



# **165(d) Resolution Plan for Taiwan Financial Holdings**

## **Public Section**

**December 31, 2018**

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## **(a) Executive Summary**

### **(i) The key elements of the strategic plan for rapid and orderly resolution in the event of material financial distress or failure**

The key elements of a rapid and orderly resolution:

1. Raise contingency fund
2. Execute merger process
3. Whether the Competent Authority takes over Bank of Taiwan (“BOT”)
4. Liquidate the New York Branch (the “NY Branch”) and Los Angeles Branch (the “LA Branch”)

### **(ii) The material changes to the resolution plan from the most recently filed resolution plan**

The resolution plan filed in 2018 has no material changes to the resolution plan filed in 2016.

### **(iii) Any actions taken since filing the previous resolution plan to improve the effectiveness of the covered company’s resolution plan or to remediate or otherwise mitigate any material weaknesses or impediments to effective and timely execute the resolution plan.**

After an internal evaluation, Taiwan Financial Holding Co., Ltd. (“TFH”) concluded that it is unnecessary to improve the effectiveness of the existing resolution plan.

## **(b) 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. 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, BOT, has U.S. operations, i.e. the NY Branch and LA Branch. Hence, TFH is a covered company defined under the Final Rule and must submit a resolution plan.

The Final Rule provides a tailored resolution plan regime for smaller and less complex bank holding companies with less than US\$100 billion in its total U.S. non-bank assets, while its assets of the U.S. insured depository institution operations, insured and uninsured U.S. branches, and agencies accounting for 85% or more of its U.S. total consolidated assets on December 31 of the calendar year prior to the date TFH is required to submit a resolution plan. TFH submitted the Taiwan Financial Holding Tailored Plan Eligibility Notification to FRB and FDIC in April 2016, and received a notice from FRB and FDIC in June 2016, which informed TFH that TFH was permitted to submit the Reduced Content Plan in 2016, 2017, and 2018. The Reduced Content Plan should include only:

- ▶ Any material changes that TFH has made to its resolution plan, including changes resulting from the material events;
- ▶ Any actions taken to improve the effectiveness of the resolution plan;
- ▶ If applicable, the TFH's strategy for ensuring that any insured depository institution subsidiary will be adequately protected from risks arising from the activities of any nonbank subsidiaries of TFH.

Therefore, TFH, on behalf of itself and its subsidiaries, submits this Public Section and Reduced Content Plan in compliance with the Final Rule and related guidance<sup>1</sup>.

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<sup>1</sup> In September 2017, TFH was informed that the deadline of submitting the 2017 resolution plan was from on or before December 31, 2017 to December 31, 2018. Therefore, TFH didn't submit the resolution plan to FRB and FDIC in 2017. So, this submitted resolution plan is 2018 Resolution Plan.

### **(i) Overview of TFH**

TFH began preparations for its establishment on August 15, 2007 as instructed at Taiwan's Executive Yuan Council Meeting, and on January 1, 2008, TFH was established (in accordance with the Financial Holding Company Act and other applicable laws and regulations) by the Ministry of Finance, R.O.C. by transferring BOT shares. On the following day of the establishment (January 2), 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. To expand its business scope, BOT, one of the subsidiaries, established a wholly owned subsidiary, BankTaiwan Insurance Brokers Co., Ltd in 2013.

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

TFH's U.S. operations involve the NY Branch and LA Branch of TFH's subsidiary, BOT. The business operations of the NY Branch and the LA Branch include inward/outward remittances, deposits, loans & credits, international finance, etc.

## **(c) Material Entity**

### **(i) Definition**

The Final Rule defines a 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 December 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 September 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 an agent in carrying out most of the functions of the Central Bank of China (CBC), thus giving it a dual role, that of a central bank, as well as a general commercial bank. After CBC's business was resumed in Taiwan in July 1961, however, BOT switched its primary emphasis to general banking. On the other hand, BOT is still responsible for the operation of businesses related to the issuance of New Taiwan Dollars and handling the deposits of military and civil servants' retirement funds at preferential interest rates. In addition, BOT usually offers opinions to advise on Taiwan government's policy-making and has done its utmost to supply funds needed to support the implementation of government policies.

