



Taiwan Financial Holdings

2013

2013 Annual Report



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■ Overseas Listing: None



***INTEGRATE GROUP RESOURCES
REAP THE BENEFITS OF SYNERGY***



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NATIONAL BRAND

***Government Backing Translates to
Solid Market Position***





I. Message to Shareholders

II. Company Profile

III. Corporate Governance

1. Organization
2. Chairperson, President, Executive Vice President and Department Heads

I. Message to Shareholders



Chairperson Jih-Chu Lee

The global economy in 2013 was affected by the eurozone debt crisis, worries over tapering of the US quantitative easing policy, the disruptive impact of the US fiscal standoff, and slower growth in emerging markets. Figures released by Global Insight indicate that the global economy grew by 2.5% last year, down from 2.6% in 2012. Taiwan's economy, for its part, fared less well than expected due to the muted global recovery, while the exports, consumption, and investment were all sluggish. The Executive Yuan's Directorate-General of Budget, Accounting and Statistics (DGBAS) did report moderate growth of 2.11% in 2013, which was still up slightly from the 1.48% figure for 2012.



The group of Taiwan Financial Holding (TFH) in 2013 actively seized on the opportunities afforded by the development of cross-strait financial industry ties to branch out into several new lines of business. We now transport NT Dollar cash to mainland China, handle cash exchanges between RMB and NT Dollars, and act as the clearing bank for NT Dollar transactions in the mainland. In addition, TFH continues to make preparations to set up new types of business locations in the mainland, all of which will be anchored by our branch in Shanghai. And we will also keep expanding our overseas presence elsewhere to increase the overseas contribution to our operating revenues.

TFH steadily added new innovative factors into its businesses in 2013. Its banking subsidiary, the Bank of Taiwan (BOT), established the BankTaiwan Insurance Brokers (BTIB) to provide customers with a wider range of insurance products to choose from. And TFH continued to expand participation among group subsidiaries in joint business development undertakings, encouraged integrated marketing of cross-sector products, and used different types of function-based committees to ensure that group subsidiaries achieve sound development of their financial and business operations. Thanks to the hard work, smooth cooperation, finely honed professionalism, and excellent work ethic of its employees, the TFH group's total assets grew in 2013 to NT\$4.638 trillion, second largest in the industry. It achieved consolidated after-tax earnings of NT\$6.993 billion, and consolidated after-tax earnings per share (EPS) of NT\$0.78. When actions taken by the group to support government policy are factored out, the group is found to have achieved earnings of NT\$15.1 billion, EPS of NT\$1.68, return on assets (ROA) of 0.36%, and return on equity (ROE) of 6.06%.

The 2013 business results of each of the group's three subsidiaries are as described below.

Taking advantage of its stable business foundation, the Bank of Taiwan (BOT) continued to display superior business management prowess, maintaining its number one position among domestic banks in terms of assets, deposits, loans, and shareholders' equity. And in its foreign exchange, gold, and trust businesses, as well, BOT also maintained its position among the industry leaders. After-tax earnings came to NT\$7.326 billion, and after factoring out the burden shouldered by BOT in supporting government policy, the after-tax earnings actually came to NT\$15.451 billion. BOT also posted EPS of NT\$2.21, ROA of 0.40%, and ROE of 6.31%.


BankTaiwan Life Insurance (BTLI) took gross premiums of NT\$48.0 billion, but had to set aside additional policy reserves to get on stronger financial, which resulted in an after-tax loss of NT\$327 million, with a loss per share of NT\$0.23, ROA of -0.08%, and ROE of -3.22%. Nevertheless, BTLI's 13- and 25-month persistency rates were both among the best in the industry, reflecting the special stability and trustworthiness of insurance policies sold by a state-run company.

At BankTaiwan Securities (BTS) the volume of the brokerage business, at NT\$481.3 billion, fell short of expectations in 2013 due to reduced stock trading volume in Taiwan. Even so, the company remained soundly profitable, with after-tax earnings of NT\$122 million, EPS of NT\$0.41, ROA of 1.39%, and ROE of 3.65%.



President Chang-Ruey Shiau

The TFH group has long worked to establish a strong position in domestic financial markets, and international credit rating agencies give high marks for our financial strength. Each of the group's three subsidiaries has been assigned the highest rating given to any financial services provider in their respective sectors in Taiwan. In October 2013, BOT received long- and short-term credit ratings of S&P A+ and S&P A-1 with a stable outlook from Standard & Poor's (S&P), and long- and short-term credit ratings of twAAA and twA-1+ with a stable outlook from Taiwan Ratings Corporation (TRC). Then in November 2013, Moody's assigned BOT long- and short-term credit ratings of Aa3 and P-1. BTLI, in the meantime, received long-term



credit ratings of S&P A+ and twAAA with a stable outlook in September 2013 from S&P and TRC. In June 2013, BTS received long- and short-term credit ratings of twAA+ and twA-1+ with a stable outlook from TRC.

The TFH group's brand image enjoys strong acceptance in a wide swath of society thanks to the company's integrity, stability, and demonstrated social concern. In addition, the group's core subsidiary, BOT, has won numerous awards for having the most reputable brand and the best overall image, and for being consumers' preferred bank. On the international front, BOT has been named by the European Bank for Reconstruction and Development as the "Most Active Confirming Bank" under the EBRD's Trade Facilitation Program, while the US-based Global Finance magazine for two straight years has named BOT one of the "10 Safest Banks In Asia" and one of the "World's 50 Safest Banks." It is the only domestic bank to make these lists. And it is especially noteworthy that BOT has received ISO 22301 certification from the British Standards Institution for its business continuity management system, the first financial institution in Taiwan thus certified.

Looking ahead to 2014, the global economy is expected to show positive growth. At the same time, Taiwan's government is actively pursuing economic liberalization and market opening, which will help stimulate the domestic economy and generate a lot of business opportunities for financial institutions. TFH will continue paying close attention to global economic conditions, and will seize opportunities as they arise from regional and cross-strait economic growth. Striking a proper balance between the needs for business development and risk management, the group will adhere to the following eight principal focal points in the running of its business: (1) strengthen legal compliance and improve corporate governance; (2) make the group's core businesses more profitable; (3) accelerate steps to build up overseas presence and increase overseas profits; (4) seize business opportunities that arise in connection with internationalization of the RMB; (5) optimize our group business management; (6) step up personnel training to consolidate our competitive advantages; (7) make more active use of real estate holdings; and (8) better fulfill corporate social responsibility. TFH will act in line with these points in overseeing its subsidiaries and make efforts to enhance group synergies, establish a strong presence in Taiwan's financial markets, build up our cross-strait business and move forward international markets.

The TFH group is a government asset, and the government for its part is a resource for us. With this in mind, the TFH group will continue coordinating with the government to support diversification of Taiwan's industry and help enterprises develop markets. As the nation grows, TFH will share in the fruits of prosperity.

Chairperson



President





1. Chairperson Jih-Chu Lee
2. President Chang-Ruey Shiau
3. Executive Vice President Hong-Chi Chang
4. Executive Vice President Yu-Chih Liu
5. General Auditor Li-Shieu Tsai

II. Company Profile

1. Date of Establishment: 1st January 2008

2. Brief History

(1) M&A and Related Subsidiaries

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

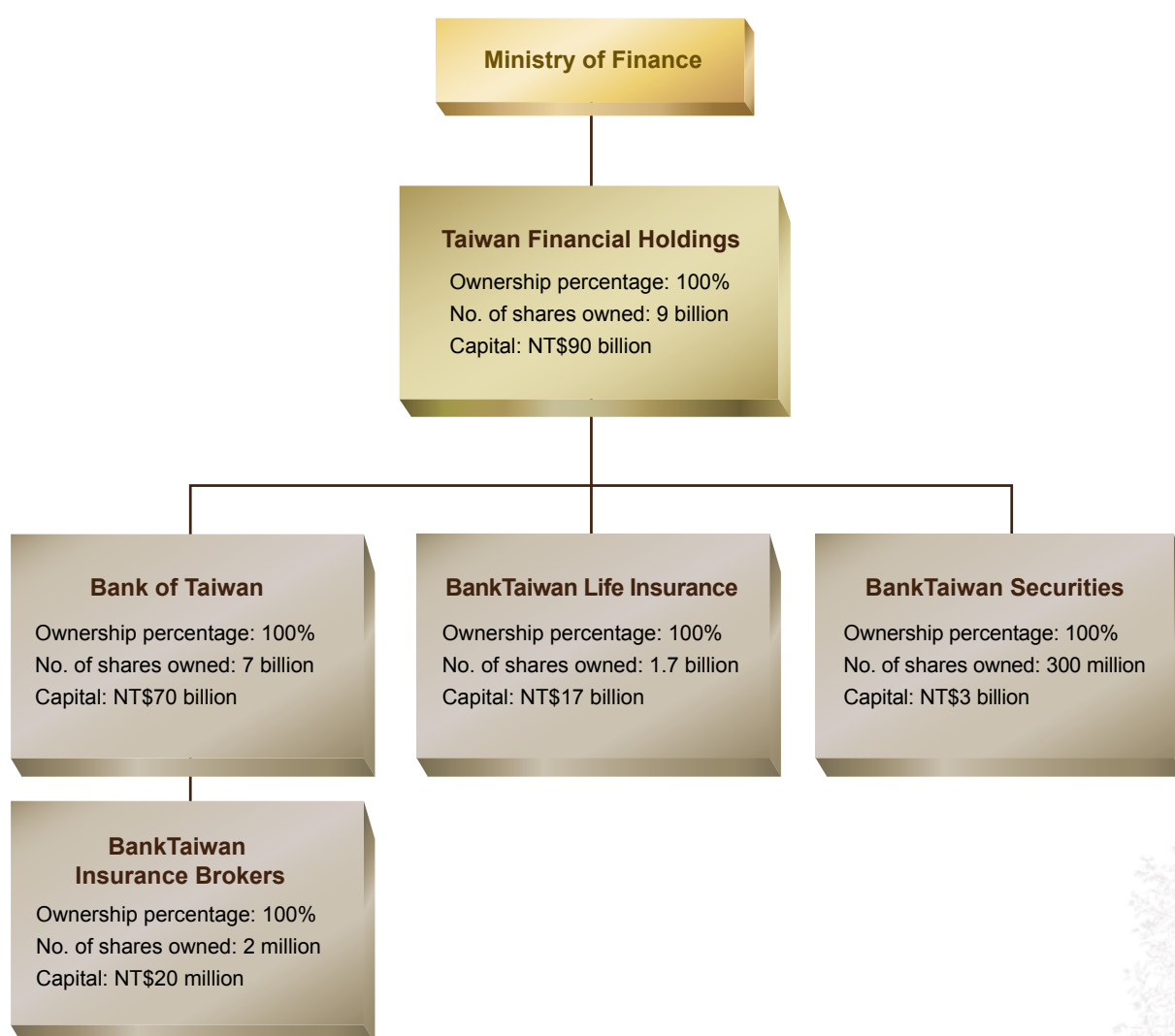
(2) Events with a Material Impact on Shareholders' Equity

- i. Mr. Ming-Chung Tseng was given a concurrent appointment as acting chairperson of TFH on 1st July 2013, taking over from the previous chairperson, Mr. Teng-Cheng Liu.
- ii. Mr. Ming-Daw Chang was appointed as TFH's acting chairperson on 1st August 2013, taking over from the previous chairperson, Mr. Ming-Chung Tseng.
- iii. Dr. Jih-Chu Lee was appointed TFH chairperson on 9th August 2013, taking over from previous chairperson Mr. Ming-Daw Chang.
- iv. Mr. Hong-Chi Chang was appointed as TFH's acting president on 30th September 2013, taking over from previous president Mr. Ming-Daw Chang.
- v. Mr. Chang-Ruey Shiau was appointed TFH president on 3rd March 2014, taking over from previous president Mr. Hong-Chi Chang.

III. Corporate Governance

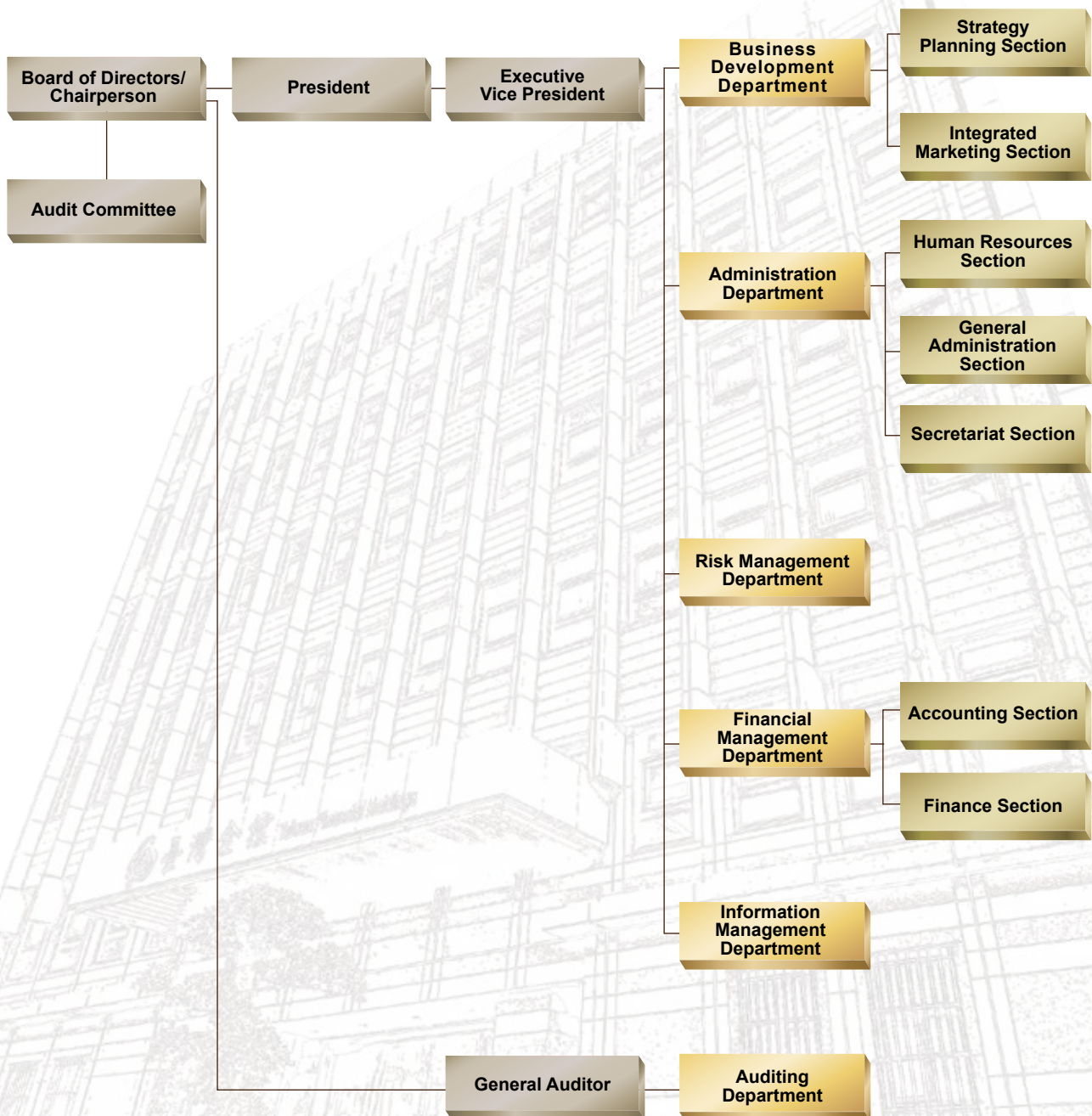
1. Organization

(1) Chart of Relations within the TFH Group



Corporate Governance

(2) Organization Chart



(3) Division of Duties

i. Auditing Department

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

ii Business Development Department

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

iii. Administration Department

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

iv. Risk Management Department

Sets up the risk management systems and contingency plans for Taiwan Financial Holdings and its subsidiaries; handles TFH credit rating matters.

v. Financial Management Department

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

vi Information Management Department

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



Chairperson Jih-Chu Lee delivers a speech at the 7th Asian Financial Forum. She is the first financial expert from Taiwan ever to speak at the AFF.

Corporate Governance

2. Chairperson, President, Executive Vice President, and Department Heads

As of March 31, 2014

Position	Name	Date of Employment	Shares Held	Education and Career	Positions Held with Other Companies
Chairperson	Jih-Chu Lee	Aug.31,2013	Shares 100% Owned by MOF	<p>Ph.D. in Economics, National Taiwan University</p> <p>Chairperson, Chunghwa Post Co., Ltd.</p> <p>Vice-Chairperson, Financial Supervisory Commission (Cabinet level), R.O.C.</p> <p>Chairperson, Financial Research and Development Fund, R.O.C.</p> <p>Chairperson, Committee for the Administration of Development of Insurance Business, R.O.C.</p> <p>Member of Board, Mega Financial Holding Company</p> <p>Member of Board, Chunghwa Telecom Co., Ltd.</p> <p>Member of Supervisory Board, Taiwan Cooperative Bank</p> <p>Professor, Department of Economics, National Chengchi University</p> <p>Chairperson, Economic Policy Research Center, National Chengchi University</p> <p>Chairperson (Minister), National Youth Commission, Executive Yuan (the Cabinet), R.O.C.</p> <p>Legislator, Legislative Yuan, R.O.C.</p> <p>Committee Member, Mainland Affairs Council, Executive Yuan, R.O.C.</p> <p>Visiting Scholar, Department of Economics, Harvard University, U.S.A.</p> <p>Visiting Scholar, Department of Economics, Stanford University, U.S.A.</p> <p>Professor, International Finance Teachers Training Program, Johns Hopkins University, U.S.A.</p> <p>Vice-President, the Harvard University Alumni Club of R.O.C.</p> <p>Member of Board, Straits Exchange Foundation</p> <p>Member of Board, Taiwan-Hong Kong Economic and Cultural Co-operation Council</p> <p>Committee Member, SME Policy Committee, Ministry of Economic Affairs</p> <p>Member of Board, Taiwan Academy of Banking and Finance</p> <p>Member of Board, Commerce Development Research Institute</p> <p>Member of Board, Eisenhower Fellows Association in the Republic of China</p> <p>Jury Member, Panel of New Chinese Economic Leader, World Economic Forum</p> <p>Advisor, Public Service Pension Fund, Supervisory Board, R.O.C.</p> <p>Advisor, Chung-Hua Institute for Economic Research</p> <p>Deputy Convener, Monetary and Public Finance Policies Group, National Policy Foundation</p>	<p>Chairperson, Bank of Taiwan, Co., Ltd.</p> <p>Chairperson, The Bankers Association Of The Republic Of China.</p> <p>Vice Chairperson, Monte Jade Science & Technology Association of Taiwan</p> <p>Member of Board, Taiwan Stock Exchange Corporation (TWSE)</p> <p>Member of Board, Taiwan External Trade Development Council (TAITRA)</p> <p>Member of Board, Joint Credit Information Center (JCIC)</p> <p>Committee Member, Steering Committee, National Palace Museum</p> <p>Committee Member, Utilization Team of Long-term Funding, Council for Economic Planning & Development, Executive Yuan, R.O.C.</p> <p>Committee Member, Industry Consultation Committee, Ministry of Economic Affairs.</p> <p>Honorary Vice Chairperson, Youth Career Development Association Headquarters, R.O.C.</p> <p>Committee Member, Board of Directors, Training and Research Steering Committee, Taiwan Academy of Banking and Finance</p> <p>Managing Supervisor, Cross-Strait Entrepreneurs Summit</p> <p>Professor, Department of Economics, National Chengchi University</p> <p>Member of Board, The Asian Bankers Association</p> <p>Member of Board, Taiwan Fulbright Alumni Association</p>

Position	Name	Date of Employment	Shares Held	Education and Career	Positions Held with Other Companies
President	Chang-Ruey Shiau	Mar. 3, 2014	Shares 100% Owned by MOF	LL.B National Chung Hsing University Chief of Staff to the Vice President of the Republic of China (Taiwan) Director-General, Department of Fiscal, Statistical and Financial Affairs, Executive Yuan Counselor and Director, the Fourth Department, Executive Yuan Chief Secretary, FSC, Executive Yuan Deputy Director-General, Banking Bureau, FSC Chief Secretary, Banking Bureau, FSC Commissioner, Legal Affairs Committee, Executive Yuan Director, Taiwan Cooperative Financial Holdings Director, Taiwan Cooperative Bank	President and Managing Director, BOT
Executive Vice President	Hong-Chi Chang	Sep.17, 2012		Master of Agricultural Economics, National Chung Hsing University Acting President, TFH Executive Vice President & General Auditor, BOT SVP & Chief Secretary, BOT	Executive Vice President , BOT Director, Bills Finance Association of the Republic of China Director, Taiwan Futures Exchange
Executive Vice President & Chief Financial Officer	Yu-Chih Liu	Jan. 16, 2013		B.A. of Business Administration, National Taiwan University Supervisor, BTIB SVP & General Manager, Department of Treasury, BOT SVP & General Manager, Department of Trusts, BOT SVP & General Manager, Department of Trusts, CTC	Director of Administration and Training Committee, Trust Association of the R.O.C. Director, BOT
Executive Vice President & General Auditor	Li-Shieu Tsai	Apr.16.2013		M.A. in Finance, Ming Chuan University SVP & Chief Financial Officer, TFH Director, BTLI Supervisor, BTLI SVP & General Manager, Business Development Department, TFH SVP & Chief Secretary, TFH	Committee Member, Internal Audit Committee, The Bankers Association of The R.O.C.
SVP & Chief Secretary	Tzong-Rong Tsai	Dec.30, 2013		Ph.D. in Economics, Michigan State University Commissioner, FSC President, Taiwan Land Development and Trust Investment Corp. Chairman, Waterland Securities Investment Consulting Co., Ltd.	SVP & Chief Secretary, BOT

Corporate Governance

Position	Name	Date of Employment	Shares Held	Education and Career	Positions Held with Other Companies
VP & Chief Strategy Officer	Sheng-Chia Kuei	Mar. 1, 2012	Shares 100% Owned by MOF	LL.M., Soochow University M.A. in Finance, Tamkang University VP & General Manager, Department of Finance, TFH Manager, Investments Section, Department of Finance, TFH	Committee Member, Financial Holding Business Committee, The Bankers Association of The R.O.C.
SVP & Chief Administration Officer	Cheng-The Chang	Jun 5, 2012		Master of Graduate Institute of Chinese Studies, Chinese Culture University Vice Director, Financial Examination Bureau, FSC, Executive Yuan Vice Director, Bureau of Monetary Affairs, MOF	
SVP & Chief Risk Officer	Lily Lee	Jul 15, 2009		M.A. in International Trade, National Chengchi University SVP & General Manager, Department of Risk Management, BOT Deputy General Manager, Department of Domestic Operations, BOT Deputy General Manager, Department of Risk Management, BOT	Teammate of Risk Management, Financial Holding Business Committee, The Bankers Association of The R.O.C. Director, BTS
SVP & Chief Information Officer	Man-Yi Chu	Mar 1, 2012		M.A. in Business Administration, National Taiwan University SVP & General Manager, Administration Department, TFH Supervisor, BTS SVP and Deputy General Manager, Information Management Office, BOT General Manager, Department of Information Management, CTC	Director, BTLI

MARKET LEADER

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Financial Services*



IV. Capital Raised by TFH

1. Capital and Shares
2. Issuance of Corporate Bonds
3. Issuance of Preferred Shares
4. Issuance of Global Depositary Receipts
5. Issuance of Employee Stock Warrants
6. Mergers and Acquisitions

V. An Overview of Operations

1. Business Activities
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4. Corporate Social Responsibility

IV. Capital Raised by TFH

1. Capital and Shares

(1) Source of Capital

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

Note: The date of record for the share swap with BOT was 1st January 2008. The transaction was approved by MOF on 30th August 2007 (Letter No. Tai-Cai-Ku 0960038139) and by FSC on 6th December 2007 (Letter No. Jin-Guan-Yin (II) 09620007790).

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

TFH is a state-run enterprise wholly owned by the government, with its shares owned by MOF.

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

Unit: NT dollars, shares

Item		Year	Past Two Fiscal Years	
			2012	2013
Price Per Share	High		-	-
	Low		-	-
	Average		-	-
Net Worth Per Share	Before Distributions		27.40	28.07
	After Distributions		26.89	27.74
Earnings Per Share	Weighted Average Issued Shares		9,000,000	9,000,000
	Earnings Per Share		0.81	0.78
Dividends Per Share	Cash Dividends		0.50	0.34
	Bonus Shares	Dividends Out of Earnings	-	-
		Dividends Out of Capital Reserve	-	-
	Cumulative Undistributed Dividends		-	-
Return Analysis	Price/Earnings Ratio		-	-
	Price-to-Dividend Ratio		-	-
	Cash Dividend Yield		-	-

Note: TFH is a state-run enterprise. Our stock is not exchange-listed, so there is no data for market capitalization or return analysis.

(4) Dividend Policy and Its Implementation

i. Dividend policy

Under the provisions of TFH's articles of incorporation, if earnings remain after closing of the annual accounts, TFH is required after paying its income taxes that year to first offset any deficit from previous fiscal years before setting aside 10% to legal reserve. In addition, TFH must also set aside an additional 40% to 60% of after-tax income, along with an amount equal to the figure recorded to shareholders equity under "Unrealized Losses on Financial Instruments," to special reserves. If further earnings still remain, they are aggregated with cumulative undistributed earnings from the preceding fiscal year and distributed in accordance with the provisions of applicable laws and regulations.

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

ii. Dividend distributions in 2013

In closing the annual accounts for 2013, TFH distributed cash dividends of NT\$3.02 billion (NT\$0.34 per share). However, in accordance with Article 51 of Taiwan's Government Auditing Act, the earnings reported in TFH's annual accounts are subject to the final approval of the Ministry of Audit. TFH's annual accounts for 2013 are still under review by the Ministry of Audit, therefore the actual amount to be distributed as cash dividends cannot be determined until after Ministry of Audit has finished its review.

2. Issuance of Corporate Bonds

None

3. Issuance of Preferred Shares

None

4. Issuance of Global Depositary Receipts

None

5. Issuance of Employee Stock Warrants

None

6. Mergers and Acquisitions

None

V. An Overview of Operations

The operations of TFH and its subsidiaries are briefly described as follows:

1. Business Activities

(1) Scope of Business

i. TFH

(A) Main Lines of Business:

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

(B) Types of Business

Unit: NT\$1,000

Item	Year	2013	
		Dollar Amount	Share of Total
Investment Gains Recognized Under the Equity Method		7,121,083	99.98%
Other Operating Revenues		1,527	0.02%
Total Revenues and Gains		7,122,610	100%

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

Please refer to 2014 Business Plan.

ii. BOT

(A) Main Lines of Business:

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

An Overview of Operations

(B) Types of Business

Unit: NT\$1,000

Item	Year	2013	
		Dollar Amount	Share of Total
Net Interest Income		25,887,894	87.76%
Net Fee Income		5,275,607	17.88%
Financial Assets and Liabilities at Fair Value Through Profit or Loss		14,147,606	47.96%
Realized Gains (Losses) on Available-for-Sale Financial Assets		1,007,390	3.42%
Investment Gains/Losses Recognized Under the Equity Method		1,926,100	6.53%
Foreign Exchange Gains/Losses		2,585,863	8.77%
Schedule of Asset Impairment Losses, and Gains on Reversal of Impairment		-19,013	-0.06%
Schedule of Other Net Non-Interest Income/Losses		-21,313,839	-72.26%
Net Earnings		29,497,608	100%

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

Please refer to 2014 Business Plan.

iii. BTLI

(A) Main Lines of Business:

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

(B) Types of Business

Unit: NT\$1,000

Item	Year	2013	
		Dollar Amount	Share of Total
Personal Life Insurance		26,689,215	55.58%
Personal Injury Insurance		130,663	0.27%
Personal Health Insurance		718,504	1.50%
Personal Annuity Insurance		20,314,313	42.30%
Group Life Insurance		33,249	0.07%
Group Personal Injury Insurance		106,015	0.22%
Group Health Insurance		24,551	0.05%
Reinsurance Assumed		4,365	0.01%
Gross Premium Income		48,020,875	100.00%

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

Please refer to 2014 Business Plan.

iv. BTS

(A) Main Lines of Business:

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

(B) Types of Business

Unit: NT\$1,000

Item \ Year	2013	
	Dollar Amount	Share of Total
Brokerage fee income	287,662	56.04%
Securities lending income	271	0.05%
Underwriting income	11,659	2.27%
Net gains on securities sales	66,779	13.01%
Interest income	126,345	24.61%
Dividend income	26,784	5.22%
Net gain on measurement of securities at fair value	19,923	3.88%
Net gains on writing of call (put) warrants	1,994	0.39%
Futures commission revenues	1,699	0.33%
Net gains (losses) on derivatives (OTC)	-31,977	-6.23%
Other operating revenues	2,196	0.43%
Total	513,355	100%

(C) Future Development Plan for New Financial products and services:

Please refer to 2014 Business Plan.

