and Discounts, net

	December 31, 2020	December 31, 2019
Discounts and export / import bills negotiations	\$ 2,460,383	2,044,282
Short-term loans and overdrafts	687,796,509	658,542,938
Short-term secured loans and secured overdrafts	72,468,855	73,199,038
Life insurance loans	5,864,206	5,805,338
Accounts receivable financing	113,974	128,708
Accounts receivable secured financing	3,397	5,138
Medium-term loans	566,538,267	551,295,477
Medium-term secured loans	311,117,503	258,457,388
Long-term loans	161,650,023	155,857,007
Long-term secured loans	1,087,053,502	996,669,757
Non-performing loans	<u>3,195,394</u>	<u>3,175,618</u>
Subtotal	2,898,262,013	2,705,180,689
Less: allowance for doubtful accounts	<u>44,712,999</u>	<u>45,194,732</u>
Total	<u><u>\$ 2,853,549,014</u></u>	<u><u>2,659,985,957</u></u>

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

(Continued)

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

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

	2020	2019
Bad debts	\$ 237,303	7,285,102
Provisions for guarantee liabilities	77,477	59,273
Provisions for loan commitment liabilities	(2,574)	4,075
Provisions for other liabilities	(4,520)	(8,007)
Total	\$ 307,686	7,340,443

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

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

(i) Financial Assets Measured at Amortized Cost

	December 31, 2020	December 31, 2019
Negotiable certificates deposits	\$ 1,304,570	1,305,899
Commercial papers	23,259,650	36,894,248
Government bonds	98,772,177	106,514,020
Foreign government bonds, corporate bonds, financial bonds, and NCDs	250,102,368	252,583,847
Financial bonds	24,341,679	26,262,027
Corporate bonds	51,517,544	41,082,210
	449,297,988	464,642,251
Less: Accumulated impairment	(141,015)	(134,977)
	\$ 449,156,973	464,507,274

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.

- (i) During 2020 and 2019, 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 \$2,366,851 and \$197,707 thousand.
- (ii) As of December 31, 2020, the Company's and subsidiaries' financial assets measured at amortized cost were not used as collateral, please refer to note 11.

(Continued)

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

(j) Investments under Equity Method, net

	December 31, 2020		December 31, 2019	
	Percentage of Ownership (%)	Amount	Percentage of Ownership (%)	Amount
Hua Nan Financial Holdings Co., Ltd.	25.07	\$ 47,483,085	25.07	47,306,715
Tang Eng Iron Works Co., Ltd.	21.37	901,078	21.37	1,027,317
Tai Yi Real Estate Management Co., Ltd.	30.00	22,203	30.00	21,476
Total		<u>\$ 48,406,366</u>		<u>48,355,508</u>

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

	2020	2019
Hua Nan Financial Holdings Co., Ltd.	\$ (283,119)	1,223,172
Tang Eng Iron Works Co., Ltd.	16,015	10,576
Total	<u>\$ (267,104)</u>	<u>1,233,748</u>

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

	2020	2019
Hua Nan Financial Holdings Co., Ltd.	\$ 2,169,621	4,000,228
Tang Eng Iron Works Co., Ltd.	(142,254)	3,196
Tai Yi Real Estate Management Co., Ltd.	4,368	4,045
Total	<u>\$ 2,031,735</u>	<u>4,007,469</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:

Aassociates Company	The relations between the Combined company	Business place/ registration country	The proportion of ownership interest and voting rights	
			December 31, 2020	December 31, 2019
Hua Nan Financial Holdings Co., Ltd.	Followed the FHC to investment, such as banking, finance bills industry	Taiwan	25.07 %	25.07 %

(Continued)

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

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

	December 31, 2020	December 31, 2019
Hua Nan Financial Holdings Co., Ltd.	\$ 58,823,196	67,147,859

1) Summarized of Financial Information

Hua Nan Financial Holding Co., Ltd.

	December 31, 2020	December 31, 2019
Total Assets	\$ 3,101,082,238	2,731,828,227
Total Liabilities	(2,911,678,073)	(2,543,127,570)
Net Assets	<u><u>\$ 189,404,165</u></u>	<u><u>188,700,657</u></u>
The Company holding shares	<u><u>\$ 47,483,085</u></u>	<u><u>47,306,715</u></u>
	2020	2019
Net income	\$ 8,653,353	15,955,368
Other comprehensive income	(1,129,275)	4,879,056
Total comprehensive income	<u><u>\$ 7,524,078</u></u>	<u><u>20,834,424</u></u>
The Company holding shares		
Investment income	\$ 2,169,621	4,000,228
Other comprehensive income	(283,119)	1,223,172

- 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 \$2,169,621 thousand and \$4,000,228 thousand in 2020 and 2019, respectively.

(iv) Maturity associate enterprise

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

	December 31, 2020	December 31, 2019
Total investment in book value	<u><u>\$ 923,281</u></u>	<u><u>1,048,793</u></u>

(Continued)

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

	2020	2019
Investment income	\$ (137,886)	7,241
Other comprehensive income	<u>16,015</u>	<u>10,576</u>
Total comprehensive income	<u>\$ (121,871)</u>	<u>17,817</u>

- 2) Some invested company were accounted for using the equity method and have not audited by auditors. The related investment loss is \$4,368 thousand and \$4,045 thousand in 2020 and 2019, respectively.

(v) Collateral

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

(k) Other Financial Assets, net

	December 31, 2020	December 31, 2019
Short-term advances	\$ 37,529,779	40,091,153
Less: allowance for doubtful accounts — short-term advances	(39,967)	(44,363)
Remittances purchased	1,454	2,316
Less: allowance for doubtful accounts — remittances purchased	(15)	(23)
Overdue receivables	3,992	4,228
Less: allowance for doubtful accounts — overdue receivables	(3,992)	(4,199)
Separate account insurance product assets	3,018,443	1,429,769
Time deposits over three months	9,910,500	3,026,800
Call loans to security subsidiary	-	89,970
Less: allowance for doubtful accounts — Call loans to security subsidiary	-	(6)
Others	19,129	19,379
Less: cumulative impairment — others	<u>(10)</u>	<u>(10)</u>
Total	<u>\$ 50,439,313</u>	<u>44,615,014</u>

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

(Continued)

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

(l) Investment Property

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

	<u>Land and improvements</u>	<u>Buildings</u>	<u>Total</u>
Cost or deemed cost:			
Balance at December 31, 2020 (Same as beginning balance)	\$ <u>20,972,626</u>	<u>3,240,948</u>	<u>24,213,574</u>
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>
Depreciation:			
Balance at January 1, 2020	\$ -	558,342	558,342
Depreciation	<u>-</u>	<u>77,469</u>	<u>77,469</u>
Balance at December 31, 2020	\$ <u>-</u>	<u>635,811</u>	<u>635,811</u>
Balance at January 1, 2019	\$ -	478,887	478,887
Depreciation	-	72,967	72,967
Reclassification from property	<u>-</u>	<u>6,488</u>	<u>6,488</u>
Balance at December 31, 2019	\$ <u>-</u>	<u>558,342</u>	<u>558,342</u>
December 31, 2020	\$ <u>20,972,626</u>	<u>2,605,137</u>	<u>23,577,763</u>
January 1, 2019	\$ <u>20,191,503</u>	<u>2,407,522</u>	<u>22,599,025</u>
December 31, 2019	\$ <u>20,972,626</u>	<u>2,682,606</u>	<u>23,655,232</u>

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

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Fair value of investment properties	\$ <u>25,049,888</u>	<u>24,853,563</u>

(Continued)

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

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

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.

Valuation technique	Significant unobservable inputs	Inter relationship between key unobservable inputs and fair value measurement
The management evaluate and measure the effect of using techniques of comparison approach or Land development analysis approach. After evaluating, the bank make judgment about the assessment that is using to align the market participants.	<ul style="list-style-type: none"> • 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).

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 in December 31, 2020 and 2019.

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, 2020	December 31, 2019
Capitalization of earning percentage	2.05%~3.45%	2.10%~3.35%

(Continued)

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

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

Location	2020	2019
Rental revenue	\$ 249,182	265,526
Direct operating cost of the investment property for the period (comprise maintenance fee)	(163,102)	(155,800)
Net profit of investment property	<u><u>\$ 86,080</u></u>	<u><u>109,726</u></u>

(iv) As of December 31, 2020 and 2019, 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 2020 and 2019 were as follows:

	Land and Land improvements	Buildings	Machinery and equipment	Transportation equipment	Miscellaneous equipment	Leasehold improvements	Construction in progress and prepayment for equipment	Total
Cost:								
Balance at January 1, 2020	\$ 129,621,868	15,937,489	6,261,586	1,143,386	1,002,105	904,627	405,376	155,276,437
Additions	-	24,161	818,716	112,411	35,145	8,699	972,449	1,971,581
Disposals	(1,325)	(118,235)	(240,209)	(95,406)	(62,794)	(483)	-	(518,452)
Reclassification	-	322,616	39,546	3,939	23,646	12,724	(430,292)	(27,821)
Effect of change in exchange rates	-	-	(7,041)	(1,790)	(2,072)	(6,584)	-	(17,487)
Balance at December 31, 2020	<u>129,620,543</u>	<u>16,166,031</u>	<u>6,872,598</u>	<u>1,162,540</u>	<u>996,030</u>	<u>918,983</u>	<u>947,533</u>	<u>156,684,258</u>
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	<u>129,621,868</u>	<u>15,937,489</u>	<u>6,261,586</u>	<u>1,143,386</u>	<u>1,002,105</u>	<u>904,627</u>	<u>405,376</u>	<u>155,276,437</u>
Accumulated depreciation:								
Balance at January 1, 2020	14,966	7,730,262	4,592,199	843,278	817,752	788,017	-	14,786,474
Depreciation	-	333,236	433,999	50,863	31,095	39,865	-	889,058
Disposal	-	(118,084)	(217,684)	(93,550)	(58,033)	(483)	-	(487,834)
Effect of change in exchange rates	-	-	(4,194)	(1,226)	(1,596)	(5,261)	-	(12,277)
Balance at December 31, 2020	<u>14,966</u>	<u>7,945,414</u>	<u>4,804,320</u>	<u>799,365</u>	<u>789,218</u>	<u>822,138</u>	<u>-</u>	<u>15,175,421</u>
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>
Accumulated impairment:								
Balance at January 1, 2020	\$ 126,084	-	-	-	-	-	-	126,084
Impairment loss	1,553	-	-	-	-	-	-	1,553
Balance at December 31, 2020	<u>127,637</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>127,637</u>
Balance at January 1, 2019	124,869	-	-	-	-	-	-	124,869
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>
Carrying amounts:								
December 31, 2020	<u>\$ 129,477,940</u>	<u>8,220,617</u>	<u>2,068,278</u>	<u>363,175</u>	<u>206,812</u>	<u>96,845</u>	<u>947,533</u>	<u>141,381,200</u>
January 1, 2019	<u>\$ 87,242,592</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>
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>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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, 2020 and 2019, the total revaluation increments for land were \$81,562,920 thousand and \$81,563,186 thousand. The total revaluation increments for Buildings were both \$142,852 thousand.

Based on the assessment in December, 2020, the carrying amount of the lands which have indicators of impairment was determined to be \$169,852 thousand higher than its recoverable amount of \$168,299 thousand, and an impairment loss amounted to \$1,553 thousand was recognized. In 2019, the carrying amount of the lands which have indicator of impairment was determined to be \$171,067 thousand higher than its recoverable amount of \$169,852 thousand. Therefore, the amount of \$1,215 thousand, which was initially recognized as impairment, has been reversed.

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

As of December 31, 2020, the Company's and subsidiaries' property and equipment neither served as a guarantee or collateral, nor were they pledged.

(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, 2020	\$ 20,489	1,894,790	31,229	97,150	-	2,043,658
Additions	3,648	289,745	6,332	36,667	-	336,392
Leases expired	(6,786)	(162,028)	(11)	(21,296)	-	(190,121)
Effect of changes in exchange rates	(14)	(11,378)	(181)	-	-	(11,573)
Balance at December 31, 2020	<u>\$ 17,337</u>	<u>2,011,129</u>	<u>37,369</u>	<u>112,521</u>	<u>-</u>	<u>2,178,356</u>
Balance at January 1, 2019	\$ -	-	-	-	-	-
Effects of retrospective application	11,283	1,634,058	22,219	39,852	52	1,707,464
Balance at January 1, 2019	11,283	1,634,058	22,219	39,852	52	1,707,464
Additions	9,666	290,463	9,122	61,140	-	370,391
Leases expired	(460)	(29,731)	(112)	(3,842)	(52)	(34,197)
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>

(Continued)

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

	Land	Buildings	Machinery and equipment	Transportation equipment	Miscellaneous equipment	Total
Accumulated depreciation and impairment losses:						
Balance at January 1, 2020	\$ 4,494	476,895	6,340	32,497	-	520,226
Depreciation	5,080	499,969	8,939	36,563	-	550,551
Changes in leases	(1,960)	(190,080)	(11)	(21,296)	-	(213,347)
Effect of changes in exchange rates	(3)	(4,313)	(38)	-	-	(4,354)
Balance at December 31, 2020	<u>\$ 7,611</u>	<u>782,471</u>	<u>15,230</u>	<u>47,764</u>	<u>-</u>	<u>853,076</u>
Balance at January 1, 2019	\$ -	-	-	-	-	-
Depreciation	4,941	508,013	6,420	36,339	52	555,765
Changes in leases	(451)	(29,817)	(73)	(3,842)	(52)	(34,235)
Effect of changes in exchange rates	4	(1,301)	(7)	-	-	(1,304)
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, 2020	<u>\$ 9,726</u>	<u>1,228,658</u>	<u>22,139</u>	<u>64,757</u>	<u>-</u>	<u>1,325,280</u>
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 2020 and 2019 were as follows:

	Computer software
Costs:	
Balance at January 1, 2020	\$ 4,404,116
Additions	508,742
Balance at December 31, 2020	<u>\$ 4,912,858</u>
Balance at January 1, 2019	\$ 3,948,804
Additions	455,312
Balance at December 31, 2019	<u>\$ 4,404,116</u>
Amortization:	
Balance at January 1, 2020	\$ 3,464,057
Amortization for the year	365,975
Balance at December 31, 2020	<u>\$ 3,830,032</u>
Balance at January 1, 2019	\$ 3,133,930
Amortization for the year	330,127
Balance at December 31, 2019	<u>\$ 3,464,057</u>
Carrying value:	
Balance at December 31, 2020	<u>\$ 1,082,826</u>
Balance at January 1, 2019	<u>\$ 814,874</u>
Balance at December 31, 2019	<u>\$ 940,059</u>

(Continued)

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

(p) Other Assets

	December 31, 2020	December 31, 2019
Foreclosed collaterals and residuals taken over, net	\$ 1,009,493	1,079,309
Advance payments	9,280,806	7,733,122
Operating guarantee deposits and settlement funds	284,961	86,724
Refundable deposits	7,790,585	1,491,844
Temporary payments and suspense accounts	2,905,182	618,988
Inventories	396,343	716,557
Others	131,953	67,550
Total	<u><u>\$ 21,799,323</u></u>	<u><u>11,794,094</u></u>

(i) Foreclosed collaterals and residuals taken over, net

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

(ii) Advance payment

	December 31, 2020	December 31, 2019
Prepaid expenses	\$ 145,822	266,162
Prepaid interests	9,777	9,968
Business tax carry forward	678	810
Prepaid dividends	1,424,582	-
Other prepayment — Interbank Fund Transfer Special Accounts	7,602,154	7,380,247
Other prepayment — other	97,793	75,935
Total	<u><u>\$ 9,280,806</u></u>	<u><u>7,733,122</u></u>

(iii) Inventories

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

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

(Continued)

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

(q) Impairment

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

	2020	2019
Beginning balance	\$ 357,158	354,738
Impairment loss recognized for the current period	61,716	33,571
Reversal of impairment loss for the current period	(11,952)	(30,736)
Effect of change in exchange rates and others	(9,691)	(415)
Ending balance	<u><u>\$ 397,231</u></u>	<u><u>357,158</u></u>

Details of accumulated impairment were as follows:

	December 31, 2020	December 31, 2019
Financial assets measured at amortized cost	\$ 141,015	134,977
Other financial assets	10	10
Property and equipment	127,637	126,084
Financial assets at fair value through other comprehensive income	123,534	90,576
Other assets	5,035	5,511
Total	<u><u>\$ 397,231</u></u>	<u><u>357,158</u></u>

(r) Deposits of Central Bank and other banks

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

(s) Loans from Central Bank

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

(Continued)

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

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

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

	December 31, 2020	December 31, 2019
Financial liabilities held for trading	\$ 2,811	4,148
Add: Valuation adjustment	<u>17,331,948</u>	<u>13,415,817</u>
Subtotal	<u>17,334,759</u>	<u>13,419,965</u>
Financial liabilities designated at fair value through profit or loss	13,207,000	44,985,000
Add: Valuation adjustment	<u>1,357,305</u>	<u>1,214,351</u>
Subtotal	<u>14,564,305</u>	<u>46,199,351</u>
Total	<u><u>\$ 31,899,064</u></u>	<u><u>59,619,316</u></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”.

(iii) Financial liabilities held for trading

	December 31, 2020	December 31, 2019
Foreign exchange options premium	\$ 2,811	4,148
Add: Valuation adjustment—Foreign exchange options premium	(1,106)	2,702
Valuation adjustment—Swaps	15,221,616	12,285,995
Valuation adjustment—Cross currency swaps	87,168	29,367
Valuation adjustment—Interest rate swaps	959,737	429,439
Valuation adjustment—Forward foreign exchanges	428,192	152,582
Valuation adjustment—Asset swaps	<u>636,341</u>	<u>515,732</u>
Total	<u><u>\$ 17,334,759</u></u>	<u><u>13,419,965</u></u>

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

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

(Continued)

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

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

Name of bond	Conditions				Type	Bond	
	Beginning date	Maturity date	Coupon rate	Face value		Amount	
						December 31, 2020	December 31, 2019
2017-1 Senior unsecured financial bonds-A	2017/04/07	2047/04/07	0 %	USD \$500 million	Senior unsecured financial bond	\$ -	14,995,000
2017-1 Senior unsecured financial bonds-B	2017/04/07	2047/04/07	0 %	USD \$380 million	Senior unsecured financial bond	-	11,396,200
2018-1 Senior unsecured financial bonds-A	2018/02/26	2048/02/26	0 %	USD \$150 million	Senior unsecured financial bond	-	4,498,500
2018-1 Senior unsecured financial bonds-B	2018/02/26	2048/02/26	0 %	USD \$470 million	Senior unsecured financial bond	13,207,000	14,095,300
Valuation adjustment						1,357,305	1,214,351
						\$ 14,564,305	46,199,351

For the bonds issued in 2017, the call option may be exercised 2 years for bond A, and 3 years for bond B, after the issuing date. If the call options are not exercised prior to the bonds maturity date, 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.

BOT exercised call option on 26 February and 7 April, 2020, respectively, to repurchase bond A issued in 2018 as well as bond A and B issued in 2017.

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

	December 31, 2020	December 31, 2019
Foreign exchange options premium	\$ 551,500	1,001,177
Swaps	752,400,967	845,841,506
Cross currency swaps	10,615,900	1,086,400
Interest rate swaps	19,010,754	21,898,329
Forward foreign exchanges	61,937,872	40,279,631
Asset swaps	2,259,240	6,784,488
Total	<u>\$ 846,776,233</u>	<u>916,891,531</u>

(Continued)

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

(u) Commercial paper payables, net

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

December 31, 2020			
	Guarantee or acceptance institution	Range of interest rates	Amount
	China Bills Finance	0.308%~0.348%	\$ 170,000
	Taishin International Bank	0.340%	135,000
	Taiwan Cooperative Bills Finance	0.338%~0.348%	210,000
	Yuanta Bank	0.318%	40,000
	KGI Commercial Bank	0.318%	50,000
			<u>605,000</u>
Less: discount			(98)
Total			<u><u>\$ 604,902</u></u>

December 31, 2019			
	Guarantee or acceptance institution	Range of interest rates	Amount
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			(318)
Total			<u><u>\$ 1,024,682</u></u>

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.

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

(v) Payables

	December 31, 2020	December 31, 2019
Accounts payables	\$ 5,552,767	5,591,008
Collection payables	994,471	1,666,695
Accrued expenses	3,149,625	3,073,601
Other tax payables	431,804	486,490
Accrued interests	10,124,051	15,385,517
Banker's acceptance payables	2,265,741	1,194,544
Payables to representative organizations	612,917	829,639
Construction payables	2,197	946
Commission payables	83,119	146,030
Accounts payables — factoring receivables without recourse	281,542	375,438
Other payables — undelivered spot exchange	874	3
Other payables — collection bills	2,702,515	2,337,855
Other payables — payments awaiting transfer	8,144,868	9,003,123
Other payables — ATM temporary receipts, payments and inter branch difference	2,377,220	2,590,082
Other payables — foreign exchange awaiting transfer	736,863	740,078
Other payables — amounts awaiting settlement	3,915,606	325,153
Other payables — settlement accounts payable	6,714,171	2,953,420
Other payables — cost of settlement	-	615,958
Other payables — overdue accounts	229,270	199,043
Other payables — check deposit	102,673	119,600
Other payables — collections	7,724	19,571
Other payables — others	2,787,818	846,015
Total	<u><u>\$ 51,217,836</u></u>	<u><u>48,499,809</u></u>

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

(w) Deposits and Remittances

	December 31, 2020	December 31, 2019
Check deposits	\$ 40,837,154	39,246,121
Government deposits	330,759,861	310,980,305
Demand deposits	488,904,083	394,142,603
Time deposits	658,442,401	683,416,685
Remittances	712,444	554,595
Savings account deposits:		
Demand savings deposits	1,084,523,034	939,345,417
Staff accounts	14,328,338	15,284,296
Club saving deposits	508,863	608,632
Non-drawing time savings deposits	421,309,465	417,758,369
Interest withdrawal on principal deposited	779,880,569	795,291,873
Staff time savings deposits	10,603,005	9,174,191
Preferential interest deposits	329,795,927	357,538,411
Total	<u>\$ 4,160,605,144</u>	<u>3,963,341,498</u>

(x) Financial Bonds Payables

Name of bond	Condition			Bond		
	Beginning date	Maturity date	Interest rate	Type	Amount	
					December 31, 2020	December 31, 2019
2013-1 TWD subordinated unsecured financial bonds	2013/12/2	2023/12/2	The Bank's listed annual fixed interest rate of time deposits, plus, 0.15%.	Subordinated unsecured financial bond	\$ 16,000,000	16,000,000
2014-1 TWD subordinated unsecured financial bonds-A	2014/06/25	2024/06/25	TAIBOR 3M plus 0.30%	Subordinated unsecured financial bond	5,500,000	5,500,000
2014-1 TWD subordinated unsecured financial bonds-B	2014/06/27	2024/06/27	1.70%	Subordinated unsecured financial bond	2,000,000	2,000,000
2014-1 TWD subordinated unsecured financial bonds-C	2014/06/27	2024/06/27	The Bank's listed annual fixed interest rate of time deposits, plus, 0.15%	Subordinated unsecured financial bond	1,500,000	1,500,000
			unamortized discount amount		(915)	(1,180)
Total					\$ 24,999,085	24,998,820

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

(y) Borrowings

As of December 31, 2020 and 2019, 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 15,309,100 thousand, and 14,449,850 thousand, respectively.