## **(d) Description of Core Business Lines**

### **(i) Definition**

The Final Rule defines core business lines as “those business lines of the covered company, including the 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 Final Rule. The following is a general description of TFH’s banking business line:

In addition to conducting general banking business in accordance with the Banking Act, such as accepting deposits, managing trust funds under mandates, issuing bank debentures, extending loans, issuing discount bills and notes, handling domestic and foreign remittances, TFH also handles ancillary matters pertaining to the distribution of New Taiwan Dollar notes and coins, and engages in other lines of business as may be approved by the competent authorities.

## **(e) 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, 2017.

<b>Balance Sheet</b>	<b>In thousands, NT\$</b>
<b>Assets</b>	
Cash and Cash Equivalents	176,557,484
Placement with Central Bank and Call Loans to Banks	675,504,410
Financial Assets Measured at Fair Value through Profit or Loss, Net	238,298,393

Available-for-Sale Financial Assets, Net	1,167,534,338
Hedging Financial Assets	22,759
Bills and Bonds Purchased under Resell Agreements	15,496,693
Receivables, Net	67,938,513
Current Income Tax Assets	3,856,127
Loans and Discounts, Net	2,278,418,007
Reinsurance Assets	10,125
Held-to-Maturity Financial Assets, Net	369,165,099
Investments under Equity Method, Net	42,510,031
Other Financial Assets, Net	102,850,759
Investments property, Net	22,668,062
Property and Equipment, Net	98,315,342
Intangible Assets, Net	733,720
Deferred Tax Assets	2,654,324
Other Assets	11,809,607
<b>Total Assets</b>	<b>5,274,343,793</b>
<b>Liabilities and Stockholder's Equity</b>	
Deposits of Central Bank and Other Banks	219,021,384
Financial Liabilities Measured at Fair Value through Profit or Loss	34,926,949
Hedging Financial Liabilities	60,480
Bills and Bonds Sold under Repurchase Agreements	36,703,085
Commercial Paper Payables, Net	1,189,859
Payables	60,080,069
Current Income Tax Liabilities	984,175
Deposits and Remittances	3,931,372,672
Financial Bonds Payable	24,998,316
Provision	650,473,144
Other Financial Liabilities	854,756
Deferred Tax Liabilities	18,475,398
Other Liabilities	8,983,572
<b>Total Liabilities</b>	<b>4,988,123,859</b>

<b>Stockholder's Equity</b>	
Capital Stock	90,000,000
Capital Surplus	111,385,226
Retained earnings	60,272,427
Other Equity	24,562,281
<b>Total equity</b>	<b>286,219,934</b>
<b>Total liabilities and stockholder's equity</b>	<b>5,274,343,793</b>

## (ii) Capital

The following table illustrates the capital adequacy of TFH and its subsidiaries, as of December 31, 2017.

		In thousands, NT\$
Eligible self-owned Capital of Subsidiaries	BOT	246,987,645
	BankTaiwan Life Insurance	9,714,048
	BankTaiwan Securities	2,779,888
Subsidiary's Statutory Capital Requirement	BOT	173,984,554
	BankTaiwan Life Insurance	12,603,324
	BankTaiwan Securities	815,211
Group's Eligible Capital		231,028,483
Group's statutory capital requirement		187,414,724
Group's capital adequacy ratio		123.27%

### **(iii) Major Funding Sources**

The major funding sources of TFH, BOT, the 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**

Selling liquid assets (e.g. stocks, notes, and certificates of deposit) for cash in open markets

##### **(3) Reporting to the Competent Authority and Seek Supports**

As the Ministry of Finance, R.O.C. holds 100% equity of TFH, TFH has to report its operation difficulties to the Ministry of Finance, R.O.C. and wait for its support