(2) 2014 Business Plan

i. TFH

(A) Strengthen legal compliance and improve corporate governance

Build up sound corporate governance framework and monitoring & control mechanism; strengthen employee awareness of internal audits, internal control, and risk concepts, and their ability to ensure legal compliance; deepen employee commitment to ethics; actively implement ethical business practices; expand business scope and scale in a manner that ensures the group's sustainable and sound development.

(B) Increase the profitability of the group's core businesses

An Overview of Operations

Put the group's banking and life insurance subsidiaries on stronger financial footing; improve their asset/liability structure; enhance business performance by actively developing profitable businesses and distinctive products; establish a capital allocations committee and a groupwide foreign exchange hedging work group to strengthen capital efficiency and expand the group's sources of profitability.

(C) Accelerate moves to build up overseas presence and expand overseas profits

Actively establish mainland banking subsidiaries, branches, and sub-branches to round out the group's mainland financial services network; accelerate moves (as appropriate in light of the overall business climate and the presence of business opportunities) to establish new business locations in the Asia-Pacific region; continue establishing more business locations in areas where there is a high concentration of Taiwan-invested enterprises, thereby expanding the group's overseas profits.

(D) Seize opportunities generated by internationalization of the RMB

Lend assistance with cross-strait currency clearing operations; strengthen cross-strait exchange of financial information; expand onshore RMB deposit wire transfer services; take active steps to build a business platform that covers Taiwan, mainland China, and Hong Kong to help Taiwan-invested firms manage fund allocations and trade financing across all three jurisdictions; flexibly use RMB deposits for loans and investments; take part in the underwriting of RMB-denominated Formosa Bonds; and provide customers with a wide variety of RMB financial instruments.

(E) Optimize the group's business management

TFH intends to improve the capital adequacy of group subsidiaries to strengthen their risk-bearing capacity and support their business expansion needs. The bank subsidiary coordinates with government policy by setting aside higher loan loss provisions against Class 1 credit assets. The life insurance subsidiary takes further efforts to get on stronger financial footing; improve the product mix by increasing the proportion of installment-premium products; strengthen capital efficiency; achieve a better match of assets and liabilities.

(F) Strengthen personnel training to consolidate competitive advantages


Encourage senior leadership to acquire interdisciplinary knowledge and experience; actively cultivate well-rounded human resources needed for core businesses, new lines of business, and development of overseas businesses, thereby further building up the group's competitive strengths.

(G) Make more active use of real estate holdings

Make better use of land holdings; for real estate that is unused or underused, study the possibility of putting it up for urban redevelopment; for land that is subject to use restrictions, contact the proper authorities to find ways to earn better returns on it; move business locations in response to the development of business.

(H) Better fulfill corporate social responsibility

Continue integrating group resources to hold community service activities; work through the



business locations of TFH subsidiaries to establish local contacts throughout Taiwan; provide sponsorship to support care facilities for youth and senior citizens; incorporate a community service element into product design to support social service systems; include the fulfillment of corporate social responsibility as a focal point of evaluations of lending performance; continue working in a variety of ways to serve society.

ii. BOT

(A) Attract more demand deposits, adjust deposit structure

Actively seek to attract more demand deposits from both state-run and private-sector enterprises; strengthen development and promotion of wealth management products and then reduce time deposits to improve deposit structure and reduce the cost of funds.

(B) Strengthen credit management, achieve more profitable lending

Strengthen lending to the highly profitable SME and consumer segments in order to adjust lending structure; actively lead or participate in syndicated loans in order to spread credit risks; adopt flexible loan approval practices to reflect the contribution to profitability of different types of borrowers, thereby achieving more profitable lending.

(C) Expand retail banking business, generate increased operating income

Innovate new ways to market retail banking product portfolios to expand the credit card business; actively loan for the purchase of owner-occupied residences, which are low-risk; act in a timely manner to review and re-think our marketing strategies in order to increase retail banking revenues.

(D) Accelerate moves to establish an international presence, improve operating performance

Actively establish a presence in the Asia-Pacific region; continue to set up business locations in areas with a high concentration of Taiwan-invested enterprises, in order to take advantage of business opportunities; attract deposits from Taiwan-invested enterprises and provide them with loans and foreign exchange services; improve the operating performance of overseas branches and offshore banking units.

(E) Seize on cross-strait business opportunities, expand scope of business

Expedite moves to establish business locations in mainland China; build up a business platform that covers Taiwan, mainland China, and Hong Kong, expand the group's business network, and help Taiwan-invested firms handle capital allocations and trade financing across all three jurisdictions; actively expand RMB and cross-border trade businesses; provide customers with a variety of RMB wealth management instruments; increase banking earnings.

(F) Increase the value of channels, expand wealth management income

Use the group's integrated marketing platform, and take advantage of the resources of the BankTaiwan Insurance Brokers to improve our channel marketing capabilities; provide a diverse range of wealth management products; expand our wealth management services network; develop high-net-worth customers; provide professional services; increase wealth management fee income.

An Overview of Operations

(G) Optimize electronic banking business, improve service efficiency

Continue optimizing the functions of e-commerce systems, such as remote payments, overseas online banking; provide customers with quicker and more convenient funds management services in order to reduce personnel and operating costs; help expand our bank's deposit, lending, and wire transfer businesses; improve our competitiveness.

(H) Raise capital efficiency, increase investment returns

Seek stable and sound profitability; make good use of long- and short-term financial instruments; take timely action to adjust capital allocations; respond to international financial conditions and the development of cross-strait financial industry ties; make varied use of capital to improve investment performance; safeguard the interests of TFH's public-sector shareholder.

iii. BTLI

(A) Develop a diverse range of marketing channels

Act via TFH's integrated marketing platform to make use of BOT's highly developed channel resources for marketing purposes and tap into the synergies of cross-selling; strengthen cooperation with publicly held bank, high-quality insurance brokerage and agency companies; obtain better performance from our correspondence offices.

(B) Develop and promote niche products

Respond to changing market demand and the policies of government agencies by flexibly adjusting our product policy; strengthen promotion of long-term installment-premium products, protection products, foreign currency policies, and products designed to meet the needs of an ageing society; satisfy customers' insurance protection and asset allocation needs; put the company on stronger financial footing.

(C) Improve capital efficiency

Adopt sound investment strategies and optimize asset allocations; reduce positions in cash equivalents; take bigger positions in bonds, real estate, and policy loans; flexibly adjust exchange rate hedges as a percentage of the capital allocations in order to reduce hedging costs and raise capital efficiency in a stable manner.

(D) Implement risk management mechanisms

Act in accordance with the provisions of the "Risk Management Best-Practice Principles for Insurers" to improve internal audit, legal compliance, and risk management mechanisms; strengthen monitoring and control of capital adequacy and experience rates in order to further improve the benefits of risk management and put the company on sound financial footing.

(E) Strengthen employees' professional expertise

Step up professional training of employees at all levels so they can provide higher-quality service; continue dispatching employees to take part in training courses and seminars both at home and abroad so they can accumulate experience and expand their world view; optimize human resources with an eye to achieving sustainable business operations.

(F) Strengthen the functions of information systems

Develop an information systems team driven by the concept of business support; build up a new core system for life insurance; strengthen online and mobile applications to improve operating efficiency and service quality while enhancing employee productivity.

iv. BTS

(A) Securities brokerage business

Continue to update the electronic order submission platform; strengthen system functionality and stability; actively solicit the business of institutional customers; expand securities finance business; develop new customer bases and actively build good relationships in order to expand the company's competitive niche and attract more brokerage business.

(B) Securities underwriting business

Use the group's platforms for integrated marketing and direct and indirect financial services to expand underwriting and derivatives businesses; work together with BOT's Shanghai branch and its other overseas branches to seek business underwriting securities issues in Taiwan for offshore Taiwan-invested enterprises.

(C) Securities dealing business

Screen for investment targets that offer good fundamentals and growth potential; set reasonable profit targets; regularly review profitability and adjust investment portfolios as needed to achieve higher profits in a sound manner; establish reputation as a solid and reliable provider of options and warrants, thereby attracting investors to take positions in the company's investment portfolios.

(D) Internal management

Implement employee training; actively dispatch personnel to take part in professional training; meet the need of the company's business units for more functional information systems; strengthen corporate governance, legal compliance, risk management, internal audit, and internal control systems. Accomplishing these objectives will improve the company's management.

(E) Risk management

Strengthen the functions of the quantitative risk control information system and take risk management measures in a more timely manner; coordinate with business needs and amendments to laws and regulations by adopting (or amending) related risk management mechanisms, in order to effectively control overall risks.

(3) Industry Overview

i. Financial holdings industry

The overall earnings of financial holding companies (FHCs) grew once again in 2013, but fierce competition in Taiwan's domestic market prompted FHCs to look further afield for business opportunities arising from such factors as Asian regional economic integration, development of

An Overview of Operations

the mainland Chinese economy, and internationalization of the RMB. FHCs are busy establishing a presence in the markets of Southeast Asia as well as mainland China. In addition, Taiwan's government is promoting free economic pilot zones and seeking further liberalization of cross-strait financial industry ties, all of which is beneficial to the growth of Taiwan's financial industry. As FHCs work to become more competitive, they need to concentrate on such questions as how to expand the scope of the Taiwan-Centric Wealth Management Platform for Domestic Consumers and develop financial businesses with cross-strait characteristics while at the same time taking care to control risks and ensure sustainable and sound development.

ii. Banking industry

According to figures released by the Financial Supervisory Commission, Taiwanese banks earned higher profits in 2013 than in 2012, and international economic forecasting institutions expect the global economy to enter into a U-shaped recovery in 2014. Accordingly, Taiwan's economy can also be expected to gradually strengthen. Also, the government is pursuing a number of policies that will help enhance the profitability of Taiwanese banks and increase the size of our markets. For example, financial services providers now benefit from the same deregulatory measures that apply in the free economic pilot zones, and the government continues to relax restrictions on cross-strait financial industry dealings, i.e. financial services providers are allowed to invest in financial firms, and banks are allowed to take equity stakes in banks on the other side of Taiwan Strait. Also, the government is facilitating the efforts of domestic banks to establish branch units in areas where there are good business opportunities.

iii. Life insurance industry

There has been severe financial industry volatility both at home and abroad. Market interest rates remain very low, and the financial supervisory authority has sharply lowered the valuation interest rates for new contracts. As a result, Taiwan's life insurers face big challenges in both their business and financial operations. However, now that the cross-strait currency clearing mechanism is up and running, RMB-denominated insurance products are going to generate business opportunities that will play a role in business development that is too big to be ignored.

iv. Securities industry

Due to the debt crisis in Europe, worries over tapering of quantitative easing in the US, and a sluggish Taiwanese economy, the volume of stock trading in Taiwan dropped off in 2013, but brokerage volume is expected to increase now that the Financial Supervisory Commission has taken a series of stock market stimulus measures (such as allowing day trading of shares paid for in cash) and is planning to take a variety of deregulatory actions. Our underwriting business, meanwhile, will benefit from the development of cross-strait financial industry ties as well as decisions to allow the establishment of offshore securities units and to allow financial institutions to issue Formosa Bonds. All these developments will help to expand the underwriting market.

(4) Short-term and Long-term Business Development Plans

i. TFH

(A) Short-term business development plan

Closely monitor financial market trends; ensure that group subsidiaries take active steps to develop profitable new types of business and distinctive products; round out the lineup of products and services offered through our integrated marketing platform; satisfy diverse customer needs; use joint business development mechanism and adopt a target management and performance evaluation mechanism to spur healthy competition and cooperation among TFH subsidiaries, and to drive continued growth of the group's businesses.

(B) Long-term business development plan

Consolidate the group's superior brand power; capitalize on our unmatched stability and wide variety of professional services to develop long-term, stable partnerships with our customers; adopt a groupwide "3C" business strategy (cross selling; cost saving; capital efficiency) by operating in accordance with our development strategy—"establish a strong home base in Taiwan, bring the two sides of the Taiwan Strait together, establish a global presence"; tap into group synergies.

ii. BOT

(A) Short-term business development plan

Make good use of the group's resources and integrated marketing platform to actively expand core businesses and enhance customer value; seek opportunities to participate in syndicated loans both at home and abroad; win the financing business of offshore Taiwan-invested firms; develop RMB-related financial products in order to expand markets and improve profitability.

(B) Long-term business development plan

Continue cooperating with government policy by conducting various types of policy-driven business; use group resources to develop financial portfolio products, and provide customers with comprehensive service, in order to expand the scope of business; plan out steps to build up presence in overseas markets and move toward accomplishment of our vision of "establishing a strong home base in Taiwan while embarking upon international markets."



Chairperson Jih-Chu Lee announces the launch of new credit card featuring in converting bonus points to gold reserved.

An Overview of Operations

iii. BTLI

(A) Short-term business development plan

Use the group's integrated marketing platform to actively seek cooperation with BOT banking channels as well as its high-quality insurance agency and brokerage companies in order to build up more powerful channel marketing; coordinate with the group's asset/liability management policy to improve capital efficiency; respond to market needs by strengthening development and marketing of long-term installment-premium products, protection products, and RMB-denominated products.

(B) Long-term business development plan

Improve service quality and efficiency, and expand marketing channels; optimize asset allocations, and achieve better capital efficiency; cooperate with government policy objective of increasing citizens' insurance protection; respond to population ageing and the falling birth rate by stepping up efforts to develop protection products.

iv. BTS

(A) Short-term business development plan

Work through the TFH cross-selling platform to actively expand the customer base, increase our brokerage business market share, and grow our margin trading business; use the group's channel resources and work via the BOT's branches in Hong Kong and Shanghai to win corporate finance business; actively undertake underwriting business for foreign-denominated Formosa Bonds and expand the institutional customer channel.

(B) Long-term business development plan

Provide professional services to help major companies and high-end customers restructure, issue shares, and refinance; move step by step toward the goal of "cultivating our business in the capital markets and developing into an investment bank."

2. Cross-Selling

(1) Cross-Selling Synergies

Acted in accordance with groupwide strategy by adopting a 2013 plan for integrated marketing among group subsidiaries; continued working to establish an integrated marketing platform for the six principal business lines of corporate finance & bulk collections, wealth management, life insurance, investment of life insurance funds, securities brokerage, and securities underwriting; established a target management and performance evaluation mechanism for inter-subsidiary "joint business expansion activities" so as to use performance evaluations and target management to spur cooperation among subsidiaries. Quantifiable items under the integrated marketing platform contributed NT\$922 million to earnings in 2013, or 113.83% of the target, thus demonstrating the power of groupwide integrated marketing. Moreover, we expanded the lineup of cross-selling products, and added two new lines of business (securities margin purchasing and foreign exchange deposits).

(2) Resource Integration and Cost Reductions

Continued promoting groupwide shared operating platforms project; used shared operating platforms for eight major shared business operations (information operations, education and training, legal affairs, property management, community service, purchasing operations, financial and economic information exchange, and human resource exchange) to reap greater benefits from centralized management and professional specialization; concrete benefits during the fiscal year included establishment of a "groupwide online registration system for civil service ethics rules" and a "groupwide information reporting system." We also continued leasing and purchasing out-of-house information sources. Our logistics platform handled 3,276 cross-subsidiary operations in 2013, reducing measurable operating costs over the course of the year by NT\$51 million, thus reducing operating costs by tapping into group synergies.

3. Employee Profile

Year	2012	2013
Company	Number of Employees	
TFH	54	53
BOT	7,993	7,993
BTLI	223	214
BTS	136	130
Total	8,406	8,390
Average Age	44.22	44.68
Average Service Year	17.28	17.72
Education Level & Ratio		
Doctor	0.05	0.08
Master	13.56	15.21
University or College	75.21	74.13
Senior High School	9.70	9.16
Below Senior High School	1.48	1.42

4. Corporate Social Responsibility

- (1) To celebrate the sixth anniversary of its founding, TFH held a series of public performances by the Just Apple Children's Theater Troupe, and held a "Lighting Christmas Trees" charitable activity to inspire children, all specifically for the benefit of children from disadvantaged backgrounds and given them hope for the future. We also organized a cash register receipt donation campaign to show concern for society. Our efforts to fulfill our corporate social responsibility and give back to society have met with a very positive response from the news media and the larger society.
- (2) Used the group's resources to take active part in community service activities; organize blood drives; made donations to support social service groups that help orphans, the elderly, and persons with physical and mental disabilities; gave back to society through concrete action; engaged in promotion of

An Overview of Operations

basketball events, including youth basketball camps in the summer; promoted physically active lifestyles among the general population, and helped cultivate the abilities of athletes with significant potential; supported domestic cultural and creative industries by holding cultural and literary events, including musical performance series and cultural exhibits; established Bank of Taiwan Museum; expanded people's cultural horizons; derived positive benefit from public service marketing.

- (3) Held the 2013 Global Financial Trends Forum; invited experts from home and abroad to take part in summit discussions; raised Taiwan's visibility in the international financial sphere; exposed local citizens to international viewpoints.
- (4) Protected persons with physical and mental disabilities and properly fulfilled the group's corporate social responsibility; set an annual target of purchasing no less than 5% of products and services from persons with disabilities—the actual share in 2013 reached 14.72%.



A "Lighting Christmas Trees" charitable activity to inspire children with hope held during X'mas season.



TFH celebrates 6th anniversary with series of charity activities.

PROFESSIONALISM

*Providing Professional and Conscientious
Services*



VI. Financial Status

1. Condensed Financial Statement for Year 2012 and 2013
2. Financial Analysis for Year 2012 and 2013
3. Consolidated Financial Statements for Year 2013

VI. Financial Status

1. Condensed Financial Statement for Year 2012 and 2013

(1) Condensed Consolidated Balance Sheet

Unit: NT\$1,000

Item	Year	2012	2013
Cash and cash equivalents		78,704,338	124,627,959
Placement with central bank and call loans to banks		549,627,869	585,444,072
Financial assets measured at fair value through profit or loss, net		147,511,604	167,496,351
Available-for-sale financial assets, net		777,192,341	815,602,042
Hedging financial assets		3,543	5,443
Bills and bonds purchased under resell agreements		23,106,943	13,671,033
Receivables, net		96,862,943	90,884,392
Current income tax assets		3,077,593	3,498,988
Loans and discounts, net		2,182,122,142	2,240,472,476
Reinsurance assets		22,133	16,588
Held-to-maturity financial assets, net		243,956,477	270,703,495
Investments under equity method, net		40,078,249	40,325,633
Other financial assets, net		157,226,398	166,509,627
Investments property, net		4,280,761	5,512,559
Property and equipment, net		99,958,216	99,369,646
Intangible assets		1,177,207	1,062,179
Deferred tax assets		2,090,493	2,012,373
Other assets		13,238,039	11,551,422
Total assets		4,420,237,289	4,638,766,278
Deposits of Central Bank and other banks		213,374,465	252,738,244
Financial liabilities measured at fair value through profit or loss		4,508,507	4,416,467
Hedging financial liabilities		301,390	225,806
Bills and bonds sold under repurchase agreements		13,341,805	20,898,486
Commercial paper payables, net		519,880	1,499,705
Payables		71,052,142	70,973,042

Financial Status

Item		Year	2012	2013
Current income tax liabilities			143,704	129,172
Deposits and remittances			3,277,797,764	3,391,508,828
Financial bonds payable			-	15,998,240
Provision			549,873,673	597,615,741
Other financial liabilities			12,884,057	3,720,522
Deferred tax liabilities			18,664,067	18,394,308
Other liabilities			11,200,444	8,003,288
Total liabilities	Before distribution		4,173,661,898	4,386,121,849
	After distribution		4,173,830,700	4,386,121,849
Equity attributable to stockholders of TFH	Capital stock		90,000,000	90,000,000
	Capital surplus		111,385,217	111,434,739
	Retained earnings	Before distribution	31,918,903	34,138,434
		After distribution	27,386,572	31,115,830
	Other equity		13,271,271	17,071,256
Total equity		Before distribution	246,575,391	252,644,429
		After distribution	242,043,060	249,621,825

(2) Condensed Consolidated Income Statement

Unit: NT\$1,000

Item	Year	2012	2013
Interest income		65,224,974	68,852,758
Less: Interest expense		(32,112,251)	(33,482,173)
Net interest income		33,112,723	35,370,585
Non-interest income, net		64,383,000	41,474,196
Net revenue		97,495,723	76,844,781
Bad debt expense and reserve for guarantees		(3,108,276)	(2,699,865)
Provisions for policyholder's reserve premium		(67,634,591)	(46,618,023)
Total expenses		(18,929,611)	(19,276,173)
Net income before income tax		7,823,245	8,250,720
Income tax expenses		(564,735)	(1,257,233)
Consolidated net income		7,258,510	6,993,487
Other comprehensive income (loss)		5,155,540	3,558,360
Total comprehensive income (loss) after tax for the period		12,414,050	10,551,847
Consolidated net income attributable to stockholders of TFH		7,258,510	6,993,487
Total comprehensive income (loss) after tax for the period attributable to stockholders of TFH		12,414,050	10,551,847
Basic earnings per share		0.81	0.78

(3) Condensed Balance Sheet

Unit: NT\$1,000

Item	Year	2012	2013
Cash and cash equivalents		309,775	260,624
Receivables, net		124	35
Current tax assets		171,222	289,463
Investments under equity method, net		252,407,638	264,356,839
Property and equipment, net		7,024	6,274
Intangible assets		125	356
Other assets, net		4,371,681	3,236,103
Total assets		257,267,589	268,149,694
Payables		21,469	28,983
Other loans		5,800,000	11,600,000

Financial Status

Item		Year	2012	2013
Provision			87,038	98,992
Other liabilities			4,783,691	3,777,290
Total liabilities	Before distribution		10,692,198	15,505,265
	After distribution		6,241,455	11,880,229
Equity attributable to stockholders of TFH	Capital stock		90,000,000	90,000,000
	Capital surplus		111,385,217	111,434,739
	Retained earnings	Before distribution	31,918,903	34,138,434
		After distribution	27,386,572	31,115,830
	other equity		13,271,271	17,071,256
Total equity	Before distribution		246,575,391	252,644,429
	After distribution		242,043,060	249,621,825

(4) Condensed Income Statement

Unit: NT\$1,000

Item		Year	2012	2013
Income from equity investments under equity method			7,378,846	7,121,083
Other gains			1,542	1,527
Operating expenses			(153,885)	(155,556)
Other expenses and losses			(65,645)	(91,778)
Net income before income tax			7,160,858	6,875,276
Income tax benefit			97,652	118,211
Net income			7,258,510	6,993,487
Other comprehensive (losses) income for the period, net of income tax			5,155,540	3,558,360
Total comprehensive (losses) income for the period			12,414,050	10,551,847
Earnings per share (in dollars)			0.81	0.78

2. Financial Analysis for Year 2012 and 2013

(1) Consolidated Financial Analysis

Unit: NT\$1,000; %

Item		Year	2012	2013
Operating ability	Total assets turnover		0.0225	0.0170
	Loans to deposits ratio of banking subsidiary (%)		66.26	66.02
	NPL ratio of banking subsidiary (%)		0.52	0.44
	The group's average operating revenue per employee		11,549	9,105
	The group's average profit per employee		860	829
Profitability	Return on assets (%)		0.17	0.15
	Return on equity (%)		2.99	2.80
	Net margin (%)		7.44	9.10
	Earnings per share (NT\$)		0.81	0.78
Financial structure (%)	Debt ratio		94.42	94.55
	Liabilities to net worth ratio		1,692.655.10	1,736.08
	TFH's double leverage ratio		Refer to condensed financial analysis	
Leverage ratio	Operating leverage ratio		Refer to condensed financial analysis	
	TFH's financial leverage ratio			
Growth rates	Growth rate of assets		3.66	4.94
	Growth rate of profit		-	5.46
Cash flows	Cash flow ratio		Refer to condensed financial analysis	
	Cash flow adequacy ratio			
	Cash flow reinvestment ratio			
Operating scale	Market share by assets		12.44	12.03
	Market share by net worth		10.09	9.07
	Market share of deposits of banking subsidiary		11.12	10.80
	Market share of loans of banking subsidiary		9.29	9.06
Capital adequacy	Capital adequacy ratio	Bank of Taiwan	10.92	10.74
		BankTaiwan Life Insurance	224.22	221.43
		BankTaiwan Securities	470	373
	Group's capital adequacy ratio		131.85	121.19

Financial Status

(2) Condensed Financial Analysis

Unit: NT\$1,000; %

Item		Year	2012	2013
Operating ability	Total assets turnover		0.0289	0.0268
	Average operating revenue per employee		135,458	132,657
	Average profit per employee		134,417	131,953
Profitability	Return on assets (%)		2.87	2.66
	Return on equity (%)		2.99	2.80
	Net margin (%)		99.23	99.47
	Earnings per share (NT\$)		0.81	0.78
Financial structure (%)	Debt ratio		4.16	5.78
	Liabilities to net worth ratio		4.34	6.14
	TFH's double leverage ratio		102.37	104.64
Leverage ratio	Operating leverage ratio		101.90	102.01
	TFH's financial leverage ratio		100.83	101.33
Growth rates	Growth rate of assets		3.41	4.23
	Growth rate of profit		-	-3.99
Cash flows	Cash flow ratio		21,832.72	12,551.92
	Cash flow adequacy ratio		102.56	102.10
	Cash flow reinvestment ratio		288,980.70	60.62
Operating scale	Market share by assets		9.89	9.51
	Market share by net worth		10.70	10.12



3. Consolidated Financial Statements for Year 2013

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, 2013, 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 the International Accounting Standards No.27 endorsed by the Financial Supervisory Commission. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Taiwan Financial Holding Co., Ltd. and its subsidiaries do not prepare a separate set of combined financial statements.

Truthfully yours,



Jih-Chu Lee

Chairperson

March 27, 2014

Independent Auditors' Report

The Board of Directors
Taiwan Financial Holding Co., Ltd.

We have audited the accompanying consolidated financial statements of Taiwan Financial Holding Co., Ltd (the Company) and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2013 and 2012, and January 1, 2012, the related consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows for the years then ended. The preparation of the financial statements is the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. As stated in note 15 to the consolidated financial statements, certain investments under the equity method in the consolidated financial statements of Taiwan Financial Holding Co., Ltd. and its subsidiaries as of December 31, 2013 and 2012, and January 1, 2012 amounting NT\$34,026,971 thousand, 0.73% of total assets, NT\$32,511,182 thousand, 0.74% of total assets, and, NT\$30,921,812 thousand, 0.73% of total assets, respectively, and related investment gains of NT\$2,521,721 thousand and NT\$2,244,000 thousand, which were 30.56% and 28.68% of income before income tax, in 2013 and 2012, respectively, were accounted for by using the equity method and based on the investees' financial statements audited by other auditors.

We conducted our audits in accordance with the "Regulations Governing the Audit of Financial Statements of Financial Institutions by Certified Public Accountants" and auditing standards generally accepted in the Republic of China. Those regulations and standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence supporting the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statement. We believe that the audit evidence we have obtained and the reports of the other auditors are sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, based on the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2013 and 2012, and January 1, 2012, and the results of its operations and its cash flows for the years then ended, in conformity with the "Regulations Governing the Preparation of Financial Reports of Financial Holding Companies", "Regulations Governing the Preparation of Financial Reports by Securities Issuers", the International Financial Reporting Standards, the International Accounting Standards endorsed by the Financial Supervisory Commission.