December 31, 2020			
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	-	0.50 %
First Bank	Short-term loans	1,000,000	Itemized bargaining
	Overdrafts	-	0.30 %
	Guaranteed loans	-	0.50 %

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
	Overdrafts	-	- %
Chinatrust Commercial Bank	Short-term loans	-	Itemized bargaining
	Overdrafts	-	0.18 %
First Bank	Short-term loans	2,000,000	Itemized bargaining
	Overdrafts	-	0.30 %
	Guaranteed loans	-	0.50 %

(z) Other Financial Liabilities

	December 31, 2020	December 31, 2019
Appropriated loan funds	\$ 11,262	16,474
Liability of insurance product-separate account	3,018,443	1,429,769
Principal from structured products	913,408	946,065
Total	<u><u>\$ 3,943,113</u></u>	<u><u>2,392,308</u></u>

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

(aa) Provision

	December 31, 2020	December 31, 2019
Reserve for unearned premiums	\$ 387,861	381,947
Claims reserve	124,503	87,816
Liability reserve	419,604,638	382,653,606
Special reserve	-	28,758
Reserve for premium deficiency	1,583,323	2,156,307
Foreign exchange volatility reserve	129,185	465,900
Employee benefit obligations	20,688,292	19,736,061
Guarantee reserve	1,030,971	953,505
Reserve for government employees insurance	399,177,462	341,738,589
Others	373,257	377,993
Loan commitments reserve	16,279	19,224
Total	\$ 843,115,771	748,599,706

(ab) 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, 2020 and 2019 were as follows:

(i) Details of reserve for unearned premium:

	December 31, 2020		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	\$ 10,310	-	10,310
Personal injury insurance	71,509	-	71,509
Personal health insurance	122,068	-	122,068
Group insurance	183,920	-	183,920
Investment-linked insurance	54	-	54
Total	387,861	-	387,861
Deduction of reserve for unearned premium outward:			
Personal life insurance	\$ 1,363	-	1,363
Personal injury insurance	3,066	-	3,066
Group insurance	4,941	-	4,941
Investment-linked insurance	-	-	-
Total	9,370	-	9,370
Net	\$ 378,491	-	378,491

(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
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><u>\$ 372,879</u></u>	<u><u>-</u></u>	<u><u>372,879</u></u>

The reconciliations of reserve for unearned premium were listed below:

2020			
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2020	\$ 381,947	-	381,947
Provision	367,197	-	367,197
Reclaim	(361,245)	-	(361,245)
Effect of changes in exchange rates	(1)	-	(1)
Other	(37)	-	(37)
Balance at December 31, 2020	<u>387,861</u>	<u>-</u>	<u>387,861</u>
Deduction of reserve for unearned premium outward			
Balance at January 1, 2020, net	9,068	-	9,068
Provision	9,370	-	9,370
Reclaim	(9,068)	-	(9,068)
Balance at December 31, 2020, net	<u>9,370</u>	<u>-</u>	<u>9,370</u>
Balance at December 31, 2020	<u><u>\$ 378,491</u></u>	<u><u>-</u></u>	<u><u>378,491</u></u>

(Continued)

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

	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	381,947	-	381,947
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	9,068	-	9,068
Balance at December 31, 2019	<u>\$ 372,879</u>	<u>-</u>	<u>372,879</u>

(ii) Details of claims reserve:

	December 31, 2020		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life Insurance			
Reported but not paid	\$ 13,371	19,220	32,591
Not reported and not paid	(54)	-	(54)
Personal injury insurance			
Reported but not paid	331	-	331
Not reported and not paid	17,556	-	17,556
Personal health insurance			
Reported but not paid	7,044	-	7,044
Not reported and not paid	22,874	-	22,874
Group insurance			
Reported but not paid	4,029	-	4,029
Not reported and not paid	40,132	-	40,132
Total	<u>105,283</u>	<u>19,220</u>	<u>124,503</u>

(Continued)

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

December 31, 2020			
	Insurance Contract	Financial products with discretionary participation feature	Total
Deduction of claims reserve-outward:			
Personal life Insurance	\$ 802	-	802
Personal injury insurance	699	-	699
Personal health insurance	122	-	122
Group insurance	834	-	834
Total	2,457	-	2,457
Net	<u>\$ 102,826</u>	<u>19,220</u>	<u>122,046</u>
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	36,189	-	36,189
Total	85,181	2,635	87,816
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	4,543	-	4,543
Net	<u>\$ 80,638</u>	<u>2,635</u>	<u>83,273</u>

(Continued)

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

The reconciliations of claims reserve were listed below:

	2020		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2020	\$ 85,181	2,635	87,816
Provision	410,759	32,980	443,739
Recovery	(390,630)	(16,395)	(407,025)
Effect of changes in exchange rates	(27)	-	(27)
Balance at December 31, 2020	<u>105,283</u>	<u>19,220</u>	<u>124,503</u>
Deduction of claims reserve-outward			
Balance at January 1, 2020, net	4,543	-	4,543
Provision	15,723	-	15,723
Recovery	(17,809)	-	(17,809)
Balance at December 31, 2020, net	<u>2,457</u>	<u>-</u>	<u>2,457</u>
Closing balance	<u><u>\$ 102,826</u></u>	<u><u>19,220</u></u>	<u><u>122,046</u></u>
	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	(387,993)	(15,742)	(403,735)
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	(7,307)	(3)	(7,310)
Balance at December 31, 2019, net	<u>4,543</u>	<u>-</u>	<u>4,543</u>
Closing balance	<u><u>\$ 80,638</u></u>	<u><u>2,635</u></u>	<u><u>83,273</u></u>

(Continued)

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

(iii) Details of liability reserve:

December 31, 2020			
	Insurance Contract	Financial products with discretionary participation feature	Total
Life insurance	\$ 364,939,729	-	364,939,729
Health insurance	10,011,444	-	10,011,444
Annuity insurance	65,344	43,280,052	43,345,396
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	<u>\$ 376,324,586</u>	<u>43,280,052</u>	<u>419,604,638</u>

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	<u>\$ 338,353,484</u>	<u>44,300,122</u>	<u>382,653,606</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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The reconciliation of the above mentioned changes in liability reserve is listed below:

	2020		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2020	\$ 338,353,484	44,300,122	382,653,606
Provision	55,986,008	1,600,877	57,586,885
Reclaim	(16,081,536)	(2,595,963)	(18,677,499)
Gain from cancellation of insurance	(104,248)	(24,984)	(129,232)
Effect of changes in exchange rates	(1,826,146)	-	(1,826,146)
Others	(2,976)	-	(2,976)
Balance at December 31, 2020	<u>\$ 376,324,586</u>	<u>43,280,052</u>	<u>419,604,638</u>

	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)
Effect of changes in exchange rates	(25,449)	-	(25,449)
Balance at December 31, 2019	<u>\$ 338,353,484</u>	<u>44,300,122</u>	<u>382,653,606</u>

(iv) Details of special reserve:

	December 31, 2020		
	Insurance Contract	Financial products with discretionary participation feature	Total
Provision for dividend policy	\$ (32,365)	-	(32,365)
Reserve for dividend risk	32,365	-	32,365
	<u>\$ -</u>	<u>-</u>	<u>-</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
Provision for dividend policy	<u>\$ 28,758</u>	<u>-</u>	<u>28,758</u>
The movements of special reserve were listed below:			
2020			
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2020	\$ 28,758	-	28,758
Provision of dividend policy	(8,894)	-	(8,894)
Recovery of dividend policy	(27,612)	-	(27,612)
Provision of reserve for dividend risk	32,365	-	32,365
Others	(24,617)	-	(24,617)
Balance at December 31, 2020	<u>\$ -</u>	<u>-</u>	<u>-</u>
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)
Other application	627	-	627
Balance at December 31, 2019	<u>\$ 28,758</u>	<u>-</u>	<u>28,758</u>

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

(v) Reserve for premium deficiency:

December 31, 2020			
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	\$ 1,497,661	-	1,497,661
Personal health insurance	85,662	-	85,662
Total	<u><u>\$ 1,583,323</u></u>	<u><u>-</u></u>	<u><u>1,583,323</u></u>
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	<u><u>\$ 2,156,307</u></u>	<u><u>-</u></u>	<u><u>2,156,307</u></u>

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

2020			
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2020	\$ 2,156,307	-	2,156,307
Provision	593,116	-	593,116
Reclaim	(1,151,050)	-	(1,151,050)
Effect of changes in exchange rates	(15,050)	-	(15,050)
Balance at December 31, 2020	<u><u>\$ 1,583,323</u></u>	<u><u>-</u></u>	<u><u>1,583,323</u></u>

(Continued)

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

	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	<u>\$ 2,156,307</u>	<u>-</u>	<u>2,156,307</u>

(vi) Details of provision for liability adequacy:

- 1) A summary of liability adequacy reserve for long-term insurance of the subsidiary, BTLI, as of December 31, 2020 and 2019 was as follows:

	December 31, 2020	December 31, 2019
Liability reserve	\$ 419,513,524	382,559,163
Reserve for unearned premium	187,886	188,206
Special reserve	-	28,758
Reserve for premium deficiency	1,583,323	2,156,307
Book value of insurance liability	<u>\$ 421,284,733</u>	<u>384,932,434</u>
Estimate of present cash flow	<u>\$ 393,706,993</u>	<u>344,947,351</u>

The carrying amount of insurance liabilities was adequate, compared with the amount calculated based on current estimates of future cash flows under insurance contracts. As a result, BTLI was not required to set aside liability adequacy reserve.

- 2) As of December 31, 2020 and 2019, the short-term insurance of liability adequacy reserve of BTLI is summarized as follows:

	December 31, 2020	December 31, 2019
Claim and reserve within a year	\$ 87,976	78,603
Less: Premium not received within a year	606	1,069
Subtotal	<u>\$ 87,370</u>	<u>77,534</u>
Unearned premium reserve	<u>\$ 199,975</u>	<u>193,741</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.

(Continued)

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

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.

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

	December 31, 2020	December 31, 2019
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 2019 (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 2018 (with steady state assumption for discount rates after 30 year).

- (vii) Details of appropriated special reserve (special catastrophe reserve and special risk-volatility reserve)

	2020		
	Insurance Contract	Financial products with discretionary participation feature	Total
Special catastrophe reserve	\$ 248,898	2,609	251,507
Special risk-volatility reserve	159,305	-	159,305
Total	\$ 408,203	2,609	410,812

(Continued)

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

	2019		
	Insurance Contract	Financial products with discretionary participation feature	Total
Special catastrophe reserve	\$ 247,401	2,609	250,010
Special risk-volatility reserve	159,369	10	159,379
Total	<u>\$ 406,770</u>	<u>2,619</u>	<u>409,389</u>

(ac) Foreign exchange volatility reserves

(i) Hedging strategy and risk exposure:

The Company's subsidiary, BTLI, has hedged its foreign exchanges by considering market situations and hedging cost.

As of December 31, 2020 and 2019, the primary foreign exchange exposures were USD assets, amounting \$56,749,708 thousand and \$67,714,630 thousand, respectively.

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

	2020	2019
Balance at 1 January	\$ 465,900	1,214,234
Current provision:		
Compulsory provision	409,478	439,412
Additional provision	436,865	1,250,863
Subtotal	846,343	1,690,275
Current recovery	(1,183,058)	(2,438,609)
Balance at December 31	<u>\$ 129,185</u>	<u>465,900</u>

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

Items	Amount not applied	Amount applied	Changes
Liability and equity			
December 31, 2020			
Reserve for foreign exchange valuation	\$ -	129,185	(129,185)
Equity	377,989,578	377,886,230	103,348
December 31, 2019			
Reserve for foreign exchange valuation	-	465,900	(465,900)
Equity	375,093,314	374,720,594	372,720

(Continued)

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

Items	Amount not applied	Amount applied	Changes
Income (loss) after tax and earnings (loss) per share 2020			
Income (loss) after tax	\$ 8,725,559	8,994,931	(269,372)
Earnings (loss) per share	0.84	0.87	(0.03)
2019			
Income (loss) after tax	8,438,269	9,036,936	(598,667)
Earnings (loss) per share	0.78	0.96	(0.18)

(ad) Employee benefit obligations

	December 31, 2020	December 31, 2019
Recognized in Consolidated Balance Sheet:		
— Defined benefit plans	\$ 14,172,847	13,269,457
— Employees preferential interest deposits	6,381,498	6,291,336
— Three Chinese festival bonus	4,478	5,527
— Civil servant and teacher insurance excess	129,469	169,741
Total	<u>\$ 20,688,292</u>	<u>19,736,061</u>

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

	December 31, 2020	December 31, 2019
Present value of the defined benefit obligations	\$ 29,709,261	28,516,431
Less: fair value of the plan assets	(9,020,969)	(8,780,370)
Net defined benefit obligations	<u>\$ 20,688,292</u>	<u>19,736,061</u>

(Continued)

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

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

	2020	2019
Defined benefit obligation at January 1	\$ 28,516,431	26,650,001
Current service costs	1,339,894	1,331,879
Remeasurements of the defined benefit plans in other comprehensive income		
— Actuarial gains and losses in demographic changes in assumptions	166,148	883,378
— Experience adjustments	1,022,637	836,215
— Changes in actuarial gains and losses in financial assumptions	-	38,405
Current actuarial gains and losses	1,820,472	1,652,423
Contributed by the participant of the plan	4,714	-
Benefit payments	(3,161,035)	(2,875,870)
Defined benefit obligation at December 31	<u><u>\$ 29,709,261</u></u>	<u><u>28,516,431</u></u>

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

	2020	2019
Fair value of plan assets at January 1	\$ 8,780,370	8,400,388
Interest revenues	68,234	94,012
Remeasurements of defined benefit plans in other comprehensive income		
— Return on plan assets	114,453	70,999
Contribution made by the plan participant	1,074,184	1,037,942
Benefit payments	(1,016,272)	(822,971)
Fair value of plan assets at December 31	<u><u>\$ 9,020,969</u></u>	<u><u>8,780,370</u></u>

4) Expenses recognized in profit or loss

	2020	2019
Current service costs	\$ 914,320	849,528
Net interest of the defined benefit obligations	357,340	388,339
Current actuarial gains and losses	1,820,472	1,693,726
Total	<u><u>\$ 3,092,132</u></u>	<u><u>2,931,593</u></u>

(Continued)

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

- 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, 2020 and 2019 was as follows:

	2020	2019
Accumulated amount at January 1	\$ 6,287,496	4,646,190
Recognized during the period	<u>1,074,332</u>	<u>1,641,306</u>
Accumulated amount at December 31	<u>\$ 7,361,828</u>	<u>6,287,496</u>

- 6) Actuarial assumptions

For the defined benefit obligations at present value:

	December 31, 2020	December 31, 2019
Discount rate	0.51%~4.00%	0.75%~4.00%
Future of salary increases	0.50%~3.00%	0.50%~3.00%
Assets expected rate of return	0.75%	0.75%

For cost of the defined benefit plan :

	December 31, 2020	December 31, 2019
Discount rate	0.51%~4.00%	0.75%~4.00%
Future of salary increases	0.50%~3.00%	0.50%~3.00%
Assets expected rate of return	0.75%	0.75%

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 \$1,929,292 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, 2020 and 2019 if the actuarial assumptions change as follows:

	Impact on the defined benefit obligation		
	Actuarial assumption changes (%)	Actuarial assumption increase	Actuarial assumption decrease
December 31, 2020			
Discount rate	0.25%	\$ 28,864,065	30,532,191
Salary increase rate	0.50%	30,949,351	28,562,860
December 31, 2019			
Discount rate	0.25%	27,725,458	29,248,908
Salary increase rate	0.50%	23,313,054	21,147,198

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 2020 and 2019.

(ae) Lease liabilities

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

	December 31, 2020	December 31, 2019
Current	<u>\$ 1,205,735</u>	<u>1,403,542</u>

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

The amounts recognized in profit or loss were as follows:

	2020	2019
Interest on lease liabilities	<u>\$ 15,412</u>	<u>18,680</u>
Variable lease payments not included in the measurement of lease liabilities	<u>\$ 2,398</u>	<u>2,333</u>
Expenses relating to short-term leases	<u>\$ 1,906</u>	<u>3,024</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	<u>\$ 2,804</u>	<u>2,406</u>
Covid-19-related rent concessions (recognized as other income)	<u>\$ (18,570)</u>	<u>-</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:

	2020	2019
Total cash outflow for leases	\$ 545,042	576,899

(i) Real estate leases

As of December 31, 2020, 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 1~3 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.

(af) Operating lease

(i) Subsidiary, BOT

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

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

(Continued)

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

(ii) Subsidiary, BTLI

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 (I).

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

	December 31, 2020	December 31, 2019
Less than one year	\$ 266,207	258,934
One to two years	199,989	179,830
Two to three years	104,405	147,970
Three to four years	66,615	56,827
Four to five years	25,977	10,609
More than five years	26,460	-
Total undiscounted lease payments	\$ 689,653	654,170

The subsidiary, BTLI, was cooperated with the government in 2020 in response to the impact of Covid-19. Starting the second half of 2020, BTLI has implemented relief measures for the lessees who are "affected by Covid-19" to enjoy rent deferral or rent reduction. Rent can be cut down retrospectively from January, 2020 to make the reduction up to 20% in total for the entire year. The amount of rent reduction for the whole year was \$38,450 thousand in 2020.

For further information of the rental revenue and direct operating cost yield by the investment property in 2020 and 2019, please refer to note 6 (I).

(iii) Subsidiary, BTS

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.

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

	December 31, 2020	December 31, 2019
Less than one year	\$ 10,076	10,072
One to two years	9,990	10,076
Two to three years	7,746	9,990
Three to four years	3,384	7,746
Four to five years	-	3,384
More than five years	-	-
Total undiscounted lease payments	\$ 31,196	41,268

(Continued)

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

The subsidiary, BTS, provided the lessees deferred rent payment and rent concessions in accordance with the government's policy for Covid-19 pandemic. As of December 31, 2020, the amount of rent concessions was \$1,998 thousand.

(ag) Other Liabilities

	December 31, 2020	December 31, 2019
Advance collections	\$ 2,211,915	2,271,701
Guarantee deposits received	7,769,291	7,119,928
Temporary receipt awaiting suspense accounts	145,039	342,906
Other liabilities to be settled	8,239	8,239
Compensation arising from land revaluation	1,264,803	1,264,803
Deferred service revenues	90,226	53,864
Collections for underwriting stock value	827,126	16
Total	<u>\$ 12,316,639</u>	<u>11,061,457</u>

(ah) Income Tax Expenses

(i) Income tax expenses (benefits)

The income tax expenses for 2020 and 2019 were as follows:

	2020	2019
Current income tax expenses		
Occurred in the current period	\$ 1,236,862	2,361,546
Adjustment for prior periods	(359,922)	(2,012)
Deferred tax expenses	(1,334,716)	(890,345)
Income tax expenses (benefits)	<u>\$ (457,776)</u>	<u>1,469,189</u>

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

	2020	2019
Exchange differences on translation of foreign operations	\$ (750)	(304)
Unrealized gains (losses) on debt instruments measured at fair value through other comprehensive income	3,478	(12,912)
Unrealized valuation gains (losses) on equity instruments measured at fair value through other comprehensive income	(14,453)	41,726
Other comprehensive profits (losses) reclassified using overlay approach	13,664	232,969
Actuarial gains (losses) on defined benefit plans	(2,690)	(4,377)
	<u>\$ (751)</u>	<u>257,102</u>

(Continued)

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

Reconciliations of income tax expenses (benefits) and profit before tax for 2020 and 2019 were as follows:

	2020	2019
Profit before tax	\$ 8,537,155	10,506,125
Income tax based on domestic tax rate	1,707,430	2,101,225
Income basic tax	590,932	-
Effects of changes in foreign exchange rates	472,312	559,056
Non-deductible expenses	(318,368)	523,206
Cessation of transfer tax on stocks	(613,093)	(173,092)
Reinvestment gain exemption (dividends)	(1,246,853)	(1,658,759)
Unrecognized losses from deferred income tax assets in current period	67,356	348,313
Unrecognized temporary variance	(219,690)	292,105
Under-(Over)-estimation in prior period	(359,922)	(2,012)
Income from tax-exempt of offshore insurance unit	(147)	(230)
Income exemption of Offshore Banking Unit	(598,582)	(495,062)
Income exemption	-	(2,568)
Others	60,849	(22,993)
Total	\$ (457,776)	1,469,189

(ii) Deferred Tax Assets and Liabilities

1) Unrecognized deferred tax assets

Unrecognized deferred tax assets are as follows:

	December 31, 2020	December 31, 2019
Deductible temporary difference	\$ 5,438,087	6,052,027

2) Recognized deferred tax assets and liabilities

Changes in deferred tax assets and liabilities for 2020 and 2019 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, 2020	\$ 146,743	516,450	2,500,815	786,588	3,950,596
Recognized in profit or loss	1,004	(229,074)	1,802,726	(33,627)	1,541,029
Recognized in other comprehensive income	-	1,760	750	-	2,510
Turns to income tax refund	-	-	-	(339,744)	(339,744)
Balance at December 31, 2020	\$ 147,747	289,136	4,304,291	413,217	5,154,391

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

	Defined Benefit Plans	Fair Value Gains	Unrealized Gain or Loss on Foreign Exchange	Other	Total
Balance at January 1, 2019	\$ 142,353	584,419	1,511,033	1,404,203	3,642,008
Recognized in profit or loss	4,390	194,750	989,478	61,125	1,249,743
Recognized in other comprehensive income	-	(262,719)	304	(1,506)	(263,921)
Recognized in equity	-	-	-	127	127
Turns to income tax refund	-	-	-	(677,361)	(677,361)
Balance at December 31, 2019	<u>\$ 146,743</u>	<u>516,450</u>	<u>2,500,815</u>	<u>786,588</u>	<u>3,950,596</u>

Deferred Tax Liabilities:

	Defined benefit plans	Land value increment tax	Fair value gains	Other	Total
Balance at January 1, 2020	\$ 6,603	18,238,619	435,834	(628)	18,680,428
Recognized in profit or loss	(835)	(670)	207,190	628	206,313
Recognized in other comprehensive income	(2,690)	-	4,449	-	1,759
Balance at December 31, 2020	<u>\$ 3,078</u>	<u>18,237,949</u>	<u>647,473</u>	<u>-</u>	<u>18,888,500</u>
Balance at January 1, 2019	\$ 11,419	18,244,209	71,343	878	18,327,849
Recognized in profit or loss	(439)	(5,590)	365,427	-	359,398
Recognized in other comprehensive income	(4,377)	-	(936)	(1,506)	(6,819)
Balance at December 31, 2019	<u>\$ 6,603</u>	<u>18,238,619</u>	<u>435,834</u>	<u>(628)</u>	<u>18,680,428</u>

(ai) 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.

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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As of December 31, 2020 and 2019, 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).

(ii) Capital surplus

	December 31, 2020	December 31, 2019
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	28,875,000
Total	<u><u>\$ 140,260,226</u></u>	<u><u>140,260,226</u></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.

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.

