

165(d) Resolution Plan for Taiwan Financial Holdings

Public Section

December 31, 2014



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Resolution Plan

(a) Introduction

To promote financial stability, pursuant to section 165(d)(8) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "DFA"), the Federal Reserve Board (the "FRB") and Federal Deposit Insurance Corporation (the "FDIC") issued Regulation QQ and Regulations Part 381 (Regulation QQ and FDIC Regulations Part 381 hereinafter referred to as the "Final Rule"), requiring each covered company to propose a resolution plan regularly for rapid and orderly resolution in the event of material financial distress or failure. Taiwan Financial Holding Co., Ltd. (the "TFH"), which is wholly owned by the Ministry of Finance, R.O.C. has \$50 billion or more total consolidated assets, and TFH's subsidiary, Bank of Taiwan (the "BOT"), has U.S. operation, New York Branch (the "NY Branch") and Los Angeles Branch (the "LA Branch"). Hence, TFH is a covered company defined under the Final Rule and has to submit a resolution plan.

The Final Rule provides a tailored resolution plan regime for smaller and less complex bank holding companies with less than \$100 billion in its total U.S. nonbank assets, while its assets of the U.S. insured depository institution operations, insured and uninsured U.S. branches, and agencies comprise 85% or more of its U.S. total consolidated assets on December 31 of the calendar year prior to the date its resolution plan is required to be submitted. In accordance with the rule, TFH herewith submits the Taiwan Financial Holding Tailored Plan Eligibility Notification to FDIC and FRB in April, 2014, and receives the approval for eligibility of tailored plan from FDIC and FRB in June, 2014.

Hence, TFH, on behalf of itself and its subsidiaries, submits this Public Section and tailored plan in compliance with those Rules and related guidance.

(i) Overview of TFH

TFH based on Taiwan's Premier issued instructions to begin preparations



for establishment on 15 August 2007, and on 1 January 2008, TFH was established (in accordance with the Financial Holding Company Act and other applicable laws and regulations) as by Ministry of Finance, R.O.C. which transfer BOT's shares. On the following day (2 January), the BOT spun off its securities and life insurance businesses to create group subsidiaries, BankTaiwan Securities Co., Ltd. and BankTaiwan Life Insurance Co., Ltd., thus bringing into existence Taiwan's first wholly government-owned financial holding company, with three wholly owned subsidiaries. For expanding the business scope, the subsidiary, BOT, establishes a wholly owned subsidiary, BankTaiwan Insurance Brokers in 2013.

(ii) Overview of TFH's U.S. Presence

TFH's U.S. operations are NY Branch and LA Branch of TFH's subsdiary, BOT. The business operations of NY Branch and LA Branch include inward/outward money transfer, deposit, loan & credits, international finance, etc.

(b) Material Entity

(i) Definition

The 165(d) Rule defines the material entity as "a subsidiary or foreign office of the covered company that is significant to the activities of a critical operation or core business line."

(ii) Identification of Material Entity

TFH has identified only one material entity:

Bank of Taiwan

Bank of Taiwan ("BOT") was established on May 20, 1946 as the first government-owned bank following the island's restoration to the Republic of China in 1945. During much of its operating history, it has



been under the administration of the Taiwan Provincial Government. Following the phase out of the Taiwan Provincial Government on Dec. 21, 1998, BOT was subsequently taken over by the central government of the Republic of China and placed under the administration of the Ministry of Finance, R.O.C. in accordance with the regulations on government-owned financial institutions. On July 1, 2003 BOT was registered as a corporation and reorganized into a company limited by shares in accordance with the Banking Act and Company Act. On Sept. 16, 2004 BOT received permission from the Financial Supervisory Commission, R.O.C. (the "FSC") to become a public company.

BOT managed the business of the national treasury, issued currencies in Taiwan, and carried out many of the functions of a central bank. In the early years following the central government's move to Taiwan in 1949, it acted as agent in carrying out most of the functions of the Central Bank of China (CBC), thus giving it a dual character; that of a central bank, as well as a general commercial bank. Following restoration of the CBC in Taiwan in July 1961, however, BOT switched its primary emphasis to general banking. But BOT is also responsible for the operation of businesses related to the issuance of New Taiwan Dollar currency, the handling of deposits of military and civil servants' retirement funds at preferential interest rates. In addition, BOT usually offers opinions in Taiwan government's policy-making and has done its utmost to supply funds needed to support the implementation of government policies.

(c) Description of Core Business Lines

(i) Definition

The 165(d) Rule defines core business line as "those business lines of the covered company, including associated operations, services, functions and support that, in the view of the covered company, upon failure would



result in a material loss of revenue, profit, or franchise value."