In accordance with auditing regulations in Taiwan, the financial statements of Taiwan Financial Holdings are required to be audited by the National Audit Office, known as the Ministry of Audit. The statements for the years ended 2012 and 2011 have been audited and approved by the Ministry of Audit. The adjustments by that office are reflected in the financial statement amounts. For further information, please see note.

We have also audited the separate financial statements of Taiwan Financial Holdings as of 2013 and 2012, and have issued the auditor's reports with modified unqualified opinion.



March 27, 2014

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2013 and 2012, and January 1, 2012

		(expressed in thousands of New Taiwan Dollars)					
		December 31, 2013		December 31, 2012		January 1, 2012	
		Amount	%	Amount	%	Amount	%
ASEETS							
11000	Cash and cash equivalents (note 6 and 50)	\$ 124,627,959	3	78,704,338	2	82,088,304	2
11500	Placement with Central Bank and call loans to banks (note 7, 12 and 50)	585,444,072	13	549,627,869	12	488,555,403	12
12000	Financial assets measured at fair value through profit or loss, Net (note 8 and 50)	167,496,351	4	147,511,604	3	111,746,985	3
12100	Available-for-sale financial assets, net (note 13, 21 and 50)	815,602,042	17	777,192,341	18	802,058,331	19
12300	Hedging financial assets (note 9)	5,443	-	3,543	-	3,074	-
12500	Bills and bonds purchased under resell agreements (note 10)	13,671,033	-	23,106,943	1	12,402,850	-
13000	Receivables, net (note 11, 12 and 50)	90,884,392	2	96,862,943	2	92,618,898	2
13200	Current income tax assets	3,498,988	-	3,077,593	-	2,468,548	-
13500	Loans and discounts, net (note 12 and 50)	2,240,472,476	48	2,182,122,142	49	2,158,327,798	51
13700	Reinsurance assets	16,588	-	22,133	-	22,701	-
14500	Held-to-maturity financial assets, net (note 14 and 21)	270,703,495	6	243,956,477	6	227,693,425	5
15000	Investments under equity method, net (note 15)	40,325,633	1	40,078,249	1	37,066,001	1
15500	Other financial assets, net (note 11, 12, 16 and 21)	166,509,627	4	157,226,398	4	127,117,426	3
18000	Investments property, net (note 17)	5,512,559	-	4,280,761	-	3,561,457	-
18500	Property and equipment, net (note 18, 21 and 51)	99,369,646	2	99,958,216	2	100,589,739	2
19000	Intangible assets (note 19)	1,062,179	-	1,177,207	-	830,360	-
19300	Deferred tax assets (note 30)	2,012,373	-	2,090,493	-	1,648,226	-
19500	Other assets (note 20 and 21)	11,551,422	-	13,238,039	-	15,411,635	-
TOTAL ASSETS		<u>\$ 4,638,766,278</u>	<u>100</u>	<u>4,420,237,289</u>	<u>100</u>	<u>4,264,211,161</u>	<u>100</u>
		December 31, 2013		December 31, 2012		January 1, 2012	
		Amount	%	Amount	%	Amount	%
LIABILITIES AND STOCKHOLDERS' EQUITY							
21000	Deposits of Central Bank and other banks (note 22 and 50)	\$ 252,738,244	6	213,374,465	5	208,926,475	5
22000	Financial liabilities measured at fair value through profit or loss (note 23 and 50)	4,416,467	-	4,508,507	-	4,274,875	-
22300	Hedging financial liabilities (note 9)	225,806	-	301,390	-	409,907	-
22500	Bills and bonds sold under repurchase agreements (note 10)	20,898,486	1	13,341,805	-	15,638,050	-
22600	Commercial paper payables, net (note 24)	1,499,705	-	519,880	-	499,537	-
23000	Payables (note 25)	70,973,042	2	71,052,142	2	73,526,689	2
23200	Current income tax liabilities	129,172	-	143,704	-	80,797	-
23500	Deposits and remittances (note 26 and 50)	3,391,508,828	73	3,277,797,764	74	3,202,888,078	75
24000	Financial bonds payable (note 27 and 50)	15,998,240	-	-	-	-	-
24600	Provision (note 30, 31, 32 and 33)	597,615,741	13	549,873,673	13	481,842,525	12
25500	Other financial liabilities (note 29)	3,720,522	-	12,884,057	-	10,836,353	-
29300	Deferred tax liabilities	18,394,308	-	18,664,067	-	18,427,976	-
29500	Other liabilities (note 34)	8,003,288	-	11,200,444	-	8,295,174	-
Total Liabilities		<u>4,386,121,849</u>	<u>95</u>	<u>4,173,661,898</u>	<u>94</u>	<u>4,025,646,436</u>	<u>94</u>
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT (note 36):							
31101	Capital stock	90,000,000	2	90,000,000	2	90,000,000	2
31500	Capital surplus	111,434,739	2	111,385,217	3	111,385,217	3
Retained earnings:							
32001	Legal reserve	3,493,367	-	2,758,570	-	2,352,676	-
32003	Special reserve	23,848,847	1	5,719,853	-	5,023,197	-
32011	Unappropriated earnings	6,796,220	-	23,440,480	1	22,214,808	1
		<u>34,138,434</u>	<u>1</u>	<u>31,918,903</u>	<u>1</u>	<u>29,590,681</u>	<u>1</u>
32500	Other equity	17,071,256	-	13,271,271	-	7,588,827	-
Total Equity		<u>252,644,429</u>	<u>5</u>	<u>246,575,391</u>	<u>6</u>	<u>238,564,725</u>	<u>6</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		<u>\$ 4,638,766,278</u>	<u>100</u>	<u>4,420,237,289</u>	<u>100</u>	<u>4,264,211,161</u>	<u>100</u>

Financial Status

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the year ended December 31, 2013 and 2012

(expressed in thousands of New Taiwan Dollars)

		2013		2012		Percentage
		Amount	%	Amount	%	Change
REVENUE AND INCOME:						
41000	Interest income (note 37)	\$ 68,852,758	90	65,224,974	67	6
51000	Less: Interest expense (note 37)	(33,482,173)	44	(32,112,251)	33	4
	Net interest income (note 37)	35,370,585	46	33,112,723	34	7
NON-INTEREST INCOME, NET						
49800	Service fees, net (note 38)	3,756,396	5	3,172,203	3	18
49825	Gain on real estate investment, net (note 17)	95,397	-	94,518	-	1
49890	Gain of long-term equity investments under the equity method (note 15)	2,319,959	3	2,534,878	3	(8)
49810	Premiums income (note 46)	10,350,986	13	33,433,548	34	(69)
49820	Gain on financial assets or liabilities measured at fair value through profit or loss (note 8 and 39)	12,585,765	16	14,620,852	15	(14)
49830	Realized gain on available-for-sale financial assets (note 40)	2,381,266	3	2,934,319	3	(19)
49840	Realized gain (loss) on held-to-maturity financial assets	252	-	(12,080)	-	102
49870	Foreign exchange gain (loss)	3,892,948	6	(1,811,983)	(2)	315
55000	Provision of impairment loss on assets (note 21)	(19,063)	-	(84,328)	-	77
49943	Sales income (note 41)	430,636	1	831,440	1	(48)
48100	Subsidized income from government (note 41)	15,696,251	20	18,525,118	19	(15)
49999	Other miscellaneous income (note 41)	843,991	1	861,316	1	(2)
58090	Excess interest expenses (note 11 and 41)	(10,860,588)	(14)	(10,716,801)	(11)	(1)
	Net Revenue	76,844,781	100	97,495,723	100	(21)
58100	Bad debt expense and reserve for guarantees (note 12)	(2,699,865)	(4)	(3,108,276)	(3)	(13)
58300	Provisions for policyholder's reserve premium	(46,618,023)	(60)	(67,634,591)	(69)	(31)
EXPENSES:						
58501	Employee benefits expenses (note 42)	(12,496,520)	(16)	(12,398,901)	(13)	1
58503	Depreciation and amortization expenses (note 43)	(1,333,860)	(2)	(1,306,967)	(1)	2
58599	Other general and administrative expenses (note 44)	(5,445,793)	(7)	(5,223,743)	(5)	4
	Total Expenses	(19,276,173)	(25)	(18,929,611)	(19)	2
NET INCOME BEFORE INCOME TAX		8,250,720	11	7,823,245	9	5
61003	Income Tax Expenses (note 35)	(1,257,233)	(2)	(564,735)	(1)	(123)
	Consolidated Net Income	6,993,487	9	7,258,510	8	(4)
69500	Other Comprehensive Income (loss):					
69501	Exchange differences on translation of foreign operations	6,933	-	(327,865)	-	102
69511	Unrealized gain on available-for-sale financial assets	4,699,092	6	4,449,304	5	6
69531	Other comprehensive income, before tax, actuarial losses on defined benefit plans	(292,153)	-	(458,468)	-	36
69541	Share of other comprehensive income of associates accounted for using equity method (note 15)	(1,038,566)	(1)	1,507,192	2	(169)
69591	Income tax related to components of other comprehensive income	183,054	-	(14,623)	-	1,352
69500	Other comprehensive income (loss) for the period	3,558,360	5	5,155,540	7	1,352
	Total comprehensive income (loss) after tax for the period	\$ 10,551,847	14	12,414,050	15	(15)
	Basic earnings per share (In dollars) (note 45)	\$ 0.78		0.81		

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the year ended December 31, 2013 and 2012

(expressed in thousands of New Taiwan Dollars)

Equity attributable to shareholders' of parent										
	Capital stock	Capital surplus	Legal reserve	Retained earnings		Total	Other equity adjustments			
				Special reserve	Unappropriated earnings		Financial statements translation differences of foreign operation	Unrealized gain on valuation of available-for-sale financial assets	Total	Total
Balance at January 1 2012	\$ 90,000,000	111,385,217	2,352,676	5,023,197	22,214,808	29,590,681	(18,194)	7,607,021	7,588,827	238,564,725
Appropriation and distributions:										
Legal reserve	-	-	405,894	-	(405,894)	-	-	-	-	-
Special reserve appropriated	-	-	-	1,849,656	(1,849,656)	-	-	-	-	-
Cash dividends	-	-	-	-	(4,403,384)	(4,403,384)	-	-	-	(4,403,384)
Reversal of special reserve	-	-	-	(1,153,000)	1,153,000	-	-	-	-	-
Profit for the period	-	-	-	-	7,258,510	7,258,510	-	-	-	7,258,510
Other comprehensive income for the period	-	-	-	-	(526,904)	(526,904)	(351,557)	6,034,001	5,682,444	5,155,540
Total comprehensive income for the period	-	-	-	-	6,731,606	6,731,606	(351,557)	6,034,001	5,682,444	12,414,050
Balance at December 31 2012	90,000,000	111,385,217	2,758,570	5,719,853	23,440,480	31,918,903	(369,751)	13,641,022	13,271,271	246,575,391
Appropriation and distributions:										
Legal reserve	-	-	734,797	-	(734,797)	-	-	-	-	-
Special reserve appropriated	-	-	-	3,233,842	(3,233,842)	-	-	-	-	-
Cash dividends	-	-	-	-	(4,532,331)	(4,532,331)	-	-	-	(4,532,331)
Other changes in capital surplus :										
Changes in equity of associates and joint ventures accounted for using equity method	-	49,522	-	-	-	-	-	-	-	49,522
Special reserve appropriated for the adoption of IFRSs at first time	-	-	-	14,939,510	(14,939,510)	-	-	-	-	-
Reversal of special reserve	-	-	-	(44,358)	44,358	-	-	-	-	-
Profit for the period	-	-	-	-	6,993,487	6,993,487	-	-	-	6,993,487
Other comprehensive income for the period	-	-	-	-	(241,625)	(241,625)	62,967	3,737,018	3,799,985	3,558,360
Total comprehensive income for the period	-	-	-	-	6,751,862	6,751,862	62,967	3,737,018	3,799,985	10,551,847
Balance at December 31 2013	\$ 90,000,000	111,434,739	3,493,367	23,848,847	6,796,220	34,138,434	(306,784)	13,641,022	17,071,256	252,644,429

Note : The directors and supervisors' compensations are \$7,383 and \$8,130 thousand dollars in 2013 and 2012, respectively. Both of them are recognized in the consolidated statements of comprehensive income.

Financial Status

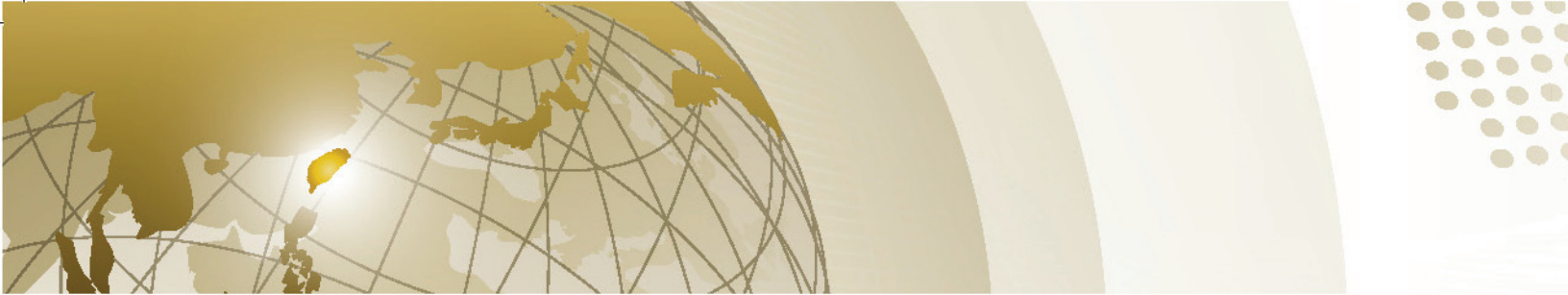
TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the year ended December 31, 2013 and 2012

(expressed in thousands of New Taiwan Dollars)

	2013	2012
Cash flows (used in) from operating activities :		
Profit before tax	\$ 8,250,720	7,823,245
Adjustments :		
Adjustments to reconcile profit (loss)		
Depreciation expense	918,859	953,998
Amortization expense	415,001	352,969
Provision for bad debt expense	2,699,865	3,108,276
Interest expense	33,482,173	32,112,251
Interest income	(68,852,758)	(65,224,974)
Provision for guarantee liabilities	24,352,885	51,075,644
Net change in other provisions	23,389,183	16,955,505
Gain of long-term equity investments under the equity method	(2,319,959)	(2,534,878)
Gain on disposal of property and equipment	(447,438)	(729,909)
Impairment loss on non-financial assets	19,063	84,328
Reversal of impairment loss on non-financial assets	(6,899)	(224,302)
Total adjustments to reconcile profit	13,649,975	35,928,908
Changes in operating assets and liabilities :		
Increase in due from the central bank and call loans to banks	(28,075,745)	(11,901,027)
Increase in financial assets at fair value through profit or loss	(16,400,308)	(13,232,171)
Increase in discounts and loans	(58,350,334)	(23,794,344)
Decrease (increase) in securities purchased under resell agreements	15,609,361	(10,704,093)
Decrease (increase) in receivables	5,978,551	(4,244,045)
Decrease (increase) in derivative financial assets for hedging	5,545	(469)
(Increase) decrease in available-for-sale financial assets	(112,915,396)	7,997,317
Increase in held-to-maturity financial assets	(50,019,896)	(13,340,736)
Increase in other financial assets	(9,596,152)	(30,121,261)
Decrease in other assets	678,444	3,116,983
Total changes in operating assets	(253,085,930)	(96,223,846)
Increase in deposits from the central bank and banks	39,363,779	4,447,990
(Decrease) increase in financial liabilities at fair value through profit or loss	(92,040)	233,632
Decrease in derivative financial liabilities for hedging	(75,584)	(108,517)
Increase (decrease) in notes and bonds issued under repurchase agreement	7,556,681	(2,296,245)
Decrease in payables	(79,100)	(2,474,547)
Increase in deposits and remittances	113,711,064	74,909,786
Decrease in other financial liabilities	(2,209,220)	(804,033)
(Decrease) increase in other liabilities	(2,654,171)	2,978,087
Total changes in operating liabilities	155,521,409	76,886,153
Total changes in operating assets and liabilities	(97,564,521)	(19,337,693)
Total adjustments	(83,914,546)	16,591,215
Cash inflow (outflow) generated from operations	(75,663,826)	24,414,460
Interest received	67,302,618	64,059,682
Dividends received	4,386,817	3,568,169
Interest paid	(34,741,651)	(31,787,056)
Income taxes paid	(1,878,482)	(1,317,051)
Net cash flows (used in) from operating activities	(40,594,524)	58,938,204



	2013	2012
Cash flows from (used in) investing activities :		
Acquisition of real estate investments	(1,280,208)	(758,771)
Proceeds from disposal of property and equipment	-	29,182
Acquisition of property and equipment	(584,107)	(635,262)
Proceeds from disposal of property and equipment	598,311	981,879
Increase in refundable deposits	(128,659)	(758,900)
Acquisition of intangible assets	(298,877)	(828,797)
Decrease in other financial assets	312,923	12,289
Net cash flows used in investing activities	(1,380,617)	(1,958,380)
Cash flows from (used in) financing activities :		
Increase in commercial papers payable	979,825	203,433
(Decrease) increase in other financial liabilities	(6,954,315)	2,851,737
Proceeds from issuing bank notes payable	15,998,441	-
Decrease in guarantee deposits received	(542,985)	(72,817)
Cash dividends paid	(3,395,499)	(4,587,871)
Net cash flows from (used in) financing activities	6,085,467	(1,605,518)
Effect of exchange rate changes on cash and cash equivalents	5,919,887	2,567,427
Net (decrease) increase in cash and cash equivalents	(29,969,787)	57,941,733
Cash and cash equivalents at beginning of period	909,553,472	851,611,739
Cash and cash equivalents at end of period	\$ 879,583,685	909,553,472
Compose of cash and cash equivalents :		
Cash and cash equivalents reported in the statement of financial position	\$ 124,627,959	78,704,338
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	176,106,816	168,366,358
Investments qualifying for cash and cash equivalents under the definition of IAS 7	578,848,910	662,482,776
Cash and cash equivalents at end of period	\$ 879,583,685	909,553,472

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

(expressed in thousands of New Taiwan Dollars unless otherwise stated)

(1) Organization and business scope

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

2) Taiwan Financial Holding Group

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 starting from 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:

1. all commercial banking operations allowed under the Banking Law;
2. international banking operations;
3. savings and trust operations;
4. overseas branch operations authorized by the respective foreign governments; and
5. other operations authorized by the central competent authority.

BOT invested \$20 million dollars to set up a subsidiary, BankTaiwan Insurance Brokers, which was approved on January 23, 2013 and officially set up on February 6, 2013. The subsidiary mainly engages in life insurance and property insurance brokerage.

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

BankTaiwan Securities, Co., Ltd. (BTS) was the securities department of BOT and separated from BOT on January 2, 2008, with net assets \$3 billion yielded by BOT as its owner's equity.



BTS became a public company on October 21, 2013. BTS's main businesses include the following:

1. Securities trading brokerage.
2. Providing margin purchases and short sales for securities transactions.
3. Securities dealing.
4. Operating as futures introducing brokers.

(2) Financial statements authorization date and authorization process

The consolidated financial statements were approved by the audit committee on March 24, 2014 and authorized for issuance by the Company's board of directors on March 27, 2014.

(3) Significant accounting policies

The adopted significant accounting policies are as follows. Except for those with other interpretations, the following policies have been applied consistently to all reporting periods of this consolidated financial report and prepared in accordance with the International Financial Reporting Standards, International Accounting Standards and IFRS interpretations endorsed by the Financial Supervisory Commission ("International Financial Reporting Standards endorsed by the FSC").

1) Statement of compliance

The consolidated financial statements are prepared in conformity with relevant government regulatory. The Company and its subsidiaries set up their accounting policies and prepared financial statements according to the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards endorsed by the FSC.

The Company and its subsidiary are government-owned enterprises, so its accounting practices mainly follow the Budget Law, Account Settlement Law and Uniform Regulations on Accounting Systems for Banks Governed by the Ministry of Finance (the MOF). The annual financial statements are audited by the Ministry of Audit (the MOA) to ensure that the Company complies 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 2012 and 2011 were approved by the MOA, and the beginning balances of retained earnings of 2013 and 2012 are the same as the approved closing balances of 2012 and 2011.

2) Basis of preparation

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.

Except for the financial assets and liabilities measured at fair value (including derivatives), the consolidated financial statements are prepared on a historical cost basis. Apart from those with additional

notes, the consolidated financial statements are presented in New Taiwan Dollar and all financial information represented in New Taiwan Dollar has been rounded to the nearest thousand.

3) Basis of consolidation

1. Principle of preparation of the consolidated financial statements

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

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

2. List of subsidiaries in the consolidated financial statements

Name of Investor	Name of Subsidiary	Principal activities	Shareholdings		
			December 31, 2013	December 31, 2012	January 1, 2012
The Company	BOT	Banking	100%	100%	100%
The Company	BTLI	Life Insurance	100%	100%	100%
The Company	BTS	Securities	100%	100%	100%
Bank of Taiwan	BankTaiwan Insurance Brokers (BTIB)	Life and Property insurance Broker	100%	-%	-%

4) Foreign currency

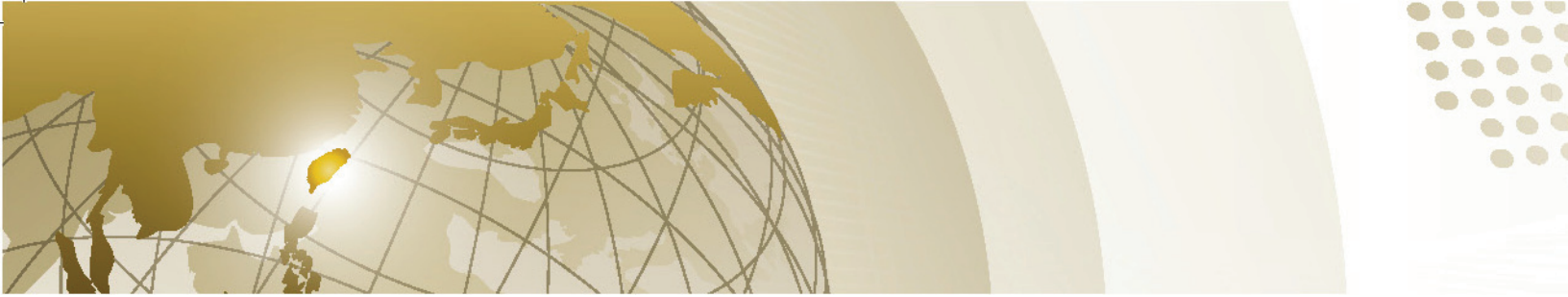
1. Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Company and its subsidiaries at the exchange rates of the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of translation.

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

- (a) available-for-sale equity investment;
- (b) a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or



(c) qualifying cash flow hedges to the extent the hedge is effective.

2. Foreign operations

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

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

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

5) 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.

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 of bonds and callable notes which are in accordance with the definition of cash and cash equivalents in the International Accounting Standards No.7 accepted by FSC.

6) Financial instrument

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

1. Financial asset

The Company and its subsidiaries classify financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets,

held-to-maturity financial assets, financial assets at cost and debt investment without active market.

(a) Financial assets at fair value through profit or loss

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

- a) Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- b) Performance of the financial asset is evaluated on a fair value basis;
- c) A hybrid instrument contains one or more embedded derivatives.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which take into account any dividend and interest income, are recognized in profit or loss, and are included in statement of comprehensive income statement. A regular way purchase or sale of financial assets shall be recognized and derecognized as applicable, using trade date accounting.

(b) Available-for-sale financial assets

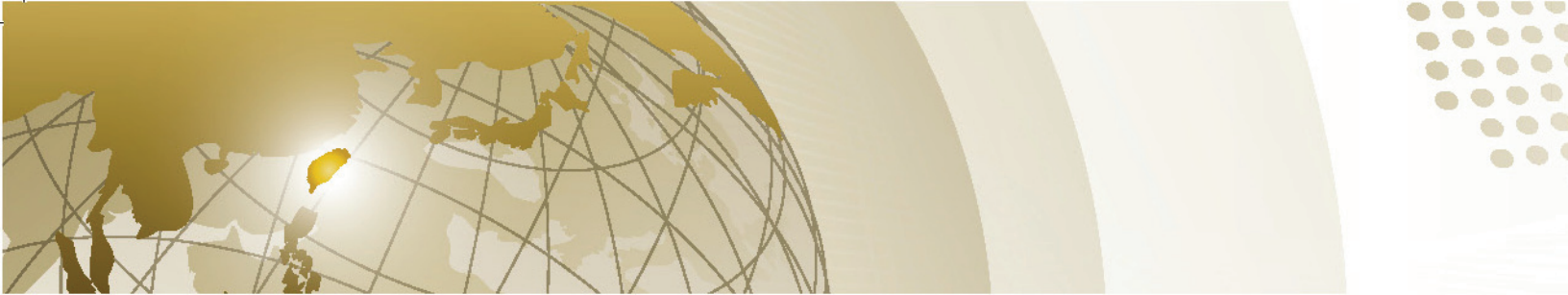
Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value, plus, any directly attributable transaction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

Dividend income is recognized in profit or loss on the date that the Company and its subsidiaries' rights to receive payment are established, which in the case of quoted securities is normally the ex-dividend date. Such dividend income is included in statement of comprehensive income.

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

(c) Held-to-maturity financial assets

If the Company and its subsidiaries have the positive intent and the ability to hold debt securities to maturity, such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized



cost using the effective interest method, less, any impairment losses. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade date accounting.

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

(d) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise account receivables, other receivables, and investment in debt security with no active market. Such assets are recognized initially at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less, any impairment losses other than insignificant interest on short-term receivables. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade date accounting.

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

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

The write-off of non-performing loans and non-accrual loans of the subsidiary, BOT, shall be discussed by the related committee, reviewed by the general manager and approved by a resolution passed by the board of directors or the board of managing directors and the audit committee shall be notified of the write-off. The board of directors shall be notified if the write-off case is passed by the board of the managing directors. Collections after write-off shall be reversed from the allowance for bad debt.

(e) Financial assets at cost

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

(f) Debts investment without active market

Debt investments without active market are the non-derivative instruments that have fixed or

decidable price. Such assets are recognized initially at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, debts investment without active market are measured at amortized cost using the effective interest method.

(g) Impairment of financial assets

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

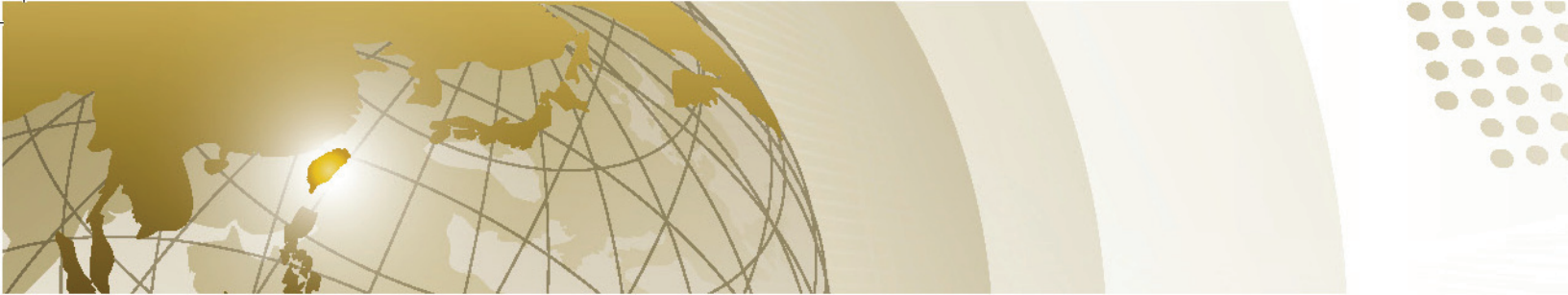
Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company and its subsidiaries on terms that the Company and its subsidiaries would not consider otherwise, indications that a debtor or issuer will enter bankruptcy,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

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

Impairment losses recognized on an available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss of a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost before impairment was recognized at the reversal date.