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

(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 2020 and 2019 surplus as dividend to the Ministry of Finance. According to the Guidelines for Dividends or Bonus or Profits to Be Paid to The National Treasury of The State-owned Enterprises, the Company paid the dividends, based on the budget amount in the current year, to National Treasury Administration in April, July, October, and December evenly. The amounts may be subject to change after the Company's financial statements are audited by the Legislative Yuan or the MoA. Please refer to note 6 (p) for the disclosures of aforementioned payments.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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(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, 2020	\$ (1,405,583)	61,346,295	(109,236)	3,955	148,813	59,984,244
Exchange differences on translation of foreign operations	(1,527,486)	-	-	-	-	(1,527,486)
Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	-	(3,698,866)	-	-	-	(3,698,866)
Gains (losses) of associates and joint ventures accounted for using equity method on financial Instruments for hedging	-	-	-	32	-	32
Change in fair value of financial liability attributable to change in credit risk of liability	-	-	23,007	-	-	23,007
Other Comprehensive income reclassified by applying overlay approach	-	-	-	-	475,857	475,857
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	570,645	-	-	-	570,645
Balance at December 31, 2020	<u>\$ (2,933,069)</u>	<u>58,218,074</u>	<u>(86,229)</u>	<u>3,987</u>	<u>624,670</u>	<u>55,827,433</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	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)
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
Change in fair value of financial liability attributable to change in credit risk of liability	-	-	(302,148)	-	-	(302,148)
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 SUBSIDIARIES
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(aj) Net interest income

	<u>2020</u>	<u>2019</u>
Interest income:		
Loans and discounts	\$ 37,368,728	43,712,913
Placement with Central Bank and call loans to banks	6,706,806	9,390,736
Securities investment	19,011,013	22,359,402
Credit cards	21,288	25,118
Bonds purchased under resell agreements	45,903	61,792
Others	<u>1,242,681</u>	<u>1,035,444</u>
Subtotal	<u>64,396,419</u>	<u>76,585,405</u>
Interest expense:		
Deposits from customers	24,081,984	33,365,560
Deposits of Central Banks and other banks	2,058,763	5,433,135
Loans to Central Banks and other banks	4,542	-
Bonds sold under repurchased agreements	81,614	123,706
Financial bonds	270,694	304,830
Structured deposits	18,394	30,952
Others	<u>42,068</u>	<u>81,910</u>
Subtotal	<u>26,558,059</u>	<u>39,340,093</u>
Total	<u><u>\$ 37,838,360</u></u>	<u><u>37,245,312</u></u>

(ak) Service fees, net

	<u>2020</u>	<u>2019</u>
Service fees revenues:		
Bank business	\$ 5,171,456	5,244,527
Insurance business	180,114	136,041
Securities business	<u>745,906</u>	<u>445,515</u>
Subtotal	<u>6,097,476</u>	<u>5,826,083</u>
Service fees expenses:		
Bank business	735,031	692,347
Insurance business	710,909	1,043,635
Securities business	<u>60,481</u>	<u>37,548</u>
Subtotal	<u>1,506,421</u>	<u>1,773,530</u>
Total	<u><u>\$ 4,591,055</u></u>	<u><u>4,052,553</u></u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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.

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

	<u>2020</u>	<u>2019</u>
Gain (loss) on financial assets or liabilities measured at fair value through profit or loss:		
Dividend income	\$ 5,985,511	6,163,979
Net interest (expense) income	(114,112)	(1,205,172)
Net gain on disposal	<u>11,336,380</u>	<u>19,548,343</u>
	<u>17,207,779</u>	<u>24,507,150</u>
Gain (loss) on financial assets or liabilities measured at fair value through profit or loss — valuation:		
Net gain on valuation	<u>48,543,912</u>	<u>29,024,119</u>
Total	<u><u>\$ 65,751,691</u></u>	<u><u>53,531,269</u></u>

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

	<u>2020</u>	<u>2019</u>
Dividend income	\$ 3,457,100	3,555,239
Gain (loss) on disposal	<u>395,188</u>	<u>514,335</u>
Total	<u><u>\$ 3,852,288</u></u>	<u><u>4,069,574</u></u>

- (an) Other non-interest income (expenses)

	<u>2020</u>	<u>2019</u>
Sales revenue, net	\$ 846,871	500,387
Subsidized income from government(note)	7,784,351	8,774,387
Others	144,509	812,741
Excess preferential interest expenses	<u>(8,538,127)</u>	<u>(8,856,111)</u>
Total	<u><u>\$ 237,604</u></u>	<u><u>1,231,404</u></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
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(ao) Employee benefits expenses

	2020	2019
Salaries	\$ 12,636,579	12,221,855
Director's emoluments	8,274	8,541
Labor and health insurances	583,505	580,681
Pensions	1,053,933	1,017,159
Others	273,482	319,747
Total	<u><u>\$ 14,555,773</u></u>	<u><u>14,147,983</u></u>

(ap) Depreciation and amortization expenses

	2020	2019
Depreciation expenses	\$ 1,388,442	1,346,648
Amortization expenses	367,515	330,174
Total	<u><u>\$ 1,755,957</u></u>	<u><u>1,676,822</u></u>

(aq) Other general and administrative expenses

	2020	2019
Taxes	\$ 2,807,473	3,226,626
Rental expenses	14,097	7,763
Insurance expenses	1,006,926	1,003,944
Postage and phone / fax expenses	260,464	253,340
Utilities	183,268	195,518
Supplies expense	183,914	179,124
Repair and maintenance expenses	419,344	422,584
Marketing expenses	438,581	437,293
Professional service fees	849,654	843,138
Others	459,041	632,039
Total	<u><u>\$ 6,622,762</u></u>	<u><u>7,201,369</u></u>

(ar) Earnings per Share

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

	2020	2019
Consolidated net income	<u><u>\$ 8,994,931</u></u>	<u><u>9,036,936</u></u>
Weighted average outstanding shares (in thousand shares)	<u><u>10,312,500</u></u>	<u><u>9,420,719</u></u>
Basic earnings per share (in dollars)	<u><u>\$ 0.87</u></u>	<u><u>0.96</u></u>

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(as) Insurance income, net

	2020		
	BOT government employees' insurance department	BTLI	Total
Premium income	\$ 23,623,153	44,841,484	68,464,637
Amortized reinsurance claims payment	-	54,466	54,466
Income on insurance product-separated account	-	(35)	(35)
Insurance business income	<u>23,623,153</u>	<u>44,895,915</u>	<u>68,519,068</u>
Reinsurance expense	-	149,332	149,332
Direct business expenses	-	642	642
Insurance claims payment	21,988,989	18,582,710	40,571,699
Disbursement toward industry stability	-	91,825	91,825
Disbursement on insurance product separated account	-	(35)	(35)
Insurance business expenses	<u>21,988,989</u>	<u>18,824,474</u>	<u>40,813,463</u>
Net income from insurance business	<u><u>\$ 1,634,164</u></u>	<u><u>26,071,441</u></u>	<u><u>27,705,605</u></u>

	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><u>\$ (1,160,160)</u></u>	<u><u>31,185,471</u></u>	<u><u>30,025,311</u></u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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The retained earned premium and retained benefits and claims paid were as follow:

(i) Retained earned premiums

2020			
	Insurance Contract	Financial products with discretionary participation feature	Total
Direct written premium	\$ 44,005,846	835,638	44,841,484
Less: Reinsurance premium ceded	149,332	-	149,332
Net change in unearned premium reserve	5,613	-	5,613
	<u>154,945</u>	<u>-</u>	<u>154,945</u>
Retained earned premium	<u><u>\$ 43,850,901</u></u>	<u><u>835,638</u></u>	<u><u>44,686,539</u></u>

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><u>\$ 50,367,193</u></u>	<u><u>1,737,464</u></u>	<u><u>52,104,657</u></u>

(ii) Retained benefits and claims paid

2020			
	Insurance Contract	Financial products with discretionary participation feature	Total
Claims payment incurred	\$ 15,988,987	2,593,712	18,582,699
Reinsurance claims	11	-	11
Insurance claims payment	15,988,998	2,593,712	18,582,710
Less: Claims payment recovered from reinsures	54,466	-	54,466
Retained benefits and claims paid	<u><u>\$ 15,934,532</u></u>	<u><u>2,593,712</u></u>	<u><u>18,528,244</u></u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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	2019		
	Insurance	Financial	
	Contract	products with	
		discretionary	
		participation	
		feature	Total
Claims payment incurred	\$ 17,993,982	2,864,308	20,858,290
Reinsurance claims	<u>22</u>	<u>-</u>	<u>22</u>
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><u>\$ 17,946,135</u></u>	<u><u>2,864,308</u></u>	<u><u>20,810,443</u></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
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- (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 participators but is used as a model for the calculation of options. Certain derivatives and equity investments without a non-active market belong to level 3.

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(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, 2020			
	Total	Level 1	Level 2	Level 3
<u>Non derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss	\$ 350,641,146	318,112,640	32,326,198	202,308
Designated at fair value through profit or loss	19,029,575	-	19,029,575	-
Bond investments	19,029,575	-	19,029,575	-
Mandatorily measured at fair value through profit or loss	331,611,571	318,112,640	13,296,623	202,308
Stock investments	154,229,005	154,026,697	-	202,308
Bond investments	13,977,341	680,718	13,296,623	-
Others	163,405,225	163,405,225	-	-
Financial assets at fair value through other comprehensive income	999,234,437	746,683,685	228,392,122	24,158,630
Stock investments	98,199,262	74,040,632	-	24,158,630
Bond investments	901,035,175	672,643,053	228,392,122	-
Liabilities:				
Financial liabilities designated at fair value through profit or loss	14,564,305	-	14,564,305	-
Designated at fair value through profit or loss	14,564,305	-	14,564,305	-
<u>Derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss	\$ 13,717,638	56,026	13,661,612	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	17,334,759	-	17,334,759	-
Hedging Derivative Financial liabilities	49,894	-	49,894	-

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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	806,819,083	193,896,216	23,124,361
Stock investments	102,032,686	78,908,325	-	23,124,361
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	\$ 12,123,598	76,991	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	-

(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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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.

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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(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.

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.

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(iv) Reconciliation of Level 3 fair values

Reconciliation of Level 3 fair values in 2020 and 2019:

	Fair value through profit or loss	Fair value through other comprehensive income	
	Non derivative mandatorily measured at fair value through profit or loss (Unquoted equity instruments)	Unquoted equity instruments	Total
Opening balance, January 1, 2020	\$ 198,790	23,124,361	23,323,151
Total gains and losses recognized:			
In profit or loss	3,518	-	3,518
In other comprehensive income	-	1,024,248	1,024,248
Purchased	-	10,021	10,021
Ending Balance, December 31, 2020	<u>\$ 202,308</u>	<u>24,158,630</u>	<u>24,360,938</u>
Opening balance, January 1, 2019	214,708	16,660,610	16,875,318
Total gains and losses recognized:			
In profit or loss	(15,918)	-	(15,918)
In other comprehensive income	-	5,631,196	5,631,196
Purchased	-	832,555	832,555
Ending Balance, December 31, 2019	<u>198,790</u>	<u>23,124,361</u>	<u>23,323,151</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, 2020 and 2019.

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

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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, 2020		
Financial assets:		
Financial assets measured at amortized cost	449,156,973	471,413,221
Other financial assets – Debt investments without active market	9,910,500	9,910,500

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Item	Book value	Fair value
December 31, 2019		
Financial assets:		
Financial assets measured at amortized cost	464,507,274	470,155,932
Other financial assets – Debt investments without active market	3,026,800	3,026,800

(ii) Fair value hierarchy

December 31, 2020				
Assets and liabilities item	Total	Quoted prices in active markets for identical asset (Level 1)	Significant other observable inputs (Level 2)	Significant observable inputs (Level 3)
Financial Assets:				
Financial assets measured at amortized cost	\$ 471,413,221	212,587,470	258,825,751	-
Other financial assets – Debt investments without active market	9,910,500	9,910,500	-	-

December 31, 2019				
Assets and liabilities item	Total	Quoted prices in active markets for identical asset (Level 1)	Significant other observable inputs (Level 2)	Significant observable inputs (Level 3)
Financial Assets:				
Financial assets measured at amortized cost	\$ 470,155,932	188,462,304	281,693,628	-
Other financial assets – Debt investments without active market	3,026,800	3,026,800	-	-

(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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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- (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.
 - (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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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- e) Establish information system protection mechanism and emergency plan for bank operation, transactions, and information. Build an independent and effective risk management mechanism and strengthen the risk management of business through appropriate policies, procedures, and systems.

2) Risk management 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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- ii) Credit risk from 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 from 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.

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 borrowers' 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
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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		
	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
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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)	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.
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.		
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.

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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- 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.

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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, 2020 and 2019, the amounts of maximum Credit risk exposure to the credit risk displayed by credit rating are as follows:

	Discounts and loans				
	December 31, 2020				
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Credit impairments of originated or purchased new financial assets — impaired	Total
Credit rating					
Low	\$ 1,000,957,806	15,376	225,668	-	1,001,198,850
Medium	899,667,463	128,571,215	2,595,166	-	1,030,833,844
High	23,794,713	32,392,491	5,671,606	-	61,858,810
Others	808,655,559	471,476	10,851,884	-	819,978,919
Gross carrying amount	2,733,075,541	161,450,558	19,344,324	-	2,913,870,423
Allowance for bad debts	(21,310,143)	(1,721,279)	(4,748,114)	-	(27,779,536)
Impairment recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans				(16,886,367)	(16,886,367)
Total	\$ 2,711,765,398	159,729,279	14,596,210	(16,886,367)	2,869,204,520

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Discounts and loans					
December 31, 2019					
	12 month ECLs	Lifetime ECLs—not impaired	Lifetime ECLs—impaired	Credit impairments of originated or purchased new financial assets—impaired	Total
Credit rating					
Low	\$ 930,791,741	17,869	155,942	-	930,965,552
Medium	960,430,171	54,963,853	2,371,916	-	1,017,765,940
High	26,639,778	29,449,744	5,749,253	-	61,838,775
Others	<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 "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans				(15,272,836)	(15,272,836)
Total	<u>\$ 2,590,051,183</u>	<u>83,417,319</u>	<u>17,945,558</u>	<u>(15,272,836)</u>	<u>2,676,141,224</u>
Debt instruments measured at fair value through other comprehensive income					
December 31, 2020					
	12 month ECLs	Lifetime ECLs—not impaired	Lifetime ECLs—impaired	Valuation adjustment	Total
Credit rating					
Aaa~Baa3	\$ 894,207,996	-	-	-	894,207,996
Ba1~Ba3	<u>1,249,996</u>	<u>545,820</u>	-	-	<u>1,795,816</u>
Gross carrying amount	895,457,992	545,820	-	-	896,003,812
Allowance for impairment	(100,415)	(19,353)	-	-	(119,768)
Valuation adjustment				2,661,929	2,661,929
Total	<u>\$ 895,357,577</u>	<u>526,467</u>	<u>-</u>	<u>2,661,929</u>	<u>898,545,973</u>
Debt instruments measured at fair value through other comprehensive income					
December 31, 2019					
	12 month ECLs	Lifetime ECLs—not impaired	Lifetime ECLs—impaired	Valuation adjustment	Total
Credit rating					
Aaa~Baa3	\$ 913,067,917	-	-	-	913,067,917
Ba1~Ba3	<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	1,602,351
Total	<u>\$ 915,809,035</u>	<u>293,584</u>	<u>-</u>	<u>1,602,351</u>	<u>917,704,970</u>

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Debt instruments measured at amortized cost					
December 31, 2020					
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Total	
Credit rating					
Aaa~Baa3	\$ 143,270,874	-	-	143,270,874	
Ba1~Ba3	12,862,291	-	-	12,862,291	
Gross carrying amount	156,133,165	-	-	156,133,165	
Accumulated impairment	(40,113)	-	-	(40,113)	
Total	\$ 156,093,052	-	-	156,093,052	
Debt instruments measured at amortized cost					
December 31, 2019					
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Total	
Credit rating					
Aaa~Baa3	\$ 159,586,690	-	-	159,586,690	
Ba1~Ba3	17,663,192	-	-	17,663,192	
Gross carrying amount	177,249,882	-	-	177,249,882	
Accumulated impairment	(43,107)	-	-	(43,107)	
Total	\$ 177,206,775	-	-	177,206,775	
Letter of Credit Receivables and Guarantee for Trade Receivables					
December 31, 2020					
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Credit impairments of originated or purchased new financial assets— impaired	Total
Credit rating					
Low	\$ 67,519,965	-	-	-	67,519,965
Medium	56,425,352	3,107,384	885,353	-	60,418,089
High	85,177	464,112	59,054	-	608,343
Others	10,794,870	428,643	1	-	11,223,514
Gross carrying amount	134,825,364	4,000,139	944,408	-	139,769,911
Allowance for bad debts(Guarantee reserve and other reserve)	(425,959)	(66,713)	(62,802)	-	(555,474)
Impairment recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans				(848,754)	(848,754)
Total	\$ 134,399,405	3,933,426	881,606	(848,754)	138,365,683

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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 "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans				(861,766)	(861,766)
Total	<u>\$ 121,338,935</u>	<u>3,071,718</u>	<u>586,272</u>	<u>(861,766)</u>	<u>124,135,159</u>

Loan Commitments				
December 31, 2020				
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Total
Credit rating				
Low	\$ 6,414,418	-	-	6,414,418
Others	154,476,005	203,568	777	154,680,350
Gross carrying amount	160,890,423	203,568	777	161,094,768
Allowance for bad debts (Loan commitments reserve)	(14,385)	(1,474)	(420)	(16,279)
Total	<u>\$ 160,876,038</u>	<u>202,094</u>	<u>357</u>	<u>161,078,489</u>

Loan Commitments				
December 31, 2019				
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Total
Credit rating				
Low	\$ 2,574,360	-	-	2,574,360
Others	420,467,884	227,556	482	420,695,922
Gross carrying amount	423,042,244	227,556	482	423,270,282
Allowance for bad debts (Loan commitments reserve)	(17,118)	(1,817)	(289)	(19,224)
Total	<u>\$ 423,025,126</u>	<u>225,739</u>	<u>193</u>	<u>423,251,058</u>

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

Accounts Receivable(including other financial assets)					
December 31, 2020					
	12 month ECLs	Lifetime ECLs—not impaired	Lifetime ECLs—not impaired	Credit impairments of originated or purchased new financial assets—not impaired	Total
Credit rating					
Aaa~Baa3	\$ 6,148,231	-	-	-	6,148,231
Ba1~Caa1	31,459	4,374	77	-	35,910
Others	<u>76,161,851</u>	<u>483,778</u>	<u>134,543</u>	<u>-</u>	<u>76,780,172</u>
Gross carrying amount (Note 1)	82,341,541	488,152	134,620	-	82,964,313
Allowance for bad debts (Note 2)	(37,311)	(6,886)	(77,065)	-	(121,262)
Impairment recognized in accordance with "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans				(49,852)	(49,852)
Total	<u>\$ 82,304,230</u>	<u>481,266</u>	<u>57,555</u>	<u>(49,852)</u>	<u>82,793,199</u>

Note 1: The gross carrying amount of the table was not included BOT's restrictive deposit \$19,129 thousand and Department of Government Employees' Insurance's accounts receivable \$8,407,922 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 \$11 thousand evaluated by simplification method.

Accounts Receivable(including other financial assets)					
December 31, 2019					
	12 month ECLs	Lifetime ECLs—not impaired	Lifetime ECLs—not impaired	Credit impairments of originated or purchased new financial assets—not impaired	Total
Credit rating					
Aaa~Baa3	\$ 7,946,716	-	-	-	7,946,716
Ba1~Caa1	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 "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans				(56,358)	(56,358)
Total	<u>\$ 90,488,029</u>	<u>390,988</u>	<u>90,213</u>	<u>(56,358)</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.

(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:

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

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

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, 2020				
	Gross carrying amount	Allowance for impairment (Legal reserves was not included)	Exposure amount (Amortized cost)	Fair value of collateral
Impaired financial assets:				
Receivables				
Credit card business	\$ 5,972	4,501	1,471	-
Others	128,648	72,564	56,084	-
Loans and discounts	19,344,324	4,748,114	14,596,210	12,895,755
Total amount of impaired financial assets	<u>\$ 19,478,944</u>	<u>4,825,179</u>	<u>14,653,765</u>	<u>12,895,755</u>

December 31, 2019				
	Gross carrying amount	Allowance for impairment (Legal reserves was not included)	Exposure amount (Amortized cost)	Fair value of collateral
Impaired financial assets:				
Receivables				
Credit card business	\$ 5,999	4,787	1,212	-
Others	146,155	75,154	71,001	9,699
Loans and discounts	25,096,494	7,150,936	17,945,558	9,214,772
Total amount of impaired financial assets	<u>\$ 25,248,648</u>	<u>7,230,877</u>	<u>18,017,771</u>	<u>9,224,471</u>

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

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

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

Note 1: December 31, 2020

- (1) The carrying amounts include loans (\$2,913,870 million), call loans to banks, overdraft of banks and placement with banks (\$239,572 million), security investments (\$1,173,578 million) and so on. Loans refer to discounts, overdrafts, government overdrafts, secured overdrafts, short-term loans, short-term secured loans, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, import bill advance and nonperforming loans (\$3,195 million). Security investments include bonds and stocks. Bonds are measured at fair value. However the bonds classified as held-to-maturity financial assets or bond investments in non-active market are carried at cost. Equity investments are measure at fair value but those classified as cost of long-term equity investments under the equity method and financial assets carried at cost are measured at cost.
- (2) This table excluded the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

Note 2: December 31, 2019

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

ii) Region

Areas type	December 31, 2020		December 31, 2019	
	Book Value	%	Book Value	%
	Note 1)		Note 2)	
Domestic	\$ 3,831,550	88.55 %	3,648,596	88.28 %
Foreign	495,470	11.45 %	484,606	11.72 %
Total	\$ 4,327,020	100.00 %	4,133,202	100.00 %

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

Note 1: December 31, 2020

- (1) The carrying amounts include loans (\$2,913,870 million), call loans to banks, overdraft of banks and placement with banks (\$239,572 million), security investments (\$1,173,578 million) and so on. Loans refer to discounts, overdrafts, government overdrafts, secured overdrafts, short-term loans, short-term secured loans, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, import bill advance and nonperforming loans (\$3,195 million). Security investments include bonds and stocks. Bonds are measured at fair value. However the bonds classified as held-to-maturity financial assets or bond investments in non-active market are carried at cost. Equity investments are measure at fair value but those classified as cost of long-term equity investments under the equity method and financial assets carried at cost are measured at cost.
- (2) This table excluded the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

Note 2: December 31, 2019

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

iii) Collateral

Type of collateral	December 31, 2020		December 31, 2019	
	Unit: In million of TWD; %			
	Book Value (Note 1)	%	Book Value (Note 1)	%
Non-secured	\$ 1,321,714	45.37 %	1,270,447	46.69 %
Secured	1,592,156	54.63 %	1,450,838	53.31 %
Guarantee	179,249	6.15 %	140,240	5.15 %
Securities	68,914	2.36 %	74,881	2.75 %
Real estate	1,262,049	43.31 %	1,156,442	42.50 %
Chattel	81,814	2.81 %	79,163	2.91 %
Valuables	130	- %	112	- %
Total	\$ 2,913,870	100.00 %	2,721,285	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 (\$3,195 million at December 31, 2020; \$3,154 million at December 31, 2019).

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, 2020 and 2019, the reconciliations of the beginning and ending balances for loss allowance of discounts and loans were as follows:

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

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

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

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

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

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

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

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

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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, 2020 and 2019, 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:

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

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

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

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

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

	2020			
	12 month ECLs	Lifetime ECLs	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Total
Beginning balance	\$ 915,889,512	302,385	-	916,191,897
— Transfer to lifetime expected credit losses	(289,806)	289,806	-	-
— Financial assets that have been derecognized during the period	(766,977,547)	-	-	(766,977,547)
Originated or purchased new financial assets	749,720,006	-	-	749,720,006
Other movements	(2,884,173)	(46,371)	-	(2,930,544)
Ending balance	<u><u>\$ 895,457,992</u></u>	<u><u>545,820</u></u>	<u><u>-</u></u>	<u><u>896,003,812</u></u>

(Continued)

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

	2019			
	12 month ECLs	Lifetime ECLs	Lifetime ECLs (not purchased or originated credit impaired financial assets)	Total
Beginning balance	\$ 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><u>\$ 915,889,512</u></u>	<u><u>302,385</u></u>	<u><u>-</u></u>	<u><u>916,191,897</u></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, 2020 and 2019, the reconciliations of the beginning and ending balances for loss allowance of debt instruments measured at amortized cost were as follows:

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

(Continued)

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

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

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

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

(Continued)

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

	2019			
	<u>12 month ECLs</u>	<u>Lifetime ECLs</u>	<u>Lifetime ECLs (not purchased or originated credit impaired financial assets)</u>	<u>Total</u>
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><u>\$ 177,249,882</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>177,249,882</u></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, 2020 and 2019, 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:

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

(Continued)

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

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

(Continued)

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

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

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

(Continued)

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

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

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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, 2020 and 2019, the reconciliations of the beginning and ending balances for loss allowance of loan commitments (loan commitments reserve) were as follows:

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

(Continued)

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

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

(Continued)

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

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

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

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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, 2020 and 2019, the reconciliations of the beginning and ending balances for loss allowance of receivables were as follows:

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

Note 1: 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.