(ii) Identification of Core Business Line

TFH has identified its banking business line as its core business line based on the criteria of the 165(d) Rule, the following is general description of TFH's banking business line:

In addition to conducting ordinary banking business in accordance with the Banking Act, such as accept deposit, manage Trust Funds under mandate, issue Bank Debentures, extend loans, discount bills and notes, handle domestic and foreign remittances, etc., we handle ancillary matters pertaining to the distribution of New Taiwan Dollar notes and coins, and engage in other lines of business as may be approved by the competent authorities.

(d) Summary Financial Information Regarding Assets, Liabilities, Capital and Major Funding Sources

(i) Balance Sheet

The following table set forth the consolidated balance sheet of TFH, as of December 31, 2013.

Balance Sheet	In thousands, NT\$
Assets	
Cash and Cash Equivalents	124,627,959
Placement with Central Bank and Call Loans to Banks	585,444,072
Financial Assets Measured at Fair Value through Profit or Loss, Net	167,496,351
Available-for-Sale Financial Assets, Net	815,602,042
Hedging Financial Assets	5,443
Bills and Bonds Purchased under Resell Agreements	13,671,033
Receivables, Net	90,884,392
Current Income Tax Assets	3,498,988
Loans and Discounts, Net	2,240,472,476



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Reinsurance Assets	16,588
Held-to-Maurity Financial Assets, Net	270,703,495
Investments under Equity Method, Net	40,325,633
Other Financial Assets, Net	166,509,627
Investments property, Net	5,512,559
Property and Equipment, Net	99,369,646
Intangible Assets, Net	1,062,179
Deferred Tax Assets	2,012,373
Other Assets	11,551,422
Total Assets	4,638,766,278
Liabilities and Stockholder's Equity	
Deposits of Central Bank and Other Banks	252,738,244
Financial Liabilities Measured at Fair Value through Profit or Loss	4,416,467
Hedging Financial Liabilities	225,806
Bills and Bonds Sold under Repurchase Agreements	20,898,486
Commercial Paper Payables, Net	1,499,705
Payables	70,973,042
Current Income Tax Liabilities	129,172
Deposits and Remitances	3,391,508,828
Financial Bonds Payable	15,998,240
Provision	597,615,741
Other Financial Liabilities	3,720,522
Deferred Tax Liabilities	18,394,308
Other Liabilities	8,003,288
Total Liabilities	4,386,121,849
Stockholder's Equity	
Capital Stock	90,000,000
Capital Surplus	111,434,739
Retained earnings:	
Legal Reserve	3,493,367



Resolution Plan

Special Reserve	23,848,847
Unappropriated Earnings	6,796,220
	34,138,434
Other Equity	17,071,256
Total equity	252,644,429
Total liabilities and stockholder's equity	4,638,766,278

(ii) Capital

Following table expresses the capital adequacy of TFH and its subsidiaries, as of December 31, 2013.

In NT\$ thousands

Eligible self-owned	вот	203,513,137
Capital of Subsidiaries	BankTaiwan Life	13,482,750
	Insurance	
	BankTaiwan Securities	2,221,810
Subsidiary's Statutory	ВОТ	151,722,654
Capital Requirement	BankTaiwan Life	12,354,146
	Insurance	
	BankTaiwan Securities	892,614
Capital Adequacy	ВОТ	10.73%
Ratio of Subsidiaries	BankTaiwan Life	218.27%
	Insurance	
	BankTaiwan Securities	373%
Group's Eligible Capital		199,505,274
Group's statutory capital requirement		164,985,472
Group's capital adequacy ratio		120.92%

(iii) Major Funding Sources

The major funding sources of TFH, BOT, NY Branch, and LA Branch are



listed as follows:

(A) TFH

- (1) Borrowing from Financial Institutions Requesting facilities from the financial institutions based on TFH's credit line to improve its liquidity.
- (2) Selling Liquid Assets
 Sell liquid assets (i.e. stocks, notes, and certificate of deposit) for cash in open market.
- (3) Report to the Regulator and Seek Supports
 As the Ministry of Finance, R.O.C. holds 100% equity of TFH,
 TFH has to report the crisis to the Ministry of Finance, R.O.C.
 and wait for its supports.

(B) BOT

dealings to acquire liquidity.