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Company and its subsidiaries use historical trends of the probability of default, the timing of recoveries, and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than those suggested by historical trends.

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



loss.

The subsidiary, BOT evaluates the categories and recognizes allowance for doubtful accounts according to the higher of the Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans and the Regulation of Evaluating the Impairment Loss of Loans and Receivables.

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

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

(h) The derecognition of financial assets

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

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

2. Financial liability and equity instrument

(a) The classification of liabilities and equity

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

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

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

(b) Financial liabilities at fair value through profit or loss

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

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

- a) Eliminate or significantly reduce the measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.
- b) The performance of the financial liabilities is evaluated on a fair value basis.
- c) Hybrid instrument contains embedded derivative.

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

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

(c) Other financial liabilities

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

(d) The derecognition of financial liabilities

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

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

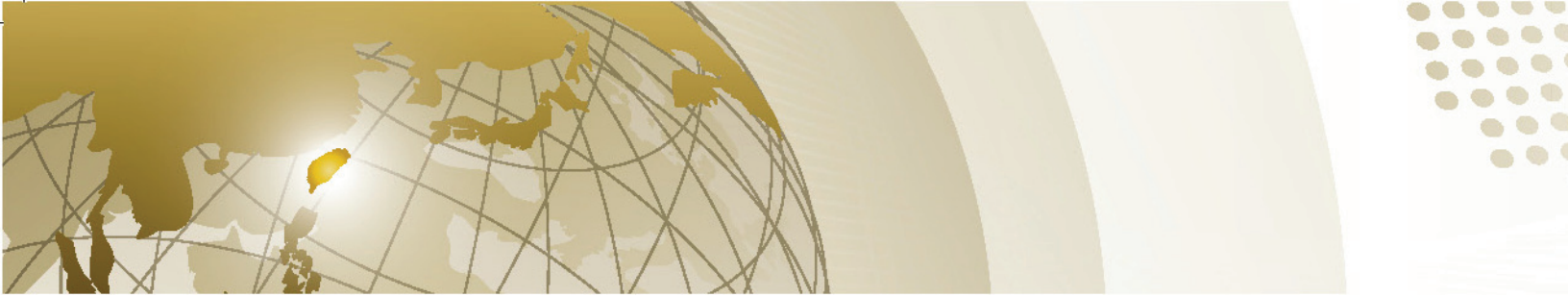
(e) Offsetting the financial assets and financial liabilities

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

(f) Financial guarantee contract

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

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



shall measure it at the higher of:

- a) the amount determined in accordance with IAS 37 “Provision, Contingent Liabilities and Contingent Assets”; and
- b) the amount initially recognized, less, when appropriate, cumulative amortization recognized in accordance with revenue accounting policy.

3. Derivative financial instruments and hedge accounting

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

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

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

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

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

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

7) Pecuniary and securities financing and refinancing

Pecuniary finance represents loans to investors for the purchase of securities and is recorded 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.

8) 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".

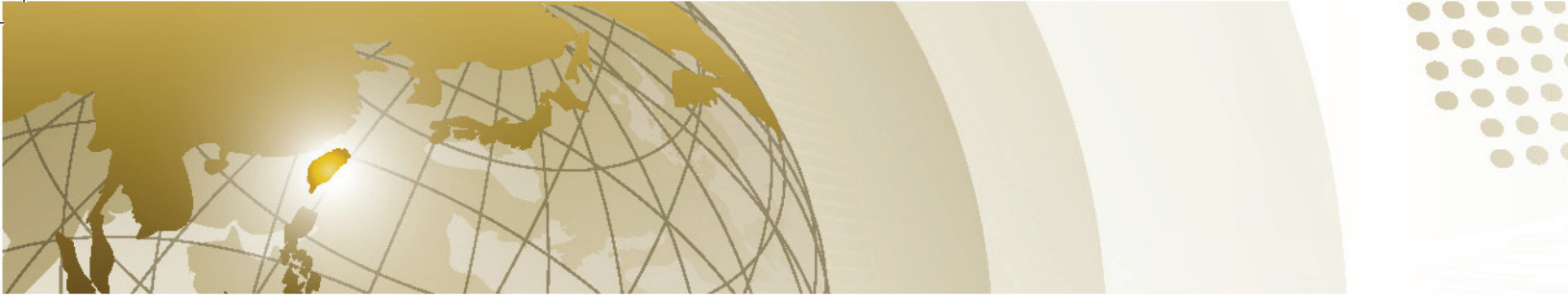
The related interest revenue or expenses are calculated by agreed interest rates.

9) Investments in associates

Associate refers to an entity in which the Company and its subsidiaries have significant influence. If the Company and its subsidiary have rights on the finance and operating policy decisions but not control or joint control these decisions, it is presumed that the company and its subsidiary have significant influence.

The Company and its subsidiaries use equity method for investments in associates. Under the equity method, an equity investment is initially recorded at cost. In the subsequent period, the carrying amount of the investments is adjusted by the share of the profit or loss of the associate and the distributions received. Besides, the Company and its subsidiaries recognize the changes according to the holding shares.

If the Company and its subsidiaries dispose the investment and loss significant influence, the residual investments shall be remeasured at fair value of the disposal date. The difference between the fair value of the residual investment, plus, the disposal price and the carrying amount of the investment at that date is recognized in income statement. The related other comprehensive income is reclassified as profit or loss.



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

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

When the Company and its subsidiaries' share of losses exceeds its interest in associates, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Company and its subsidiaries has an obligation or has made payments on behalf of the investee.

10) Investment property

The investment property refers to those held for rental yields or for capital appreciation or for both, rather than (1) for sale in the ordinary courses of business; (2) for use in the production or supply of goods or services or for the administrative purposes. Investments property is initially measured at cost, and subsequently also measured using the cost model.

After initially recognition, the Company and its subsidiaries use the depreciation method, useful lives, and residual value recorded in the note 11 "property, plant, and equipment" to calculate the depreciation expenses. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. The cost of the self-constructed investment property comprises the material, direct labor, any directly attributable cost to make it available for use and the capitalization of borrowing costs.

When there is a change in use, the investment property is reclassified as property to property, plant, and equipment with the carrying amount.

11) Property, plant and equipment

1. Recognition and measurement

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

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

depreciation method of another significant part of that same item.

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

2. Reclassification to investment property

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

3. Subsequent cost

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

4. Depreciation

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

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

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

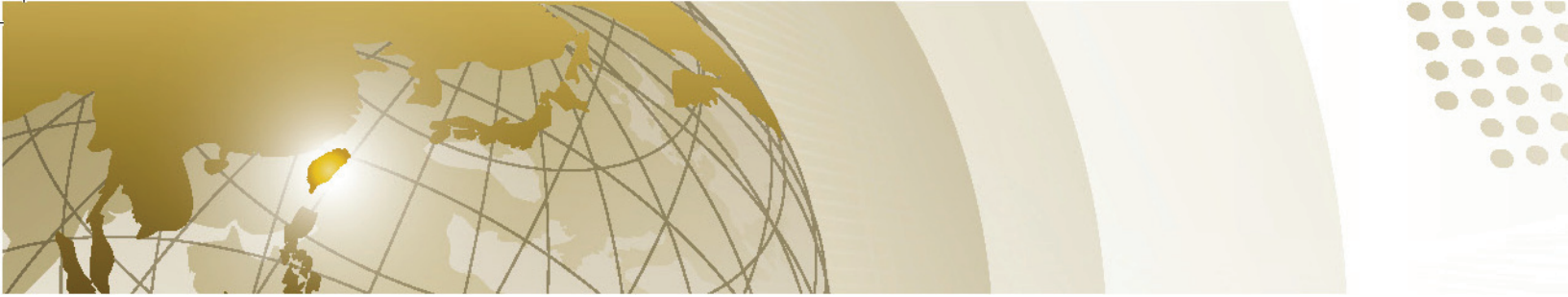
The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

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

12) Reinsurance assets

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

The insurance subsidiaries have the following rights over reinsurer: reinsurance reserve assets, claims and benefits recoverable from reinsurers, reinsurance premiums receivable / payable. The insurance subsidiaries shall regularly perform tests to determine whether the rights are impaired or unrecoverable.



The method used for estimating claims recoverable from reinsurers should be the same as the method used for estimating the claim reserve liabilities.

Except for the fact that both side of the reinsurance contract have the legal right to countervail the receivable and payable from reinsurance business and intend to use net settlement method, the receivable and payable from reinsurance business should not be countervailed.

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.

For the reinsurance contract, the insurance subsidiary will not only evaluate whether it will transfer significant insurance risk, but it also evaluate whether it will transfer underwriting risk (the probability of significant loss) and time risk(variance of the occurrence of cash flow) to reinsurer.

If the reinsurance contract only transfers insurance risk, but not underwriting risk and time risk, then the insurance subsidiary will recognize and measure it as deposit accounting. The consideration received or paid by the insurance subsidiary deducted by the retained reinsurance premium or handling charge of the outward insurance is recognized as deposit asset or liability.

The change of deposit amount is recognized as current gains or losses. The interest generated from the deposit without transferring any risk or the deposit only transfers time risk is calculated per effective interest method. The effective interest rate is calculated from the estimate of the future cash flow and the interest is recognized as interest revenue or expense.

13) Insurance contract

That the insurance subsidiary classify as insurance contract is a contract under which the insurance subsidiary accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. The insurance risks refer to the risks that policyholder transfer to the contract issuer excluding financial risks. Financial risks refer to the risk resulting from possible changes in specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable in the future. If the previously stated variables are non-financial variables, then the variables do not belong to any specific side of the contract. Insurance contract may possibly transfer part of the financial risks.

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

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

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

1. that are likely to be a significant portion of the total contractual benefits;
2. whose amount or timing of distribution of additional benefit is contractually at the discretion of the company; and
3. the additional benefit are contractually based on:
 - (a) the performance of a specified pool of the contracts or a specified type contract;
 - (b) the rate of return of a specific asset portfolio, or
 - (c) the profit or loss of the company, fund or other entity that issues the contract.

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

14) Lease

1. Operating Lease

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

2. Financial Lease

- (a) The Company and its subsidiaries are lessors. The assets under financial lease will be recognized as lease payment receivables by the net investment value. The original cost which is caused by the operating lease agreement is included in the net lease investment. Lease investment is recognized as financial lease because of it has a steady rate of return, apportioning into each lease period.
- (b) The Company and its subsidiaries are lessees. They capitalize the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments made are allocated as a reduction of the obligation and interest expenses. Interest expenses are calculated by the opening balance of lease obligation using the interest rate implicit in the lease or the lessee's incremental borrowing rate of interest and recognized in the income statement. The attained property, plant and equipment are measured at cost.



15) Intangible assets

1. Computer Software

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

2. 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.

3. Amortization

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

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

Computer software

5 years

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

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

16) Impairment loss of non-financial assets

For non-financial assets except for the deferred tax asset and asset caused by the employee benefit, the Company and its 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 its 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 its subsidiaries assess at the end of each reporting date whether there is any indication that an impairment loss recognized in prior years for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset.

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

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

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

17) Provision

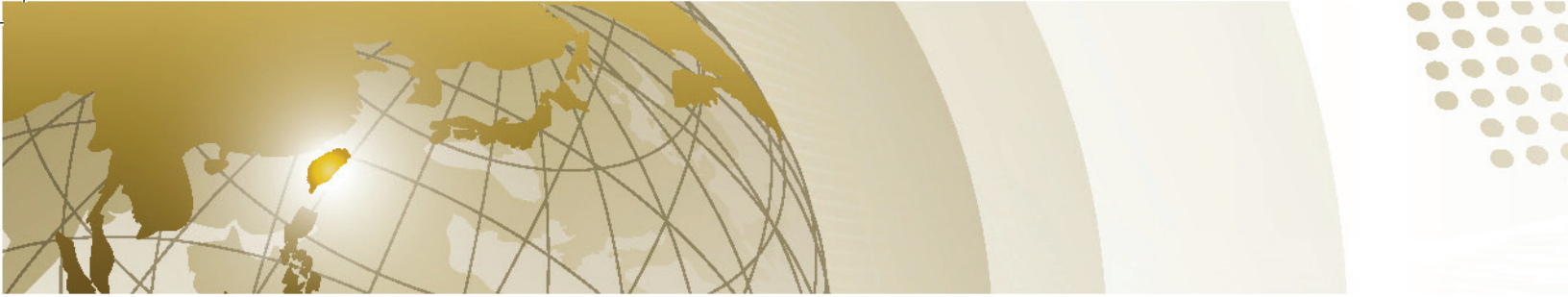
1. The Company and its subsidiaries must recognize a provision if, and only if:
 - (a) There is a legal or constructive present obligation as a result of a past event, and
 - (b) Payment is probable, and
 - (c) The amount can be reliably estimated.
2. The amount recognized as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date .In reaching its best estimate, the Company and its subsidiaries shall take into account the risks, uncertainties that surround the underlying events and the time value of the currency.
3. The Company and its subsidiaries evaluate the provision at every end of the reporting date, and adjust the carrying amount according to the best estimation.

18) Other reserves

Provision for civil servants', teachers' and labor's insurance: The bank subsidiary recognizes the surplus of the insurance as provision and withdraws when there is a deficit according to the "Civil Servant and Teacher Insurance Act" and "Guidelines for Management and Employment of Public Servants and Teachers Insurance Reserve".

19) Separate account – insurance instrument assets

The insurance subsidiary is engaged in selling investment-type insurance commodities. 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 Company and its subsidiaries follow the related rules and financial accounting standards in the IFRS to determine the net asset value.

In accordance with Insurance Financial Reporting Standards, the assets and liabilities are recorded as “separate account – insurance instrument assets” and “separate account – insurance instrument liabilities”, no matter it is caused by a insurance contract or the a insurance contract with financial instrument feature. The revenue and expenses in accordance with the definition of IFRS No.4 (separate accounts – insurance instrument with discretionary participation feature) are recorded as “separate account – insurance instrument revenue” and “separate account – insurance instrument expenses”, respectively.

20) Insurance liability

For insurance contracts and the financial instruments no matter with discretionary participation or not, the deposited reserve is in accordance with “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and it should be approved and signed by the signatory actuary of the Financial Supervisory Commission. With the exception for the reserve of group short term insurance, reserve shall be based either on the actual premium income or premium income computation based on Tai Cai Bao No.852367814 issued by the Department of Finance, whichever is higher. The basis for the rest of the various reserve are as follows:

For the insurance contracts that have discretionary participation features and guaranteed elements, the insurance subsidiary recognizes the entire contracts as liabilities.

1. Unearned premium reserve: the unearned premium reserve for unexpired policy in force with policy period of less than one year shall be calculated base on the risk for the remaining policy periods of every insurance policy.
2. Claims Reserve:
 - (a) Insurance with policy period of less than one year: Beginning from January 1, 2010, the reserve for each type of insurance shall be based on the past claims and expenses and the computation method should comply with the actuarial principles (e.g. loss development triangle method) taking into account both the reported but not paid claims and the incurred but not reported claims, wherein the reported but not paid claims shall be estimated based on actual case related data.
 - (b) Investment insurance, universal insurance, and other insurance with policy period of over one year: The reserve shall be based on actual case related data. This reserve will be reset each year.
3. Policy reserves

The life insurance policy reserve shall use the assumed interest rate for policy reserve computation and the mortality table for each insurance type approved by the competent authority as its basis, whereas provision for reserve shall be in accordance with correction policy of Article XII of “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” and the computation method approved by the competent authority for each product type.

For policies incepted from 2003 and onwards, if computation of policy dividend for policy in force is in accordance with the policy dividend formula prescribed in Jin Guan Bao Cai No.800484251, wherein the amount of the reduction of current dividend due to mutual offsetting of mortality rate spread, and

interest rate spread, is recognized as the policy reserve for long term contracts.

For continued strengthening of policy reserve for policies in force, starting from 2012, the insurance subsidiary calculates the recoverable special reserve for significant incidents in accordance with "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises" and then transfers this provision to Life Insurance Policy Reserve – Recovered Reserve for Significant Incidents in accordance with Jin Guan Bao Cai No. (2012.1.19)10102500530. And according to the Jin Guan Bao Cai No. (2013.11.21)10202124790, it notes that a further recognition is prohibited since 2013.

In accordance with Jin Guan Bao Tsai No.10102500530, the insurance subsidiary will decrease the allowance for doubtful accounts, which resulted from three percent of sales tax and are not yet written off, while the NPL ratio is less than one percent. And the decreased allowance for doubtful accounts will be recognized as provision for guarantees.

4. Special reserves

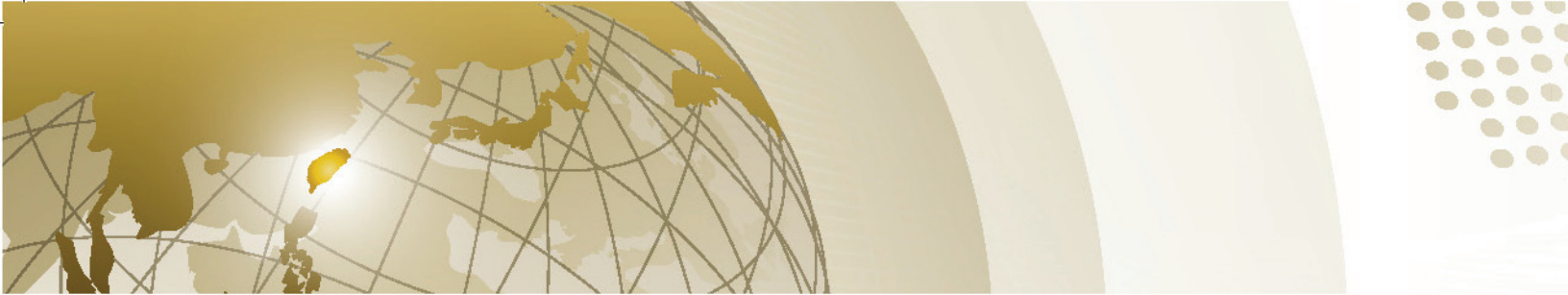
(a) Special reserve for retained businesses with policy period of less than one year is divided into two types: special reserve for significant incidents and special reserve for risk changes. The methods of provision are as follows:

a) Special reserve for significant incidents:

- a. The provision for significant incidents for each type of insurance shall be in accordance with the ratio prescribed by the competent authority.
- b. The special reserve for significant incidents shall be used to offset the actual retained claim for catastrophic events that have occurred in excess of NT\$30 million.
- c. Special reserve for significant incidents existing more than 15 years shall be evaluated for recovery by signatory actuary; it shall be reported to the competent authority for review and processing.

b) Special risk-volatility reserve :

- a. When the balance of the actual indemnity of each insurance type after deducting special reserve for significant Incidents is less than the expected claim, the 15% of the difference between balance and expected claim shall be appropriated for special reserve for risk volatility.
- b. When the balance of the actual indemnity of each insurance type after deducting special reserve for significant Incidents is more than the expected claim, the excess amount shall be deducted from the appropriated special reserve for risk volatility. If the special reserve for risk volatility is insufficient for deduction, then it shall be deducted from the appropriated special reserve for risk volatility of other insurance type; such kind of deduction from other insurance type and the amount should be reported to the competent authority.
- c. When the total accumulated sum of the special reserves for risk volatility of each insurance type is more than 30% of the retained earned premium for the current year, the excess amount shall be recovered in accordance with regulations.



Since January 1, 2012, the annual increase in the provision for the abovementioned special reserve shall be in accordance with the International Accounting Standards No. 12, wherein it shall be deducted from the income tax and recorded as special surplus reserve under the shareholder's equity. Furthermore, in accordance with the Tai Cai Bao No.0910074195, the whole after tax amount of the special reserve for risk volatility under the liabilities shall be allocated to the special surplus reserve and it shall not be appropriated to or used for other purposes without the approval of the competent authority.

- (b) The insurance subsidiary sells participating life insurance policies, in accordance with the Tai Cai Bao No.0910712459, BTLI shall recognize special reserve – reserve for participating policy insurance dividend using the before tax income of participating life insurance business(prior to ex dividend) base on the “regulations of the participating and non-participating life insurance expense allocation and income distribution” at every end of accounting year and offset the aforementioned special reserve on the date of dividend announcement. If the special reserve – reserve for participating insurance policy dividend is negative, then an equivalent amount shall be recorded in Special Reserve – Dividend Risk Reserve.

5. Premium deficiency reserve

For life, health and pension insurance policies with policy period of over 1 year that were incepted since January 1, 2001, when the premium is lower than the premium as per prescribed calculation of policy reserve, BTLI should set up the difference as premium deficiency reserve. Furthermore, it should evaluate probable future claims and expenses for unexpired injury insurance or other insurances policies in force with policy period of less than one year, if the evaluated amount is more than the provision for unearned premium and future expected premium revenue, then it should set up a premium deficiency reserve for each type of insurance based on the difference between the evaluated amount and the amount allocated for unearned premium and future expected premium revenue.

6. Liability adequacy reserve

This is the reserve required to be additionally allocated based on the result of liability adequacy test as prescribed by the International Financial Reporting Standards No.4. The test basis for the company's liability adequacy test is commodity type (or the company's overall contract) and it is in accordance with the relevant standards of the Actuarial Standards of Practice “Contract Category and Liability Adequacy Test” promulgated by the Actuarial Institute of Republic of China. At each balance sheet date, the tests are performed in each assets, it compares the estimated current amount of future cash flows of policy contracts with the net carrying amount of insurance liabilities net of deferred acquisition costs and related intangible assets; if the net carrying amount is deficient, the deficiency shall be recorded as current expenses.

The insurance subsidiary calculates the policy reserve and the premium deficiency reserve using the discount method with expected interest rate. The best estimated return rate is used on the liability adequacy reserve. The other reserves do not adopt discount method.

21) Foreign exchange volatility reserve

In accordance with “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises”, starting on March 1, 2012, personal insurance industries should set up a foreign exchange volatility reserve under liabilities for their foreign investments. It should transfer some of the special reserve for significant incidents and special reserve for risk volatility of various insurance types recorded under the liabilities as the opening balance of foreign exchange volatility reserve. 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, 2013.

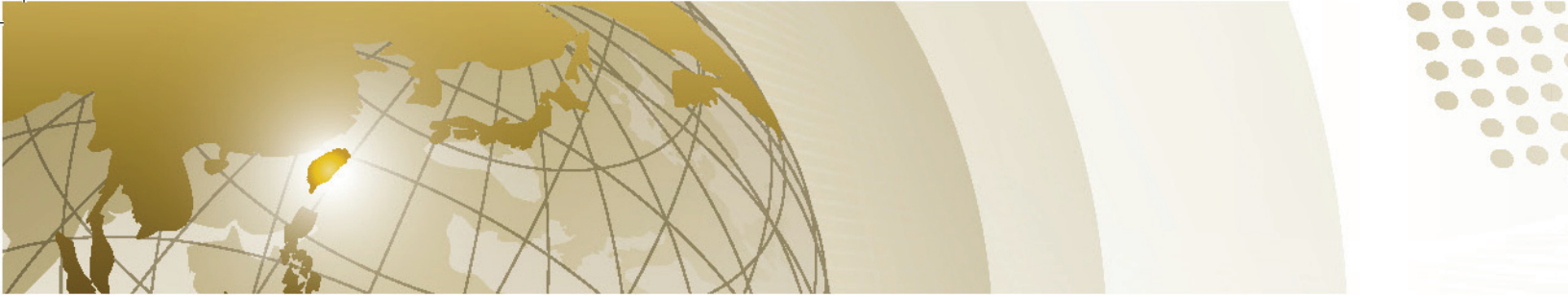
The accumulated limit, provision, and offsetting of the reserve are as follows:

1. The initial amount of reserves for fluctuation of foreign exchange shall be repaid to the special earnings reserves in three years since the start date. The provided amount in the first year shall not be less than one third of the initial amount after tax. The accumulated amount provided in the first two years shall not be less than two third of the initial amount after tax. Because the special catastrophe reserve recorded under liability reserves should be provided as the initial amount of reserves for fluctuation of foreign exchange, the abovementioned provision of the special earning reserve should be taken account for the reduced recovery amount of the special catastrophe reserve while calculating based on the “Regulations Governing Insurance Enterprises for Setting Aside Various Reserves.
2. Limit of provision: the total amount of its foreign investment assets in the current month times the exposure ratio times 4.2% equals the provision. If any, the foreign exchange gain from the non-hedged foreign currency assets times 50% equals the additional provision.
3. Limit of withdraw: If any, the foreign exchange loss from the non-hedged foreign currency assets times 50% equals the reverse amount of this reserve. The balance of this reserve at the end of each month shall not be less than the 20% of the accumulated balance of this reserve last year. The abovementioned accumulated balance in 2012 is considered as the initial amount of this reserve.
4. The upper limit of this reserve is considered as 9.5% of the total amount of its foreign investment assets at the end of each year.
5. The savings in costs from hedging due to this rule shall be provided as special earnings reserves each year. If the retained earnings are insufficient in the current year, the Company shall make up the insufficiency in the following year while it becomes sufficient. The provided amounts as special earnings reserves shall be considered as the earnings used to increase the capital or to offset against any deficit once each three years.
6. If there are earnings after tax in the current year, 10% of the earnings amount should be provided as special earnings reserves. However, the Company may not provide such reserves if the regulatory authority approves.

22) Revenue recognition

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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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 its subsidiaries shall consider the materiality principle to decide to measure the interest by agreed interest rate or effective interest rate.
 4. Service fee
 - (a) The service fee arising from offering loan service or other services shall be recognized in the accounting period in which the services are rendered.
 - (b) 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 its 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.

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 general account shall be recognized on the balance sheet as "reserve for insurance contract with financial feature." Acquisition costs related to acquiring new business are charged to "reserve for insurance contract with financial feature" as the insurance contracts become effective. Premiums

collected from the financial instruments without discretionary participation features under separate account for unit-linked products shall be recognized as premium income to the extent of insurance component. The remaining, after being subtracted by other revenues, including up-front fee or investment management service fee income, shall be fully recognized as “separate account liabilities” 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.

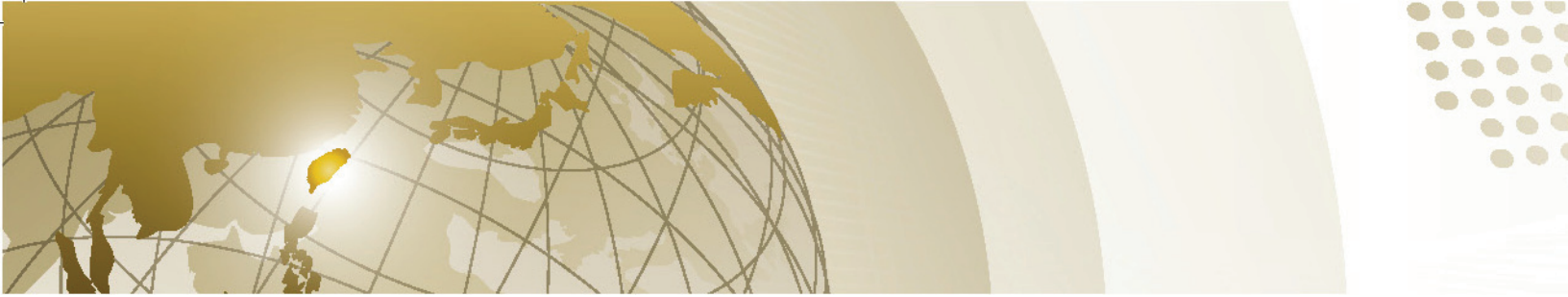
3. Lease income

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

Subsidiary, BTS

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

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.