Note 2: Not included BOT's accumulated impairment recognized in restrictive deposit \$10 thousand and Department of Government Employees' Insurance's allowance for impairment \$11 thousand evaluated by simplification method.

(Continued)

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

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

Note 1: 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.

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.

(Continued)

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

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

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

Note 1: 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.

Note 2: Not included BOT's gross carrying amount of restricted deposit \$19,129 thousand and Department of Government Employees' Insurance's accounts receivables \$8,407,922 thousand evaluated by simplification method.

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

	2019			
	<u>12 month ECLs</u>	<u>Lifetime ECLs (collectively assessed)</u>	<u>Lifetime ECLs (not purchased or originated credit impaired financial assets)</u>	<u>Total</u>
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><u>\$ 90,521,835</u></u>	<u><u>400,165</u></u>	<u><u>170,154</u></u>	<u><u>91,092,154</u></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 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, 2020 and 2019 are shown below:

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

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

	2020	2019
Beginning balance	\$ 13	1,022
Impairment recognized (reversed)	(2)	13
Write off uncollectable amounts	-	(1,022)
Beginning balance	\$ 11	13

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

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

Note 1: Nonperforming loans are reported to the authorities and disclosed to the public, as required by the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Non-accrued Loans." Nonperforming credit card receivables are reported to the authorities and disclosed to the public, as required by the Banking Bureau's letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: The carrying amount of discount and premium adjustment was not included in total amount of loans.

Note 3: Ratio of nonperforming loans: Nonperforming loans ÷ Outstanding loan balance. Ratio of nonperforming credit card receivables: Nonperforming credit card receivables ÷ Outstanding credit card receivables balance.

Note 4: Coverage ratio of loans: Allowance for possible losses for loans ÷ Nonperforming loans. Coverage ratio of credit card receivables: Allowance for possible losses for credit card receivables ÷ Nonperforming credit card receivables.

Note 5: The mortgage loan is for house purchase or renovation and is fully secured by housing that is purchased (owned) by the borrower, the spouse or the minor children of the borrowers.

Note 6: Based on the Banking Bureau's letter dated December 19, 2005 (Ref. No. 09440010950), small-scale credit loans are unsecured, involve small amounts, and exclude credit cards and cash cards.

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

Note 8: As required by the Banking Bureau in its letter dated July 19, 2005 (Ref. No. 094000494), factored accounts receivable without recourse are reported as nonperforming receivables within three months after the factors or insurance companies refuse to indemnify banks for any liabilities on these accounts.

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

iii) Concentration of Credit Risk

Units: In Millions of NTD, %

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

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

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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.

(Continued)

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, 2020	1-30days	31-90days	91-180days	181day1year	Over one year	Total
Cash and placement with banks	649,039	43,550	16,550	11,550	235	720,924
Call loans to banks and overdrafts	1,665,000	2,099,500	663,000	466,000	-	4,893,500
Investment securities	50,870	156,209	207,351	245,115	2,117,674	2,777,219
Loans (including overdue loans)	1,071,973	386,606	368,622	691,592	3,347,536	5,866,329
Interest receivables and income receivables	8,972	10,936	5,612	1,212	18,823	45,555
Other expired items	10,787,797	8,809,923	3,085,572	4,927,100	4,695,331	32,305,723
Total major matured capital inflow	14,233,651	11,506,724	4,346,707	6,342,569	10,179,599	46,609,250

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December 31, 2020	1~30days	31~90days	91~180days	181day1year	Over one year	Total
Deposits from banks, bank overdrafts, and call loans from bank	3,507,512	669,000	30,000	-	-	4,206,512
Demand deposits	1,192,451	1,492,902	2,239,352	-	1,146,345	6,071,050
Time deposits	3,191,428	3,189,924	2,294,969	3,226,778	25	11,903,124
Borrowings	-	-	-	-	600,000	600,000
Interest payables	16,010	15,935	6,846	2,363	40,456	81,610
Loan Commitments	119,772	116,432	240,224	370,385	490,965	1,337,778
Equities	-	-	-	-	(10,328)	(10,328)
Other expired items	3,966,245	5,873,037	1,944,822	2,767,931	8,534,943	23,086,978
Total major matured capital outflow	11,993,418	11,357,230	6,756,213	6,367,457	10,802,406	47,276,724

Maturity analysis of assets and liabilities (New Taiwan Dollars)

Unit: In thousand NTD

December 31, 2020	1~30days	31~90days	91~180days	181day1year	Over one year	Total
Cash and placement with banks	70,677,167	206,382,844	73,806,749	70,376,742	46,162,910	467,406,412
Call loans to banks and overdrafts	705,000	10,000	-	-	-	715,000
Investment securities	656,981,820	57,273,286	74,730,426	203,126,898	257,519,307	1,249,631,737
Loans (including overdue loans)	224,887,312	249,983,315	261,184,099	415,266,191	1,547,696,191	2,699,017,108
Interest receivables and income receivables	3,400,518	2,436,309	1,530,815	1,299,624	93,706	8,760,972
Other expired items	87,844,413	149,517,745	42,295,956	113,281,990	272,331,539	665,271,643
Total major matured capital inflow	1,044,496,230	665,603,499	453,548,045	803,351,445	2,123,803,653	5,090,802,872

December 31, 2020	1~30days	31~90days	91~180days	181day1year	Over one year	Total
Deposits from banks, bank overdrafts, and call loans from bank	90,804,900	5,487,873	8,221,475	15,548,087	6,289,463	126,351,798
Demand deposits	64,588,026	47,330,378	44,425,626	60,316,331	1,492,017,559	1,708,677,920
Time deposits	358,793,424	243,879,116	292,614,371	727,865,082	140,291,962	1,763,443,955
Bills and bonds sold under repurchase agreements	1,301,008	1,905,146	1,275,737	-	-	4,481,891
Borrowings	12,196,425	2,562	2,892	3,405	25,002,379	37,207,663
Interest payables	4,564,277	598,344	1,247,997	628,495	307,725	7,346,838
Loan Commitments	78,778,890	157,403,615	236,182,505	472,365,010	596,931,239	1,541,661,259
Equities	-	-	-	-	381,326,311	381,326,311
Other expired items	250,679,316	216,387,444	81,886,484	139,638,886	132,159,141	820,751,271
Total major matured capital outflow	861,706,266	672,994,478	665,857,087	1,416,365,296	2,774,325,779	6,391,248,906

Maturity analysis of assets and liabilities (United State Dollars)

Unit: In thousand USD

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

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

Maturity analysis of assets and liabilities (New Taiwan Dollars)

Unit: In thousand NTD

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

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

d) Maturity analysis of derivatives

Unit: In thousand NTD

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

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Unit: In thousand NTD

December 31, 2019 Derivative financial instruments	Overdue less than 1 month	Overdue 1 to 3 months	Overdue 3 to 6 months	Overdue 6 months to 1 year	Overdue 1 to 5 years	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	1,758	15,148	21,696	-	-	-	38,602
Interest inflow	1,793	12,314	20,291	-	-	-	34,398

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.

Unit: In thousand NTD

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

Unit: In thousand NTD

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

f) Maturity analysis of lease agreements and capital expenditures

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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December 31, 2019	Less than 1 year	1-5 year	Over 5 year	Total
Lease commitments				
Operating lease payments (Lessee)	(455,304)	(980,241)	(43,587)	(1,479,132)
Operating lease income(Lessor)	151,451	181,595	-	333,046
Total	(303,853)	(798,646)	(43,587)	(1,146,086)

- 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)

2020

Units: 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	\$ 5,090,802,872	526,085,674	518,410,556	665,603,499	453,548,045	803,351,445	2,123,803,653
Major matured capital outflow	6,391,248,906	472,735,095	388,971,171	672,994,478	665,857,087	1,416,365,296	2,774,325,779
Capital gap	(1,300,446,034)	53,350,579	129,439,385	(7,390,979)	(212,309,042)	(613,013,851)	(650,522,126)

2019

Units: 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)

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

2020

Unit: In Thousand of USD

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

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)

(Continued)

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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.

(Continued)

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

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 DV01.

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.

(Continued)

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

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, 2020 and 2019. Under this assumption, the income after tax will decrease \$22 million and increase \$56 million, respectively and the other comprehensive income will decrease \$9,440 million and decrease \$6,164 million, respectively. If the yield curve moves downward by 100 bps, the income after tax will increase \$359 million and increase \$55 million, respectively and the other comprehensive income will increase \$10,994 million and \$6,583 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, 2020 and 2019. Under this assumption, the income after tax will increase \$731 million and \$796 million, respectively.

If the exchange rate depreciates by 3%, the income after tax will decrease \$731 million and \$796 million, respectively.

(Continued)

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, 2020 and 2019. Under this assumption, the income after tax will increase \$6,789 million and \$6,524 million, respectively and the other comprehensive income will increase \$13,860 million and \$14,293 million, respectively.

If the market prices decrease by 15%, the income after tax will decrease \$6,789 million and \$6,524 million, respectively; the other comprehensive income will decrease \$13,860 million and \$14,293 million, respectively.

iv) Sensitivity analysis is as follows:

Units: In Millions of NTD

December 31, 2020			
Main risk	Range	Amount Influence	
		Equity	Gain or loss
Interest rate risk	Interest rate curve rise 100BPS	(9,440)	(22)
Interest rate risk	Interest rate curve fall 100BPS	10,994	359
Exchange rate risk	Other foreign currency/ NTD rise 3%		731
Exchange rate risk	Other foreign currency / NTD fall 3%		(731)
Price of equity stock risk	Price of equity stock rise 15%	13,860	6,789
Price of equity stock risk	Price of equity stock fall 15%	(13,860)	(6,789)

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)

(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, 2020		
Amount in original currency		Amount in New Taiwan Dollars
USD	567,668	15,951,471
CNY	1,348,071	5,830,407
JPY	3,040,387	828,505
GBP	18,471	708,363
KRW	19,211,904	497,588

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
AUD	21,477,933	556,278

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

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

(Continued)

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, 2020 and 2019, respectively.

December 31, 2020			
Assets	USD to NTD	Other currency to NTD	Total NTD
Cash and cash equivalents	\$ 47,246,340	53,085,629	100,331,969
Placement with central bank and call loans to banks	111,831,023	67,286,366	179,117,389
Financial assets measured at fair value through profit or loss	99,710,455	29,240,366	128,950,821
Financial assets measured at fair value through other comprehensive income	32,572,049	70,384,866	102,956,915
Debt investments measured at amortized cost	18,222,554	15,301,926	33,524,480
Receivables, net	8,052,455	3,521,651	11,574,106
Current income tax assets	31,472	177,942	209,414
Loans and discounts, net	131,603,948	80,357,192	211,961,140
Other financial assets, net	254,290	19,545	273,835
Property and equipment, net	77,037	44,222	121,259
Intangible assets	33,712	3,602	37,314
Deferred income tax assets, net	113,879	72,605	186,484
Other assets, net	32,197,916	(27,341,128)	4,856,788
Total assets	\$ 481,947,130	292,154,784	774,101,914

(Continued)

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

December 31, 2020			
Liabilities	USD to NTD	Other currency to NTD	Total NTD
Deposits of Central Bank and other banks	\$ 100,690,134	41,405,775	142,095,909
Loans to Central Bank and banks	3,653,000	-	3,653,000
Financial liabilities measured at fair value through profit or loss	14,325,459	499,922	14,825,381
Hedging derivative financial liabilities	-	49,894	49,894
Bills and Bonds Sold under Repurchase Agreements	-	1,936,197	1,936,197
Payables	8,004,100	(2,148,043)	5,856,057
Current income tax liabilities	101,764	54,613	156,377
Deposits and remittances	459,862,029	241,116,354	700,978,383
Other financial liabilities	816,581	96,827	913,408
Provisions	2,752	12,376	15,128
Deferred income tax liabilities	-	26,617	26,617
Other liabilities	<u>147,429,369</u>	<u>55,610,597</u>	<u>203,039,966</u>
Total liabilities	<u><u>\$ 734,885,188</u></u>	<u><u>338,661,129</u></u>	<u><u>1,073,546,317</u></u>

(Continued)

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

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

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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	133,362,499	41,542,081	174,904,580
Total liabilities	\$ 674,669,067	358,014,087	1,032,683,154

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)

Unit: In Thousand of NTD

Unit: in Thousand of NTD

December 31, 2020					
Item	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest rate sensitive assets	\$ 1,636,841,392	1,919,353,973	110,682,820	390,287,876	4,057,166,061
Interest rate sensitive liabilities	459,380,994	3,069,596,452	285,899,290	100,133,343	3,915,010,079
Interest rate sensitive gap	1,177,460,398	(1,150,242,479)	(175,216,470)	290,154,533	142,155,982
Net worth					381,326,311
Ratio of interest rate sensitive assets to liabilities (%)					103.63
Ratio of interest rate sensitive gap to net worth (%)					37.28

(Continued)

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

Unit: In Thousand of NTD

December 31, 2019					
Item	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest rate sensitive assets	\$ 1,682,531,290	1,712,946,163	156,966,532	309,160,967	3,861,604,952
Interest rate sensitive liabilities	457,257,294	2,933,664,471	246,325,207	87,470,984	3,724,717,956
Interest rate sensitive gap	1,225,273,996	(1,220,718,308)	(89,358,675)	221,689,983	136,886,996
Net worth					375,466,219
Ratio of interest rate sensitive assets to liabilities (%)					103.68
Ratio of interest rate sensitive gap to net worth (%)					36.46

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

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

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

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

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

Unit: In Thousand of USD

December 31, 2020					
Item	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest rate sensitive assets	\$ 30,943,340	4,113,223	6,541,285	1,182,685	42,780,533
Interest rate sensitive liabilities	20,870,413	9,972,468	6,124,378	470,589	37,437,848
Interest rate sensitive gap	10,072,927	(5,859,245)	416,907	712,096	5,342,685
Net worth					(10,329)
Ratio of interest rate sensitive assets to liabilities (%)					114.27
Ratio of interest rate sensitive gap to net worth (%)					(51,725.09)

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)

(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) 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.

According 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.

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 to 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 enhancing its employees' concept of risk (e.g. collecting and compiling the information as a report about the concept of risk), and to firmly executing internal controls, 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

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.

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 18 members in the center.

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

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.
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.

(Continued)

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

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.
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.

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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7) 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:

<u>Financial assets type</u>	<u>December 31, 2020</u>				
	<u>Transferred financial assets book value</u>	<u>Financial liability book value</u>	<u>Transferred financial assets fair value</u>	<u>Financial liability fair value</u>	<u>Net fair</u>
Financial assets at fair value through profit or loss					
Issued under repurchase agreement	\$ 29,972	29,984	29,972	29,984	(12)
Financial assets at fair value through other comprehensive income					
Issued under repurchase agreement	3,998,900	4,451,906	3,998,900	4,451,906	(453,006)
<u>Financial assets type</u>	<u>December 31, 2019</u>				
	<u>Transferred financial assets book value</u>	<u>Financial liability book value</u>	<u>Transferred financial assets fair value</u>	<u>Financial liability fair value</u>	<u>Net fair</u>
Financial asset 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)

8) 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.

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Notes to the Consolidated Financial Statements

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

December 31, 2020						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
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	\$ 11,587,077	-	11,587,077	1,581,354	3,844,838	6,160,885

December 31, 2020						
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	\$ 17,802,321	-	17,802,321	1,528,827	808,226	15,465,268

Note: Netting settlement agreement and non-cash financial collaterals are included.

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	\$ 10,590,840	-	10,590,840	994,022	2,462,130	7,134,688

December 31, 2019						
Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
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	\$ 14,093,157	-	14,093,157	983,646	425,334	12,684,177

Note: Netting settlement agreement and non-cash financial collaterals are included.

(Continued)

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

(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.

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.

(Continued)

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

- 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 set 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 debt investment measured at fair value through other comprehensive income and financial assets measured at amortized cost. Also performs pressure tests to evaluate the effect of abnormal credit changes

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, 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

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.

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, 2020						
<u>Financial assets</u>						
Cash and cash equivalents	\$ 50,325,737	-	-	-	-	-
Receivables	4,505,848	678,065	-	51,949	20,769	1,028,510
Financial assets at fair value through profit or loss	12,887,126	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income — debt instruments	154,952	207,457	-	-	-	-
Financial assets measured at amortized cost — debt instruments	156,193,584	69,425,177	-	7,731,593	4,898,447	54,676,547
Other financial assets, net	9,910,500	-	-	-	-	-
Loans	-	-	412,900	-	788,000	7,743,593
Guarantee deposits paid	54,026	5,441,313	-	-	-	2,709

(Continued)

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

<u>Item</u>	<u>Finance</u>	<u>Government</u>	<u>Petrochemical Industry</u>	<u>Manufacturing</u>	<u>Electricity</u>	<u>Other</u>
December 31, 2019						
<u>Financial assets</u>						
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

ii) **Region**

<u>Item</u>	<u>Taiwan</u>	<u>America</u>	<u>Europe</u>	<u>Asia</u>	<u>Oceania</u>	<u>Other</u>
December 31, 2020						
<u>Financial assets</u>						
Cash and cash equivalents	\$ 50,325,737	-	-	-	-	-
Receivables	3,441,444	2,372,944	138,425	332,328	-	-
Financial assets at fair value through profit or loss	12,879,626	-	-	7,500	-	-
Financial assets measured at fair value through other comprehensive income – debt instruments	154,952	130,533	-	76,924	-	-
Financial assets measured at amortized cost – debt instruments	76,425,816	116,167,984	42,975,548	49,071,974	8,284,026	-
Other financial assets, net	9,910,500	-	-	-	-	-
Loans	8,944,493	-	-	-	-	-
Guarantee deposits paid	5,498,048	-	-	-	-	-

<u>Item</u>	<u>Taiwan</u>	<u>America</u>	<u>Europe</u>	<u>Asia</u>	<u>Oceania</u>	<u>Other</u>
December 31, 2019						
<u>Financial assets</u>						
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

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

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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.

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

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

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"), 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.

Exposure at default is measured based on amortized cost of financial assets.

(Continued)

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

The estimation techniques or material assumptions made by the 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. Relevant economic factors and its impact on expected credit losses may be different as the types of financial instruments change.

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.

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, 2020 and 2019, the reconciliations of the beginning and ending balances for loss allowance of receivables were as follows:

	2020						
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (individually assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	The loss allowances measured in accordance with IFRS 9	Impairment difference recognized in accordance with the Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming/Non accrual Loans	Total
Beginning balance	\$ 588	-	17,196	4	17,788	34	17,822
Changes due to financial instruments recognized as at beginning:							
— Financial assets that have been derecognized during the period	(97)	-	(158)	-	(255)		(255)
Originated or purchase new financial assets	187	-	-	-	187		187
Impairment difference recognized in accordance with the Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans	-	-	-	-	-	(18)	(18)
Foreign exchange and other movements	(11)	-	-	13	2		2
Ending balance	<u>\$ 667</u>	<u>-</u>	<u>17,038</u>	<u>17</u>	<u>17,722</u>	<u>16</u>	<u>17,738</u>

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

	2019						
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (individually assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	The loss allowances measured in accordance with IFRS 9	Impairment difference recognized in accordance with the Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming/Non accrual Loans	Total
Beginning balance	\$ 478	-	17,196	4	17,678	35	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)	(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>17,788</u>	<u>34</u>	<u>17,822</u>

In 2020 and 2019, 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, 2020 and 2019, the reconciliations of the beginning and ending balances for loss allowance of secured loans (including accrual loans) were as follows:

	2020						
	<u>12 month ECLs</u>	<u>Lifetime ECLs (collectively assessed)</u>	<u>Lifetime ECLs (individually assessed)</u>	<u>Lifetime ECLs (not purchased or originated credit impaired financial assets)</u>	<u>The loss allowances measured in accordance with IFRS 9</u>	<u>Impairment difference recognized in accordance with the Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming/Non accrual Loans</u>	<u>Total</u>
Beginning balance	\$ 1,332	173	-	652	2,157	49,092	51,249
Changes due to financial instruments recognized as at beginning:							
— Transfer to lifetime expected credit losses	(4)	4	-	-	-	-	-
— Transfer to credit impairment of financial assets	(3)	(43)	-	46	-	-	-
— Transfer to 12month expected credit losses	37	(37)	-	-	-	-	-
— Financial assets that have been derecognized during the period	(31)	-	-	(11)	(42)	-	(42)
Originated or purchase new financial assets	47	-	-	-	47	-	47
Impairment difference recognized in accordance with the Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans	-	-	-	-	-	(7,137)	(7,137)
The recovery of bad debts written off	1,289	-	-	-	1,289	-	1,289
Foreign exchange and other movements	(1,952)	158	-	3,484	1,690	-	1,690
Ending balance	<u>\$ 715</u>	<u>255</u>	<u>-</u>	<u>4,171</u>	<u>5,141</u>	<u>41,955</u>	<u>47,096</u>

(Continued)

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

	2019						
	<u>12 month ECLs</u>	<u>Lifetime ECLs (collectively assessed)</u>	<u>Lifetime ECLs (individually assessed)</u>	<u>Lifetime ECLs (not purchased or originated credit impaired financial assets)</u>	<u>The loss allowances measured in accordance with IFRS 9</u>	<u>Impairment difference recognized in accordance with the Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming/Non accrual Loans</u>	<u>Total</u>
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>2,157</u>	<u>49,092</u>	<u>51,249</u>

In 2020 and 2019, 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

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

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

	2020					
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (individually assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	The loss allowances measured in accordance with IFRS 9	Total
Beginning balance	91,870	-	-	-	91,870	91,870
Changes due to financial instruments recognized as at beginning:						
— Financial assets that have been derecognized during the period	(24,795)	-	-	-	(24,795)	(24,795)
Originated or purchase new financial assets	35,799	-	-	-	35,799	35,799
Foreign exchange and other movements	(1,972)	-	-	-	(1,972)	(1,972)
Ending balance	\$ 100,902	-	-	-	100,902	100,902

(Continued)

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

	2019				
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (individually assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	The loss allowances measured in accordance with IFRS 9
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	\$ 91,870	-	-	-	91,870

In 2020 and 2019, 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
Notes to the Consolidated Financial Statements

4. Changes in loss allowance of debt instruments measured at fair value through other comprehensive income

	2020					
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (individually assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	The loss allowances measured in accordance with IFRS 9	Total
Beginning balance	742	-	-	-	742	742
Changes due to financial instruments recognized as at beginning:						
— Financial assets that have been derecognized during the period	(656)	-	-	-	(656)	(656)
Foreign exchange and other movements	(12)	-	-	-	(12)	(12)
Ending balance	<u>\$ 74</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>74</u>	<u>74</u>
	2019					
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (individually assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	The loss allowances measured in accordance with IFRS 9	Total
Beginning balance	429	-	-	-	429	429
Changes due to financial instruments recognized as at beginning:						
— Financial assets that have been derecognized during the period	(1)	-	-	-	(1)	(1)
Originated or purchase new financial assets	351	-	-	-	351	351
Foreign exchange and other movements	(37)	-	-	-	(37)	(37)
Ending balance	<u>\$ 742</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>742</u>	<u>742</u>

(Continued)

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

5. In 2020 and 2019, 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					
December 31, 2020					
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Impairment difference recognized in accordance with the "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans"	Total
Low risk	\$ 6,282,852	43	-	-	6,282,895
High risk	2,863	-	17,121	-	19,984
Gross carrying amount	6,285,715	43	17,121	-	6,302,879
Allowance for impairment	(667)	-	(17,055)	-	(17,722)
Impairment difference recognized in accordance with the "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans"				(16)	(16)
Total	<u>\$ 6,285,048</u>	<u>43</u>	<u>66</u>	<u>(16)</u>	<u>6,285,141</u>

December 31, 2019					
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Impairment difference recognized in accordance with the "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans"	Total
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	<u>\$ 2,440,193</u>	<u>46</u>	<u>13</u>	<u>(34)</u>	<u>2,440,218</u>

(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					
December 31, 2020					
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Impairment difference recognized in accordance with the "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans"	Total
Current 0~M1	\$ 3,090,293	-	-	-	3,090,293
M2~M3	-	16,388	-	-	16,388
Default (D)	-	-	20,702	-	20,702
Gross carrying amount	3,090,293	16,388	20,702	-	3,127,383
Allowance for impairment	(715)	(255)	(4,171)	-	(5,141)
Impairment difference recognized in accordance with the "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans"				(41,955)	(41,955)
Total	<u>\$ 3,089,578</u>	<u>16,133</u>	<u>16,531</u>	<u>(41,955)</u>	<u>3,080,287</u>

December 31, 2019					
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Impairment difference recognized in accordance with the "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans"	Total
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 the "Regulations Governing the Procedures for Institutions to Evaluate Assets and Deal with Nonperforming / Nonaccrual Loans"				(49,092)	(49,092)
Total	<u>\$ 3,250,560</u>	<u>14,299</u>	<u>23,628</u>	<u>(49,092)</u>	<u>3,239,395</u>

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 the Company is real estate.