- (1) Borrowing from Banks

 Borrow from other financial institutions with which having existing
- (2) Selling Short-term Notes, Government Bonds, and Corporate Bonds
 - Sell short-term notes, government bonds, and corporate bonds for cash in open market.
- (3) Adjusting Interest Rates and Issuing Negotiable Certificates of Deposit
 - Increase deposit accepting via raise interest rates to get sufficient operation fundings.
- (4) Selling listed stocks held
 Sell listed stocks held by BOT in exchanges and over the counter.
- (5) Applying for Rediscount or Financing from the Central Bank of the Republic of China (Taiwan)
 - Via applying for rediscount or financing from the Central Bank of



the Republic of China (Taiwan) to acquire liquidity.

(C) NY Branch

(1) Borrowing from other financial institutions
The chief dealer should stay in close contact with all funding sources available in the market, direct or indirect, and identify available sources of liquidity in the market, especially the Branch's list of funding sources.

- (2) Borrowing from the head office of BOT Borrow from the head office of BOT to sustain operation.
- (3) Borrowing from the Central Bank of the Republic of China (Taiwan)

Borrow from the Central Bank of the Republic of China (Taiwan) to sustain operation.

(4) Financing

Finance the fund from the Federal Reserve Bank of New York by qualified collateralizing assets, such as securities or loan assets.

(5) Liquidating assets
Sell assets booked as available-for-sale and loans.

(D) LA Branch

- (1) Borrowing from other financial institutions
 Borrowing from other financial institutions is the primary funding sources that LA Branch uses on a regular basis (approximately 75% of the total funding needs). Therefore, LA Branch would prefer to use this channel to acquire funds for all situations even LA Branch is under an emergency situation.
- (2) Borrowing from the head office of BOT Borrow from the head office of BOT to sustain operation.
- (3) Borrow from the Central Bank of the Republic of China (Taiwan) Borrow from the Central Bank of the Republic of China (Taiwan) to sustain operation.



(4) Financing

Finance the fund from the Federal Reserve Bank of San Francisco by qualified collateralizing assets, such as securities or loan assets.

(5) Liquidating assets

Sell assets booked as available-for-sale and loans.

(e) Derivative and Hedging Activities

TFH does not execute any transaction and hold any position; however, unlike TFH, BOT holds trading positions and needs to use hedging instruments to reduce any substantial loss. Because the trading positions are simple, the hedging instruments of BOT are relatively straightforward and composed of option and interest rate swap ("IRS") only.

(f) Memberships in Material Trading, Payment, Clearing and Settlement Systems

TFH does not perform any transaction; none of its system is related to trading, payment, clearing, or settlement.

However, in the ordinary course of business, BOT operates a lot of trading, payment, clearing, and settlement systems. The summary of trading, payment, clearing, and settlement systems is listed in following table:

System Type	System Name	A Member of
Trading	International Interbank Message System	SWIFT
Trading	Trading Book-Entry Central Government Central Bank of the Rep Bonds System China (Taiwan)	
Payment	Domestic Remittance System	Financial Information Service Co., Ltd.



Payment	Inter-Bank System	Financial Information Service Co., Ltd.
Payment	Credit Card System	VISA & Master Cards
	Treasury Management System	Financial Information Service
Payment	(Financial XML Payment	Co., Ltd.
	Business)	
	EDI Electronic Funds Transfer &	Financial Information Service
Daymont	Customs Duties and Fees	Co., Ltd.
Payment	(Financial Electronic Data	
	Interchange System)	
Clearing	Bills Investor Clearing and	Taiwan Depository & Clearing
Cleaning	Settlement System	Corporation
	NT Dollars Bills and Bonds	Taiwan Depository & Clearing
Settlement Operation Management System		Corporation

(g) Description of Foreign Operations

The information of the location and key management associated with TFH, BOT, and BOT's foreign operations are as follows:

Company Name	Location	Key Management
TFH	Taipei, R.O.C.	Chairperson: Jih-Chu Lee President: Chang-Ruey Shiau
ВОТ	Taipei, R.O.C.	Chairperson: Jih-Chu Lee President: Chang-Ruey Shiau
New York Branch, BOT	New York, U.S.	General Manager: Kevin Hsieh Deputy General Manager: Lucas Liao
Los Angeles Branch, BOT	Los Angeles, U.S.	General Manager: Shu Jane Chang Deputy General Manager: Spencer Tsao
Hong Kong Branch, BOT	Hong Kong	General Manager: Jia Xiao Wu Deputy General Manager: Lynn Huoh
Tokyo Branch, BOT	Tokyo,	General Manager: Jiunn-Ding Wu