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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 cover cost is recognized at cost. The Company uses market price method to evaluate the future and the valuation profit or loss is recognized in the income statement every day. The profit or loss of reverse trading and settlement are also recognized in the income statement. The brokerage is recognized at completion date.
 7. The profit or loss of options: The cover cost is recorded at cost. Options are evaluated using market price method every month before they are exercised. The valuation profit or loss and the exercise profits or losses are recognized in the income statement.
 8. Interest revenue is calculated by estimated cash revenue discounted using actual interest rate method and estimated years of financial instruments.

23) Employee benefit

1. 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.

2. Pension

- (a) Employees' retirement, relief and severance are dealt with according to the "Regulations Governing the Pension and Severance Payment of Ministry-of-Finance-Operated and Government-Owned Financial Insurance Enterprise employees". According to Article 41.1 of the regulations, the length of service with the Company and its subsidiaries is calculated in accordance with the formula for benefit payments set forth in the Labor Standards Law, and contributions have been made to a fund for future pension benefits after implementation of the Labor Standards Law.

The Bank contributes 3% of total monthly salaries of employees to a pension fund each month. Before implementation of the Labor Standards Law, a monthly contribution equaling 4%~8.5% of salaries had been made by the Bank as prior service cost.

The Labor Pension Act of the R.O.C. ("the Act"), effective July 1, 2005, adopts a defined contribution pension plan. In accordance with the Act, employees of the Bank (who were hired before May 1, 1997) may elect to be subject to either the Act, and maintain their service years before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. Employees who are hired by the Company and its subsidiaries after May 1, 1997 are required to be covered by the pension plan as defined by the Act. For employees subject to the Act, the Company and its subsidiaries are required to make monthly cash contributions to the employees' individual pension accounts at the rate of not less than 6% of the employees' monthly wages.

All contributions made by the Company and its subsidiaries are managed by "The Pension Fund Management and Operation Committee". The contributions are accumulated in the pension fund for making payments to the employees when retired. For cleaning and maintenance workers, service costs equivalent to 8% of total monthly salaries for those workers are accrued to the account based on plan benefit formulas according to Article 73 of the Labor Standards Law and

the “Guidelines for Contributions to and Management of Labor Pension Fund” approved by the Executive Yuan. The workers’ pension is deposited in an account for the purpose of paying pension benefits to the workers when retired.

In accordance with the new labor pension system, starting July 1, 2005, the Company and its subsidiaries have contributed 6% of salaries to individual pension accounts managed by the Bureau of Labor Insurance.

- (b) For defined contribution plan, the employer has no further legal or constructive obligation to pay further contributions in accordance with the Labor Pension Act.
 - (c) For the definite benefit plan, the independent actuary uses the projected unit credit method to calculate the present value of the defined benefit obligation and the current service cost. The present value of the defined benefit obligation is the projected future cash flow discounted by the market yields at the end of the reporting period on the bonds that have maturity dates approximating the terms of the obligation and that are denominated in the same currency in which the benefits are expected to be paid. The actuarial gains and losses are recognized in the other comprehensive income when they occur.
 - (d) The oversea branches of the bank subsidiary follow the foreign government’s regulations.
3. Preferential interest deposits
- (a) The Company and its subsidiaries provide their employees the preferential interest deposits, including that for current employees and retired employees. The difference between the preferential interest rate and the market rate belongs to the employee benefit.
 - (b) In accordance with the Regulations Governing the Preparation of Financial Reports by the Financial Holding Companies, if the preferential interest rate for retired employees exceeds the market rate, the Company and its subsidiaries shall calculate the excess interest using the actuarial method by adopting the IAS 19 when the employees retire. However, the actuarial assumptions shall follow the government’s related regulations. For the preferential interest deposits paid for current employees, the Company and its subsidiaries shall calculate the interest monthly on accrual basis. The different amount of the preferential interest rate and market interest rate is recognized under the preferential interest account in the comprehensive Income statement.
4. Other employee's retirement benefits
- (a) Include three Chinese festival gifts, survivors benefit, and special benefits to retired employees who were paid pension in early times.
 - (b) 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.



24) Income tax

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

1. Current income tax

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

2. Deferred Tax

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

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

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

25) Earnings per share

The Company and its subsidiaries have a simple capital structured. 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.

26) Operating segments

An operating segment is a component of the Company and its subsidiaries that engage in business activities that can generate revenues and expenses (including the revenues and expenses arising from inter-company transactions). The segments' operating results are reviewed regularly by the Company and its subsidiaries' chief operating officer in order to decide the resource allocation and assess the segments' performance. Each segment has separate financial information.

(4) Significant accounting judgments, estimations, assumptions, and sources of estimation uncertainty

The preparation of the financial statements, in conformity with the International Financial Reporting Standards accepted by the 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.

Management continues to monitor the accounting assumptions, estimates and judgments. Management recognizes the changes in the accounting estimates during the period and the impact of the changes in the accounting estimates in the next period.

1) Impairment loss on loans

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

2) Fair value of financial instruments

Subsidiary, BOT:

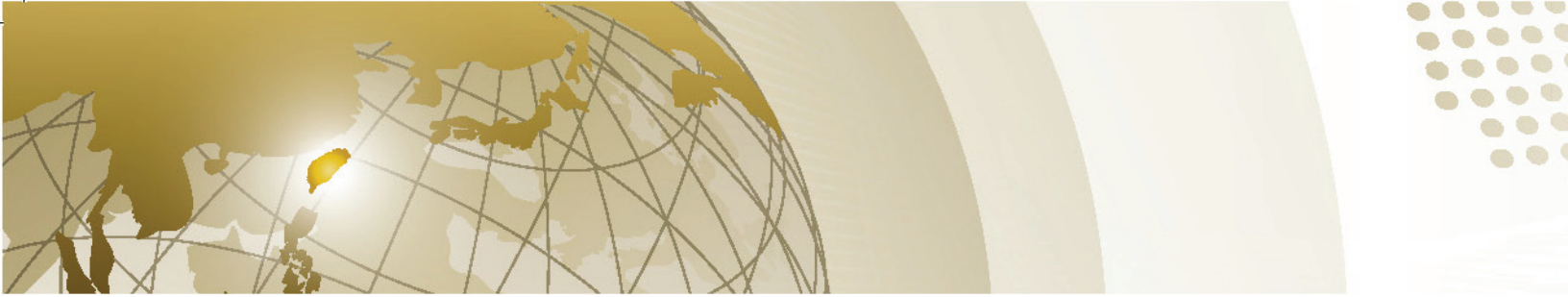
The fair value of non-active market or non-quoted financial instruments is determined using valuation techniques. Such fair value is based on observable data of similar financial instruments or valuation model. If there are no observable market parameters, the fair value of financial instruments is evaluated 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.

Subsidiary, BTLI:

1. Fair value

The insurance subsidiary holds some financial instruments investments with inactive market such as debt investments without active investment and the financial investments that become inactive owing to the market condition (ex. The liquidity of the financial investment is low). When the market is inactive, there is no or only little observable data that can be used to measure the fair value of the financial instruments. The management level should decide whether there is an active market or not.

The insurance subsidiary uses valuation techniques to assess the fair value of the financial instruments without an active market. The valuation techniques refer the quoted price from the



independent third party (such as brokers or the companies that offers valuation services) or the self-developed valuation model. When the quoted price comes from public independent sources, the insurance subsidiary will give priority to adopt it. Consequently, the insurance subsidiary will choose a valuation method that can reflect the price that the market participates used on the balance sheet date. The valuation methods include using the price from the latest fair transaction, considering the other instruments with similar features, analyzing discounted cash flow and assuming the parameters (ex. credit risk and interest rate). Using different valuation techniques and assumptions may lead to significant difference between the estimated consequences.

Please see the note (43) to get more detailed information of the fair value of the financial instruments.

2. Impairment

(a) Available for sale securities

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

(b) Financial assets carried at amortized cost

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

- a) Significant financial difficulty of the issuer/obligor
- b) Default or breach of contract such as a default or delinquency in interest or principal payments.
- c) Granting of a concession by the lender.
- d) Bankruptcy or financial reorganization of the borrower
- e) Disappearance of an active market for the assets concerned
- f) Adverse effects of changes in technological, market, economic or legal environment, in which the issuer operates.
- g) Significant or prolonged decline in the fair value of an investment in the equity instrument.

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

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

- (a) The actual result in the market is different from the expectation,
- (b) The event and the condition may change in the future and differ from the original estimations and assumptions, or
- (c) The Company and its subsidiaries may decide to sell the related assets due to the change in condition in the future.

3) Income tax

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

4) 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 Bank 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 Bank 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. Other significant assumptions used on retirement benefit obligations are based on current market conditions.

5) Classification of insurance policy and significant risk transfer test

The Company 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, the Company 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. The Company 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 the Company's revenue recognition, liabilities measurements and presentation of the financial statements.

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

The Company 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 from unexpired risks by each insurance. The methods of reserve provision are determined by actuaries on the characteristics of each insurance.

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 the Company'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 IFRS 4 "Contracts Classification and Liability Adequacy Test" announced by the Actuarial Institute of the Republic of China. The Company 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 above mentioned.

7) Reinsurance reserves

Reinsurance reserves include ceded unearned premium reserve, ceded claims reserve, reinsurance obligation reserve, ceded premium deficiency reserve, and ceded liability adequacy reserve. The balance of reserves aforementioned should be estimated in accordance with "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises" and "Guideline of life insurance business perform reinsurance with period of over one year and be recorded as ceded obligation reserve on the financial statements".

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

(6) Cash and Cash Equivalents

	December 31, 2013	December 31, 2012	January 1, 2012
Cash on hand	\$ 11,040,435	11,703,913	10,483,673
Foreign currency on hand	7,496,928	5,453,671	5,845,726
Bank deposits	5,360,179	5,889,572	5,662,098
Cash in transit	488,612	255,584	-
Notes and cheques for clearing	5,047,909	11,768,506	8,904,406
Placement with banks	95,193,896	43,633,092	51,192,401
Total	\$ 124,627,959	78,704,338	82,088,304

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

	December 31, 2013	December 31, 2012	January 1, 2012
Cash and cash equivalents in consolidated balance sheets	\$ 124,627,959	78,704,338	82,088,304
Placement with Central Bank of R.O.C. and other banks that meet the definition of cash and cash equivalents in IAS 7	176,106,816	168,366,358	119,194,919
Securities purchased under agreements to resell that meet the definition of cash and cash equivalents in IAS 7	578,848,910	662,482,776	650,328,516
Total	\$ 879,583,685	909,553,472	851,611,739

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

	December 31, 2013	December 31, 2012	January 1, 2012
Call loans to banks	\$ 146,102,729	140,442,053	72,379,420
Less: allowance for doubtful accounts—call loans to banks	(16,955)	(30,400)	(4,978)
New Taiwan dollar denominated deposit reserve—checking account reserve for deposits and New Taiwan dollar denominated required deposit reserve	95,381,868	90,327,029	106,518,629
Foreign currency denominated deposit reserve	424,306	371,192	379,135
Deposits in Central Bank	343,552,124	318,517,995	309,283,197
Total	\$ 585,444,072	549,627,869	488,555,403

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 New Taiwan dollar denominated required deposit reserve is subject to withdrawal restrictions, but reserve for checking account and foreign currency denominated deposit may be withdrawn anytime and are non interest earning.

Additionally, as of December 31, 2013 and 2012, and January 1, 2012, 60% of the reserve deposits collected by the subsidiary, BOT on behalf of a government institution amounting to \$5,584,031, \$4,345,419 and \$5,077,052, respectively, were deposited in the central bank and their use is restricted according to the regulations.

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

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

	December 31, 2013	December 31, 2012	January 1, 2012
Financial assets held for trading	\$ 137,315,047	122,452,189	85,517,010
Add: Valuation adjustment	9,912,879	3,759,303	2,308,018
Subtotal	147,227,926	126,211,492	87,825,028
Financial assets measured at fair value through profit or loss	19,931,248	20,581,246	24,382,757
Add: Valuation adjustment	337,177	718,866	(460,800)
Subtotal	20,268,425	21,300,112	23,921,957
Total	\$ 167,496,351	147,511,604	111,746,985

(b) For details of the valuation of the financial assets measured at fair value through profit or loss, please see note 48, "Information on Financial Instruments".

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

	December 31, 2013	December 31, 2012	January 1, 2012
Commercial papers	\$ 34,295,502	31,909,877	7,477,954
Government bonds	672,990	704,084	966,154
TSEC and OTC stocks and certificates	90,851,096	78,358,932	74,713,380
Treasury bills	4,992,770	996,918	-
Domestic convertible bonds	555,878	-	-
Corporate and financial bonds	17,192	426,545	87,398
Foreign government bonds	2,371,124	2,213,812	2,254,871
Foreign exchange call options	62,480	108,486	16,564
Structured time deposits	1,671,209	7,533,514	-
Non-hedging derivatives	-	-	689
Negotiable certificates of deposits	1,820,278	200,021	-
Contract value of asset swap IRS	4,528	-	-
Add: Valuation adjustment			
Non derivative financial instruments	5,904,959	(549,178)	(8,346,814)
Non-deliverable swap contract	-	36,006	42,623
Swaps and cross currency swaps	3,268,800	3,694,854	9,051,086
Interest rate swaps	66,593	3,069	409,240
Foreign exchange forward transactions	639,392	494,413	1,073,063
Non-deliverable foreign exchange	6,072	49,426	90,008
Commitment for buying commercial paper with fixed rate	(5,294)	(3,874)	(3,679)
Contract value of asset swap IRS	20,770	62,543	-
Domestic beneficiary certificates	-	-	117
Trading securities	-	5,916	-
Structured time deposits	1,204	8,813	-
Call foreign exchange options	10,383	(42,685)	(7,626)
Total	\$ 147,227,926	126,211,492	87,825,028

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

	December 31, 2013	December 31, 2012	January 1, 2012
Foreign government bonds, corporate bonds, financial bonds and others	\$ 19,931,248	20,581,246	24,382,757
Add: Valuation adjustment	337,177	718,866	(460,800)
Total	\$ 20,268,425	21,300,112	23,921,957

(e) The details of unexpired derivative financial instruments (Notional principal amount) were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Call foreign exchange options	\$ 3,333,886	10,205,222	5,049,048
Swaps and cross currency swaps	456,666,293	440,867,610	547,123,559
Interest rate swaps	10,392,515	490,127	9,031,487
Foreign exchange forward transactions	61,605,555	62,693,851	56,492,748
Commercial paper with fixed rate	1,000,000	1,200,000	1,700,000
Structured time deposit	1,671,209	7,533,514	-
Asset swaps	1,925,800	2,032,450	-
Non-deliverable foreign exchange	1,788,000	-	-
Total	\$ 538,383,258	525,022,774	619,396,842

(9) Net of Hedging of Financial Assets and Liabilities

The content of hedging assets is as follow:

	December 31, 2013	December 31, 2012	January 1, 2012
Fair value hedges :			
Interest rate swap	\$ 5,443	3,137	-
Asset swap	-	406	3,074
Total	\$ 5,443	3,543	3,074

The content of hedging liabilities is as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Fair value hedges :			
Interest rate swap	\$ 217,229	290,849	408,365
Asset swap	8,577	10,541	1,542
Total	\$ 225,806	301,390	409,907

Fair value hedge

Interest rate swap is used to achieve an appropriate mix of fixed and floating interest rate exposure within the Group's policy. The Company and its subsidiaries entered into interest rate swap and asset swap to hedge to hedge the fair value volatility risk in relation to the floating interest rate of its debts investments.

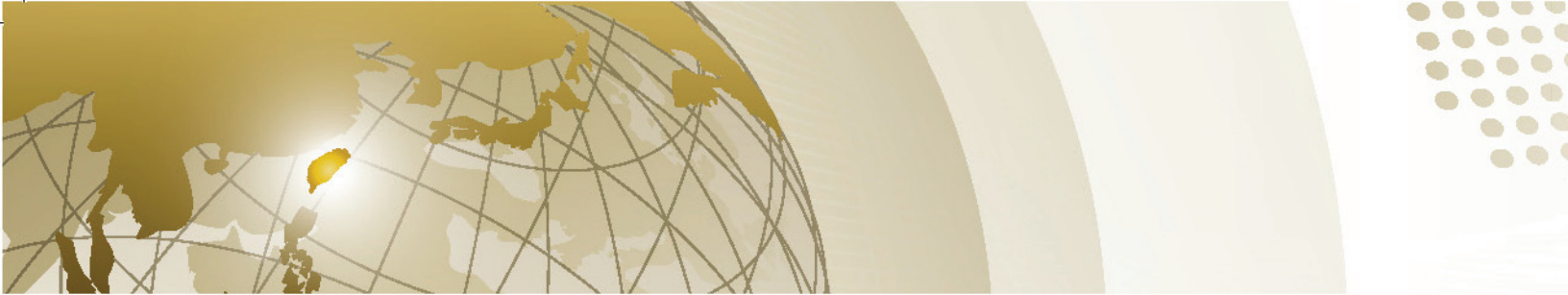
Hedging Investments Fair Value				
Hedged Item	Designated Hedging Instruments	December 31, 2013	December 31, 2012	January 1, 2012
USD subordinated bonds	interest rate swap	\$ (26,820)	(40,434)	(51,394)
USD financial bonds	"	(130,454)	(131,744)	(179,396)
USD corporate debts	"	(41,405)	(19,330)	(29,995)
USD government debts	"	(13,107)	(96,204)	(147,580)
USD corporate debts	assets swap	(8,577)	(6,258)	-
USD convertible corporate debts	"	-	406	1,532
USD financial debts	"	-	(4,283)	-

The net losses of above hedging instruments in 2013 and 2012 are \$136,422 thousand dollars and \$118,747 thousand dollars, respectively. The net losses of hedged items embedded in hedging instrument in 2013 and 2012 are \$68,914 thousand dollars and \$58,299 thousand dollars, respectively.

(10) 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, 2013	December 31, 2012	January 1, 2012
Bills and bonds purchased under resell agreements:			
Negotiable certificates of deposit	\$ 5,580,625	5,648,155	1,403,553
Commercial paper	7,168,770	17,069,714	9,871,692
Government bonds	520,328	389,074	1,127,605
Corporate bonds	401,310	-	-
Total	\$ 13,671,033	23,106,943	12,402,850



	December 31, 2013	December 31, 2012	January 1, 2012
Bills and bonds sold under repurchase agreements:			
Commercial paper	\$ 349,417	349,473	2,706,204
Government bonds	19,247,168	12,992,332	12,931,846
Corporate bonds	1,301,901	-	-
Total	\$ 20,898,486	13,341,805	15,638,050

(11) Receivables, Net

	December 31, 2013	December 31, 2012	January 1, 2012
Accounts receivable	\$ 1,099,563	1,196,378	1,273,652
Long-term receivable—payment on behalf of the government	25,627,282	28,875,801	34,821,221
Accrued revenue	978,457	807,787	433,395
Interest receivable	15,348,109	13,797,969	12,632,677
Insurance receivable	212,826	152,756	205,333
Notes receivable and acceptance notes receivable	3,219,978	3,154,933	2,827,245
Factoring receivable—non-recourse	13,194,113	17,657,859	10,054,670
Margin Loans Receivable	2,856,777	2,028,144	1,770,825
Settlement accounts receivable	2,257,501	1,505,738	1,770,825
Settlement prices	334,716	-	-
Others—shall be replenished by state treasury	17,478,404	21,620,758	22,572,919
Others—undelivered spot exchange	2,176,345	2,344	1,906
Other—ATM temporary receipts, payments and interbank difference	1,632,809	1,455,277	1,329,159
Others—FX Swaps	2,124,901	2,070,823	59,161
Others	3,159,191	3,360,939	3,098,558
Subtotal	91,700,972	97,687,506	92,851,546
Less: allowance for doubtful accounts	816,580	824,563	232,648
	\$ 90,884,392	96,862,943	92,618,898

In accordance with Executive Yuan Tai-79-JEN-Cheng-SZU-tsu No. 14525, in 2013 and 2012, the Company and its subsidiaries paid an excess preferential interest rate of 1.8005%, and the resulting interest expenses were \$8,125,002 and \$7,996,175, respectively, due to executing the government premium savings policy.

For year ended December 31, 2013 and 2012, the subsidiary BOT had paid premium savings interest expenses on behalf the government as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Long-term receivable	\$ 25,627,282	28,875,801	34,821,221
Short-term advance	54,369,103	52,528,386	53,341,806
Total	\$ 79,996,385	81,404,187	88,163,027

Financial Status

(12) Loans and Discounts, Net

	December 31, 2013	December 31, 2012	January 1, 2012
Discounts and letters of credit	\$ 6,814,447	5,490,786	4,415,954
Short-term loans and overdrafts	319,090,329	264,451,830	375,308,638
Short-term secured loans and secured overdrafts	94,841,516	88,299,396	88,750,582
Insurances loans	6,119,188	5,969,738	6,050,092
Accounts receivable financing	370,777	265,346	142,685
Accounts receivable secured financing	3,560	-	-
Medium-term loans	603,294,444	688,781,694	600,661,125
Medium-term secured loans	289,654,925	278,913,745	288,495,159
Long-term loans	178,717,832	185,874,999	182,011,233
Long-term secured loans	752,666,144	672,052,225	628,352,802
Nonperforming loans	8,744,902	10,032,163	2,226,564
	-	-	-
Subtotal	2,260,318,064	2,200,131,922	2,176,414,834
Less: allowance for doubtful accounts	19,845,588	18,009,780	18,087,036
	\$ 2,240,472,476	2,182,122,142	2,158,327,798

The movements in the allowance for doubtful accounts of loans and receivables are as follows:

	December 31, 2013	December 31, 2012
Loan:		
Balance as at January 1, 2013	\$ 18,009,780	18,087,036
Provision for doubtful accounts	2,792,718	2,826,703
Write-off	(2,662,128)	(5,949,262)
Recovery of written-off	1,908,110	3,192,635
Effects of exchange rate changes and others	(202,892)	(147,332)
Balance as at December 31, 2013	\$ 19,845,588	18,009,780
Receivables(including other financial assets):		
Balance as at January 1, 2013	\$ 988,275	275,573
Provision for (reversal of) doubtful accounts	(75,326)	247,113
Write-off	(15,116)	(12,064)
Recovery of written-off	20,085	25,438
Effects of exchange rate changes and others	14,416	452,215
Balance as at December 31, 2013	\$ 932,334	988,275
Total	\$ 20,777,922	18,998,055

The details of allowance for doubtful accounts were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Call loans to bank	\$ 16,955	30,400	4,978
Receivables	816,580	824,563	232,648
Discounts and loans	19,845,588	18,009,780	18,087,036
Other financial assets	98,799	133,312	37,947
Total	\$ 20,777,922	18,998,055	18,362,609

The details of bad debt and reserve for guarantee liabilities were as follows:

	2013	2012
Bad debt	\$ 2,717,392	3,073,816
Reserve for guarantee liabilities	(17,527)	34,460
Total	<u>\$ 2,699,865</u>	<u>3,108,276</u>

As of December 31, 2013 and 2012, and January 1, 2012, non-accumulating interest bearing loans and receivables balances recognized by the subsidiary, BOT amounting \$8,812,797, \$10,140,673 and \$8,312,632, respectively, which was accounted as other assets – non-performing loans. As of December 31, 2013 and 2012, and January 1, 2012, the estimation of non-accumulating interest revenues was \$1,359,114, \$1,385,986 and \$1,442,314, respectively.

For the date as above, the subsidiary, BOT, did not write off any loan if there is no legal proceedings have been initiated.

(13) Available-for-sale Financial Assets, Net

	December 31, 2013	December 31, 2012	January 1, 2012
Negotiable certificates of deposit	\$ 625,200,000	607,100,000	622,500,000
Government bonds	31,059,355	24,815,161	27,225,898
Financial bonds	10,935,506	9,936,477	10,448,603
Corporate bonds	24,227,992	18,590,593	17,355,610
Financial asset securitization	8,490,597	4,970,005	995,505
TSEC and OTC stocks and certificates	40,373,501	41,031,784	51,356,253
Preferred Stock	-	-	1,299,690
Real estate securitization	835,435	515,340	2,061,434
Exchange traded funds	696,489	3,538,305	2,084,267
Foreign bonds	48,114,585	47,878,258	55,254,148
Foreign exchange traded funds	7,524,330	5,355,770	2,700,417
Foreign beneficiary certificates	-	-	10,000
Foreign stocks	-	-	99,844
Add: Adjustment valuation	19,288,903	14,601,568	9,963,094
Less: accumulated impairment	(1,144,651)	(1,140,920)	(1,296,432)
Total	<u>\$ 815,602,042</u>	<u>777,192,341</u>	<u>802,058,331</u>

1. Please see note 48 Information on Financial Instruments”, for valuation of available for sale financial assets.
2. Please see note 40, “Realized gain (loss) on available-for-sale financial assets”, for realized gain (loss) on available-for-sale financial assets.

(14) Held-to-maturity Financial Assets, Net

	December 31, 2013	December 31, 2012	January 1, 2012
Domestic:			
Financial bonds	\$ 46,413,267	42,135,675	30,683,061
Corporate bonds	46,902,832	44,528,571	48,431,767
Convertible deposit	9,260,435	8,793,255	8,720,453
Commercial paper	14,432,630	16,054,125	11,630,110
Government bonds	50,957,324	44,397,674	39,774,990
Treasury bill	-	-	1,487,480
Real estate securitization	-	-	30,381
Fixed income preferred stock	-	-	291,090
Structured deposit	800,000	800,000	800,000
	<u>168,766,488</u>	<u>156,709,300</u>	<u>141,849,332</u>
Foreign:			
Bonds	101,942,481	87,318,152	86,050,328
Less: accumulated impairment	(5,474)	(70,975)	(206,235)
	<u>101,937,007</u>	<u>87,247,177</u>	<u>85,844,093</u>
Total	<u>\$ 270,703,495</u>	<u>243,956,477</u>	<u>227,693,425</u>

(15) Investments under Equity Method, Net

	December 31, 2013		December 31, 2012		January 1, 2012	
	Percentage of Ownership (%)	Amount	Percentage of Ownership (%)	Amount	Percentage of Ownership (%)	Amount
Hua Nan Financial Holdings Co., Ltd.	25.07	\$ 34,009,782	25.07	32,493,496	25.07	30,906,589
Taiwan Life Insurance Co., Ltd.	20.48	2,635,385	21.59	3,646,621	21.59	2,086,550
Kaohsiung Ammonium Sulfate Co., Ltd.	91.86	2,328,632	91.86	2,393,484	91.86	2,420,898
Tang Eng Iron Works Co., Ltd.	21.37	1,334,645	21.37	1,526,962	21.37	1,636,741
Tai Yi Real-Estate Management Co., Ltd.	30.00	17,189	30.00	17,686	30.00	15,223
Total		<u>\$ 40,325,633</u>		<u>40,078,249</u>		<u>37,066,001</u>

1) The details of the Company and its subsidiaries' share of other comprehensive income of associates and joint venture under equity method:

	2013	2012
Hua Nan Financial Holdings Co., Ltd.	\$ 77,600	375,192
Taiwan Life Insurance Co., Ltd.	(1,130,413)	1,139,528
Tang Eng Iron Works Co., Ltd.	14,247	(7,528)
Total	<u>\$ (1,038,566)</u>	<u>1,507,192</u>

2) The initial costs of the Company and its subsidiaries' long term equity investments under the equity method were as follows:

Name of Investee	December 31, 2013	December 31, 2012	January 1, 2012
Hua Nan Financial Holdings Co., Ltd.	\$ 8,105,279	8,105,279	8,105,279
Taiwan Life Insurance Co., Ltd.	812,325	812,325	812,325
Kaohsiung Ammonium Sulfate Co., Ltd.	1,377,872	1,377,872	1,377,872
Tang Eng Iron Works Co., Ltd.	1,451,074	1,451,074	1,451,074
Tai Yi Real-Estate Management Co., Ltd.	3,793	3,793	3,793
Total	<u>\$ 11,750,343</u>	<u>11,750,343</u>	<u>11,750,343</u>

3) The profit (loss) of the Company and its subsidiaries' long-term equity investments under the equity method were as follows:

Name of Investee	2013	2012
Hua Nan Financial Holdings Co., Ltd.	\$ 2,520,001	2,241,538
Taiwan Life Insurance Co., Ltd.	69,654	420,541
Kaohsiung Ammonium Sulfate Co., Ltd.	(64,853)	(27,413)
Tang Eng Iron Works Co., Ltd.	(206,563)	(102,250)
Tai Yi Real-Estate Management Co., Ltd.	1,720	2,462
Total	\$ 2,319,959	2,534,878

Summary financial information of associates is as follows (without adjustment to the Company and its subsidiaries' proportionate share):

	December 31, 2013	December 31, 2012	January 1, 2012
Total assets:			
Hua Nan Financial Holdings Co., Ltd.	\$ 2,164,728,571	2,066,649,295	1,979,259,175
Taiwan Life Insurance Co., Ltd.	449,732,462	416,158,621	360,302,493
Tang-Eng Iron Works Co., Ltd.	27,712,833	24,570,091	23,488,955
Tai Yi Real-Estate Management Co., Ltd.	98,783	70,864	60,006
Kaohsiung Ammonium Sulfate Co., Ltd.	3,491,444	3,658,414	-
Total liabilities:			
Hua Nan Financial Holdings Co., Ltd.	\$ 2,029,067,792	1,937,036,793	1,855,976,586
Taiwan Life Insurance Co., Ltd.	436,864,370	399,276,118	350,642,536
Tang-Eng Iron Works Co., Ltd.	20,706,907	16,651,270	15,054,831
Tai Yi Real-Estate Management Co., Ltd.	41,487	11,915	9,265
Kaohsiung Ammonium Sulfate Co., Ltd.	956,465	1,052,835	-
Revenue:			
Hua Nan Financial Holdings Co., Ltd.	\$ 35,501,692	33,908,439	
Taiwan Life Insurance Co., Ltd.	56,289,187	69,423,325	
Tang-Eng Iron Works Co., Ltd.	18,535,991	18,762,955	
Tai Yi Real-Estate Management Co., Ltd.	52,695	43,854	
Kaohsiung Ammonium Sulfate Co., Ltd.	6,626	6,697	
Net income (loss) for the period:			
Hua Nan Financial Holdings Co., Ltd.	\$ 10,051,291	8,940,526	
Taiwan Life Insurance Co., Ltd.	477,304	1,946,948	
Tang Eng Iron Works Co., Ltd.	(950,941)	(478,627)	
Tai Yi Real-Estate Management Co., Ltd.	5,734	10,159	
Kaohsiung Ammonium Sulfate Co., Ltd.	(70,600)	(29,842)	

1. The investment gains from the investees audited by other auditors were \$2,521,721 and \$2,244,000 in 2013 and 2012, respectively.
2. The investment loss from the investees amounting \$64,853 and \$27,413 in 2013 and 2012, respectively, were based on its unaudited financial statements.
3. Since the process of liquidation of Kaohsiung Ammonium Sulfate Co., Ltd., the Bank has no power to control such investee. The liquidators and supervisors were appointed by the Ministry of Economic Affairs.