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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 2020 and 2019.

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, 2020		
	Exposures	Allowance for impairment	Fair value of collateral
Impaired financial assets:			
Secured loans (including non-accrual loans)	\$ 20,702	(4,171)	50,399
Gross impaired financial assets	<u>\$ 20,702</u>	<u>(4,171)</u>	<u>50,399</u>

	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	<u>\$ 24,280</u>	<u>(652)</u>	<u>471,013</u>

(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, 2020				
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Total
Low risk	\$ 292,626,250	-	-	292,626,250
High risk	400,000	-	-	400,000
Gross carrying amount	293,026,250	-	-	293,026,250
Allowance for impairment	(100,902)	-	-	(100,902)
Total	<u><u>\$ 292,925,348</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>292,925,348</u></u>
December 31, 2019				
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— 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><u>\$ 281,806,469</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>281,806,469</u></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, 2020				
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Total
Credit rating	\$ 320,932	-	-	320,932
Gross carrying amount	320,932	-	-	320,932
Allowance for impairment	(74)	-	-	(74)
Fair value adjustments	41,477	-	-	41,477
Total	<u><u>\$ 362,335</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>362,335</u></u>
December 31, 2019				
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— 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><u>\$ 2,193,579</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>2,193,579</u></u>

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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, 2020	December 31, 2019
Debt instruments	\$ 10,116,071	11,218,293

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, 2020				
	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	\$ (332,478)	-	-	-	(332,478)

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)

Maturity analysis of non-derivative:

	December 31, 2020				
Assets	1 year	1~2 years	2~5 years	Over 5 years	Total
Cash and cash equivalents	\$ 50,332,968	-	-	-	50,332,968
Receivables	4,314,792	-	-	-	4,314,792
Non derivative financial assets measured at fair value through profit or loss	227,341	1,227,341	1,245,523	13,589,898	16,290,103
Financial assets measured at fair value through other comprehensive income	8,039	8,079	24,238	412,942	453,298
Financial assets measured at amortized cost	42,764,780	20,643,220	30,043,589	497,254,386	590,705,975
Other financial assets, net	9,946,912	-	-	-	9,946,912
Guarantee deposits paid	-	-	-	5,441,313	5,441,313
Total assets	\$ 107,594,832	21,878,640	31,313,350	516,698,539	677,485,361
Liabilities	1 year	1~2 years	2~5 years	Over 5 years	Total
Payables	\$ 2,378,444	-	-	-	2,378,444
Lease liabilities	7,892	7,602	320	-	15,814
Total liabilities	\$ 2,386,336	7,602	320	-	2,394,258

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

December 31, 2019					
<u>Assets</u>	<u>1 year</u>	<u>1~2 years</u>	<u>2~5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Cash and cash equivalents	\$ 24,234,187	-	-	-	24,234,187
Receivables	557,578	-	-	-	557,578
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	\$ 85,954,139	17,546,962	35,743,544	507,056,963	646,301,608
<u>Liabilities</u>	<u>1 year</u>	<u>1~2 years</u>	<u>2~5 years</u>	<u>Over 5 years</u>	<u>Total</u>
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

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, 2020				December 31, 2019		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
<u>Financial assets</u>						
AUD	\$ 67,487	21.6500	1,461,102	102,083	21.0150	2,145,278
CAD	27,301	22.0600	602,259	26,244	22.9800	603,086
EUR	-	-	-	1,901	33.6400	63,964
HKD	3	3.6240	10	3	3.8510	11
USD	7,985,462	28.1000	224,391,468	7,207,808	29.9900	216,162,148
CNY	39	4.3250	168	1,063,840	4.2950	4,569,193
SGD	32,920	21.2700	700,208	80,070	22.2600	1,782,363
<u>Financial liabilities</u>						
USD	996,660	28.1000	28,006,140	864,189	29.9900	25,917,042

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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, 2020							
		USD	AUD	HKD	EUR	CAD	CNY	SGD	Total
Foreign financial assets									
Cash and cash equivalents	\$	3,504,158	27,851	10	-	2,322	168	9,337	3,543,846
Financial assets at fair value through profit or loss		4,034,257	-	-	-	-	-	-	4,034,257
Financial assets measured at fair value through other comprehensive income		207,457	-	-	-	-	-	-	207,457
Loans and receivables		2,852,390	17,733	-	-	-	-	-	2,870,123
Financial assets measured at amortized cost		213,793,206	1,415,518	-	-	599,937	-	690,871	216,499,532
Total	\$	224,391,468	1,461,102	10	-	602,259	168	700,208	227,155,215

		December 31, 2020							
		USD	AUD	HKD	EUR	CAD	CNY	ZAR	Total
Foreign financial liabilities									
Payables	\$	14,962	-	-	-	-	-	-	14,962
Temporary Credits		433	-	-	-	-	-	-	433
Insurance liabilities		27,990,745	-	-	-	-	-	-	27,990,745
Total	\$	28,006,140	-	-	-	-	-	-	28,006,140

Note: December 31, 2020: 1 USD = 28.100 NTD; 1 AUD = 21.650 NTD; 1 HKD = 3.624 NTD; 1 EUR = 34.590 NTD; 1 CAD = 22.060 NTD; 1 CNY = 4.325 NTD; 1 SGD = 21.270 NTD

		December 31, 2019							
		USD	AUD	HKD	EUR	CAD	CNY	SGD	Total
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							
		USD	AUD	HKD	EUR	CAD	CNY	ZAR	Total
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 CNY = 4.295 NTD; 1 SGD = 22.26 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 BTLL.

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 repricing. The measurement of monitoring account interest rate risk is to compute the repricing 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.

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

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, 2020			
Main risk	Range	Amount Influence	
		Equity	Gain or loss
Exchange rate risk	Other foreign currencies / NTD rise 5%	2.12	36.70
Exchange rate risk	Other foreign currencies / NTD fall 5%	(2.12)	(36.70)
Interest rate risk	Interest rate curve rises 50BPS	(1.84)	-
Interest rate risk	Interest rate curve falls 50BPS	0.68	-
Price of equity stock risk	Price of equity stock rises 10% (Monetary market funds rises 2%)	27.23 (27.23)	0.60 (0.60)
Price of equity stock risk	Price of equity stock falls 10% (Monetary market funds rises 2%)		

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%)		

(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, 2020			
	Change in assumption	Changes in profit or loss before tax	Changes in shareholder's equity
Death rate	X1.1	(8,563)	(6,850)
Morbidity	X1.1	(50,400)	(40,320)
Contract Default Rate	X0.9	(37,801)	(30,241)
Expense	X1.1	(220,527)	(176,421)
Ratio of Return on Investment	(0.25)%	(1,012,345)	(809,876)

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)

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

1. Development trend of direct business loss

The development trends of the accumulated claims for the past ten years on December 31, 2020 and 2019 are as follows:

2020

Occurrence year	Development year										Claim Provision
	1	2	3	4	5	6	7	8	9	10	
2011	158,377	203,046	210,567	211,079	211,120	211,123	211,167	211,236	212,089	212,144	-
2012	174,121	224,805	228,749	229,003	229,080	229,096	229,103	229,170	229,178	229,238	60
2013	184,487	240,404	246,748	247,020	247,450	248,029	248,091	248,140	248,724	248,781	641
2014	194,819	238,026	245,923	248,279	248,544	248,636	248,725	248,793	249,232	249,295	570
2015	194,813	243,357	248,027	248,696	248,911	248,912	248,968	249,037	249,484	249,549	637
2016	189,755	244,369	249,639	251,250	251,338	251,463	251,518	251,583	252,076	252,138	800
2017	202,733	259,431	273,828	274,335	274,525	274,658	274,718	274,790	275,307	275,375	1,040
2018	176,786	231,577	239,238	240,132	240,302	240,420	240,475	240,544	240,983	241,048	1,810
2019	210,358	276,610	285,263	286,346	286,553	286,698	286,762	286,839	287,410	287,482	10,872
2020	200,501	259,896	268,341	269,383	269,585	269,726	269,787	269,860	270,426	270,494	69,993

Provision for unreported and within 1 year unpaid claims

86,423

Add: over 1 year reported but unpaid claims

38,080

Unreported provision claims

124,503

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

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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, 2020 and 2019 are as follows:

2020

Occurrence year	Development year										Claim Provision
	1	2	3	4	5	6	7	8	9	10	
2011	152,766	195,800	202,941	203,453	203,495	203,498	203,541	203,610	204,213	204,267	-
2012	166,896	216,798	220,742	220,995	221,073	221,089	221,095	221,163	221,170	221,230	60
2013	177,338	230,255	236,199	236,471	236,901	237,480	237,543	237,591	238,128	238,184	593
2014	192,319	233,110	241,007	243,364	243,629	243,720	243,810	243,877	244,293	244,356	546
2015	193,219	239,697	244,227	244,896	245,111	245,113	245,167	245,236	245,666	245,731	618
2016	187,037	241,651	246,921	248,532	248,620	248,743	248,797	248,863	249,343	249,405	785
2017	199,983	254,380	268,377	268,883	269,070	269,200	269,259	269,331	269,832	269,899	1,016
2018	174,081	228,873	236,534	237,418	237,586	237,703	237,758	237,826	238,257	238,322	1,788
2019	208,458	273,710	282,235	283,307	283,512	283,655	283,719	283,796	284,357	284,429	10,719
2020	198,245	256,652	264,895	265,919	266,117	266,256	266,317	266,389	266,939	267,007	68,762

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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, 2020			
Credit rating			
<u>Name</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, 2019			
Name	Credit rating		Date of rating
	agent	Credit 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, 2020, BTLI estimate future cash flow of provisions found that there will be negative value of net cash flow from assets and liabilities in next 1 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, 2020 and 2019 are as follows:

Units: In Millions of NTD			
Undiscounted expected cash outflow (inflow) on December 31, 2020			
<u>< 12 months</u>	<u>1~5 years</u>	<u>>5 years</u>	<u>total</u>
\$ (1,629)	57,665	1,097,938	\$ 1,153,974
Undiscounted expected cash outflow (inflow) on December 31, 2019			
<u>< 12 months</u>	<u>1~5 years</u>	<u>>5 years</u>	<u>total</u>
\$ (18,242)	55,113	1,090,798	\$ 1,127,669

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, 2020, 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 meets the offsetting condition. Such transactions include global master repurchase agreement, global securities lending agreement and related agreements. If both parties agree to settle the transactions on a net basis, BTLI can settle the transactions by netting the assets and liabilities. If there are no such agreements, the Company 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, 2020						
Financial assets subject to offsetting, enforceable master netting arrangement or similar agreement						
	Recognized financial assets	Recognized financial liabilities offset in the balance sheet	Net financial assets reported in the balance sheet	Related amount not offset in the balance sheet (d)		Net
Description	(a)	(b)	(c)=(a)-(b)	Financial instruments (Note)	Cash collateral received	(e)=(c)-(d)
Derivative financial assets	\$ 2,771,055	-	2,771,055	101,191	-	2,669,864

December 31, 2020						
Financial liabilities subject to offsetting, enforceable master netting arrangement or similar agreement						
	Recognized financial liabilities	Recognized financial assets offset in the balance sheet	Net financial liabilities reported in the balance sheet	Related amount not offset in the balance sheet (d)		Net
Description	(a)	(b)	(c)=(a)-(b)	Financial instruments (Note)	Cash collateral received	(e)=(c)-(d)
Derivative financial liabilities	\$ 250,885	-	250,885	7,500	-	243,385

Note: Include master netting arrangement and non-cash collateral.

December 31, 2019						
Financial assets subject to offsetting, enforceable master netting arrangement or similar agreement						
	Recognized financial assets	Recognized financial liabilities offset in the balance sheet	Net financial assets reported in the balance sheet	Related amount not offset in the balance sheet (d)		Net
Description	(a)	(b)	(c)=(a)-(b)	Financial instruments (Note)	Cash collateral received	(e)=(c)-(d)
Derivative financial assets	\$ 2,126,502	-	2,126,502	1,654	-	2,124,848

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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December 31, 2019						
Financial liabilities subject to offsetting, enforceable master netting arrangement or similar agreement						
Description	Recognized financial liabilities (a)	Recognized 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.

(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
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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's bond impairment assessments are based on the default rate and loss given default published by domestic credit rating agencies (Taiwan Rating), which have taken forward-looking general economic conditions into consideration. For the financial assets other than bonds, there are no significant differences on the impairment between before and after the adjustments of forward-looking factors.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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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:

	December 31, 2020	December 31, 2019
Cash and cash equivalents	\$ 181,149	99,673
Financial assets measured at fair value through profit or loss — current	476,556	601,388
Financial assets measured at fair value through other comprehensive income — current	2,007,025	1,818,405
Financial assets measured at amortized cost	138,574	-
Loans and receivables	9,950,569	6,688,993
Other receivables (note)	16	321
	<u>\$ 12,753,889</u>	<u>9,208,780</u>

The gross carrying amounts of financial assets with maximum credit risk exposure are based on risk rating as follows:

Debt instruments measured at fair value through other comprehensive income					
December 31, 2020					
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Valuation adjustment	Total
Low risk	\$ 1,995,751	-	-	-	1,995,751
Gross carrying amount	1,995,751	-	-	-	1,995,751
Allowance for impairment	(3,692)	-	-	-	(3,692)
Valuation adjustment	-	-	-	11,274	11,274
Total	<u>\$ 1,992,059</u>	<u>-</u>	<u>-</u>	<u>11,274</u>	<u>2,003,333</u>
Debt instruments measured at fair value through other comprehensive income					
December 31, 2019					
	12 month ECLs	Lifetime ECLs— not impaired	Lifetime ECLs— impaired	Valuation adjustment	Total
Low risk	\$ 1,817,933	-	-	-	1,817,933
Gross carrying amount	1,817,933	-	-	-	1,817,933
Allowance for impairment	(556)	-	-	-	(556)
Valuation adjustment	-	-	-	472	472
Total	<u>\$ 1,817,377</u>	<u>-</u>	<u>-</u>	<u>472</u>	<u>1,817,849</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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Debt instruments measured at fair value through other comprehensive income					
December 31, 2020					
	12 month ECLs	Lifetime ECLs—not impaired	Lifetime ECLs— impaired	Credit impairments of originated or purchased new financial assets— impaired	Total
Low risk	\$ 138,574	-	-	-	138,574
Gross carrying amount	138,574	-	-	-	138,574
Allowance for impairment	-	-	-	-	-
Total	<u>\$ 138,574</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>138,574</u>
Accounts receivable and others					
December 31, 2020					
	12 month ECLs	Lifetime ECLs—not impaired	Lifetime ECLs— impaired	Credit impairments of originated or purchased new financial assets— impaired	Total
Low risk	\$ 9,905,585	-	-	-	9,905,585
Gross carrying amount	9,905,585	-	-	-	9,905,585
Allowance for impairment	(64)	-	-	-	(64)
Total	<u>\$ 9,905,521</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,905,521</u>
Accounts receivable and others					
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	\$ 6,689,314	-	-	-	6,689,314
Gross carrying amount	6,689,314	-	-	-	6,689,314
Allowance for impairment	(118)	-	-	-	(118)
Total	<u>\$ 6,689,196</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,689,196</u>

The amount of maximum credit risk exposure of the financial instruments not applicable to impairment requirements is as follows:

	December 31, 2020	December 31, 2019
Debt instruments	<u>\$ 380,038</u>	<u>509,312</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
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The maximum exposure amounts by regions are as follows:

	December 31, 2020 (Taiwan)	December 31, 2019 (Taiwan)
Cash and cash equivalents	\$ 181,149	99,673
Financial assets measured at fair value through profit or loss — current	476,556	601,388
Financial assets at fair value through other comprehensive income — current	2,007,025	1,818,405
Financial assets measured at amortized cost	138,574	-
Loans and receivables	9,950,569	6,688,993
Other receivables (note)	16	321
	\$ 12,753,889	9,208,780

The maximum exposure amounts by counterparties are as follows:

	Exchange	Finance	Other companies	Individuals	Total
December 31, 2020					
Cash and cash equivalents	\$ -	181,149	-	-	181,149
Financial assets measured at fair value through profit or loss — current	-	96,731	379,825	-	476,556
Financial assets at fair value through other comprehensive income — current	-	289,725	1,717,300	-	2,007,025
Financial assets measured at amortized cost	-	-	138,574	-	138,574
Loans and receivables	627,363	9,587	-	9,313,619	9,950,569
Other receivables (note)	-	-	-	16	16
	\$ 627,363	577,192	2,235,699	9,313,635	12,753,889
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
	\$ 14,641	435,526	2,084,715	6,673,898	9,208,780

Note: recorded in other current assets

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
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f) The credit quality information

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

As of December 31, 2020 and 2019, 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:

	2020					
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (individually assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	The loss allowances measured in accordance with IFRS 9	Total
Beginning balance	\$ 556	-	-	-	556	556
Originated or purchased new financial assets	3,085	-	-	-	3,085	3,085
Impairment losses	51	-	-	-	51	51
Ending balance	\$ 3,692	-	-	-	3,692	3,692

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	2019					
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (individually assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	The loss allowances measured in accordance with IFRS 9	Total
Beginning balance	\$ 169	-	-	-	169	169
Originated or purchased new financial assets	144	-	-	-	144	144
Impairment losses	243	-	-	-	243	243
Ending balance	<u>\$ 556</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>556</u>	<u>556</u>

In 2020 and 2019, 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
Notes to the Consolidated Financial Statements

ii) Changes in loss allowance of notes and accounts receivable and other receivables

As of December 31, 2020 and 2019, the reconciliations of the beginning and ending balances for loss allowance of notes and accounts receivable and other receivables were as follows:

	2020					
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (individually assessed)	Lifetime ECLs (not purchased or originated credit impaired financial assets)	The loss allowances measured in accordance with IFRS 9	Total
Beginning balance	\$ 118	-	-	-	118	118
Impairment losses	836	-	-	-	836	836
Reversal of impairment loss	(881)	-	-	-	(881)	(881)
Bad debts written off	(9)	-	-	-	(9)	(9)
Ending balance	\$ 64	-	-	-	64	64

(Continued)

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

	2019					
	12 month ECLs	Lifetime ECLs (collectively assessed)	Lifetime ECLs (individually assessed)	Lifetime ECLs (not 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
Impairment losses	213	-	-	-	213	213
Reversal of impairment loss	(1,190)	-	-	-	(1,190)	(1,190)
Ending balance	\$ 118	-	-	-	118	118

In 2020 and 2019, 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 SUBSIDIARIES
Notes to the Consolidated Financial Statements

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, 2020					
Non derivatives financial liabilities					
Short-term loan	\$ 252,900	-	-	-	252,900
Commercial paper payable	604,902	-	-	-	604,902
Bonds sold under repurchase agreements	2,761,451	32,511	-	-	2,793,962
Deposits received from securities borrowers	48,824	48,824	97,647	-	195,295
Guaranteed price deposits received from securities borrowers	53,458	53,458	106,917	-	213,833
Accounts payables	6,724,681	-	-	-	6,724,681
Collections	846,165	-	-	-	846,165
Other payables	70,993	-	-	-	70,993
Other payables—related party	122,039	-	-	-	122,039
Lease liabilities—current	897	1,767	8,025	-	10,689
Other current liabilities	155	-	-	-	155
Lease liabilities—non-current	-	-	-	10,731	10,731
Other non-current liabilities	-	-	-	6,059	6,059
	<u>\$ 11,486,465</u>	<u>136,560</u>	<u>212,589</u>	<u>16,790</u>	<u>11,852,404</u>

(Continued)

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

	<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
Deposits received from securities borrowers	27,016	27,016	54,032	-	108,064
Guaranteed price deposits received from securities borrowers	29,653	29,653	59,306	-	118,612
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
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>

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, 2020		
Price increases 10%	41.74	127.23
Price decreases 10%	11.63	(16.31)
	<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)

(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:

	December 31, 2020	December 31, 2019
Financial instruments with fixed rate :		
Convertible bonds	\$ 380,038	509,312
Corporate bonds	1,943,381	1,614,213
Financial bonds	<u>202,218</u>	<u>204,192</u>
	<u>\$ 2,525,637</u>	<u>2,327,717</u>

5) Currency Risk

December 31, 2020			
	Foreign currency (in thousand dollars)	Exchange rate (in dollars)	NTD
Financial assets:			
Monetary items:			
USD	9,296	28.1000	264,411
Financial liabilities:			
Monetary items:			
USD	9,002	28.1000	252,962
December 31, 2019			
	Foreign currency (in thousand dollars)	Exchange rate (in dollars)	NTD
Financial assets:			
Monetary items:			
CNY	1	4.2950	2
USD	159	29.9900	4,781

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 and USD at the reporting date would have increased (decreased) profit before tax by \$114 thousand and \$48 thousand, respectively, in 2020 and 2019. 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, 2020				
	Transferred financial assets book value	Financial liability book value	Transferred financial assets fair value	Financial liability fair value	Net fair value
Financial asset at fair value through profit or loss					
Issued under repurchase agreement	\$ 11,780	10,000	11,780	10,000	1,780
Financial asset measured at fair value through other comprehensive income					
Issued under repurchase agreement	1,919,518	1,901,162	1,919,518	1,901,162	18,356

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

(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

2020

Unit: %

Name	Item the financial holding company's shareholding in the subsidiary	net eligible capital	statutory capital requirement
The Company	100 %	377,886,230	402,281,440
Subsidiary BOT	100 %	328,668,144	230,774,514
Subsidiary BTS	100 %	3,206,081	1,180,875
Subsidiary BTLI	100 %	13,264,146	15,037,272
Deducted Amount	-	(408,110,582)	(402,210,582)
Subtotal		314,914,019	247,063,519
The Company's and subsidiaries' Capital Adequacy Ratio			127.46

2019

Unit: %

Name	Item the financial holding company's shareholding in the subsidiary	net eligible capital	statutory capital requirement
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

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, 2020	
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	8,527,130
Special reserve	51,757,163
Cumulative gain or loss	18,389,278
Other equity	55,827,432
Reduce : Goodwill and other intangible assets	-
Reduce : Deferred assets	-
Reduce : Treasury stocks	-
Total qualifying capital	377,886,230

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

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

(d) Capital management of BTLI

The objectives of BTLI are to safeguard the interests of the policy holders, to support the sustainable development of BTLI, and to protect the interests of the shareholders and stakeholders. BTLI is also subject to external capital requirement, such as setting aside legal reserve or special reserve.