#### **(B) BOT**

##### **(1) Borrowing from Banks**

Borrowing from other financial institutions with which having existing dealings to acquire liquidity

##### **(2) Selling Short-term Notes, Government Bonds, and Corporate Bonds**

Selling short-term notes, government bonds, and corporate bonds for cash in open market

##### **(3) Adjusting Interest Rates and Issuing Negotiable Certificates of Deposit**

Increasing deposit accepting via raising interest rates to receive sufficient operation funding

##### **(4) Selling listed stocks held**

Selling listed stocks held by BOT in the exchange and over the counter markets

##### **(5) Applying for Rediscount or Financing from the Central Bank of**

the Republic of China (Taiwan)

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

Borrowing from the head office of BOT to sustain operation

(3) Borrowing from the Central Bank of the Republic of China (Taiwan)

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

(4) Financing

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

(5) Liquidating assets

Selling 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 the LA Branch uses on a regular basis (approximately 75% of the total funding needs). Therefore, the LA Branch would prefer using this channel to acquire funds for all situations even when the LA Branch is in an emergency situation.

(2) Borrowing from the head office of BOT

Borrowing from the head office of BOT to sustain operation

(3) Borrowing from the Central Bank of the Republic of China

(Taiwan)

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

(4) Financing

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

(5) Liquidating assets

Selling assets booked as available-for-sale and loans

### **(f) Derivative and Hedging Activities**

TFH does not engage in any transactions and hold any positions; 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, interest rate swaps (“IRS”), and foreign exchange swap (“FX swap”) mostly.

### **(g) Memberships in Material Trading, Payment, Clearing and Settlement Systems**

TFH does not engage in any transactions; none of its system is related to trading, payment, clearing, or settlement.

However, in the ordinary course of business, BOT operates a number of systems for trading, payments, clearing, and settlements. The trading, payment, clearing, and settlement systems are listed in the following table:

System Type	System Name	A Member of
Trading	International Interbank Message System	SWIFT
Trading	Book-Entry Central Government	Central Bank of the Republic of

	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
Payment	Treasury Management System (Financial XML Payment Business)	Financial Information Service Co., Ltd.
Payment	EDI Electronic Funds Transfer & Customs Duties and Fees (Financial Electronic Data Interchange System)	Financial Information Service Co., Ltd.
Payment	Automated Clearing House Collection and Payment System	Taiwan Clearing House
Clearing	Bills Investor Clearing and Settlement System	Taiwan Depository & Clearing Corporation
Settlement	NT Dollars Bills and Bonds Operation Management System	Taiwan Depository & Clearing Corporation

### (h) 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: Jye-Cherng Lyu President: Ting-Jen Chan
BOT	Taipei, R.O.C.	Chairperson: Jye-Cherng Lyu President: Ye-Chin Chiou
New York Branch, BOT	New York, U.S.	General Manager: Leo Y.L. Shih Deputy General Manager: Sunny Suen
Los Angeles Branch, BOT	Los Angeles, U.S.	General Manager: Jane Chang Deputy General Manager: Carol Yeh,