4. The Company and its subsidiaries investee, Taiwan Life Insurance Co., Ltd, private placed unsecured subordinated mandatory convertible bonds are converted into shares. The Bank's shareholding percentage decreased from 21.59% to 20.48% as the Company and its subsidiaries does not increase the shares of the investee by numbers of shares.

(16) Other Financial Assets, Net

	December 31, 2013	December 31, 2012	January 1, 2012
Temporary advances	\$ 58,010,478	56,159,007	57,100,345
Less: allowance for doubtful accounts – Temporary advances	(36,514)	(42,250)	(10,692)
Debt investments without quoted price in active markets	57,045,188	43,376,873	37,792,094
Less: cumulative impairment – debt investments without quoted price in active market	-	-	(317,888)
Financial assets carried at cost	10,779,362	11,092,326	11,092,326
Less: cumulative impairment – financial assets carried at cost	(12,475)	(12,426)	(137)
Remittance purchased	13,622	20,251	21,789
Less: allowance for doubtful accounts – Remittance purchased	(138)	-	-
Overdue receivables	69,811	114,083	49,459
Less: allowance for doubtful accounts – overdue receivables	(62,147)	(91,062)	(27,255)
Separate account insurance product assets	2,476,824	4,686,044	5,490,078
Time deposits over three months	38,205,700	41,900,000	15,900,000
Others	19,916	23,552	27,307
Total	<u>\$ 166,509,627</u>	<u>157,226,398</u>	<u>127,117,426</u>

- 1) Please see note 48, "Information on Financial Instruments", for details of the valuation of hedging derivative financial assets and debt investments without quoted price in non active markets for December 31, 2013 and 2012, and January 1, 2012.
- 2) Concerning for the payment of excess interest for the government, booked under "short term payment" for December 31, 2013 and 2012, and January 1, 2012, please refer to note 11 for further descriptions.
- 3) The Company and its subsidiaries held ProMos Technologies Inc. convertible bonds \$436,875, due on February 14, accumulated impairment \$305,813 were reclassified to other receivables and allowance for doubtful accounts.

(17) Investment property

	Land and improvements	Buildings	Total
Cost:			
Balance at January 1, 2013	\$ 2,882,590	1,507,983	4,390,573
Additions	715,697	564,511	1,280,208
Balance at December 31, 2013	<u>\$ 3,598,287</u>	<u>2,072,494</u>	<u>5,670,781</u>
Balance at January 1, 2012	\$ 2,313,680	1,323,554	3,637,234
Additions	569,000	184,428	753,428
Disposals	(89)	-	(89)
Balance at December 31, 2012	<u>\$ 2,882,591</u>	<u>1,507,982</u>	<u>4,390,573</u>
Depreciation:			
Balance at January 1, 2013	\$ -	109,812	109,812
Depreciation	-	48,410	48,410
Balance at December 31, 2013	<u>\$ -</u>	<u>158,222</u>	<u>158,222</u>
Balance at January 1, 2012	\$ -	75,777	75,777
Depreciation	-	34,035	34,035
Balance at December 31, 2012	<u>\$ -</u>	<u>109,812</u>	<u>109,812</u>
Carrying amounts:			
December 31, 2013	<u>\$ 3,598,287</u>	<u>1,914,272</u>	<u>5,512,559</u>
December 31, 2012	<u>\$ 2,882,591</u>	<u>1,398,170</u>	<u>4,280,761</u>
January 1, 2012	<u>\$ 2,313,680</u>	<u>1,247,777</u>	<u>3,561,457</u>

The detail of operating lease of the Company and its subsidiaries are as follow:

Location	2013	2012
Rental revenue	162,097	145,354
Direct operating cost of the investment property for the period (comprise maintenance fee)	(66,700)	(50,836)
Net profit of investment property	<u>95,397</u>	<u>94,518</u>

The fair values of the investment properties of the Company and its subsidiaries are as follow:

	December 31, 2013	December 31, 2012	January 1, 2012
Fair value of investment property	<u>\$ 7,066,222</u>	<u>5,761,189</u>	<u>5,095,113</u>

The fair value of investment property is based on a valuation performed by an independent valuer 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 income to determine fair value of property for which current prices are not available in an active market are as follows:

	December 31, 2013	December 31, 2012
Capitalization of earning percentage	0.73%~3.48%	0.27%~3.51%

As of December 31, 2013 and 2012, and January 1, 2012, the Company and its subsidiaries' investment property neither served as a guarantee or collateral, nor they were pledged.

(18) Property and Equipment, Net

The cost, depreciation, and impairment of the property and equipment of the Company and its subsidiaries in 2013 and 2012 are as follows:

	Land and Land improvements	Buildings	Machinery and equipment	Transportatio n equipment	Miscellaneous equipment	Leasehold improvements	Construction in progress and prepayment for equipment	Total
Cost:								
Balance at January 1, 2013	\$ 87,743,828	15,567,684	6,177,241	1,108,559	1,044,910	692,163	351,101	112,685,486
Additions	53,542	12,280	196,753	32,473	28,408	1,725	258,926	584,107
Disposals	(177,730)	(51,686)	(271,486)	(39,466)	(43,017)	(13,668)	-	(597,053)
Reclassification	-	34,959	302,825	1,679	3,681	18,291	(361,896)	(461)
Effect of change in exchange rates	-	-	(1,751)	(643)	(985)	(2,232)	-	(5,611)
Balance at December 31, 2013	\$ 87,619,640	15,563,237	6,403,582	1,102,602	1,032,997	696,279	248,131	112,666,468
Balance at January 1, 2012	\$ 87,921,324	15,226,277	5,887,736	1,106,260	1,050,460	662,910	668,656	112,523,623
Additions	-	21,856	218,934	28,464	28,399	26,281	311,328	635,262
Disposals	(177,496)	(17,608)	(197,918)	(29,613)	(36,926)	(97)	-	(459,658)
Reclassification	-	338,219	269,335	4,167	6,353	7,791	(628,883)	(3,018)
Effect of change in exchange rates	-	(1,060)	(846)	(719)	(3,376)	(4,722)	-	(10,723)
Balance at December 31, 2012	\$ 87,743,828	15,567,684	6,177,241	1,108,559	1,044,910	692,163	351,101	112,685,486
Accumulated depreciation:								
Balance at January 1, 2013	\$ 13,336	5,879,917	4,461,986	883,404	824,767	591,338	-	12,654,748
Depreciation	363	331,827	490,295	50,859	42,890	39,933	-	956,167
Disposal	-	(50,129)	(257,654)	(38,290)	(39,620)	(13,668)	-	(399,361)
Reclassification	-	-	(369)	-	-	-	-	(369)
Effect of change in exchange rates	-	-	(1,834)	(425)	(822)	(2,817)	-	(5,898)
Balance at December 31, 2013	\$ 13,699	6,161,615	4,692,424	895,548	827,215	614,786	-	13,205,287
Balance at December 31, 2013	\$ 12,975	5,553,799	4,148,435	853,744	811,957	552,492	-	11,933,402
Depreciation	361	330,606	511,271	58,824	48,020	43,102	-	992,184
Disposal	-	(17,108)	(183,125)	(28,682)	(33,266)	(97)	-	(262,278)
Reclassification	-	12,620	(12,480)	-	(140)	-	-	-
Effect of change in exchange rates	-	-	(2,109)	(488)	(1,804)	(4,159)	-	(8,560)
Balance at December 31, 2012	\$ 13,336	5,879,917	4,461,992	883,398	824,767	591,338	-	12,654,748
Accumulated impairment:								
Balance at January 1, 2013	\$ 72,522	-	-	-	-	-	-	72,522
Impairment loss	19,013	-	-	-	-	-	-	19,013
Balance at December 31, 2013	\$ 91,535	-	-	-	-	-	-	91,535
Balance at December 31, 2013	\$ 482	-	-	-	-	-	-	482
Impairment loss	72,040	-	-	-	-	-	-	72,040
Balance at December 31, 2012	\$ 72,522	-	-	-	-	-	-	72,522
Net:								
December 31, 2013	\$ 87,514,406	9,401,622	1,711,158	207,054	205,782	81,493	248,131	99,369,646
December 31, 2012	\$ 87,657,970	9,687,767	1,715,249	225,161	220,143	100,825	351,101	99,958,216
Carrying amounts:								
December 31, 2013	\$ 87,514,406	9,401,622	1,711,158	207,054	205,782	81,493	248,131	99,369,646
December 31, 2012	\$ 87,657,970	9,687,767	1,715,249	225,161	220,143	100,825	351,101	99,958,216
January 1, 2012	\$ 87,907,867	9,672,478	1,739,301	252,516	238,503	110,418	668,656	100,589,739

The Bank has conducted a few revaluations of land and buildings over these years, and the latest was in December, 2011. As of December 31, 2013 and 2012, and January 1, 2012, the total revaluation increments for land were \$82,392,460, \$82,569,859 and \$82,747,341, respectively. The total revaluation increments for Buildings were \$101,320.

As of December 31, 2013, the Bank's property and equipment neither served as a guarantee or collateral, nor were they pledged, please refer to note 51.

(19) Intangible Assets

The costs of intangible assets, amortization, and impairment loss of the Company and its subsidiaries in 2013 and 2012 are as follows:

	<u>Computer software</u>
Costs:	
Balance at January 1, 2013	\$ 2,117,444
Additions	299,877
Reclassification	92
Balance at December 31, 2013	<u><u>\$ 2,417,413</u></u>
Balance at January 1, 2012	\$ 1,288,647
Additions	828,797
Balance at December 31, 2012	<u><u>\$ 2,117,444</u></u>
Amortization and Impairment loss:	
Balance at January 1, 2013	\$ 940,237
Amortization for the year	414,905
Reclassification	92
Balance at December 31, 2013	<u><u>\$ 1,355,234</u></u>
Balance at January 1, 2012	\$ 458,287
Amortization for the year	481,950
Balance at December 31, 2012	<u><u>\$ 940,237</u></u>
Carrying value:	
Balance at December 31, 2013	<u><u>\$ 1,062,179</u></u>
Balance at December 31, 2012	<u><u>\$ 1,177,207</u></u>
Balance at January 1, 2012	<u><u>\$ 830,360</u></u>

(20) Other Assets

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Foreclosed collaterals and residuals taken over, net	\$ 1,175,653	1,076,959	1,076,959
Advance payment	5,922,400	7,301,767	6,067,397
Operating guarantee deposits and settlement fund	131,919	107,452	93,096
Refundable deposits	2,861,148	2,732,489	1,973,589
Temporary Payments and Suspense Accounts	653,248	203,627	202,079
Inventories	806,222	1,813,005	5,995,339
Others	832	2,740	3,176
Total	<u><u>\$ 11,551,422</u></u>	<u><u>13,238,039</u></u>	<u><u>15,411,635</u></u>

1) Foreclosed collaterals and residuals taken over, net

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Foreclosed collaterals and residuals taken over	\$ 1,175,653	1,093,456	1,093,456
Less: allowance for impairment	-	(16,497)	(16,497)
Total	<u><u>\$ 1,175,653</u></u>	<u><u>1,076,959</u></u>	<u><u>1,076,959</u></u>

Financial Status

2) Advance payment

	December 31, 2013	December 31, 2012	January 1, 2012
Prepaid expenses	\$ 727,457	725,294	762,688
Prepaid interests	303	54	-
Prepaid stock dividends and bonus	3,226,697	4,363,529	4,179,042
Other prepayment	1,967,943	2,212,890	1,125,667
Total	\$ 5,922,400	7,301,767	6,067,397

3) Inventories

	December 31, 2013	December 31, 2012	January 1, 2012
Inventories	\$ 824,945	1,838,627	6,245,264
Less: allowance for inventory valuation	18,723	25,622	249,925
Total	\$ 806,222	1,813,005	5,995,339

For the year 2013 and 2012, the subsidiary, BOT had written down its inventories to net realizable value and recognized its impact in cost of goods sold as follows:

	2013	2012
Cost of goods sold	\$ (6,899)	(224,303)

(21) Impairment

As of December 31, 2013 and 2012, and January 1, 2012, the movements of the accumulated impairment were as follows:

	December 31, 2013	December 31, 2012
Beginning balance	\$ 1,313,340	1,837,671
Impairment loss recognized for the period	22,873	84,328
Reversal of impairment loss for the period	(3,810)	-
Wrote off	(16,497)	(254,499)
Foreign exchange differences	(61,771)	(354,160)
Ending balance	\$ 1,254,135	1,313,340

The ending balance of accumulated impairment was composed of the following:

	December 31, 2013	December 31, 2012	January 1, 2012
Available-for-sale financial assets	\$ 1,144,651	1,140,920	1,296,432
Held-to-maturity financial assets	5,474	70,975	206,235
Other financial assets	12,475	12,426	318,025
Property and Equipment	91,535	72,522	482
Other assets	-	16,497	16,497
Ending balance	\$ 1,254,135	1,313,340	1,837,671

(22) Deposits of Central Bank and Other Banks

	December 31, 2013	December 31, 2012	January 1, 2012
Deposits from Central Bank	\$ 10,618,857	9,676,169	12,005,704
Deposits from banks—others	30,707,975	27,351,993	25,282,765
Postal deposits transferred	1,673,695	3,205,362	3,404,645
Bank overdrafts	2,725,028	2,089,373	695,107
Call loans from bank	207,012,689	171,051,568	167,538,254
Total	\$ 252,738,244	213,374,465	208,926,475

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

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

	December 31, 2013	December 31, 2012	January 1, 2012
Financial liabilities held for trading	\$ 89,611	167,135	934,773
Add: valuation adjustment	4,326,856	4,341,372	3,340,102
Total	\$ 4,416,467	4,508,507	4,274,875

2) For valuation of financial liabilities measured at fair value through profit or loss, please refer to note 48.

3) Financial liabilities held for trading

	December 31, 2013	December 31, 2012	January 1, 2012
Foreign exchange options premium	\$ 67,076	115,445	19,429
Cross currency swaps	-	12,121	792,543
Non-deliverable Forwards	-	23,146	122,589
Asset swaps	19,369	-	212
Asset swaps -IRS contract	75	-	-
Derivative financial products	-	11,243	-
Issuing Warrants	3,091	5,180	-
Add: Valuation adjustment			
Foreign exchange options	5,773	(49,671)	(10,528)
Swaps	3,607,693	3,069,068	2,250,131
Interest rate swaps	474,589	754,810	906,650
Forward foreign exchange	212,045	518,989	193,849
Issuing Warrants	(2,115)	(4,047)	-
Non-deliverable Forwards	11,008	-	-
Asset swaps	17,865	52,223	-
IRS contract	(2)	-	-
Total	\$ 4,416,467	4,508,507	4,274,875

Financial Status

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

	December 31, 2013	December 31, 2012	January 1, 2012
Foreign exchange options	\$ 3,330,976	10,128,057	4,949,172
Cross currency swaps	465,597,384	402,059,661	309,667,710
Interest rate swaps	29,305,358	15,073,803	15,668,237
Forward foreign exchange	14,519,985	57,426,372	37,951,077
Asset swaps	121,000	2,235,695	-
Structured products	-	4,047	-
Non-deliverable Forwards	2,145,600	4,047	-
Warrants	483,728	-	-
Total	\$ 515,504,031	486,931,682	368,236,196

(24) Commercial Paper Payable, Net

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

December 31, 2013			
	Guarantee or acceptance institution	Range of interest rates	Amount
Commercial paper payable	International Bills Finance Corporation	1.018%~1.038%	\$ 850,000
	Mega Bills Finance Co., Ltd.	1.018%~1.038%	250,000
	China Bills Finance Corporation	1.018%~1.038%	400,000
			1,500,000
Less: discount			(295)
Total			\$ 1,499,705

December 31, 2012			
	Guarantee or acceptance institution	Range of interest rates	Amount
Commercial paper payable	International Bills Finance Corporation	0.978%~1.018%	\$ 270,000
	China Bills Finance Corporation	0.988%~1.028%	250,000
			520,000
Less: discount			(120)
Total			\$ 519,880

January 1, 2012			
	Guarantee or acceptance institution	Range of interest rates	Amount
Commercial paper payable	China Bills Finance Corporation	0.928%	\$ 500,000
			500,000
Less: discount			(463)
Total			\$ 499,537

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

(25) Payables

	December 31, 2013	December 31, 2012	January 1, 2012
Accounts payable	\$ 5,714,266	12,589,652	10,940,817
Receipts under custody	1,816,543	1,293,305	1,181,254
Accrued expense	2,871,720	2,853,142	2,896,414
Other tax payable	313,705	220,746	215,964
Interest payable	11,779,517	13,038,995	12,713,800
Banker's acceptance payable	2,931,435	3,080,211	2,724,821
Payables to representative organizations	22,467,379	26,083,289	28,822,422
Construction payable	2,187	1,712	757
Commission payable	202,328	91,695	123,947
Other payables—foreign exchange spot awaiting delivery	2,177,539	-	32
Other payables—collection bills	2,481,515	979,490	1,410,373
Other payables—payments awaiting transfer	5,216,002	5,066,383	4,545,731
Other payables—ATM temporary receipts, payments and inter branch difference	1,638,436	1,476,089	1,259,252
Other payables—foreign exchange awaiting transfer	411,355	470,141	661,118
Other payables—factoring receivables without recourse	403,796	464,073	359,069
Other payables—foreign exchange spot to be settled	9,157,844	1,359,108	820,226
Other payables—cost of settlement	-	147,886	3,172,358
Other payables—others	1,387,475	1,836,225	1,678,334
Total	\$ 70,973,042	71,052,142	73,526,689

(26) Deposits and Remittances

	December 31, 2013	December 31, 2012	January 1, 2012
Cheques deposits	\$ 31,966,485	37,723,315	34,873,580
Government deposits	201,810,162	217,407,712	227,242,671
Demand deposits	311,119,072	272,041,563	246,371,660
Time deposits	494,132,178	453,470,593	468,871,243
Remittances	617,218	501,995	568,020
Savings account deposits:			
Demand savings deposits	703,153,584	653,688,067	608,719,709
Staff accounts	23,686,085	23,697,441	23,352,713
Club saving deposits	1,074,974	1,105,437	1,116,970
Non-interest-bearing time savings deposits	406,070,125	559,844,781	648,445,648
Interest-bearing savings deposits	759,703,496	604,361,801	494,125,407
Premium interest-bearing savings deposits	458,175,449	453,955,059	449,200,457
Total	\$ 3,391,508,828	3,277,797,764	3,202,888,078

(27) Financial Bonds Payable

Name of bond	Condition			Bond			
	Beginning date	Maturity date	Interest rate	Type	Amount		
					December 31, 2013	December 31, 2012	January 1, 2012
NTD subordinated unsecured financial bond of Bank of Taiwan in first quarter of 2013	2013/12/2	2013/12/2	Interest rate of Bank of Taiwan for 1 year fixed savings deposits add 0.15%. Unamortized discount amount	Subordinated unsecured financial bond	\$ 16,000,000 (1,760)	-	-
Total					\$ 15,998,240	-	-

(28) Borrowings

As of December 31, 2013 and 2012, and January 1, 2012, the short-term borrowings which were not utilized by the Company's subsidiary, BankTaiwan Securities, were 8,000,000 thousand dollar, 7,000,000 thousand dollar, and 7,000,000 thousand dollar, respectively.

December 31, 2013			
Bank	Nature	Total amount	Interest rate
Hua Nan Bank	Short-term loans	1,000,000	1.300%
	Overdrafts		0.300%
	Guaranteed loans		0.500%
Yuanta Bank	Short-term loans	1,000,000	1.300%
	Guaranteed loans		0.250%
Taiwan Cooperative Bank	Short-term loans	5,000,000	1.300%
	Guaranteed loans		0.300%
Chinatrust Commercial Bank	Short-term loans	1,000,000	1.000%
	Overdrafts		0.180%

December 31, 2012			
Bank	Nature	Total amount	Interest rate
Hua Nan Bank	Short-term loans	1,000,000	1.300%
	Overdrafts		0.300%
	Guaranteed loans		0.500%
Yuanta Bank	Short-term loans	1,000,000	1.300%
	Guaranteed loans		0.250%
Taiwan Cooperative Bank	Short-term loans	5,000,000	1.300%
	Guaranteed loans		0.300%
Chinatrust Commercial Bank	Short-term loans	1,000,000	1.000%
	Overdrafts		0.180%

January 1, 2012			
Bank	Nature	Total amount	Interest rate
Hua Nan Bank	Short-term loans	1,000,000	1.300%
	Overdrafts		0.300%
	Guaranteed loans		0.500%
Yuanta Bank	Short-term loans	1,000,000	1.300%
	Guaranteed loans		0.250%
Taiwan Cooperative Bank	Short-term loans	5,000,000	1.300%
	Guaranteed loans		0.300%
Chinatrust Commercial Bank	Short-term loans	1,000,000	1.000%
	Overdrafts		0.180%

(29) Other Financial Liabilities

	December 31, 2013	December 31, 2012	January 1, 2012
Appropriated loan funds	\$ 212,398	376,265	613,218
Principal from structured products	1,031,300	7,821,748	4,733,057
Liability of insurance product-separate account	2,476,824	4,686,044	5,490,078
Total	<u>\$ 3,720,522</u>	<u>12,884,057</u>	<u>10,836,353</u>

For hedged derivative financial liabilities, please refer to note 48.