In accordance with Article 143-4 "Insurance Act", the ratio of the risk-based capital, divided by the total adjusted net capital of BTLI, shall not be lower than 200%. Besides, according to the "Regulations Governing Capital Adequacy of Insurance Companies" and other requirements from the authorities, BTLI shall calculate its capital adequacy ratio and evaluate the future level of its capital adequacy at least once every semi-annually to ensure that BTLI is able to continually comply with the regulations.

BTLI's capital adequacy ratio was 176.36% on December 31, 2020, and was categorized as an insurance company without adequate capital. In order to raise the capital adequacy ratio, in addition to reinforcing investment and foreign exchange hedging strategies, BTLI has continued to adjust the structure of insurance products, strengthened the promotion of foreign currency insurance policies to reduce the impact of exchange gains or losses, and improved capital utilization.

Furthermore, BTLI started the capital increase assessment in September 2019, and the capital increase plan was developed after BTLI communicated and reported to the Company. And on March 24, 2020 and March 30, 2020, respectively, the Board of Directors of BTLI and the Company resolved to include a \$11 billion capital injection to BTLI into its 2021 budget. The Company submitted a letter to the Ministry of Finance on April 28, 2020. The capital increase plan was approved in principle by the Ministry of Finance on July 10, 2020, and passed the First Reading by the Finance Committee, Legislative Yuan on January 12, 2021.

(10) Related-party Transactions:

(a) Name of related party and relationship

Name	Relationship
Hua Nan Financial Holdings Co., Ltd. and its subsidiaries	Investee company of BOT and BTLI under the equity method
Tang Eng Iron Works Co., Ltd.	Investee company of BOT under the equity method
Tai Yi Real Estate Management Co., Ltd.	Investee company of BOT under the equity method
Taiwan Business Bank Co., Ltd	Related-Party
Land Bank Of Taiwan	Related-Party
The Export-Import Bank of the Republic of China	Related-Party
Cathy United Bank	Related-Party
Chang Hwa Commercial Bank	Related-Party
Deutsche Bank Taipei Branch	Directors, supervisors, managers and their relatives up to the second degree, affiliates and so on (no longer a related party since September 2nd, 2019)
Others	Directors, supervisors, managers and their relatives up to the second degree, affiliates and so on

(Continued)

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

(b) Key management personnel compensation

- (i) The related information about the salaries and bonus for the key management personnel in 2020 and 2019 were as follows:

	December 31, 2020	December 31, 2019
Short-term employee benefits	\$ 52,066	51,834
Retired benefits	636	838
	<u>\$ 52,702</u>	<u>52,672</u>

(c) Other related-party transactions

- (i) Placement with banks

	December 31, 2020		December 31, 2019	
Name	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	<u>\$ 1,068,607</u>	<u>0.61</u>	<u>272,697</u>	<u>0.24</u>

- (ii) Bank deposits

	December 31, 2020		December 31, 2019	
Name	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	<u>\$ 193,429</u>	<u>0.40</u>	<u>291,259</u>	<u>0.58</u>

- (iii) Call loans to banks

	December 31, 2020			
	Highest balance	Ending balance	Interest rate range (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	\$ 10,216,070	<u>3,437,000</u>	0.12~3.25	<u>36,207</u>

	December 31, 2019			
	Highest balance	Ending balance	Interest rate range (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	\$ 18,372,412	<u>2,023,490</u>	0.17~3.25	<u>59,275</u>

(Continued)

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

- (iv) Guarantee deposits and margins paid (recognized as other assets)

Name	Summary	December 31, 2020	December 31, 2019
Hua Nan Financial Holdings Co., Ltd.	Housing deposits	\$ <u>160</u>	<u>160</u>

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

	December 31, 2020			
	Highest balance	Ending balance	Interest rate range (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	\$ 13,215,700	<u>927,300</u>	0.10~2.90	<u>6,449</u>

	December 31, 2019			
	Highest balance	Ending balance	Interest rate range (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	\$ 20,909,960	<u>-</u>	0.17~3.10	<u>22,093</u>

The lending rates for the related party have no difference with the others.

- (vi) Deposits

Name	December 31, 2020		December 31, 2019	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	\$ 352,059	0.01	366,176	0.01
Tang Eng Iron Works Co., Ltd.	149,901	-	674	-
Tai Yi Real Estate Management Co., Ltd.	<u>67</u>	-	-	-
Total	<u>\$ 502,027</u>	<u>0.01</u>	<u>366,850</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.

(Continued)

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

- (vii) Financial assets at fair value through profit or loss/Financial assets measured at fair value through other comprehensive income

Name	Summary	December 31, 2020	December 31, 2019
Hua Nan Financial Holdings Co., Ltd.	Financial bonds (recorded in the Financial assets at fair value through profit or loss)	\$ 2,000,000	2,000,000
	Financial bonds (recorded in the Financial assets measured at fair value through other comprehensive income)	-	900,000
	Valuation adjustment	91,278	65,913
	Carrying amount	<u>\$ 2,091,278</u>	<u>2,965,913</u>
	Interest receivable	<u>\$ 22,685</u>	<u>24,206</u>

The interest income for the year ended 2020 and 2019 derived from the BTLI's financial bond investment on related party are \$58,329 thousand and \$52,219 thousand.

- (viii) Loans

December 31, 2020							
Category	House holder amount or name of related party	Highest balance in current period	Ending balance	Status of performance		Type of collateral	Differences in transaction terms between related and non related parties
Consumer loans	33 households	16,997	11,392	11,392	-	None	None
House mortgages	212 households	869,019	764,252	764,252	-	Land and buildings	None
Call loans to banks	Land Bank of Taiwan Co., Ltd.	12,624,650	7,624,650	7,624,650	-	None	None
Call loans to banks	Hua Nan Financial Holdings Co., Ltd.	1,405,000	1,405,000	1,405,000	-	None	None
Call loans to banks	Taiwan Business Bank Co., Ltd.	3,520,500	2,958,500	2,958,500	-	None	None
Call loans to banks	Cathy United Bank Co., Ltd.	1,124,000	1,124,000	1,124,000	-	None	None
Call loans to banks	The Export Import Bank of the Republic of China	2,550,000	-	-	-	None	None
Secured overdrafts loans	Tang Eng Iron Works Co., Ltd.	16,430	-	-	-	Land and factory	None
Short term secured loans	Tang Eng Iron Works Co., Ltd.	1,467,281	900,000	900,000	-	Land and factory	None
Medium term secured loans	Tang Eng Iron Works Co., Ltd.	1,300,000	100,000	100,000	-	Land and factory	None

(Continued)

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		
Consumer loans	24 households	12,193	8,665	8,665	-	None	None
House mortgages	211 households	883,375	720,660	720,660	-	Land and buildings	None
Call loans to banks	Land Bank of Taiwan 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	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

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

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

(ix) Short-term borrowings

December 31, 2020				
	Highest balance	Ending balance	Interest rate range (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$ 840,000	-	0.300	86

December 31, 2019				
	Highest balance	Ending balance	Interest rate range (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$ 960,000	-	0.300	120

(Continued)

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

(x) Payables

<u>Name</u>	<u>Summary</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Hua Nan Financial Holdings Co., Ltd.	Agent fee	\$ <u>28</u>	<u>143</u>

(xi) Commission expenses

<u>Name</u>	<u>Nature</u>	<u>2020</u>	<u>2019</u>
Hua Nan Financial Holdings Co., Ltd.	Agent fee	\$ <u>815</u>	<u>6,427</u>

(xii) Service charges

<u>Name</u>	<u>Nature</u>	<u>2020</u>	<u>2019</u>
Hua Nan Financial Holdings Co., Ltd.	Securities trading, remittance fee and insurance agent fee	\$ <u>364</u>	<u>465</u>

(xiii) Other operating expenses

<u>Name</u>	<u>Nature</u>	<u>2020</u>	<u>2019</u>
Hua Nan Financial Holdings Co., Ltd.	Business expense	\$ 946	946
Hua Nan Financial Holdings Co., Ltd.	Insurance fee and service charge	19	23
Total		\$ <u>965</u>	<u>969</u>

(xiv) 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

<u>Name</u>	<u>Relationship</u>
Taiwan Financial Holding Co., Ltd.	Holding company of BOT
BankTaiwan Life Insurance Co., Ltd.	Wholly-owned subsidiary of Taiwan Financial Holdings

(Continued)

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

<u>Name</u>	<u>Relationship</u>
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
Deutsche Bank Taipei Branch	Related- Party
	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

<u>December 31, 2020</u>				
	<u>Highest balance</u>	<u>Ending balance</u>	<u>Interest rate range (%)</u>	<u>Interest income</u>
Hua Nan Financial Holdings Co., Ltd.	\$ 10,216,070	<u><u>3,437,000</u></u>	0.12~3.25	<u><u>36,207</u></u>
<u>December 31, 2019</u>				
	<u>Highest balance</u>	<u>Ending balance</u>	<u>Interest rate range (%)</u>	<u>Interest income</u>
Hua Nan Financial Holdings Co., Ltd.	\$ 18,372,412	<u><u>2,023,490</u></u>	0.17~3.25	<u><u>59,275</u></u>

(Continued)

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

b) Other assets

Name	December 31, 2020		December 31, 2019	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holding Co., Ltd. Taiwan Financial Holding Co., Ltd.	\$ 2,125,912	12.87	-	-
Bank Taiwan Life Insurance Co., Ltd.	5,962	0.04	5,887	0.05
Bank Taiwan Securities Co., Ltd.	14	-	14	-
Total	\$ 2,131,888	12.91	5,901	0.05

c) Securities lending (classified as other financial assets)

Name	December 31, 2020		December 31, 2019	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Bank Taiwan Securities Co., Ltd.	\$ 252,900	0.67	-	-

d) Deposits of banks

Name	December 31, 2020		December 31, 2019	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	\$ 193,429	0.40	291,259	0.58

e) Call loans from banks (recorded in Deposit of Central Bank and Other Bank)

	December 31, 2020			
	Highest balance	Ending balance	Interest rate range (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	\$ 13,215,700	927,300	0.10~2.90	6,449

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

(Continued)

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

f) Deposits

Name	December 31, 2020		December 31, 2019	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holding Co., Ltd.	\$ 1,056,093	0.03	198,724	0.01
BankTaiwan Life Insurance Co., Ltd.	8,587,023	0.21	6,335,035	0.16
BankTaiwan Securities Co., Ltd.	991,509	0.02	252,990	0.01
Hua Nan Financial Holdings Co., Ltd.	352,059	0.01	366,176	0.01
Tang Eng Iron Works Co., Ltd.	149,901	-	674	-
Tai Yi Real Estate	67	-	-	-
Total	<u>\$ 11,136,652</u>	<u>0.27</u>	<u>7,153,599</u>	<u>0.19</u>

g) Interest income

Name	2020		2019	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holdings	\$ 166,428	0.31	207,025	0.31
BankTaiwan Life Insurance	675	-	573	-
Total	<u>\$ 167,103</u>	<u>0.31</u>	<u>207,598</u>	<u>0.31</u>

h) Service fee income

Name	2020		2019	
	Amount	Percentage of account balance	Amount	Percentage of account balance
BankTaiwan Life Insurance Co., Ltd.	\$ 391,035	7.02	618,722	10.55
BankTaiwan Securities Co.,	4,998	0.09	3,366	0.06
Total	<u>\$ 396,033</u>	<u>7.11</u>	<u>622,088</u>	<u>10.61</u>

(Continued)

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

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

Name	2020		2019	
	Amount	Percentage of account balance	Amount	Percentage of account balance
BankTaiwan Life Insurance Co., Ltd.	\$ 396,750	0.70	1,134,250	2.32
BankTaiwan Securities Co., Ltd.	(2,499)	-	(3,400)	(0.01)
Total	<u>\$ 394,251</u>	<u>0.70</u>	<u>1,130,850</u>	<u>2.31</u>

- j) Loans

December 31, 2020							
Category	House holder amount or name of related party	Highest balance in current period	Ending balance	Status of performance		Type of collateral	Differences in transaction terms between related and non related parties
				Performing loans	Non-performing loans		
Consumer loans	33 households	16,997	11,392	11,392	-	None	None
House mortgages	212 households	869,019	764,252	764,252	-	Land and buildings	None
Call loans to banks	Land Bank of Taiwan Co., Ltd.	12,624,650	7,624,650	7,624,650	-	None	None
Call loans to banks	Hua Nan Financial Holdings Co., Ltd.	1,405,000	1,405,000	1,405,000	-	None	None
Call loans to banks	Taiwan Business Bank Co., Ltd.	3,520,500	2,958,500	2,958,500	-	None	None
Call loans to banks	Cathy United Bank Co., Ltd.	1,124,000	1,124,000	1,124,000	-	None	None
Call loans to banks	The Export Import Bank of the Republic of China	2,550,000	-	-	-	None	None
Call loans to banks	BankTaiwan Securities Co., Ltd.	252,900	252,900	252,900	-	None	None
Short-term loans	Taiwan financial Holding Co., Ltd.	24,600,000	24,600,000	24,600,000	-	None	None
Short-term secured loans	BankTaiwan Securities Co., Ltd.	550,000	-	-	-	Government (or financial institutions) guarantee	None
Secured overdrafts loans	Tang Eng Iron Works Co., Ltd.	16,430	-	-	-	Land and factory	None
Short term secured loans	Tang Eng Iron Works Co., Ltd.	1,467,281	900,000	900,000	-	Land and factory	None
Short term secured loans	Tang Eng Iron Works Co., Ltd.	1,300,000	100,000	100,000	-	Land and factory	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		
Consumer loans	24 households	12,193	8,665	8,665	-	None	None
House mortgages	211 households	883,375	720,660	720,662	-	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	8,000,000	-	-	-		None
Short-term loans	Taiwan financial Holding Co., Ltd.	25,200,000	25,200,000	25,200,000	-		None
Short-term secured loans	BankTaiwan Securities Co., Ltd.	500,000	-	-	-	Government (or financial institutions) guarantee	None
Secured overdrafts loans	Tang Eng Iron Works Co., Ltd.	88,431	41,119	41,119	-	Land and factory	None
Short term secured loans	Tang Eng Iron Works Co., Ltd.	100,000	100,000	100,000	-	Land and factory	None
Short term secured loans	Tang Eng Iron Works Co., Ltd.	1,500,000	900,000	900,000	-	Land and factory	None
Medium term secured loans	Tang Eng Iron Works Co., Ltd.	1,800,000	1,200,000	1,200,000	-	Land and factory	None

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

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

k) **Derivative instruments**

December 31, 2020						
Name of relative party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Balance sheet	
					Account name	Amount
BankTaiwan Life Insurance Co., Ltd.	Swap agreement	2017.08.04~2021.08.12	35,410,361	(142,618)	Valuation adjustment of financial assets measured at fair value through profit or loss - swap	(688,893)

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	138,095	Valuation adjustment of financial assets measured at fair value through profit or loss - swap	(722,419)

(Continued)

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

(ii) The subsidiary, BTLI

1) Name of related party and relationship

<u>Name</u>	<u>Relationship</u>
Taiwan Financial Holding Co., Ltd.	Holding company of BTLI
Bank of Taiwan Co., Ltd.	Wholly-owned subsidiary of Taiwan Financial Holdings
BankTaiwan Securities Co., Ltd.	Wholly-owned subsidiary of Taiwan Financial Holdings
BankTaiwan Insurance Brokers Co., Ltd	Wholly-owned subsidiary of BOT
Hua Nan Financial Holdings Co., Ltd. and its subsidiaries	Investee company of BOT and BTLI under the equity method
Others	Directors, supervisors, managers and their relatives up to the second degree, affiliates and so on

2) Other related party transactions

a) Secured loans

The real estate secured loans to the directors, supervisors, general manager, vice general manger, employees with credit amounts, their spouses and their first or second degree relatives on December 31, 2020 and 2019 are as follows:

<u>Name</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Real estate secured loans	\$ <u>113,216</u>	<u>144,802</u>
Interest receivables	\$ <u>38</u>	<u>76</u>

All interest rate collars on December 31, 2020 and 2019 are 0.570%~1.410% and 0.820%~1.657%, respectively.

b) Bank deposits

The bank deposits in the related banks and the relevant interest revenues on December 31, 2020 and 2019 were as follows:

		<u>December 31, 2020</u>		<u>December 31, 2019</u>	
<u>Name</u>	<u>Account</u>	<u>Amount</u>	<u>Percentage of account balance</u>	<u>Amount</u>	<u>Percentage of account balance</u>
Bank of Taiwan Co., Ltd	Bank deposits	\$ 10,086,094	20.04	7,992,640	32.99
Hua Nan Financial Holdings	Bank deposits	1,068,309	2.12	272,312	1.12
		<u>\$ 11,154,403</u>		<u>8,264,952</u>	

The relevant interest revenues of the subsidiary, BTLI, in 2020 and 2019 were \$18,879 thousand and \$31,908 thousand, respectively.

(Continued)

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

c) Current tax assets

Name	Summary	December 31, 2020	December 31, 2019
Taiwan Financial Holdings	Refundable tax	\$ <u>1,360,095</u>	<u>1,070,398</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, 2020	December 31, 2019
Hua Nan Financial Holdings Co., Ltd.	Financial bonds (recorded in the Financial assets at fair value through profit or loss)	Cost	\$ 2,000,000	2,000,000
	Financial bonds (recorded in the Financial assets measured at fair value through other comprehensive income)		-	900,000
		Valuation adjustment	91,278	65,913
		Carrying amount	\$ <u>2,091,278</u>	<u>2,965,913</u>
		Interest receivables	\$ <u>22,685</u>	<u>24,206</u>

Both of the interest revenues from the aforementioned financial bonds in 2020 and 2019 are \$58,329 thousand and \$52,219 thousand, respectively.

e) Derivatives

December 31, 2020						
Name of relative party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Balance sheet	
					Account name	Amount
Bank of Taiwan Co., Ltd.	Swap agreement	2020.05.06~2021.11.12	USD1,236,000	7,677	Valuation adjustment on financial assets designated as at fair value through profit or loss	689,100
			USD -	135,148	Valuation adjustment of financial liabilities measured at fair value through profit or loss - current- held for trading-swap	-

(Continued)

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

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	USD,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	-

f) Loss on disposal of investments

Name	Summary	2020	2019
Bank of Taiwan	Loss on disposal of investment	\$ <u>539,368</u>	<u>995,345</u>

Both of the gains (losses), including exchange gains and losses on disposed of derivative investment with related party in 2020 and 2019, amounted to \$(2,285,440) thousand and \$18,528 thousand, respectively.

g) Commission fees expense

Name	Summary	2020	2019
Bank of Taiwan Co., Ltd	Sales charge	\$ 14	15
BankTaiwan Insurance Brokers Co., Ltd	Agent fee	331,892	564,020
Hua Nan Financial Holding	Agent fee	815	6,427
Total		\$ <u>332,721</u>	<u>570,462</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

(Continued)

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

Name	Relationship
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, 2020 and 2019 were as follows:

	December 31, 2020	December 31, 2019
Cash and cash equivalents	\$ 116,088	72,649
Operation guarantee deposits (recorded in other current assets)	30,000	180,000
Amounts awaiting delivery (recorded in other current assets)	18,291	341
Collections for underwriting stock value (recorded in other current assets)	827,126	-
Collections for warrant exercise (recorded in other current assets)	4	-
	<u>\$ 991,509</u>	<u>252,990</u>

The bank deposits in the Hua Nan Financial Holdings on December 31, 2020 and 2019 were as follows:

	December 31, 2020	December 31, 2019
Cash and cash equivalents	<u>\$ 298</u>	<u>385</u>

The interest revenues from the deposits in the Bank of Taiwan on December 31, 2020 and 2019 were \$404 thousand and \$762 thousand, respectively.

b) Short-term loans borrowings

Name	December 31, 2020				
	Highest balance	Ending balance	Interest rate range (%)		Interest expense, net
			NTD	Foreign currency	
Bank of Taiwan Co., Ltd	\$ 842,150	<u>252,900</u>		0.420%~0.460%	<u>675</u>
Hua Nan Financial Holdings Co., Ltd.	840,000	<u>-</u>	0.300%	-	<u>86</u>

(Continued)

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

Name	December 31, 2019				
	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

- c) Accounts payables-related party(accounted in Accounts payables) and other payables-related party

Name	Summary	December 31, 2020	December 31, 2019
Taiwan Financial Holding Co., Ltd.	Payables to related party for allocation under the linked-tax system	\$ 122,039	81,170
Taiwan Financial Holding Co., Ltd.	Directors and supervisors' compensation payables	-	1
Bank of Taiwan Co., Ltd	Interest payables	62	-
Total		<u>\$ 122,101</u>	<u>81,171</u>

- 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

Pledged assets	Purpose of pledge	December 31, 2020	December 31, 2019
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	386,700	527,300
Financial assets measured at fair value through other comprehensive income – bonds	Operating deposit for securities investment trust and consulting	195,985	182,534
Financial assets measured at amortized cost – bonds	Guarantee deposits for trust business compensation reserve	450,000	450,000
Financial assets measured at fair value through other comprehensive income – negotiable certificate	Payment and settlement systems of Central Bank	27,400,000	27,400,000
		<u><u>\$ 48,432,685</u></u>	<u><u>48,559,834</u></u>

(c) The subsidiary, BTLI

Pledged assets	Purpose of pledge	December 31, 2020	December 31, 2019
Government bonds (accounted in refundable deposits)	Operating guarantee	\$ 5,441,313	5,444,081
Cash (accounted in refundable deposits)	Lease guarantee	2,709	2,436
Cash (accounted in refundable deposits)	Futures exchange guarantee	54,026	30,079
		<u><u>\$ 5,498,048</u></u>	<u><u>5,476,596</u></u>

(d) The subsidiary, BTS

Pledged assets	Purpose of pledge	December 31, 2020	December 31, 2019
Property and Equipment – Land	Short-term borrowings	\$ 379,309	379,309
Property and Equipment – Building	Short-term borrowings	67,024	70,794
		<u><u>\$ 446,333</u></u>	<u><u>450,103</u></u>

(Continued)

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

(12) Commitments and Contingencies:

(a) Commitments and contingencies

(i) Commitments and contingencies of the subsidiary, BOT

	December 31, 2020	December 31, 2019
Trust liabilities	\$ 657,837,239	653,305,882
Marketable securities held as custodian	2,572,066,361	2,524,269,729
Goods held in custody	28,356,345	32,879,791
Contract guarantee on behalf of counter parties	1,521,700	1,221,551
Traveler's checks held on consignment	-	659,643
Consignment collection	44,815,836	47,409,273
Issuance of New Taiwan Dollars	2,606,478,684	2,449,257,937
Trustee of behalf of Lenders	542,324,116	527,631,902
Registered government bonds for sale	710,642,400	715,195,300
Registered short term bills for sale	130,135,667	210,582,786
Consigned sales of marketable securities	700,000	-
Consigned sales of goods	1,236,718	872,556
Guarantees	96,960,192	85,887,465
Letters of credit	42,809,717	39,579,192
	<u>\$ 7,435,884,975</u>	<u>7,288,753,007</u>

(ii) Commitments and contingencies of the subsidiary, BTLI

The contract guarantees on behalf of counter parties of the subsidiary, BTLI, are \$5,978 thousand and \$6,487 thousand on December 31, 2020 and 2019, respectively.