		Japan	Deputy General Manager: Chung-Wen Tsai
Singapore BOT	Branch,	Singapore	General Manager: David Yang Deputy General Manager: Chi-Chang Yang
South Branch, BC	Africa OT	Johannesburg, South Africa	General Manager: Chun Kai Tai Deputy General Manager: Ken Fu
London BOT	Branch,	London, U.K.	General Manager: Ke HUA Deputy General Manager: Tony Lee
Shanghai BOT	Branch,	Shanghai, Mainland China	General Manager: Quei-Tien Yen Deputy General Manager: Peter Chiou

(h) Material Supervisory Authorities

The following table identifies the primary supervisory authorities with specific regulatory oversight over TFH, BOT and U.S. operations:

Company Name	Location	Regulator
TFH	Taipei,	Financial Supervisory Commission, R.O.C.
	R.O.C.	
ВОТ	Taipei,	► Financial Supervisory Commission,
	R.O.C.	R.O.C.
		► Central Bank of the Republic of China
		(Taiwan)
		► Central Deposit Insurance Corporation
New York	New York,	► Federal Reserve Bank of New York
Branch, BOT	New York	► New York State Department of Financial
	State,	Services (DFS)
	United	
	States	
Los Angeles	California,	► Federal Reserve Bank of San Francisco
Branch, BOT	United	► Division of Financial Institutions,
	States	California Department of Business
		Oversight



(i) Principal Officers

The table below identifies the current members of the TFH's Board of Directors.

Members of the TFH's Board of Directors		
Name	Role/Title	
Jih-Chu Lee	Chairperson	
Yi-Hsiung Hsu	Independent President	
Wen-Cheng Yao	Independent President	
Chien-Liang Chen	Independent President	
Chang-Ruey Shiau	Director & President	
Tzu-Hsin Wu	Director	
Chun-Jung Su	Director	
Tina E-Daun Chen	Director	
Fong-Yu Kuo	Director	
Teyu Chou	Director	
Kuei-Sun Wu	Director	
Hwai-Chung Ho	Director	
Hsin-Chang Lu	Director	
Tai Lung-Huei	Director	
Chih-Chen Cheng	Director	

(j) Resolution Planning Corporate Governance Structure and Related Processes

To manage the Resolution Plan, TFH and the material entity, BOT, have built and embedded a management mechanism of the Resolution Plan into the existing governance structure.

The governance structure of TFH and BOT for the resolution plan both are divided into three levels: Supervisory Level, Management Level, and Execution Level



In the governance structure, all units in the Execution Level in TFH and BOT would be responsible for developing and amending the resolution plan management. Then, TFH's and BOT's Board of Directors approve the initial resolution plan.

TFH's and BOT's Board of Directors also would authorize their presidents to approve the amended resolution plan since from the second year.

(k) Description of Material Management Information Systems

In order to mitigate risk, manage operations, and sustain customer confidence, all the systems and applications of TFH and BOT are essential to support their day-to-day needs, business processes, and the continuity of its critical businesses. For the resolution plan, TFH categorized the key management information systems ("MIS") into four categories according to their various impacts on business continuity and the regulation: risk management system, accounting system, financial system and regulatory reporting system:

- Risk management system: The ability to identify, measure, monitor, and report risk is critical to the soundness of TFH. The risk management system is required to identify and analyze risks inherent in daily business operations, including credit, market, operational and liquidity risk reports.
- Accounting system: The accounting system provides the information for financial reporting purposes that enhance the accuracy and efficiency of financial reporting process.
- Financial system: To provide transparent, accurate, and timely financial information, the financial system provides required information regarding the financial positions and performances to both senior management and external users to make sound financial decisions and appropriate financial policy.
- Regulatory reporting system: These reports provide information



mandated by the regulatory authorities governing the business location and having jurisdiction over the registered location of the business.

TFH and BOT utilizes these key MIS, both internally-developed systems as well as vendor-provided systems, to enable its businesses to have timely access to accurate management information in areas of risk management, accounting, finance, and regulatory reporting. TFH's MIS is shared across the core business lines and material entities to run these businesses and operations. All systems and infrastructure designed and developed internally are owned by TFH or BOT, and where TFH or BOT uses third-party systems, the contracting legal entity is the legal owner of the system.

(I) High-level Description of Resolution Strategy

TFH has developed the resolution strategy according to the U.S. regulator's requirements. The assumption of the resolution strategy is that TFH and BOT are both in either financial distress or verge of failure. In the resolution plan, TFH explains, under this assumption to prevent any adverse effect on the financial stability of the U.S., how to facilitate a rapid and orderly way to resolute the only two U.S. branches in NY and LA via liquidation.

In addition, because TFH is wholly owned by the government of the Republic of China, the potential purchasers may be the other financial institutions owned by the government of the Republic of China if TFH is in the event of financial distress or failure.