(30) Provision

	December 31, 2013	December 31, 2012	January 1, 2012
Reserve for unearned premiums	\$ 423,167	363,574	367,648
Claims reserve	77,030	88,188	67,281
Assurance reserve	362,136,716	337,063,755	286,036,341
Special reserve	267,493	240,812	247,632
Reserve for premium deficiency	702,608	965,808	1,405,222
Foreign exchange valuation reserve	439,970	96,960	170,720
Reserve for employee benefit obligations	16,367,701	15,723,991	14,881,658
Liabilities adequacy reserve	606,505	624,406	591,441
Reserve for insurance contracts with financial product feature	216,594,551	194,672,423	178,039,714
Others	-	33,756	34,868
Total	\$ 597,615,741	549,873,673	481,842,525

(31) Insurance Contract and Financial Products with Discretionary Participation Feature

Information on insurance contract and financial product with the discretionary participation feature of the subsidiary, BTLI, for the year ended December 31, 2013 and 2012, and January 1, 2012 were as follows:

1) Details of provision for unearned premium:

	December 31, 2013		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	\$ 14,582	5,735	20,317
Personal injury insurance	70,651	-	70,651
Personal health insurance	119,190	-	119,190
Group insurance	212,968	-	212,968
Investment-linked insurance	41	-	41
Total	417,432	5,735	423,167
Deduction of provision for unearned premium outward:			
Personal life insurance	478	109	587
Personal injury insurance	6,019	-	6,019
Group insurance	5,124	-	5,124
Total	11,621	109	11,730
Net	\$ 405,811	5,626	411,437

	December 31, 2012		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	\$ 7,173	8,640	15,813
Personal injury insurance	83,272	-	83,272
Personal health insurance	117,590	-	117,590
Group insurance	146,862	-	146,862
Investment-linked insurance	37	-	37
Total	354,934	8,640	363,574
Deduction of provision for unearned premium outward:			
Personal life insurance	494	108	602
Personal injury insurance	9,237	-	9,237
Investment-linked insurance	6,308	-	6,308
Total	16,039	108	16,147
Net	\$ 338,895	8,532	347,427

Financial Status

	January 1, 2012		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	\$ 4,860	8,398	13,258
Personal injury insurance	83,698	-	83,698
Personal health insurance	117,850	-	117,850
Group insurance	152,811	-	152,811
Investment-linked insurance	31	-	31
Total	359,250	8,398	367,648
Deduction of provision for unearned premium outward:			
Personal life insurance	638	85	723
Personal injury insurance	10,419	-	10,419
Group insurance	8,817	-	8,817
Investment-linked insurance	1	-	1
Total	19,875	85	19,960
Net	\$ 339,375	8,313	347,688

The reconciliation of the above mentioned changes in unearned premium is listed below:

	2013		
	Insurance Contract	Financial products with discretionary participation feature	Total
January 1, 2013	\$ 354,934	8,640	363,574
Provision	416,252	5,735	421,987
Reclaim	(353,750)	(8,640)	(362,390)
Other	(4)	-	(4)
December 31, 2013	417,432	5,735	423,167
Deduction of provision for unearned premium outward			
January 1, 2013, net	16,039	108	16,147
Provision	11,621	109	11,730
Reclaim	(16,039)	(108)	(16,147)
December 31, 2013, net	11,621	109	11,730
Total	\$ 405,811	5,626	411,437

	2012		
	Insurance Contract	Financial products with discretionary participation feature	Total
January 1, 2012	\$ 359,250	8,398	367,648
Provision	354,930	8,640	363,570
Reclaim	(359,245)	(8,398)	(367,643)
Other	(1)	-	(1)
December 31, 2012	354,934	8,640	363,574
Deduction of provision for unearned premium outward			
January 1, 2012, net	19,875	85	19,960
Provision	16,039	108	16,147
Reclaim	(19,875)	(85)	(19,960)
December 31, 2012, net	16,039	108	16,147
Total	\$ 338,895	8,532	347,427

2) Details of provision for claims:

December 31, 2013			
		Financial products with discretionary participation feature	Total
	Insurance Contract		
Personal life Insurance			
Reported but not paid	\$ 5,650	2,754	8,404
Not reported and not paid	562	1,073	1,635
Personal injury insurance			
Reported but not paid	29	-	29
Not reported and not paid	6,531	-	6,531
Personal health insurance			
Reported but not paid	1,695	-	1,695
Not reported and not paid	15,259	-	15,259
Group insurance			
Reported but not paid	6,730	-	6,730
Not reported and not paid	36,747	-	36,747
Total	73,203	3,827	77,030
Deduction of provision for claims-outward:			
Personal life Insurance	48	7	55
Personal injury insurance	242	-	242
Personal health insurance	62	-	62
Group insurance	3,010	-	3,010
Total	3,362	7	3,369
Net	\$ 69,841	3,820	73,661

December 31, 2012			
		Financial products with discretionary participation feature	Total
	Insurance Contract		
Personal life Insurance			
Reported but not paid	\$ 5,627	20,726	26,353
Not reported and not paid	1,878	899	2,777
Personal injury insurance			
Reported but not paid	2	-	2
Not reported and not paid	9,207	-	9,207
Personal health insurance			
Reported but not paid	1,142	-	1,142
Not reported and not paid	15,969	-	15,969
Group insurance			
Reported but not paid	1,392	-	1,392
Not reported and not paid	31,346	-	31,346
Total	66,563	21,625	88,188
Deduction of provision for claims-outward:			
Personal life Insurance	120	57	177
Personal injury insurance	322	-	322
Personal health insurance	6	-	6
Group insurance	1,933	-	1,933
Total	2,381	57	2,438
Net	\$ 64,182	21,568	85,750

Financial Status

	January 1, 2012		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life Insurance			
Reported but not paid	\$ 4,888	518	5,406
Not reported and not paid	167	1,715	1,882
Personal injury insurance			
Reported but not paid	1,136	-	1,136
Not reported and not paid	6,911	-	6,911
Personal health insurance			
Reported but not paid	4,040	-	4,040
Not reported and not paid	13,535	-	13,535
Group insurance			
Reported but not paid	2,511	-	2,511
Not reported and not paid	30,725	-	30,725
Investment-linked insurance			
Reported but unpaid	1,135	-	1,135
Total	65,048	2,233	67,281
Deduction of provision for claims-outward:			
Personal life Insurance	-	1	1
Personal injury insurance	587	-	587
Personal health insurance	4	-	4
Group insurance	2,149	-	2,149
Total	2,740	1	2,741
Net	\$ 62,308	2,232	64,540

The reconciliation of the above mentioned changes in provision for claims is listed below:

	2013		
	Insurance Contract	Financial products with discretionary participation feature	Total
January 1, 2013	\$ 66,563	21,625	88,188
Provision	257,332	6,337	263,669
Recovery	(250,692)	(24,135)	(274,827)
December 31, 2013	73,203	3,827	77,030
Deduction of provision for claims-outward			
January 1, 2013, net	2,381	57	2,438
Provision	15,782	32	15,814
Recovery	(14,801)	(82)	(14,883)
December 31, 2013, net	3,362	7	3,369
Closing balance	\$ 69,841	3,820	73,661

	2012		
	Insurance Contract	Financial products with discretionary participation feature	Total
January 1, 2012	\$ 65,048	2,233	67,281
Provision	221,092	26,223	247,315
Recovery	(219,577)	(6,831)	(226,408)
December 31, 2012	66,563	21,625	88,188
Deduction of provision for claims-outward			
January 1, 2012, net	2,740	1	2,741
Provision	9,287	160	9,447
Recovery	(9,646)	(104)	(9,750)
December 31, 2012, net	2,381	57	2,438
Closing balance	\$ 64,182	21,568	85,750

3) Details of Liability Reserve :

December 31, 2013			
		Financial products with discretionary participation feature	Total
Insurance Contract			
Life insurance	\$ 235,099,063	95,535,149	330,634,212
Health insurance	4,681,121	-	4,681,121
Annuity insurance	25,499	26,366,376	26,391,875
Investment-linked insurance	1,438	-	1,438
Reclaim of reserve for major accidents	2,429	-	2,429
Reserve for life insurance – reduce sales tax (the accumulated unwritten-off allocation of 3% of sales)	145,641	-	145,641
Strengthen increasing reserve	280,000	-	280,000
Total	\$ 240,235,191	121,901,525	362,136,716

December 31, 2012			
		Financial products with discretionary participation feature	Total
Insurance Contract			
Life insurance	\$ 215,508,933	110,576,423	326,085,356
Health insurance	4,146,548	-	4,146,548
Annuity insurance	24,638	6,619,698	6,644,336
Investment-linked insurance	5,086	-	5,086
Reclaim of reserve for major accidents	2,429	-	2,429
Strengthen increasing reserve	180,000	-	180,000
Total	\$ 219,867,634	117,196,121	337,063,755

January 1, 2012			
		Financial products with discretionary participation feature	Total
Insurance Contract			
Life insurance	\$ 177,092,272	98,952,526	276,044,798
Health insurance	3,694,575	-	3,694,575
Annuity insurance	23,678	6,183,037	6,206,715
Investment-linked insurance	10,253	-	10,253
Strengthen increasing reserve	80,000	-	80,000
Total	\$ 180,900,778	105,135,563	286,036,341

According to Jin Guan Bao Cai No. (2012.5.29) 10100404720 the Company's subsidiary, BTLI, need to increase the liability reserves for \$500,000 thousand dollar by end of year 2015.

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

2013			
		Financial products with discretionary participation feature	Total
Insurance Contract			
Balance as at January 1, 2013	\$ 219,867,634	117,196,121	337,063,755
Provision	33,419,059	22,453,950	55,873,009
Reclaim	(13,556,872)	(17,731,325)	(31,288,197)
Exchange rate effect	389,777	-	389,777
Gain from cancellation of insurance	(30,048)	(17,221)	(47,269)
Others	145,641	-	145,641
Balance as at December 31, 2013	\$ 240,235,191	121,901,525	362,136,716

Financial Status

	2012		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance as at January 1, 2012	\$ 180,900,778	105,135,563	286,036,341
Provision	49,897,030	13,817,956	63,714,986
Reclaim	(10,456,994)	(1,738,659)	(12,195,653)
Exchange rate effect	(449,908)	-	(449,908)
Gain from cancellation of insurance	(23,272)	(18,739)	(42,011)
Balance as at December 31, 2012	\$ 219,867,634	117,196,121	337,063,755

4) Details of Special Reserve for Life Insurance:

Information on special reserve for life insurance of the subsidiary, BTLI, for the year ended December 31, 2013 and 2012, and January 1, 2012 were as follows:

	December 31, 2013		
	Insurance Contract	Financial products with discretionary participation feature	Total
Provision for dividend policy	\$ 267,493	-	267,493

	December 31, 2012		
	Insurance Contract	Financial products with discretionary participation feature	Total
Provision for dividend policy	\$ 240,812	-	240,812

	January 1, 2012		
	Insurance Contract	Financial products with discretionary participation feature	Total
Provision for dividend policy	\$ 247,632	-	247,632

The movements of special reserve are listed below:

	2013			
	Insurance Contract	Financial products with discretionary participation feature	Other	Total
January 1, 2013	\$ 240,812	-	-	240,812
Provision of dividend policy	82,593	-	-	82,593
Recovery of dividend policy	(55,912)	-	-	(55,912)
Closing balance	\$ 267,493	-	-	267,493

	2012			
	Insurance Contract	Financial products with discretionary participation feature	Other	Total
January 1, 2012	\$ 247,632	-	-	247,632
Provision of dividend policy	58,679	-	-	58,679
Recovery of dividend policy	(41,892)	-	-	(41,892)
Others	(23,607)	-	-	(23,607)
Closing balance	\$ 240,812	-	-	240,812

5) Premium Deficiency Reserve:

December 31, 2013			
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	\$ 702,608	-	702,608
December 31, 2012			
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	\$ 949,521	-	949,521
Group insurance	16,287	-	16,287
Total	\$ 965,808	-	965,808
January 1, 2012			
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	\$ 1,399,586	-	1,399,586
Personal injury insurance	629	-	629
Group insurance	5,007	-	5,007
Total	\$ 1,405,222	-	1,405,222

The reconciliation of the above change as in premium deficiency reserve is listed below:

2013			
	Insurance Contract	Financial products with discretionary participation feature	Total
January 1, 2013	\$ 965,808	-	965,808
Provision	222,339	-	222,339
Reclaim	(485,600)	-	(485,600)
Exchange rate effect	61	-	61
Closing Balance	\$ 702,608	-	702,608
2012			
	Insurance Contract	Financial products with discretionary participation feature	Total
January 1, 2012	\$ 1,405,222	-	1,405,222
Provision	37,720	-	37,720
Reclaim	(477,134)	-	(477,134)
Closing Balance	\$ 965,808	-	965,808

6) Details of Provision for Liability Adequacy:

1. Information on provision for liability adequacy of the subsidiary, BTLI, for the year ended December 31, 2013, December 31, 2012, and January 1, 2012 were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Liability reserve	\$ 362,012,630	336,933,043	285,895,331
Unearned premium reserve	14,710	10,629	-
Special reserve for life insurance	267,493	240,812	-
Premium deficiency reserve	702,608	949,521	1,399,587
Subtotal	362,997,441	338,134,005	287,294,918
Less: intangible asset	-	-	-
Book value of insurance liability	\$ 362,997,441	338,134,005	287,294,918
Estimate of present cash flow	\$ 361,207,181	335,674,601	247,430,606
Provision for liability adequacy balance	\$ -	-	-

There is no concern of provision for liability adequacy since the subsidiary, BTLI, had no deficiency on net value between book value of insurance liability and estimate of present cash flow.

2. The liability adequacy test method of the subsidiary, BTLI, is listed below:

	December 31, 2013	December 31, 2012	January 1, 2012
Test Method	Long term insurance : gross premium evaluation method: Short term insurance (reinsurance) : loss evaluation method	Long term insurance : gross premium evaluation method: Short term insurance (reinsurance) : loss evaluation method	Long term insurance : gross premium evaluation method: Short term insurance (reinsurance) : loss evaluation method
Group	Test long and short term insurance separately	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 2012, with unchanged assumption for discount rates after 30 year.	Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2011, with unchanged assumption for discount rates after 30 year.	Discount rates are calculated using the best estimated scenario investment return based on actuary report of 2010, with unchanged assumption for discount rates after 30 year.

(32) Foreign Exchange Fluctuation Reserve

1) Hedging strategy and risk exposure:

The Company's subsidiary, BankTaiwan Life Insurance, has hedged its foreign exchanges by considering the market situation and the hedging cost.

As of December 31, 2013 and 2012, and January 1, 2012, the primary foreign exchange exposure were USD assets, amounting \$37,914,967 thousand dollars, \$28,209,425 thousand dollars, and \$12,716,199 thousand dollars, respectively.

2) The movements in foreign exchange fluctuation reserve were as follows:

	2012	2012
Balance as at 1 January, 2013	\$ 96,960	170,720
Current provision:		
Compulsory provision	181,153	94,730
Additional provision	763,729	322,699
Subtotal	944,882	417,429
Current write-off	(601,872)	(491,189)
Balance as at 31 December, 2013	\$ 439,970	96,960

3) Effect of foreign exchange fluctuation reserve:

The subsidiary, BTLI revised its provision regulations according to the Jin Guan Bao No.(2012.2.7) 10102501561, and the impacts are as follows:

Item	2013		
	Unapplied amount	Applied amount	Effected amount
Net income before income tax	\$ 8,593,730	8,250,720	343,010
Net income after income tax	7,278,185	6,993,487	284,698
Earnings per share before tax	0.95	0.92	-
Earnings per share after tax	0.81	0.78	-
Net increase on Provision for foreign exchange (book under net change in insurance liabilities)	-	343,010	343,010
Special provisions – major accident (under Provisions)	203,856	101,928	(101,928)
Special provisions – variation of risk (under Provisions)	137,584	68,792	(68,792)
Provision for foreign exchange fluctuation (under Provisions)	-	439,970	439,970
Owner's equity	252,929,127	252,644,429	284,698

(Note):The provision for foreign exchange fluctuation at December 31, 2013, \$439,970 thousand dollar, derived from the unrealized foreign exchanges of \$96,960 thousand dollar as at December 31, 2012, and the provision of \$343,010 thousand dollar recognized in current period.

Item	2012		
	Unapplied amount	Applied amount	Effected amount
Net income before income tax	\$ 7,749,485	7,823,245	(73,760)
Net income after income tax	7,197,289	7,258,510	(61,221)
Earnings per share before tax	0.86	0.87	-
Earnings per share after tax	0.80	0.81	-
Net increase on Provision for foreign exchange (book under net change in insurance liabilities)	-	(73,760)	(73,760)
Special provisions – major accident (booked under Provisions)	203,856	101,928	(101,928)
Special provisions – variation of risk (booked under Provisions)	137,584	68,792	(68,792)
Provision for foreign exchange fluctuation (booked under Provisions)	-	96,960	96,960
Owner's equity	246,514,170	246,575,391	(61,221)

(Note):The provision for foreign exchange fluctuation at December 31, 2012, \$96,960 thousand dollar, derived from special provisions - major accident, and special provisions - variation of risk amounting \$101,928 thousand dollar and \$68,792 thousand dollar, respectively, as at December 31, 2012 and provision write-off amounting \$73,760 thousand dollar.

(33) Provision for Employee Benefit

	December 31, 2013	December 31, 2012	January 1, 2012
Recognized in Consolidated Balance Sheet:			
— Defined benefit plans	\$ 8,661,751	8,383,975	8,023,148
— Employees preferential interest deposits	7,705,950	7,340,016	6,858,510
Total	\$ 16,367,701	15,723,991	14,881,658

(34) Other Liabilities

	December 31, 2013	December 31, 2012	January 1, 2012
Advance collections	\$ 2,335,451	1,790,749	1,211,383
Guarantee deposits received	4,035,227	4,578,212	4,651,029
Temporary receipt awaiting transfer	220,514	3,556,899	1,158,178
Other liabilities to be settled	8,239	8,239	8,239
Other long-term liabilities	1,266,345	1,266,345	1,266,345
Others	137,512	-	-
Total	\$ 8,003,288	11,200,444	8,295,174

(35) Income Tax Expenses

1) The income tax expenses for 2013 and 2012 are as follow:

	2013	2012
Current income tax expense	\$ 1,292,116	836,811
Deferred tax expense	(34,883)	(272,076)
Income tax expenses	\$ 1,257,233	564,735

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

	2013	2012
Revaluation gains on available-for-sale financial assets	\$ (191,187)	14,623
Actuarial gains (losses) on defined benefit plans	8,133	-
	\$ (183,054)	14,623

Reconciliation of income tax and profit before tax for 2013 and 2012 is as follows:

	2013	2012
Profit for the period	\$ 8,250,720	7,823,245
Income tax based on domestic tax rate	1,402,622	(1,837)
Tax-exempt income	(394,499)	(463,173)
Effect on consolidated tax returns	(76,424)	(60,594)
Domestic evaluation of gain or loss on financial assets	-	(26,033)
Tax-exempt income from investment	(160,777)	(123,435)
Effect on tax carry forwards	161,055	-
Allowance for evaluation	14,000	-
Income tax expense of overseas branches	552,481	456,327
Basic income tax	-	71,895
Effect on temporary difference	-	3,111
Others	(241,225)	708,474
Total	\$ 1,257,233	564,735

2) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2013 and 2012 are as follows:

Deferred Tax Liabilities:

	Fair Value Gains
Balance at 1 January 2013	\$ 18,664,067
Recognized in profit or loss	(269,759)
Balance at 31 December 2013	\$ 18,394,308
Balance at 1 January 2012	\$ 18,427,976
Recognized in profit or loss	236,091
Balance at 31 December 2012	\$ 18,664,067

Deferred Tax Assets:

	Defined benefit plans	Fair Value Gains	Other	Total
Balance at January 1, 2013	\$ 28,519	1,678,197	383,777	2,090,493
Recognized in profit or loss	3,893	(342,781)	123,983	(214,905)
Recognized in other comprehensive profit or loss	(8,133)	144,918	-	136,785
Balance at December 31, 2013	\$ 24,279	1,480,334	507,760	2,012,373
Balance at January 1, 2012	\$ 22,280	1,081,206	544,740	1,648,226
Recognized in profit or loss	6,239	649,876	(160,963)	495,152
Recognized in other comprehensive profit or loss	-	(52,885)	-	(52,885)
Balance at December 31, 2012	\$ 28,519	1,678,197	383,777	2,090,493

3) Information related to the unappropriated earnings and deduction tax account is summarized below:

	December 31, 2013	December 31, 2012	January 1, 2012
Unappropriated earnings of 1998 and after	\$ 6,796,220	23,440,480	22,214,808
	December 31, 2013	December 31, 2012	January 1, 2012
Balance of deductible tax account	\$ 1,072,860	2,119,219	2,950,557
		2013(Projected)	2012(Actual)
Imputed tax creditable ratio for appropriating net income		22.22%	20.48%

(36) Equity

1) Capital stock

As of December 31, 2013 and 2012, the Company authorized capital and issued capital were \$90,000,000 thousands. The above mentioned capital stock had a par value of \$10.

2) Capital surplus

	December 31, 2013	December 31, 2012	January 1, 2012
The variation of income of equity-accounted investees	\$ 49,522	-	-
Equity premium	111,385,217	111,385,217	111,385,217
	<u>\$ 111,434,739</u>	<u>111,385,217</u>	<u>111,385,217</u>

According to the ROC Company Act prior to the new amendment on January 4, 2012, capital surplus can only be used to offset accumulated deficit or to increase share capital by using the realized capital surplus. Capital surplus cannot be used for distribution of cash dividends. According to the new amendment of the ROC Company Act, company can declare dividend with capital surplus. The aforementioned realized capital surplus includes the income derived from the issuance of new shares at a premium and the income from endowments received by the company. The share capital capitalized in any one year may not exceed a certain percentage for the company's increasing share capital under the Regulations Governing the Offering and Issuance of Securities by Securities Issuers. The Company may only increase its capital reserve out of the share capital from cash premium on capital stock once a year. The additional capital reserve from the share capital may not be increased during the same fiscal year as the additional share capital from cash premium on capital stock.

3) Legal reserve

In accordance with the Company Act as amended in January 2012, 30 percent of net income after tax should be set aside as legal reserve, until it is equal to authorized capital. If the Company experienced profit for the year, the distribution of the statutory earnings reserve, either by new shares or by cash, shall be decided at the shareholders meeting, and the distribution amount is limited to the portion of legal reserve which exceeds 25 percent of the paid-in capital.

4) Appropriation of earnings

The articles of incorporation of the Bank 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 according with Ruling No.1010012865 issued by FSC on April 6, 2012, the Bank and subsidiaries choose to apply exemptions granted under IFRS 1 first time adoption of International Financial Reporting Standards shall be reclassified as a special earnings reserve during earnings distribution. When the relevant asset were used, disposed of, or reclassified, this special earnings reserve shall be reserved as distributable earnings proportionality.

5. dividends

The remaining amount and the unappropriated earnings from the past period will distribute based on related policy.

According to the Company's policy, the appropriation of earnings by cash cannot over 15% of total capital before legal reserve get to the level of total capital.

5) Other equity

	Foreign currency translation adjustments	Unrealized gain on valuation of available-for-sale financial assets	Total
Balance as of January 1, 2013	\$ (369,751)	13,641,022	13,271,271
Available-for-sale financial assets – unrealized valuation adjustment	-	3,737,018	3,737,018
Foreign currency translation	62,967	-	62,967
Balance as of December 31, 2013	\$ (306,784)	17,378,040	17,071,256

	Foreign currency translation adjustments	Unrealized gain on valuation of available-for-sale financial assets	Total
Balance as of January 1, 2012	\$ (18,194)	7,607,021	7,588,827
Available-for-sale financial assets – unrealized adjustment valuation	-	6,034,001	6,034,001
Foreign currency translation	(351,557)	-	(351,557)
Balance as of December 31, 2012	\$ (369,751)	13,641,022	13,271,271

(37) Net Interest Income

	2013	2012
Interest income:		
Loans and advances to customers	\$ 42,344,844	41,285,691
Loans and advances to banks	7,136,428	5,811,163
Investment securities	18,098,000	17,099,179
Credit card	35,663	37,906
Resell bonds	68,517	139,185
Other	1,169,306	851,850
	68,852,758	65,224,974
Interest expense:		
Deposits from customers	31,006,243	29,800,656
Deposits and placements of banks	2,075,545	1,926,599
Debt securities issued	97,132	80,959
Financial bonds	19,788	63,596
Structured notes	64,596	-
Other	218,869	240,441
	33,482,173	32,112,251
Total	\$ 35,370,585	33,112,723

(38) Service Fees, Net

	2013	2012
Service fees revenue:		
Bank business	\$ 5,053,367	4,213,907
Insurance business	106,187	119,459
Securities business	301,080	306,477
Subtotal	5,460,634	4,639,843
Service fees expense:		
Bank business	600,000	568,195
Insurance business	1,091,730	884,733
Securities business	12,508	14,712
Subtotal	1,704,238	1,467,640
Total	\$ 3,756,396	3,172,203

Financial Status

The Company and its subsidiaries provide custody, trust, investment management and advisory services to third parties, therefore, the Bank and its subsidiaries plan, manage and make trading decisions about these financial instruments. Trust funds or portfolios, entrusted with management and application, prepare financial statements for internal management purposes and will not include in the financial statements of the Bank and its subsidiaries.

(39) Gain (Loss) on Financial Assets or Liabilities Measured at Fair Value through Profit or Loss

	2013	2012
Gain (loss) on financial assets or liabilities measured at fair value through profit or loss:		
Dividend income	\$ 2,267,067	2,099,496
Net interest income	916,091	812,786
Net gain on disposal	3,981,877	3,475,441
	<u>7,165,035</u>	<u>6,387,723</u>
Gain (loss) on financial assets or liabilities measured at fair value through profit or loss—valuation:		
Valuation gain	5,420,730	8,233,129
Total	<u><u>\$ 12,585,765</u></u>	<u><u>14,620,852</u></u>

(40) Realized Gain (Loss) on Available-for-sale Financial Assets

	2013	2012
Dividend incomes	\$ 2,119,750	1,468,673
Disposal incomes	261,516	1,465,646
Subtotal	<u>2,381,266</u>	<u>2,934,319</u>
Net loss of disposal of assets	-	-
Total	<u><u>\$ 2,381,266</u></u>	<u><u>2,934,319</u></u>

(41) Other Non-interest Income (expenses)

	2013	2012
Sales revenue, net	\$ 430,636	831,440
Subsidized income from government	15,696,251	18,525,118
Excess interest expenses	(10,860,588)	(10,716,801)
Gain from disposal of properties and equipment	466,674	753,564
Others	377,317	107,752
Total	<u><u>\$ 6,110,290</u></u>	<u><u>9,501,073</u></u>

(42) Employee Benefits Expenses

	2013	2012
Salaries	\$ 10,870,004	10,824,450
Labor and health insurance	529,786	474,937
Pension fund	872,437	878,520
Other employee's benefit	224,293	220,994
Total	<u><u>\$ 12,496,520</u></u>	<u><u>12,398,901</u></u>

(43) Depreciation and Amortization Expenses

	2013	2012
Depreciation expenses	\$ 918,859	953,998
Amortization expenses	415,001	352,969
Total	\$ 1,333,860	1,306,967

(44) Other General and Administrative Expenses

	2013	2012
Taxes	\$ 1,786,520	1,663,402
Rental expenses	734,327	738,658
Insurance expenses	819,969	784,973
Postal fees	236,085	230,654
Utilities	230,980	225,538
Materials and Supplies	182,734	179,541
Maintenance fees	398,048	422,668
Marketing expenses	379,775	380,222
Professional fees	339,302	299,897
Others	338,053	298,190
Total	\$ 5,445,793	5,223,743

(45) Earnings per Share

The consolidated basic earnings per share are calculated by dividing the net income by the number of shares outstanding. The net income in 2013 and 2012 are \$6,993,487 and \$7,258,510, respectively. The weighted average outstanding shares are 9,000,000 thousand.

The Company's basic earnings per share is calculated as follows

	2013	2012
Net income before tax	\$ 6,993,487	7,258,510
Weighted average outstanding shares	9,000,000	9,000,000
Basic earnings per share	\$ 0.78	0.81

(46) Insurance Income, Net

	2013		
	BOT government employees' insurance department	BTLI	Total
Premium income	\$ 20,863,143	48,020,875	68,884,018
Amortized reinsurance claims payment	-	23,947	23,947
Income on insurance product-separated account	-	2,780,191	2,780,191
Insurance business income	<u>20,863,143</u>	<u>50,825,013</u>	<u>71,688,156</u>
Reinsurance expense	-	72,540	72,540
Direct business expenses	-	33,049	33,049
Insurance claims payment	26,426,619	31,976,752	58,403,371
Disbursement toward industry stability	-	48,019	48,019
Disbursement on insurance product separated account	-	2,780,191	2,780,191
Insurance business expenses	<u>26,426,619</u>	<u>34,910,551</u>	<u>61,337,170</u>
Net income from insurance business	\$ (5,563,476)	15,914,462	10,350,986

Financial Status

	2012		
	BOT government employees' insurance department	BTLI	Total
Premium income	\$ 17,992,149	56,702,546	74,694,695
Amortized reinsurance claims payment	-	26,537	26,537
Income on insurance product-separated account	-	1,632,628	1,632,628
Insurance business income	17,992,149	58,361,711	76,353,860
Reinsurance expenses	-	78,105	78,105
Direct business expenses	-	24,076	24,076
Insurance claims payment	28,267,159	12,861,647	41,128,806
Disbursement toward industry stability	-	56,697	56,697
Disbursement on insurance product separated account	-	1,632,628	1,632,628
Insurance business expenses	28,267,159	14,653,153	42,920,312
Net income from insurance business	\$ (10,275,010)	43,708,558	33,433,548

The subsidiary, BTLI, revenue of matured retention premium and retained insurance claims and benefits are as follow:

1) Retained earned premiums

	2013		
	Insurance Contract	Financial products with discretionary participation feature	Total
Direct written premium	\$ 27,727,675	20,288,835	48,016,510
Reinsurance premium	4,365	-	4,365
Premium income	27,732,040	20,288,835	48,020,875
Less: Reinsurance premium ceded	72,322	218	72,540
Net change in unearned premium reserve	66,916	(2,906)	64,010
	139,238	(2,688)	136,550
Retained earned premium	\$ 27,592,802	20,291,523	47,884,325

	2012		
	Insurance Contract	Financial products with discretionary participation feature	Total
Direct written premium	\$ 44,743,758	11,953,684	56,697,442
Reinsurance premium	5,104	-	5,104
Premium income	44,748,862	11,953,684	56,702,546
Less: Reinsurance premium ceded	77,889	216	78,105
Net change in unearned premium reserve	(481)	218	(263)
	77,408	434	77,842
Retained earned premium	\$ 44,671,454	11,953,250	56,624,704

2) Retained claims payment

2013			
	Insurance Contract	Financial products with discretionary participation feature	Total
Claims payment incurred	\$ 14,019,275	17,956,068	31,975,343
Reinsurance claims	1,409	-	1,409
Insurance claims payment	14,020,684	17,956,068	31,976,752
Less: Claims payment recovered from reinsures	(23,947)	-	(23,947)
Retained claims payment	\$ 13,996,737	17,956,068	31,952,805

2012			
	Insurance Contract	Financial products with discretionary participation feature	Total
Claims payment incurred	\$ 10,885,143	1,974,526	12,859,669
Reinsurance claims	1,978	-	1,978
Insurance claims payment	10,887,121	1,974,526	12,861,647
Less: Claims payment recovered from reinsures	(26,379)	(158)	(26,537)
Retained claims payment	\$ 10,860,742	1,974,368	12,835,110

(47) Capital Management

The capital management objectives and processes

The Company and its subsidiaries' basic objective of capital management shall be in compliance with the capital requirements of FSC and achieve the minimum statutory capital adequacy ratio. The qualified capital calculation is in accordance with regulation by competent authorities.