(iii) Commitments and contingencies of the subsidiary, BTS

The subsidiary, BTS, had several proxy delivery agreements with certain securities companies. In accordance with these agreements, the companies have agreed to be BTS's first and second proxy. If BTS is unable to fulfill its obligation to the TSE, the proxies must then act pursuant to said obligations and responsibilities.

(Continued)

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

(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, 2020		December 31, 2019	
	Amount	%	Amount	%
Deposits				
Deposits in BOT	\$ 26,397,242	4	36,138,913	6
Deposits in other banks	2,678	-	2,381	-
Short term investments				
Investment in funds	154,052,922	24	165,849,799	25
Investment in bonds	283,839,910	43	281,239,879	43
Common stock investments— marketable securities	51,167,835	8	48,761,636	7
Receivables				
Interest receivables	2,010,872	-	1,865,932	-
Cash dividend receivables	2,975	-	669	-
Receivables from trading securities	1,815,147	-	198,510	-
Receivables from forward contracts	1,157,610	-	3,133,135	1
Real estate				
Land	20,752,015	3	20,361,587	3
Buildings	203,384	-	160,332	-
Construction in progress	9,616,090	2	4,502,672	1
Marketable securities under custody	106,818,559	16	91,090,437	14
Total of trust assets	<u>\$ 657,837,239</u>	<u>100</u>	<u>653,305,882</u>	<u>100</u>

(Continued)

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

Trust liabilities	December 31, 2020		December 31, 2019	
	Amount	%	Amount	%
Payables				
Payables from trading securities	\$ 97,584	-	147,101	-
Payables from forward contracts	1,190,750	-	3,184,450	1
Payables from management fee	4,697	-	4,541	-
Payables from supervision fee	551	-	438	-
Other payables	741	-	716	-
Tax payables	37	-	583	-
Securities held in custody payables	106,818,559	16	91,090,437	14
Trust capital				
Money trust	392,188,665	60	407,904,771	62
Marketable securities trust	241,020	-	135,482	-
Real estate investment trust	32,973,760	5	27,146,753	4
Other reserve and accumulated income				
Accumulated loss	129,238,423	20	118,938,177	18
Foreign currency translation	(25,828,514)	(4)	(13,592,880)	(2)
Deferred unrealized income	(213,437)	-	(292,012)	-
	<u>21,124,403</u>	<u>3</u>	<u>18,637,325</u>	<u>3</u>
Total of trust liabilities	<u>\$ 657,837,239</u>	<u>100</u>	<u>653,305,882</u>	<u>100</u>

Notes: The funds invested by the OBU branch of the subsidiary, BOT, are included. The amounts as of December 31, 2020 and 2019 are \$313,872 thousand and \$275,887 thousand, respectively.

Details of trust	December 31, 2020	December 31, 2019
Deposits		
Deposits in the Bank	\$ 26,397,242	36,138,913
Deposits in other banks	2,678	2,381
Short term investments		
Investment in funds	154,052,922	165,849,799
Investment in bonds	283,839,910	281,239,879
Common stock investments— marketable securities	51,167,835	48,761,636
Real estate		
Land	20,752,015	20,361,587
Buildings	203,384	160,332
Construction in progress	9,616,090	4,502,672
Marketable securities under custody	<u>106,818,559</u>	<u>91,090,437</u>
Total	<u>\$ 652,850,635</u>	<u>648,107,636</u>

(Continued)

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

Income statement for assets under trust	2020	2019
Trust revenues		
Capital interest revenues	\$ 11,436,071	12,048,903
Cash dividend revenues	1,374,915	2,230,135
Donation revenues	142,678	206,183
Realized capital gain – shares	11,163	90,558
Realized capital gain – funds	1,735,827	1,872,047
Unrealized capital gain – fund	5,995	4,061
Realized capital gain – bond	3,639,496	2,380,482
Realized gain on property exchange	523,174	139,013
Realized foreign exchange gains	-	189,100
Income from beneficiary certificates	4,048,996	4,127,919
Other revenues	-	477
Total trust revenues	<u>22,918,315</u>	<u>23,288,878</u>
Trust expenses		
Capital management fee	481,523	363,590
Tax expenses	3,793	(3,671)
Supervisory fee	1,013	517
Storage fee	14,398	15,542
Commission fee	196	97
Donation costs	771,081	833,961
Unrealized capital loss– shares	391,720	3,397,745
Realized loss from property transactions	-	-
Realized foreign exchange losses	104,619	-
Other expenses	25,569	43,772
Total trust expenses	<u>1,793,912</u>	<u>4,651,553</u>
Net income	<u><u>\$ 21,124,403</u></u>	<u><u>18,637,325</u></u>

(Continued)

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

(13) Profitability:

(a) The Company

Unit: %

Item		December 31, 2020	December 31, 2019
Return on Assets (note 6)	pre-tax	3.71	4.20
	after-tax	3.71	4.22
Return on Equity (Note 8)	pre-tax	3.96	4.51
	after-tax	3.97	4.53
Profit Margin		98.28	98.92

(b) The Company and subsidiaries

Unit: %

Item		December 31, 2020	December 31, 2019
Return on Assets (note 7)	pre-tax	0.28	0.33
	after-tax	0.28	0.30
Return on Equity (note 8)	pre-tax	3.85	4.97
	after-tax	3.97	4.53
Profit Margin		7.07	7.14

(c) The subsidiary, BOT

Unit: %

Item		December 31, 2020	December 31, 2019
Return on Assets (note 7)	pre-tax	0.38	0.42
	after-tax	0.36	0.38
Return on Equity (note 8)	pre-tax	4.80	5.69
	after-tax	4.58	5.16
Profit Margin		33.73	27.01

(Continued)

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

(d) The subsidiary, BTLI

Unit: %

Item		December 31, 2020	December 31, 2019
Return on Assets	pre-tax	(0.92)	(0.66)
	after-tax	(0.61)	(0.58)
Return on Equity	pre-tax	(24.24)	(14.99)
	after-tax	(15.91)	(13.15)
Profit Margin		(7.37)	(5.78)

(e) The subsidiary, BTS

Unit: %

Item		December 31, 2020	December 31, 2019
Return on Assets	pre-tax	3.24	2.24
	after-tax	2.75	1.93
Return on Equity	pre-tax	11.69	6.15
	after-tax	9.89	5.30
Profit Margin		41.21	29.67

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

(Continued)

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

(15) Specific Inherent Risks in Operating as Futures Dealer:

Subsidiary, BOT, funded \$270,000 thousand (be divided into 4 periods by 3:3:2:2) to participate in building national-loan guarantee fund in accordance with the rule Yuan Tai Jing No.1090033692 issued by Executive Yuan on November 2, 2020. This event was authorized by the Board of Directors on November 6, 2020. BOT signed a loan guarantee agent contract with the Export-Import Bank of the Republic of China on January 25, 2021 and has appropriated \$81,000 thousand to this fund. BOT will be able to use this fund for guarantee of related credit loans in national major economic policy.

According to the contract, if the fund was insufficient, BOT might have the obligation to fill up the fund. However, it's uncertain whether this circumstance will occur and also the amount can not be measured reliably.

(16) Other:

- (a) The employee benefit expenses, depreciation, depletion and amortization, categorized by function, were as follows:

By function By nature	2020			2019		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	67,633	12,636,579	12,704,212	61,699	12,221,855	12,283,554
Labor and health insurance	108,362	583,505	691,867	111,220	580,681	691,901
Pension	3,425	1,053,933	1,057,358	3,105	1,017,159	1,020,264
Director and supervisor compensation payment	-	8,274	8,274	-	8,541	8,541
Others	-	273,482	273,482	-	319,747	319,747
Depreciation	128,636	1,388,442	1,517,078	121,370	1,346,648	1,468,018
Amortization	-	367,515	367,515	-	330,174	330,174

The number of employees in 2020 and 2019 were 9,103 and 9,122, respectively.

(Continued)

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

(b) Government audit adjustments for fiscal year ended 2019

The accounting records as at and for the year ended 2019, have been audited and examined by the MoA, and the resulting adjustments were summarized as follows:

The Company and subsidiaries

Balance Sheet	As Previously Reported December 31, 2019	Adjustments — Increase (Decrease)	As Audited by the MoA, December 31, 2019
Assets			
Cash and cash equivalents	\$ 153,888,000	(19,887)	153,868,113
Financial assets measured at fair value through profit or loss, net	293,602,050	19,970	293,622,020
Other assets, net			
Receivables, net	67,595,437	24,748	67,620,185
Current income tax assets	2,294,856	133,027	2,427,883
Debt investments measured at amortized cost	459,013,244	5,494,030	464,507,274
Investments under equity method, net	48,355,582	(74)	48,355,508
Deferred tax assets	3,922,257	28,339	3,950,596
Other assets — net	17,288,207	(5,494,113)	11,794,094
Liabilities			
Current income tax liabilities	1,442,102	(69,792)	1,372,310
Deferred tax liabilities	18,682,072	(1,644)	18,680,428
Other liabilities	11,036,708	24,749	11,061,457
Equity			
Special reserve	47,637,690	91	47,637,781
Unappropriated retained earnings	15,640,141	232,636	15,872,777
Income statement	As Previously Reported 2019	Adjustments — Increase (Decrease)	As Audited by the MoA, 2019
Share of profit of associates and joint ventures accounted for using equity method	\$ 4,007,543	(74)	4,007,469
Net income before income tax	10,506,199	(74)	10,506,125
Income tax expenses	1,701,990	(232,801)	1,469,189
Net income	8,804,209	232,727	9,036,936

(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, 2019:

Balance Sheet	As Previously Reported December 31, 2019	Adjustments — Increase (Decrease)	As Audited by the MoA, December 31, 2019
Assets			
Investments under equity method, net	\$ 399,387,377	232,727	399,620,104
Equity			
Special reserve	47,637,690	91	47,637,781
Unappropriated retained earnings	15,640,141	232,636	15,872,777
Income statement	As Previously Reported 2019	Adjustments — Increase (Decrease)	As Audited by the MoA, 2019
Share of profit of associates and joint ventures accounted for using equity method	\$ 9,115,306	232,727	9,348,033
Net income before income tax	8,733,761	232,727	8,966,488
Income tax benefits	(70,448)	-	(70,448)
Net income	8,804,209	232,727	9,036,936

Revised entries by the MoA in 2019 were as follows:

Item	Adjustment accounts	Amount revised by the MoA		Explanation of revision by the MoA
1.	Investments under equity method-net	\$ 232,727		Adjusted Investment accounted for using equity method by amendment.
	Share of profit (loss) of associates and joint ventures accounted for using equity method		232,727	
2.	Unappropriated retained earnings	91		Reversal of special reserve.
	Special reserve		91	

(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, 2019:

Balance Sheet	As Previously Reported December 31, 2019	Adjustments — Increase (Decrease)	As Audited by the MoA, December 31, 2019
Assets			
Investment accounted for using equity method	\$ 41,109,560	(74)	41,109,486
Current income tax assets	993,628	133,027	1,126,655
Deferred tax assets	875,458	28,339	903,797
Liabilities			
Current income tax liabilities	1,360,931	(69,791)	1,291,140
Deferred tax liabilities	18,235,065	(1,644)	18,233,421
Equity			
Unappropriated retained earnings	20,140,122	232,727	20,372,849
Income statement	As Previously Reported 2019	Adjustments — Increase (Decrease)	As Audited by the MoA, 2019
Share of profit of associates and joint ventures accounted for using equity method	\$ 3,394,697	(74)	3,394,623
Profit before tax	13,211,230	(74)	13,211,156
Income tax expenses	2,053,544	(232,801)	1,820,743
Net income	11,157,686	232,727	11,390,413

(Continued)

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

Revised entries by the MoA in 2019 were as follows:

Item	Adjustment accounts	Amount revised by the MoA		Explanation of revision by the MoA
1.	Share of profit of associates and joint ventures accounted for using equity method Investment accounted for using equity method	\$ 74	74	MoA adjusted Investment accounted for using equity method of Hua Nan Financial Holdings Co., Ltd.
2.	Income tax expense Current income tax assets Current income tax liabilities	\$ 11,168 133,027	 144,195	The accountant of Hong Kong branch adjusted taxable income.
3.	Disposal loss of property Other revenue	\$ 5,715	5,715	The accountant of Tokyo branch adjusted recovery cost of lease.
4.	Deferred income tax assets Current income tax liabilities	\$ 417	417	MoA adjusted taxable income.
5.	Current income tax liabilities Deferred income tax assets Deferred income tax liabilities Income tax expense	\$ 214,403 27,922 1,644	 243,969	MoA adjusted taxable income.

(Continued)

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, 2020	December 31, 2019
Cash and cash equivalents	\$ 59,585,616	58,135,335
Financial assets measured at fair value through profit or loss	255,253,346	179,707,321
Debt investments measured at amortized cost	74,887,928	94,907,557
Receivables, net	9,028,504	8,519,617
Other financial assets, net	15	-
Property and equipment, net	17,006	4,647
Intangible assets, net	22,490	11,635
Other assets, net	610,971	551,592
Total assets	<u><u>\$ 399,405,876</u></u>	<u><u>341,837,704</u></u>
	Government employees' insurance department	
	December 31, 2020	December 31, 2019
Payables	\$ 228,413	96,653
Provisions	399,177,462	341,738,589
Other liabilities	1	2,462
Total liabilities	<u><u>\$ 399,405,876</u></u>	<u><u>341,837,704</u></u>

(Continued)

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

(ii) Income statements

	Government employees' insurance department	
	2020	2019
Net interest income	\$ 2,305,583	2,644,359
Service fee expenses	(28,432)	(16,498)
Gains (losses) on financial assets and liabilities at fair value through profit or loss	52,303,816	38,867,938
Foreign exchange gains (losses)	(6,318,070)	(3,521,667)
Impairment loss of assets	2,737	4,504
Premium income	23,623,153	23,511,625
Government subsidy	7,784,351	8,774,387
Insurance payments	(21,988,989)	(24,671,785)
Provision for insurance premium reserve	(57,438,873)	(45,358,797)
Miscellaneous expenses	(91,714)	(88,718)
Miscellaneous revenues	10,498	12,465
Net revenues	<u>164,060</u>	<u>157,813</u>
Bad debt expenses and reserve for guarantees	<u>(537)</u>	<u>2,240</u>
Employee benefits	137,129	130,413
Depreciation and amortization expenses	10,167	4,378
Other general and administrative expenses	17,301	20,782
	<u>164,597</u>	<u>155,573</u>
Net income	<u>\$ -</u>	<u>-</u>

Note: According to Government Employees and School Staff Insurance Act, if GESSI experiences a loss, the loss before May 30, 1999, would be covered by the Ministry of Finance; and the loss after that date would be covered by an adjustment of the insurance premium. Besides, according to the same Act, the expenses to carry on government employees and school staff insurance are subsidized by the budget designated by the Ministry of Civil Service.

(Continued)

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

(d) Financial information classified by business type

2020

Businesses Items	Banking business	Insurance business	Securities business	Government insurance	Other operations	Total
Net interest income	25,035,327	10,377,102	120,348	2,305,583	-	37,838,360
Non-interest income, net	65,339,961	25,292,607	825,822	(2,141,523)	(11,243)	89,305,624
Net revenues	90,375,288	35,669,709	946,170	164,060	(11,243)	127,143,984
Bad debt expenses	(310,626)	3,921	(1,518)	537	-	(307,686)
Provisions	(57,438,874)	(37,925,777)	-	-	-	(95,364,651)
Operating expenses	(21,275,742)	(908,089)	(450,382)	(164,597)	(135,682)	(22,934,492)
Net income before income tax	11,350,046	(3,160,236)	494,270	-	(146,925)	8,537,155
Income tax expenses	(827,431)	1,347,539	(70,571)	-	8,239	457,776
Net income	10,522,615	(1,812,697)	423,699	-	(138,686)	8,994,931

2019

Businesses Items	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	61,481,718	29,853,352	546,920	(2,486,546)	(7,168)	89,388,276
Net revenues	85,342,729	40,471,696	668,511	157,813	(7,161)	126,633,588
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	11,219,451	(826,516)	263,214	-	(150,024)	10,506,125
Income tax expenses	(1,820,742)	312,814	(31,709)	-	70,448	(1,469,189)
Net income	9,398,709	(513,702)	231,505	-	(79,576)	9,036,936

- (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)

h) Financial statements of Taiwan Financial Holding Co., Ltd.

Balance Sheets
December 31, 2020 and 2019
(Expressed in thousands of New Taiwan dollars)

	December 31, 2020		December 31, 2019			December 31, 2020		December 31, 2019	
	Amount	%	Amount	%		Amount	%	Amount	%
Assets					Liabilities and Equity				
Cash and Cash Equivalents	\$ 1,056,123	-	198,754	-	Payables	\$ 27,653	-	29,470	-
Financial Assets Measured at Fair Value through Other Comprehensive Income	21,225	-	24,475	-	Other Borrowings	24,600,000	6	25,200,000	6
Receivables, net	140	-	6	-	Provision	151,349	-	139,014	-
Current Income Tax Assets	158,110	-	230,830	-	Lease Liabilities	33,427	-	49,130	-
Investments under Equity Method, net	402,210,582	100	399,620,104	100	Other Liabilities	2,221,597	1	160	-
Property and Equipment, net	7,580	-	7,428	-	Total liabilities	27,034,026	7	25,417,774	6
Right-of-Use Assets, net	33,161	-	48,932	-	Capital Stock	103,125,000	25	103,125,000	26
Intangible Assets, net	1,198	-	879	-	Capital Surplus	140,260,226	34	140,260,226	35
Other Assets, net	1,432,137	-	6,960	-	Retained earnings:				
					Legal Reserve	8,527,130	2	7,840,566	2
					Special Reserve	51,757,163	13	47,637,781	12
					Unappropriated retained earnings	18,389,278	5	15,872,777	4
					Total retained earnings	78,673,571	20	71,351,124	18
					Other Equity	55,827,433	14	59,984,244	15
					Total equity	377,886,230	93	374,720,594	94
Total assets	\$ 404,920,256	100	400,138,368	100	Total liabilities and equity	\$ 404,920,256	100	400,138,368	100

Statements of Comprehensive Income
For the years ended December 31, 2020 and 2019
(expressed in thousands of New Taiwan dollars, except for earnings per share)

	2020		2019		Change
	Amount	%	Amount	%	%
Revenue and Income:					
Share of profit of associates and joint ventures accounted for using equity method	\$ 9,328,317	100	9,348,033	100	-
Other gains	3,335	-	2,596	-	28
	<u>9,331,652</u>	<u>100</u>	<u>9,350,629</u>	<u>100</u>	-
Expenses:					
Operating expenses	(165,389)	2	(169,224)	2	(2)
Other expenses and losses	<u>(179,571)</u>	<u>2</u>	<u>(214,917)</u>	<u>2</u>	(16)
	<u>(344,960)</u>	<u>(4)</u>	<u>(384,141)</u>	<u>(4)</u>	(10)
Profit (loss) from continuing operations before tax	8,986,692	96	8,966,488	96	-
Less: Income tax benefits	<u>(8,239)</u>	<u>-</u>	<u>(70,448)</u>	<u>(1)</u>	(88)
Net profit	<u>8,994,931</u>	<u>96</u>	<u>9,036,936</u>	<u>97</u>	-
Other comprehensive income:					
Components of other comprehensive income that will not be reclassified to profit or loss					
Gains (losses) on remeasurements of defined benefit plans	(3,730)	-	(18,130)	-	79
Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	(3,250)	-	(525)	-	(519)
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	(6,126,843)	(66)	15,588,513	167	(139)
Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	-
Components of other comprehensive income that will not be reclassified to profit or loss	<u>(6,133,823)</u>	<u>(66)</u>	<u>15,569,858</u>	<u>167</u>	(139)
Components of other comprehensive income (loss) that will be reclassified to profit or loss					
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	279,989	3	3,058,911	33	(91)
Income tax related to components of other comprehensive income that will be reclassified to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	-
Components of other comprehensive income that will be reclassified to profit or loss	<u>279,989</u>	<u>3</u>	<u>3,058,911</u>	<u>33</u>	(91)
Other comprehensive income	<u>(5,853,834)</u>	<u>(63)</u>	<u>18,628,769</u>	<u>200</u>	(131)
Total comprehensive income	<u>\$ 3,141,097</u>	<u>33</u>	<u>27,665,705</u>	<u>297</u>	(89)
Basic earnings per share	<u>\$ 0.87</u>		<u>0.96</u>		

Statements of Changes in Equity
For the years ended December 31, 2020 and 2019
(expressed in thousands of New Taiwan dollars)

	Retained earnings						Total other equity interest						
							Unrealized gains		Total other equity interest				
									Exchange differences on translation of foreign operations	(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
	Common stock	Capital surplus	Legal reserve	Special reserve	Undistributed earnings	Total							
Balance at January 1, 2019	\$ 90,000,000	111,385,226	7,419,683	45,115,538	11,950,770	64,485,991	(659,082)	41,961,868	192,912	4,193	(2,315,717)	39,184,174	305,055,391
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	-	-	-	(3,055)	3,055	-	-	-	-	-	-	-	-
Net income for the period	-	-	-	-	9,036,936	9,036,936	-	-	-	-	-	-	9,036,936
Other comprehensive income	-	-	-	-	(1,721,760)	(1,721,760)	(746,501)	18,934,886	(302,148)	(238)	2,464,530	20,350,529	18,628,769
Total comprehensive income	-	-	-	-	7,315,176	7,315,176	(746,501)	18,934,886	(302,148)	(238)	2,464,530	20,350,529	27,665,705
Capital increase based on land pricing	13,125,000	28,875,000	-	-	-	-	-	-	-	-	-	-	42,000,000
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	(449,541)	(449,541)	-	449,541	-	-	-	449,541	-
Changes in special reserve	-	-	-	-	(502)	(502)	-	-	-	-	-	-	(502)
Balance at December 31, 2019	103,125,000	140,260,226	7,840,566	47,637,781	15,872,777	71,351,124	(1,405,583)	61,346,295	(109,236)	3,955	148,813	59,984,244	374,720,594
Appropriation and distribution of retained earnings:													
Legal reserve appropriated	-	-	686,564	-	(686,564)	-	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	4,119,382	(4,119,382)	-	-	-	-	-	-	-	-
Net income for the period	-	-	-	-	8,994,931	8,994,931	-	-	-	-	-	-	8,994,931
Other comprehensive income	-	-	-	-	(1,126,378)	(1,126,378)	(1,527,486)	(3,698,866)	23,007	32	475,857	(4,727,456)	(5,853,834)
Total comprehensive income	-	-	-	-	7,868,553	7,868,553	(1,527,486)	(3,698,866)	23,007	32	475,857	(4,727,456)	3,141,097
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	(570,645)	(570,645)	-	570,645	-	-	-	570,645	-
Changes in special reserve	-	-	-	-	24,539	24,539	-	-	-	-	-	-	24,539
Balance at December 31, 2020	\$ 103,125,000	140,260,226	8,527,130	51,757,163	18,389,278	78,673,571	(2,933,069)	58,218,074	(86,229)	3,987	624,670	55,827,433	377,886,230