Company Name	Location	Key Management
		Spencer Liang
Hong Kong Branch, BOT	Hong Kong	General Manager: Chia-Hsiao Wu Deputy General Manager: Shih-Min Chang Deputy General Manager: Tai-Yuan Fang
Tokyo Branch, BOT	Tokyo, Japan	V. P. & General Manager: I-Lin Chen A. V. P. & Deputy General Manager: Chung-Wen Tsai
Singapore Branch, BOT	Singapore	General Manager: Dixon T.K. Wang Deputy General Manager: Lucas Liao
South Africa Branch, BOT	Johannesburg, South Africa	V. P. & General Manager: Chun-Kai Tai A. V. P. & Deputy General Manager: Kenny Sun-Kai Chen
London Branch, BOT	London, U.K.	General Manager: Spencer C.S. Tsao Deputy General Manager: Sean J.L. Jean
Sydney Branch, BOT	Sydney, Australia	V. P. & General Manager: Renming Lee A. V. P. & Deputy General Manager: Brian Chin
Shanghai Branch, BOT	Shanghai, Mainland China	General Manager: Ming-Kun Hung Deputy General Manager: Shih-Yuan Wang Deputy General Manager: Pi-Ming Han Deputy General Manager: Chien-Hsiung Lee
Shanghai Jia-Ding Sub-Branch, BOT	Shanghai, Mainland China	General Manager: Chun-Hung Liao
Guangzhou Branch, BOT	Guangzhou, Mainland China	General Manager: Ching-Kou Chen Deputy General Manager: Hsiu-Yueh Lee
Fuzhou Branch, BOT	Fuzhou, Mainland China	General Manager: Jhi-Ming Chiou Deputy General Manager: Hui-Chuan Liu
Mumbai Representative Office, BOT	Mumbai, India	Representative: Lucas Liao
Yangon Representative Office, BOT	Yangon, Myanmar	Representative: Tsu-Hsiung Chuang
Bangkok Representative	Bangkok, Thailand	Representative: Peter K.P. Liu

Company Name	Location	Key Management
Office, BOT		
Silicon Valley Representative Office, BOT	Los Angeles, U.S.	Representative: Spencer Liang
Frankfurt Representative Office, BOT	Frankfurt, Germany	Representative: Lynn Huoh

### (i) Material Supervisory Authorities

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

Company Name	Location	Competent Authority
TFH	Taipei, R.O.C.	Financial Supervisory Commission, R.O.C.
BOT	Taipei, R.O.C.	<ul style="list-style-type: none"> <li>▶ Financial Supervisory Commission, R.O.C.</li> <li>▶ Central Bank of the Republic of China (Taiwan)</li> <li>▶ Central Deposit Insurance Corporation</li> </ul>
New York Branch, BOT	New York, New York State, United States	<ul style="list-style-type: none"> <li>▶ Federal Reserve Bank of New York</li> <li>▶ New York State Department of Financial Services (DFS)</li> </ul>
Los Angeles Branch, BOT	California, United States	<ul style="list-style-type: none"> <li>▶ Federal Reserve Bank of San Francisco</li> <li>▶ Division of Financial Institutions, California Department of Business Oversight</li> </ul>

## (j) 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
Jye-Cherng Lyu	Chairperson
Miao-Ling Chen	Independent Director
Jin-Ji Chen	Independent Director
Ming-Fang Tsai	Independent Director
Ting-Jen Chan	Director & President
Tina E-Dawn Chen	Director
Ching-Hua Lee	Director
San-Quei Lin	Director
Kung-Cheng Lin	Director
Hsiao-Ling Chen	Director
Yeong-Yuh Chiang	Director
Shih-Ti Yu	Director
Ying-Wei Peng	Director
Dou-Ming Su	Director

## (k) 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 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. Then,

TFH's and BOT's Boards of Directors approve the initial resolution plan.

TFH's and BOT's Boards of Directors also would authorize their presidents to approve the amended resolution plan from the year following the initial approval.

## **(I) 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 developing the resolution plan, TFH divided the key management information systems ("MIS") into four categories according to their various impacts on business continuity and the Final Rule: 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 sound operation of TFH. The risk management system identifies and analyzes risks inherent in daily business operations, and produces credit, market, operational and liquidity risk reports.
- ▶ Accounting system: The accounting system provides information to meet the financial reporting purposes to enhance accuracy and efficiency of the 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 policies.
- ▶ 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. Moreover, whenever TFH or BOT uses any third-party systems, the contracting legal entity is the legal owner of the system.

### **(m) 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 failure. In the resolution plan, TFH explains, under the assumption, how to facilitate a rapid and orderly liquidation of the only two U.S. branches in NY and LA without causing any adverse effect on the financial stability of the U.S.

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 faces financial distress or failure.