Statements of Cash Flows
For the years ended December 31, 2020 and 2019
(expressed in thousands of New Taiwan dollars)

	2020	2019
Cash flows from (used in) operating activities:		
Income before income tax	\$ 8,986,692	8,966,488
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	17,771	17,568
Amortization expense	300	153
Interest expense	166,757	207,485
Interest income	(386)	(398)
Share of loss (profit) of subsidiaries, associates and joint ventures accounted for using equity method	(9,328,317)	(9,348,033)
Loss on disposal of property and equipment	502	191
Subtotal of income of non-cash activities	(9,143,373)	(9,123,034)
Changes in operating assets and liabilities:		
Increase in receivables	(128)	-
Increase in other assets	(549)	(495)
Decrease in payable	(691)	(1,373)
Increase in provisions for employee benefits	8,605	2,603
Increase (decrease) in other liabilities	77	(68,965)
Total adjustments	(9,136,059)	(9,191,264)
Cash outflow generated from operations	(149,367)	(224,776)
Interest received	379	400
Dividends received	3,136,900	879,429
Income taxes refund	80,959	68,156
Net Cash flows from (used in) operating activities	3,068,871	723,209
Net cash flows from (used in) investing activities:		
Acquisition of property and equipment	(2,161)	(2,728)
Proceeds from disposal of property and equipment	92	2
Increase in refundable deposits	(45)	-
Acquisition of intangible assets	(619)	(644)
Net cash flows from (used in) investing activities	(2,733)	(3,370)
Cash flows from (used in) financing activities:		
Decrease in short-term loans	(600,000)	(600,000)
Increase in guarantee deposits received	-	67
Decrease in guarantee deposits received	(16)	-
Payment of lease liabilities	(16,617)	(16,572)
Cash dividends paid	(1,424,582)	-
Interest paid	(167,554)	(206,572)
Net cash flows from (used in) financing activities	(2,208,769)	(823,077)
Net increase (decrease) in cash and cash equivalents	857,369	(103,238)
Cash and cash equivalents at beginning of period	198,754	301,992
Cash and cash equivalents at end of period	\$ 1,056,123	198,754
Composition of cash and cash equivalents:		
Cash and cash equivalents reported in the statement of financial position	\$ 1,056,123	198,754
Cash and cash equivalents at end of period	\$ 1,056,123	198,754

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, 2020	December 31, 2019
Cash and cash equivalents	\$ 154,091,174	144,312,778
Placement with Central Bank and call loans to banks	593,466,945	560,586,872
Financial assets measured at fair value through profit or loss	326,438,433	244,193,929
Hedging derivative financial assets, net	-	1,071
Receivables, net	53,437,162	58,497,703
Current income tax assets	2,100,360	1,126,655
Loans and discounts, net	2,869,204,520	2,676,141,224
Financial assets measured at fair value through other comprehensive income	991,067,914	1,013,078,126
Debt investments measured at amortized cost	156,093,052	177,206,775
Investments under equity method, net	41,512,192	41,546,887
Other financial assets, net	37,763,270	40,158,445
Property and equipment, net	139,161,467	138,125,216
Right-of-use assets, net	1,447,075	1,603,487
Investment property, net	15,238,207	15,238,207
Intangible assets, net	980,334	873,217
Deferred tax assets, net	626,619	898,143
Other assets, net	16,511,833	11,553,574
Total assets	\$ 5,399,140,557	5,125,142,309

(Continued)

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

	Bank of Taiwan (Individual)	
	December 31, 2020	December 31, 2019
Deposits of Central Bank and other banks	\$ 268,447,708	229,253,533
Loans to Central Bank and banks	15,849,400	-
Financial liabilities measured at fair value through profit or loss	32,337,278	60,283,847
Hedging derivative financial liabilities, net	49,894	25,537
Bills and bonds sold under repurchase agreements	6,418,088	21,564,871
Payables	41,636,403	43,827,118
Current tax liabilities	1,096,367	1,273,649
Deposits and remittances	4,173,100,442	3,972,246,112
Financial bonds payable	24,999,085	24,998,820
Other financial liabilities	924,671	962,539
Provisions	420,235,522	361,813,702
Lease liabilities	1,323,312	1,479,132
Deferred tax liabilities	18,360,527	18,233,421
Other liabilities	11,217,405	10,694,864
Total liabilities	5,015,996,102	4,746,657,145
Capital stock	\$ 109,000,000	109,000,000
Capital surplus	108,453,043	108,453,043
Retained earnings		
Legal reserve	47,616,203	44,692,790
Special reserve	40,538,707	36,640,733
Unappropriated retained earnings	22,802,920	20,372,849
	110,957,830	101,706,372
Other equity	54,733,582	59,325,749
Total equity	383,144,455	378,485,164
Total liabilities and stockholders' equity	\$ 5,399,140,557	5,125,142,309

(Continued)

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

	BankTaiwan Life Insurance	
	December 31,	December 31,
	2020	2019
Cash and cash equivalents	\$ 50,325,737	24,226,460
Receivables	6,285,141	2,440,218
Current income tax assets	1,360,095	1,070,398
Financial assets measured at fair value through profit or loss	37,511,385	48,828,589
Financial assets measured at fair value through other comprehensive income	5,987,681	8,812,981
Financial assets measured at amortized cost	292,925,348	281,806,469
Investments under equity method, net	7,273,043	7,246,022
Other financial assets, net	9,910,500	3,026,800
Real estate investments	9,120,385	9,207,201
Loans	8,944,493	9,044,733
Reinsurance assets	14,463	16,447
Property and equipment	932,825	948,155
Right-of-use assets	15,753	15,465
Intangible assets	78,425	44,166
Deferred tax assets	4,510,139	3,037,340
Other assets	5,680,443	5,591,358
Separate account-insurance assets	3,018,443	1,429,769
Total assets	\$ 443,894,299	406,792,571

(Continued)

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

	BankTaiwan Life Insurance	
	December 31, 2020	December 31, 2019
Payables	\$ 2,378,444	760,346
Financial liabilities measured at fair value through profit or loss	250,885	58,105
Lease liabilities	15,814	15,522
Insurance liabilities	421,700,325	385,308,434
Foreign exchange volatility reserves	129,185	465,900
Provisions	691,962	683,230
Deferred tax liabilities	434,466	352,665
Other liabilities	281,118	351,071
Separate account-insurance liabilities	3,018,443	1,429,769
Total liabilities	428,900,642	389,425,042
Capital stock	32,500,000	32,500,000
Capital surplus	360,000	360,000
Retained earnings		
Legal reserve	96,557	96,557
Special reserve	2,490,483	1,096,217
Unappropriated retained earnings	(21,509,356)	(17,347,077)
	(18,922,316)	(16,154,303)
Other equity	1,055,973	661,832
Total equity	14,993,657	17,367,529
Total liabilities and equity	\$ 443,894,299	406,792,571
	BankTaiwan Securities	
	December 31, 2020	December 31, 2019
Current assets	\$ 15,365,112	11,162,840
Property and equipment	495,012	489,203
Right-of-use assets	21,247	31,893
Intangible assets	22,336	21,217
Deferred tax assets	12,195	9,459
Other assets — noncurrent	307,589	309,302
Total assets	\$ 16,223,491	12,023,914

(Continued)

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

	BankTaiwan Securities	
	December 31, 2020	December 31, 2019
Current liabilities	\$ 11,835,614	7,953,066
Employee benefit liabilities reserves — noncurrent	205,109	181,530
Lease liabilities — noncurrent	10,731	21,420
Deferred tax liabilities	93,507	94,342
Other liabilities — noncurrent	6,059	6,145
Total liabilities	12,151,020	8,256,503
Capital stock	3,000,000	3,000,000
Retained earnings		
Legal reserve	130,582	114,079
Special reserve	416,816	383,809
Unappropriated retained earnings	483,421	272,336
	1,030,819	770,224
Other equity	41,652	(2,813)
Total equity	4,072,471	3,767,411
Total liabilities and equity	\$ 16,223,491	12,023,914
	BankTaiwan Insurance Broker	
	December 31, 2020	December 31, 2019
Cash and cash equivalents	\$ 361,631	460,291
Receivables	91,671	58,208
Current income tax assets	4,111	-
Property and equipment	3,488	3,702
Right-of-use assets	9,602	14,332
Intangible asset	533	581
Deferred tax assets	5,438	5,654
Other assets	3,818	3,815
Total assets	\$ 480,292	546,583

(Continued)

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

	BankTaiwan Insurance Broker	
	December 31, 2020	December 31, 2019
Payables	\$ 89,355	69,263
Current tax liabilities	-	17,491
Lease liabilities	9,713	14,415
Other liabilities	150	200
Provision	2,317	7,897
Total liabilities	101,535	109,266
Capital stock	20,000	20,000
Retained earnings		
Legal reserve	142,974	126,552
Special reserve	142,974	126,552
Unappropriated retained earnings	72,809	164,213
	358,757	417,317
Total equity	378,757	437,317
Total liabilities and equity	\$ 480,292	546,583

(ii) Income statements

	Bank of Taiwan (Individual)	
	2020	2019
Interest income	\$ 54,051,970	66,034,226
Less: interest expense	(26,565,093)	(39,355,438)
Net interest income	27,486,877	26,678,788
Other non-interest income	6,540,006	15,345,157
Net revenues	34,026,883	42,023,945
Bad debt expense and reserve for guarantees	(310,089)	(7,345,228)
Operating expenses	(21,391,241)	(21,507,754)
Net income before income tax	12,325,553	13,170,963
Income tax expenses	(810,373)	(1,780,550)
Net income	11,515,180	11,390,413
Other comprehensive income	(6,055,889)	15,765,706
Total comprehensive income (loss) after tax for the period	5,459,291	27,156,119
Basic earnings per share (In dollars)	1.06	1.15

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	BankTaiwan Life Insurance	
	2020	2019
Operating income	\$ 54,969,494	62,112,253
Operating cost	(57,991,463)	(63,732,900)
Operating expenses	(932,910)	(938,487)
Operating losses	(3,954,879)	(2,559,134)
Non operating income (expense)	32,753	6,505
Net income (loss) before income tax	(3,922,126)	(2,552,629)
Income tax benefits	1,347,539	312,814
Net losses	(2,574,587)	(2,239,815)
Other comprehensive income	176,176	2,917,689
Total comprehensive income (loss) after tax for the period	(2,398,411)	677,874
Basic earnings per share (In dollars)	(0.79)	(0.69)

	BankTaiwan Securities	
	2020	2019
Revenues	\$ 1,030,702	696,571
Cost and expenses	(578,912)	(506,261)
Net operating income	451,790	190,310
Non operating income	6,506	38,833
Net income before income tax	458,296	229,143
Income tax expenses	(70,572)	(31,709)
Net income	387,724	197,434
Other comprehensive income	32,859	(35,971)
Total comprehensive income after tax for the period	420,583	161,463
Basic earnings per share (In dollars)	1.29	0.66

	BankTaiwan Insurance Brokers	
	2020	2019
Operating income	\$ 922,159	1,545,800
Operating cost	(723,109)	(1,212,028)
Operating expenses	(112,978)	(125,589)
Operating profits	86,072	208,183
Non operating expenses	(784)	(806)
Net income before income tax	85,288	207,377
Income tax expenses	(17,058)	(40,193)
Net income	68,230	167,184
Other comprehensive income	4,579	(2,971)
Total comprehensive income after tax for the period	72,809	164,213
Basic earnings per share (In dollars)	34.12	83.59

(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:None
- (iii) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 10% of the capital stock:None
- (iv) Service charge discounts on transactions with related parties in an aggregate amount of NT\$5 million or more: None
- (v) Receivables from related parties with amounts exceeding the lower of NT\$300 million or 10% of the capital stock:None
- (vi) Information on NPL disposal transaction:
 - 1) Summary table of NPL disposal:None
 - 2) Disposal of a single batch of NPL up to NT\$1 billion and information on each transaction:None
- (vii) Types of securitization instruments approved to be issued pursuant to financial assets securitization rules or real estate securitization rules and other relevant information:None
- (viii) Other significant transactions that may have substantial influence upon the decisions made by financial report users:None

(b) Information on Investees:

The followings are the information on investees:

(In Thousands of New Taiwan Dollars)

Name of the investee	Investee Location	Major Operation	% of shares	Highest holding ratio for the period	Original investment cost	Gain(Loss) recognized during the period	Held by the company and related party at year-end				Notes
							Shares		Subtotal Shares	% of Shares	
Hua Nan Financial Holdings Co., Ltd. and its subsidiaries	Taipei	Financial Holding	25.07 %	25.07 %	47,483,085	2,169,621	3,223,189	-	3,223,189	25.07 %	
Tang Eng Iron Works Co., Ltd.	Kaohsiung	Iron Industry	21.37 %	21.37%	901,078	(142,254)	74,802	-	74,802	21.37 %	
Tai Yi Real Estate Management Co., Ltd.	Taipei	Real Estate Service	30.00 %	30.00%	22,203	4,368	1,500	-	1,500	30.00 %	
Bank of Taiwan	Taipei	Banking	100.00 %	100.00%	383,144,455	11,515,180	10,900,000	-	10,900,000	100.00 %	note 3
BankTaiwan Life Insurance	Taipei	Life insurance	100.00 %	100.00%	14,993,657	(2,574,587)	3,250,000	-	3,250,000	100.00 %	note 3
BankTaiwan Securities	Taipei	Securities	100.00 %	100.00%	4,072,471	387,724	300,000	-	300,000	100.00 %	note 3
BankTaiwan Insurance Brokers	Taipei	Insurance broker	100.00 %	100.00%	378,757	68,230	2,000	-	2,000	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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to 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, 2020	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2020	Net income from investee	% of shares	The highest % of shares in the midterm	Investment income recognized as of December 31, 2020	Carrying value as of December 31, 2020	Accumulated inward remittance of earnings as of December 31, 2020
					Outflow	Regain							
Bank of Taiwan, Shanghai Branch	Banking business	4,325,000 CNY1,000,000	(3)	4,325,000 CNY1,000,000	-	-	4,325,000 CNY1,000,000	520,254	100 %	- %	520,254	5,915,537	-
Bank of Taiwan, Guangzhou Branch	Banking business	4,325,000 CNY1,000,000	(3)	4,325,000 CNY1,000,000	-	-	4,325,000 CNY1,000,000	230,056	100 %	- %	230,056	4,799,972	-
Bank of Taiwan, Fuzhou Branch	Banking business	4,325,000 CNY1,000,000	(3)	4,325,000 CNY1,000,000	-	-	4,325,000 CNY1,000,000	209,934	100 %	- %	209,934	4,609,661	-

Note 1: Three types of investments are as follows :

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

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

(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
12,975,000	12,975,000	229,886,673

(iii) Significant transactions with the invested company in China:None

- (d) Subsidiaries lending to other parties, guarantees and endorsements for other parties, securities held as of December 31, 2016, securities for which purchase or sale amount for the period exceed \$300 million or 10% of the Company's paid-in capital, and trading in derivative financial instruments: BOT, BTLI and BTS are banking industry, insurance industry and securities industry and their main operations include the above activities; hence it is not necessary to disclose the related information. The BankTaiwan Insurance Brokers does not have those transactions. Besides, transactions related to derivatives, please refer to note 6(c), 6(t) 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	1,056,093	Same as regular transaction	0.02 %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Receivables, net	12	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Other assets-net	2,807	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Short-term borrowings	24,600,000	"	0.42 %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Other payables	5,087	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Right-of-use assets	65,827	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Accumulated depreciation - right-of-use assets	32,666	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Lease liabilities	33,427	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Interest income	386	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Other non-interest income	504	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Other general and administrative expenses	29,706	"	0.05 %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Interest income	166,757	"	0.26 %
0	Taiwan Financial Holdings	BankTaiwan Life Insurance	1	Other non-interest income	223	"	- %
0	Taiwan Financial Holdings	BankTaiwan Securities	1	Other non-interest income	518	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Deposits and remittances	1,056,093	"	0.02 %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Payables	12	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Other liabilities	2,807	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Loans and discounts, net	24,600,000	"	0.42 %

(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	Taiwan Financial Holdings	2	Receivables, net	5,087	Same as regular transaction	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Temporary receipt awaiting suspense accounts	266	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Interest expenses	386	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Employee benefits expenses	571	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Other non-interest income	29,968	"	0.05 %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Interest income	166,428	"	0.26 %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Receivables, net	10,586	"	- %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Other assets, net	5,962	"	- %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Payables	174	"	- %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Deposits and remittance	10,086,094	"	0.17 %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Financial liabilities measured at fair value through profit or loss	689,100	"	0.01 %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Right-of-use assets	182,752	"	- %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Accumulated depreciation - right-of-use assets	51,123	"	- %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Lease liabilities	127,429	"	- %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Temporary receipt awaiting suspense accounts	43	"	- %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Service fee, net	59,142	"	0.09 %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Gain (loss) on financial assets or liabilities measured at fair value through profit or loss	396,543	"	0.62 %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Other non-interest income	36,582	"	0.06 %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Interest expenses	18,702	"	0.03 %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Other general and administrative expenses	42,722	"	0.07 %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Other liabilities	493	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Other assets, net	15	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Receivables, net	62	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Payables	10	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Deposits and remittance	991,509	"	0.02 %
1	Bank of Taiwan	BankTaiwan Securities	3	Loans and discounts, net	252,900	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Other liabilities	1,795	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Right-of-use assets	255	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Accumulated depreciation - right-of-use assets	170	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Lease liabilities	86	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Temporary receipt awaiting suspense accounts	173	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Interest income	675	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Service fee, net	4,996	"	0.01 %
1	Bank of Taiwan	BankTaiwan Securities	3	Other non-interest income	30,411	"	0.05 %
1	Bank of Taiwan	BankTaiwan Securities	3	Interest expenses	404	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Other general and administrative expenses	88	"	- %
2	BankTaiwan Life Insurance	Taiwan Financial Holdings	2	Employee benefits expenses	223	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Payables, net	10,586	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Other liabilities	5,962	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Receivables, net	174	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Financial assets measured at fair value through profit or loss	689,100	"	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	10,086,094	"	0.17 %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Right-of-use assets	11,666	"	- %

(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
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Accumulated depreciation - right-of-use assets	5,833	Same as regular transaction	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Lease liabilities	5,876	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Temporary receipt awaiting suspense accounts	1,079	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Other assets, net	493	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Service fee, net	59,142	"	0.09 %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Gain (loss) on financial assets or liabilities measured at fair value through profit or loss	396,543	"	0.62 %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Investments Property income, net	42,722	"	0.07 %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Interest income	18,702	"	0.03 %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Other general and administrative expenses	36,582	"	0.06 %
2	BankTaiwan Life Insurance	BankTaiwan Insurance Brokers	3	Payables, net	50,030	"	- %
2	BankTaiwan Life Insurance	BankTaiwan Insurance Brokers	3	Service fee, net	331,892	"	0.52 %
3	BankTaiwan Securities	Taiwan Financial Holdings	2	Employee benefit liabilities reserve	518	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Other liabilities, net	1,795	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Receivable, net	10	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Other assets, net	989,853	"	0.02 %
3	BankTaiwan Securities	Bank of Taiwan	3	Cash and cash equivalents	1,671	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Payables, net	62	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Short-term borrowings	252,900	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Righ-of-use assets	42,524	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Accumulated depreciated — righ-of-use assets	21,277	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Lease liabilities	21,420	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Temporary receipt awaiting suspense accounts	1	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Interest expenses	675	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Service fee, net	5,040	"	0.01 %
3	BankTaiwan Securities	Bank of Taiwan	3	Other general and administrative expenses	30,457	"	0.05 %
3	BankTaiwan Securities	Bank of Taiwan	3	Interest income	404	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Other non-interest income	86	"	- %
3	BankTaiwan Securities	BankTaiwan Insurance Brokers	3	Receivables, net	24	"	- %
3	BankTaiwan Securities	BankTaiwan Insurance Brokers	3	Service fee, net	138	"	- %
4	BankTaiwan Insurance Brokers	BankTaiwan Life Insurance	3	Receivables, net	50,030	"	- %
4	BankTaiwan Insurance Brokers	BankTaiwan Life Insurance	3	Service fee, net	331,892	"	0.52 %
4	BankTaiwan Insurance Brokers	BankTaiwan Securities	3	Payables, net	24	"	- %
4	BankTaiwan Insurance Brokers	BankTaiwan Securities	3	Service fee, net	138	"	- %

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.

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

(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.

	2020								
	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	\$ 51,745,234	2,305,583	3	1,150	10,395,967	134,692	724	(186,934)	64,396,419
Less: interest expense	(26,565,093)	-	-	-	(218)	(14,830)	(166,895)	(188,977)	(26,558,059)
Interest income, net	25,180,141	2,305,583	3	1,150	10,395,749	119,862	(166,171)	2,043	37,838,360
Non-interest income, net	65,108,075	(2,141,523)	356,262	656,064	24,536,891	821,094	9,516,518	(9,547,757)	89,305,624
Net revenue	90,288,216	164,060	356,265	657,214	34,932,640	940,956	9,350,347	(9,545,714)	127,143,984
Bad debt expenses and reserve for guarantees	(310,626)	537	-	-	3,921	(1,518)	-	-	(307,686)
Provisions for policyholder's reserve premium	(57,438,873)	-	-	-	(37,925,777)	-	-	(1)	(95,364,651)
Operating costs	(21,017,225)	(164,597)	(114,074)	(95,344)	(932,910)	(481,142)	(278,367)	149,167	(22,934,492)
Continuing operating income before income tax	\$ 11,521,492	-	242,191	561,870	(3,922,126)	458,296	9,071,980	(9,396,548)	8,537,155
Continuing operating income after income tax	\$ 10,711,119	-	242,191	561,870	(2,574,587)	387,724	9,063,161	(9,396,547)	8,994,931
Total assets	\$ 5,083,803,140	399,405,876	2,456,043	1,845,520	443,894,299	16,223,491	405,400,548	(531,569,441)	5,821,459,476
Total Liabilities	\$ 4,701,462,742	399,405,876	2,213,852	1,283,653	428,900,642	12,151,020	27,135,561	(128,980,100)	5,443,573,246

(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	62,516,852	(2,486,546)	389,490	284,157	28,126,496	543,922	9,675,546	(9,661,641)	89,388,276
Net revenue	86,536,966	157,813	389,505	298,457	38,776,536	665,402	9,468,677	(9,659,768)	126,633,588
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	<u>\$ 12,684,602</u>	<u>-</u>	<u>278,674</u>	<u>207,686</u>	<u>(2,552,629)</u>	<u>229,143</u>	<u>9,173,864</u>	<u>(9,515,215)</u>	<u>10,506,125</u>
Continuing operating income after income tax	<u>\$ 10,904,052</u>	<u>-</u>	<u>278,674</u>	<u>207,686</u>	<u>(2,239,815)</u>	<u>197,434</u>	<u>9,204,119</u>	<u>(9,515,214)</u>	<u>9,036,936</u>
Total assets	<u>\$ 4,781,125,423</u>	<u>341,837,704</u>	<u>2,520,539</u>	<u>1,934,694</u>	<u>406,792,571</u>	<u>12,023,914</u>	<u>400,451,807</u>	<u>(437,195,245)</u>	<u>5,509,491,407</u>
Total Liabilities	<u>\$ 4,403,126,619</u>	<u>341,837,704</u>	<u>2,241,865</u>	<u>1,727,008</u>	<u>389,425,042</u>	<u>8,256,503</u>	<u>25,526,622</u>	<u>(37,370,550)</u>	<u>5,134,770,813</u>