Maintain an optimal capital structure to respond to possible operational or economic risks, and to sustain future development of the business. The Company and its subsidiaries also make appropriate and effective capital allocation to react the different capital portfolio and risk characteristics. °

The Company and its subsidiaries comply with the "Regulations Governing the Consolidated Capital Adequacy of Financial Holding Companies" and "Standards Governing the Capital Adequacy Management of Taiwan Financial Holdings" and report the ratio to the authority twice a year. However, the subsidiaries shall comply with the regulations of different industries.

The Company and its subsidiaries set target ratios and alarm ratios in order to react properly while the capital adequacy ratio is close to or lower than the alarm ratio.

December 31, 2013

Unit: Thousands of New Taiwan Dollars; %

Name	Item	The financial holding company's shareholding in the subsidiary	Net eligible capital	Statutory capital requirement
The Company		100%	252,644,416	264,372,896
Subsidiary BOT		100%	203,513,137	151,722,654
Subsidiary BTS		100%	2,221,810	892,614
Subsidiary BTLI		100%	13,482,750	12,354,146
Deducted Amount		-	(272,356,839)	(264,356,839)
Subtotal			199,505,274	164,985,471
The Group Capital Adequacy Ratio (C)=(A)+(B)				120.92

Financial Status

December 31, 2012

Unit: Thousands of New Taiwan Dollars; %

Name	Item	The financial holding company's shareholding in the subsidiary	Net eligible capital	Statutory capital requirement
The Company		100%	258,228,581	264,131,769
Subsidiary BOT		100%	191,839,471	140,519,580
Subsidiary BTS		100%	2,010,497	641,957
Subsidiary BTLI		100%	10,152,895	9,056,288
Deducted Amount		-	(264,080,713)	(264,080,713)
Subtotal			198,150,731	150,268,881
The Group Capital Adequacy Ratio (C)=(A)÷(B)				131.86

January 1, 2012

Unit: Thousands of New Taiwan Dollars; %

Name	Item	The financial holding company's shareholding in the subsidiary	Net eligible capital	Statutory capital requirement
The Company		100%	249,627,602	255,426,564
Subsidiary BOT		100%	187,365,815	131,684,943
Subsidiary BTS		100%	1,846,923	658,278
Subsidiary BTLI		100%	10,448,676	7,850,196
Deducted Amount		-	(255,373,942)	(255,373,942)
Subtotal			193,915,074	140,246,039
The Group Capital Adequacy Ratio (C)=(A)÷(B)				138.26

In accordance with the Financial Holdings Act, Article 46, where the aggregate transactions taken place between all subsidiaries of a financial holding company and any of the following counterparties reach a certain amount or a certain percentage, the financial holding company shall report to the Competent Authority, and disclose the same via public announcement, the Internet, or other means designated by the Competent Authority:

1. Same natural person or same juridical person.
2. Same natural person and his/her spouse and relatives by blood within the second degree of kinship, as well as enterprises in which the principal or his/her spouse is the responsible person.
3. Same affiliate.

The transactions mentioned in the preceding paragraph include:

1. Lending;
2. Guarantee or endorsement of short-term notes or bills;
3. Transaction of notes, bills, or bonds with reverse repurchase agreement;
4. Investment in or purchasing securities issued by any party mentioned in the preceding paragraph;
5. Transactions of financial derivatives; and
6. Other transactions as prescribed by the Competent Authority.

The certain amount, certain percentage, content and format of reporting and disclosure referred to in

Paragraph 1 hereof, and other matters to be complied with shall be prescribed by the Competent Authority.

The Company and its subsidiaries have reported to the Competent Authority and disclosed the information in the website.

(48) Information of Financial Instruments

The subsidiary, BOT

The fair value information of financial instruments

December 31, 2013

		Unit: Thousand NTD	
Item		Book value	Fair value
Financial Assets :			
Cash and cash equivalents	\$	119,265,293	119,265,293
Placement with Central Bank and call loans to banks		585,444,072	585,444,072
Financial assets measured at fair value through profit or loss		166,714,218	166,714,218
Available for sale financial assets		765,521,333	765,521,333
Derivative financial assets hedging		5,443	5,443
Bonds and bills purchased under resell agreements		6,173,451	6,173,451
Receivables		82,279,036	82,279,036
Loans and discounts		2,240,652,458	2,240,652,458
Held to maturity financial assets		73,044,728	73,675,942
Other Financial Assets – net		70,317,917	70,317,917
Financial Liabilities :			
Deposits of Central Bank and other banks	\$	252,738,244	252,738,244
Financial liabilities measured at fair value through profit or loss		3,999,496	3,999,496
Derivative financial liabilities hedging		225,806	225,806
Bills and bonds sold under repurchase agreements		19,036,703	19,036,703
Payables		44,813,384	44,813,384
Deposits and remittances		3,409,612,039	3,409,612,039
Financial Bonds Payable		15,998,240	15,998,240
Other financial liabilities		1,243,698	1,243,698

December 31, 2012

		Unit: Thousand NTD
Item	Book value	Fair value
Financial Assets :		
Cash and cash equivalents	\$ 72,812,404	72,812,404
Placement with Central Bank and call loans to banks	549,627,869	549,627,869
Financial assets measured at fair value through profit or loss	146,534,038	146,534,038
Available for sale financial assets	734,870,751	734,870,751
Derivative financial assets hedging	3,543	3,543
Bonds and bills purchased under resell agreements	4,980,621	4,980,621
Receivables	89,166,548	89,166,548
Loans and discounts	2,177,133,260	2,177,133,260
Held to maturity financial assets	62,009,085	62,951,924
Other Financial Assets—net	69,668,204	69,668,204
Financial Liabilities :		
Deposits of Central Bank and other banks	213,374,465	213,374,465
Financial liabilities measured at fair value through profit or loss	4,876,954	4,876,954
Derivative financial liabilities hedging	301,390	301,390
Bills and bonds sold under repurchase agreements	11,998,398	11,998,398
Payables	41,988,683	41,988,683
Deposits and remittances	3,294,903,719	3,294,903,719
Other financial liabilities	8,198,013	8,198,013

Financial Status

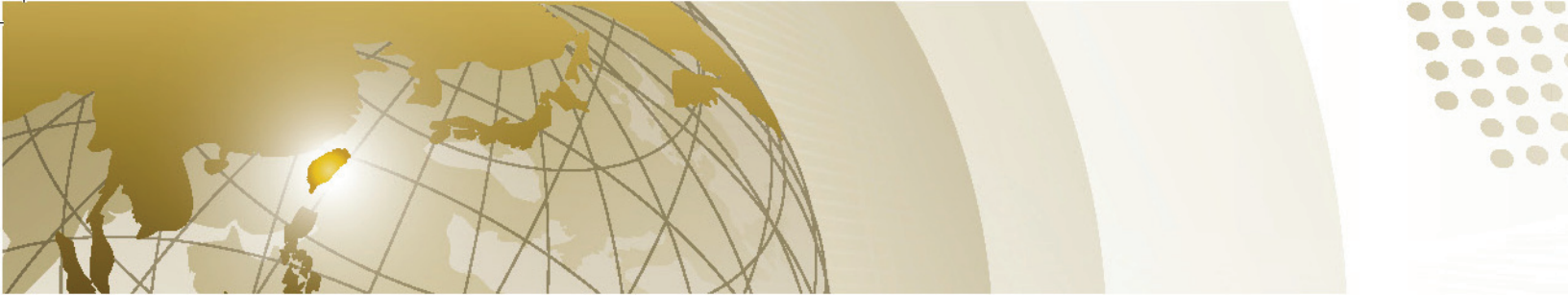
January 1, 2012

Item	Unit: Thousand NTD	
	Book value	Fair value
Financial Assets :		
Cash and cash equivalents	\$ 76,426,176	76,426,176
Placement with Central Bank and call loans to banks	488,555,403	488,555,403
Financial assets measured at fair value through profit or loss	110,886,007	110,886,007
Available for sale financial assets	757,373,465	757,373,465
Derivative financial assets hedging	3,074	3,074
Bonds and bills purchased under resell agreements	3,231,949	3,231,949
Receivables	84,601,770	84,601,770
Loans and discounts	2,153,591,119	2,153,591,119
Held to maturity financial assets	50,957,785	43,529,068
Other Financial Assets — net	72,202,088	72,202,088
Financial Liabilities :		
Deposits of Central Bank and other banks	208,926,475	208,926,475
Financial liabilities measured at fair value through profit or loss	3,902,885	3,902,885
Derivative financial liabilities hedging	409,907	409,907
Bills and bonds sold under repurchase agreements	14,906,165	14,906,165
Payables	39,429,620	39,429,620
Deposits and remittances	3,218,010,687	3,218,010,687
Other financial liabilities	5,346,276	5,346,276

The financial instruments not measured at fair value

The methods and assumptions to estimate the financial instruments not measured at fair value are as follows.

1. Some financial instruments that have short term to maturity or of which the agreed prices are close to carrying amounts are recognized using their carrying amounts at reporting date. These financial instruments include cash and cash equivalents, placement with central bank and call loans to banks, bills and bonds purchased under resell agreements, receivables, limited assets, deposits of central bank and other banks, loans to the central bank and banks, bills and bonds sold under repurchase agreements, payables and deposits received.
2. The discounts and loans (including nonperforming loans): The Company and its subsidiary use the floating interest rate to be the interest rate of loans. The floating interest rate can also reflect the market interest rate. So it's reasonable to use the carrying amount and the recoverability to estimate the fair value. The mid-term and long-term loans using with fixed interest rate should use the discounted present value of expected future cash flow to estimate their fair value. However, if the loans with fixed interest rate are minor, it is reasonable to use the carrying amount and their recoverability to estimate their fair value.
3. Held-to-maturity financial assets: If there is quoted price in active market, use it as the fair value. If not, use valuation methods to estimate their fair value or use the quoted price of counterparty.
 - (a) New Taiwan Dollar Government Bonds: Use the "Government Bonds Fair Value" offered by GreTai Securities Market to evaluate the bonds.
 - (b) New Taiwan Dollar Corporate Bonds and Financial Bonds: The present value is decided by the present value discounted at the yield offered by the GreTai Securities Market or the fair value offered by the GreTai Securities Market.

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4. **Deposits and Remittances:** The Company and its subsidiary consider the bank industries characteristic to decide the fair value. The deposits with market interest rate are almost those due within one year and their carrying amount are reasonable basis for estimating the fair value. The long-term deposits with fixed interest rate are measured using the discounted present value of expected future cash flow. Because the term to maturity is less than three years, it's reasonable using the carrying amount to estimate the fair value.
 5. **Financial Bonds Payable:** It refers to the convertible corporate bonds and financial bonds issued by the Company and its subsidiary. Their coupon rates are almost equal to the market interest rate, so it is reasonable to using the discounted present values of expected future cash flow to estimate their fair values. The present values are almost equal to the carrying amounts.
 6. **Other Financial Assets-Bonds Investments with Non-active Market:** If there are related transactions or quoted price from market makers, then using the latest strike price or quoted price to measure the fair value. If not, use the valuation methods to estimate the discounted present value of cash flow.
 7. **Other Financial Assets-Financial Assets Carried at Cost:** Because there is no quoted price in active market and the interval of estimated fair values is significant or it is not reasonable to evaluate the probability of each estimated fair value within the interval, the fair value can't be measured reliably. Hence, the Company and its subsidiaries do not disclose the fair value.

Financial instruments measured at fair value

Fair value is the amount at which the asset could be bought or sold in a current transaction between both parties, or transferred to an equivalent party.

Financial instruments are recognized using the fair values (usually the purchased price) originally. In sequential measurements, all financial instruments are measured at fair value except for some measured at amortized cost. The best evidence of fair value is the quoted price in active market. If the financial instruments are not in active market, the Company and its subsidiary use the valuation techniques, information of Bloomberg or the quoted price of counterparty to measure the fair value.

If the financial instruments have quoted prices in an active market, then use the quoted prices as the fair values. The strike prices in main stock exchanges and the announced price of popular government bonds in the GreTai Securities Market are the measurement basis for the fair value of equity instruments and debt instruments with quoted prices in active market.

A financial instrument is regarded as being quoted in an active market, if the Company and its subsidiary can attain the quote prices from stock exchanges, brokers, underwriters, industries associations, service organizations and the authorities timely and regularly, and the prices are representative. If the above conditions are not attained, the market is regarded as non-active. In general, the wide bid-ask spread, the increasing bid-ask spread or the decreasing volume of trade are the indicators of a non-active market.

Except those with quoted price in an active market, the fair values of the other financial instruments are attained by valuation techniques or quoted prices from countered parties. The fair value calculated using valuation techniques can refer to the present fair values of financial instruments with similar conditions and characteristics, the discounted cash flow method or other valuation techniques, including the modular valuation method of which the calculated values are computed using attainable market information (such as yield curve offered by the GreTai Securities Market and the commercial paper fixing rates of Reuters.)

When evaluating the financial instruments that are not standardized and complex, such as bond investments with non-active market, interest rate swaps, FX swaps and options, the Company and its subsidiary adopt the valuation technique widely accepted by market participants. The parameters used

by the valuation model are usually observable market information.

Aiming at the financial instruments with high complexity, the Company and its subsidiary use the valuation methods widely used by other banks and the self-developed valuation models to measure the fair value. These valuation models usually apply to derivatives, debt instruments of embedded derivatives or securitized products. Parts of the parameters used are not observable market information. The Company and its subsidiary should make the proper estimate according to some assumptions.

The level information of financial instruments measured at fair value

1. The Three-level Definition

(a) Level 1

It refers to the quoted price of similar financial instruments in an active market. An active market indicates the market that is in conformity with all the following conditions. The products in the market have homophily; it is easy to find a willing party; the price information is attainable for the public. The equity investments, beneficiary certificates, popular Taiwan government bonds and derivatives with quoted price in an active market are classified as level 1.

(b) Level 2

The observable prices include directly (such as prices) or indirectly (such as those inferred from the prices) observable input parameters attained from an active market except the quoted prices in an active market. The non-popular government bonds, corporate bonds, financial bonds, convertible bonds, most of the derivatives and the financial bonds issued by the Company and its subsidiary belong to level 2.

(c) Level 3

The input parameters used are not attainable market information. Parts of the derivatives and equity investments with non-active market belong to level 3.

The Fair Value Level-Information of the Financial Instruments

Financial instrument item measured at fair value	December 31, 2013			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss	160,979,498	100,830,044	59,852,398	297,056
Financial assets held for trading				
Investment in stocks	54,301,549	54,301,549	-	-
Investment in bonds	3,319,365	2,699,988	619,377	-
Others	83,090,159	41,988,723	41,101,436	-
Financial assets designated at fair value measured through profit or loss	20,268,425	1,839,784	18,131,585	297,056
Available for sale financial assets	765,521,333	49,180,396	716,340,937	
Investments in stocks	43,866,637	43,866,637	-	-
Investment in bonds	92,623,633	4,455,616	88,168,017	-
Others	629,031,063	858,143	628,172,920	-
<u>Derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss	5,734,720	-	5,734,720	-
Other financial assets				
Hedging derivative financial assets	5,443	-	5,443	-

Financial instrument item measured at fair value	December 31, 2013			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Financial liabilities measured at fair value through profit or loss	3,999,496	34,966	3,964,530	-
Other financial liabilities				
Hedging derivative financial liabilities	225,806	-	225,806	-
Financial instrument item measured at fair value	December 31, 2012			
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets:				
Financial assets measured at fair value through profit or loss	135,008,288	81,778,388	52,083,511	1,146,389
Financial assets held for trading				
Investment in stocks	45,546,940	45,546,940	-	-
Investment in bonds	3,313,095	2,635,651	677,444	-
Others	64,848,141	31,743,156	33,104,985	-
Financial assets designated at fair value measured through profit or loss	21,300,112	1,852,641	18,301,082	1,146,389
Available for sale financial assets	734,870,751	43,696,864	690,970,987	202,900
Investment in stocks	38,990,770	38,990,770	-	-
Investment in bonds	84,549,901	2,559,711	81,990,190	-
Others	611,330,080	2,146,383	608,980,797	202,900
Derivative financial instruments				
Assets:				
Financial assets measured at fair value through profit or loss	11,525,750	-	11,525,750	-
Other financial assets				
Hedging derivative financial assets	3,543	-	3,543	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	4,876,954	81,247	4,795,707	-
Other financial liabilities				
Hedging derivative financial liabilities	301,390	-	301,390	-
Financial instrument item measured at fair value				
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets:				
Financial assets measured at fair value through profit or loss	99,918,593	71,818,290	28,100,303	-
Financial assets held for trading				
Investment in stocks	42,161,922	42,161,922	-	-
Investment in bonds	3,562,402	3,549,713	12,689	-
Others	30,486,077	23,009,269	7,476,808	-
Financial assets designated at fair value measured through profit or loss	23,708,192	3,097,386	20,610,806	-
Available for sale financial assets	757,373,465	68,905,467	688,467,998	-
Investment in stocks	41,059,718	41,059,718	-	-
Investment in bonds	90,451,188	26,135,374	64,315,814	-
Others	625,862,559	1,710,375	624,152,184	-
Other financial assets				
Debt securities investment in non-active market	3,948,977	-	3,948,977	-
Derivative financial instruments				
Assets:				
Financial assets measured at fair value through profit or loss	10,967,414	-	10,967,414	-
Other financial assets				
Hedging derivative financial assets	3,074	-	3,074	-

Financial Status

Financial instrument item measured at fair value	December 31, 2013			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Financial liabilities measured at fair value through profit or loss	3,902,885	-	3,902,885	-
Other financial liabilities				
Hedging derivative financial liabilities	409,907	-	409,907	-

Disclosure for financial assets measured at fair value classified to the third level.

Unit: Thousand NTD

Unit: Thousand NTD

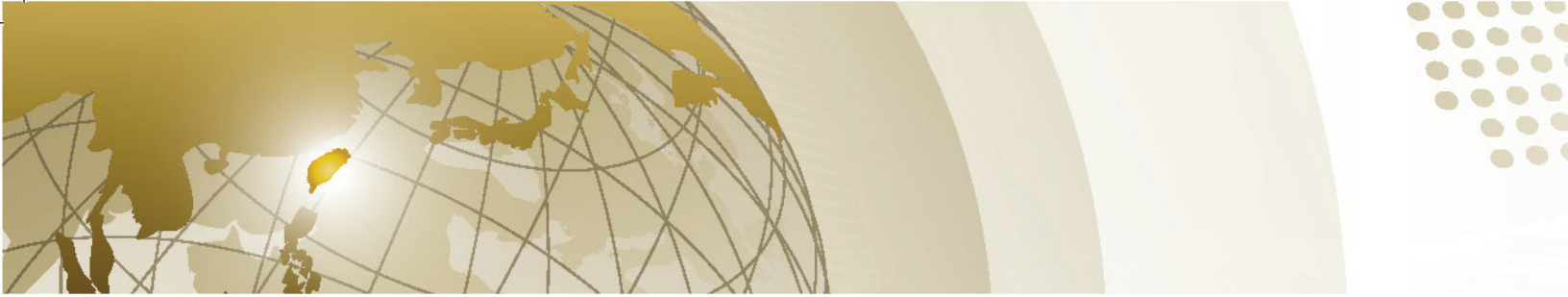
December 31, 2013								
Account	Balance on January 1, 2013	Evaluation of gains and losses profit or loss or the amount of equity	Increase		Decrease		Effect of exchange rate change	Balance on December 31, 2013
			Buy, issue or discount	Transferred to level 3	Sale, disposal or settle at premium	Transferred from level 3		
Financial assets measured at fair value through profit or loss								
Financial assets designated at fair value measured through profit or loss	\$ 1,146,389	14,267	29,800	-	893,400	-	-	297,056
Available for sale financial assets	202,900	1,525	825,927	-	208,778	821,574	-	-
Total	\$ 1,349,289	15,792	855,727	-	1,102,178	821,574	-	297,056

Account	December 31, 2012							Balance on December 31, 2013
	Balance on January 1, 2013	Evaluation of gains and losses profit or loss or the amount of equity	Increase		Decrease		Effect of exchange rate change	
			Buy, issue or discount	Transferred to level 3	Sale, disposal or settle at premium	Transferred from level 3		
Financial assets measured at fair value through profit or loss								
Financial assets designated at fair value measured through profit or loss	\$ -	259,792	-	1,324,197	437,600	-	-	1,146,389
Available for sale financial assets	-	9	165	211,395	8,669	-	-	202,900
Total	\$ -	259,801	165	1,535,592	446,269	-	-	1,349,289

The sensitivity analysis for the financial assets measured at fair value classified to the third level.

The fair value measurement of the Bank is reasonable. However, if different valuation models or parameters are used, the valuation results will be different. Aiming at the financial instruments classified to the third level, the influence to the income or the other comprehensive income due to the $\pm 1\%$ changes of parameters are as follows.

	Effect on Profit and Loss		Effect on Other Comprehensive Income	
	Favorable	Unfavorable	Favorable	Unfavorable
December 31, 2013				
<u>Assets</u>				
Financial assets at fair value through profit or loss				
Financial assets designated as at fair value through profit or loss	\$ 6	(6)	-	-
Available-for-sale financial assets	-	-	1	(1)
December 31, 2012				
<u>Assets</u>				
Financial assets at fair value through profit or loss				
Financial assets designated as at fair value through profit or loss	24	(24)	-	-
Available-for-sale financial assets	-	-	1	(1)



The favorable or unfavorable changes refer to the volatility of fair value which is calculated using different observable input parameters.

If the fair value is affected by more than one parameter, the above table only reflects the influence owing to a single parameter. The Company and its subsidiary don't consider the correlation and variance.

Capital management

1. The target and procedure of capital management

The target of capital management is to achieve the authority's requirements for the BIS capital adequacy ratio and to improve the efficiency of capital usage through capital management procedures.

The Bank considers the short-term and long-term capital demand, operating plans and the lowest requirement to the BIS ratio to draft the capital plan. The Bank conducts the stress testing, the simulation analysis periodically, consider the external conditions and other factors, such as potential risks, environment changes of the financial market and other events that will affect the risk tolerable ability to ensure the company can maintain sufficient capital while unfavorable events and significant changes to the market occur.

2. The definition and regulations of capital

The Bank's authority is the Financial Supervisory Commission (the FSC). The Bank follows the "Regulations Governing the Capital Adequacy and Capital Category of Banks" issued by the FSC.

The term "Ratio of Regulatory Capital to Risk-weighted Assets" shall mean Common Equity Tier 1 Ratio, Tier 1 Capital Ratio, and Total Capital Adequacy Ratio. Except computing the Bank's own ratios, it also calculates the ratios using consolidated financial information according to the IAS 27. The all mentioned ratios should in conformity with the article 5 of the regulations.

3. Regulatory capital

The term "Regulatory Capital" shall mean the net Tier 1 Capital and the net Tier 2 Capital according to the Regulations Governing the Capital Adequacy and Capital Category of Banks."

(a) The term "Net Tier 1 Capital" shall mean the aggregate amount of net Common Equity Tier1 and net additional Tier 1 Capital.

a) The common equity Tier 1 capital consists of the common equity that reduces intangible assets, the deferred tax assets due to losses from the previous year, the insufficiency of operation reserves and loan loss provisions, the revaluation surplus of real estate, unamortized losses on sales of non-performing loans, and the statutory adjustment items calculated in accordance with other rules for calculation methods. The common equity tier 1 capital shall mean the sum of the common stock and additional paid-in capital in excess of par- common stock, the capital collected in advance, the capital reserves, the statutory surplus reserves, the special reserves, the accumulated profit or loss, the non-controlling interests and the other items of interest.

b) The range of additional Tier 1 capital shall mean the total amount of the following items reduces the total amount of the deductible items in accordance with the rules for calculation methods.

a. Non-cumulative perpetual preferred stock and its capital stock premium.

b. Non-cumulative perpetual subordinated debts.

- c. The non-cumulative perpetual preferred stock and its capital stock premium, and the non-cumulative perpetual subordinated debts which are issued by banks' subsidiaries, and are not directly or indirectly held by banks.
- (b) The range of Tier 2 capital shall mean the total amount of the following items reduces the total amount of the deductible items in accordance with the rules for calculation methods.
 - a) Cumulative perpetual preferred stock and its capital stock premium.
 - b) Cumulative perpetual subordinated debts.
 - c) Convertible subordinated debts
 - d) Long-term subordinated debts
 - e) Non-perpetual preferred stock and its capital stock premium
 - f) When the real estate was adopted by International Financial Reporting Standards for the first time and used the fair value or the re-estimated value as the deemed cost. The difference in amount between the deemed cost and the book value was recognized in retained earnings, the 45% of unrealized gain on available-for-sale financial assets, as well as operational reserves and loan-loss provisions.
 - g) The cumulative perpetual preferred stock and its capital stock premium, cumulative perpetual subordinated debts, convertible subordinated debts, long-term subordinated debts, and the non-perpetual preferred stock and its capital stock premiums, which are issued by banks' subsidiaries, and are not directly or indirectly held by banks.

When a bank reports its capital adequacy ratio according to the regulations, the competent authority shall examine its capital category in accordance with the provisions of these regulations on the calculation of capital adequacy ratio.

When a bank's capital is graded as inadequate capital, significantly inadequate capital or seriously inadequate capital by the competent authority's examination, the competent authority shall take prompt corrective actions pursuant to Sections 1 to 3, Paragraph 1, Article 44-2 of the Act.

The government regulations are formulated in accordance with the Basel Accord. The followings are the content of the Basel Accord and the implementation of the Bank.

(a) The First Pillar

The first pillar contains the capital requirements for credit risks, market risks and operation risks.

- a) Credit risks refer to the default risk resulted from the counterparties. The credit risk is derived from the assets, liabilities or off-balance sheet items. There are two measurement methods, the Standardized Approach and the Internal Ratings-Based Approach (the IRB). The Bank uses the Standardized Approach.
- b) Market risks refer to the loss due to the changes of the market price, such as the changes of the market interest rate, the exchange rate, the stock price and the product price. There are two measurement methods, the Standardized Approach and the Internal Model Approach. The Bank uses the Standardized Approach.
- c) Operation risks refer that the Bank has loss caused by the internal operations, the employee's faults, the system errors or external events. The operation risks include legal risks but exclude strategy risks and reputation risks. The measurement methods are the Basic Indicator Approach, the Standardized Approach, the Alternative Standardized Approach and the Advanced

Measurement Approach. The Bank uses the Basic Indicator Approach to calculate the required capital for operation risks.

(b) The Second Pillar

The second pillar is used to ensure that each bank has sufficient internal assessment procedures and each bank can understand the capital adequacy through complete risk measurements. In the meantime, it also uses proper supervisory operations to ensure the regulatory capital accord with the whole risk characteristics. The Bank reports the capital adequacy measurements and the risk management situations to the competent authority with related information.

(c) The Third Pillar

The third pillar is related to the market discipline. It requires banks to disclose more information about the risks, the capital and the risk managements according the new Basel Accord in order to increase their information transparency. As a result, the Banks has offered the “Information of the Capital Adequacy and the Risk Managements” in our website to disclose the qualitative data and the quantitative data.

(d) The capital adequacy ratio

Year			December	December	January
Analyze Items			31, 2013	31, 2012	1, 2012
Eligible capital	Common stock capital		169,355,190	175,892,703	172,881,294
	Other tier 1 capital		-	-	-
	Tier 2 capital		34,157,947	15,946,768	14,484,521
	Eligible capital		203,513,137	191,839,471	187,365,815
Risk assets weighted assets	Credit risk	Standardized approach	1,768,858,574	1,631,099,532	1,525,347,746
		Internal rating based approach	-	-	-
		Securitization	4,374,030	3,646,593	2,125,603
	Operational risk	Basic indicator approach	51,777,388	49,219,638	47,184,300
		Standardized approach/Alternative standardized approach	-	-	-
		Advance measurement approach	-	-	-
	Market risk	Standardized approach	71,523,188	72,726,088	71,441,638
		Internal models approach	-	-	-
	Total risk weighted assets		1,896,533,180	1,756,691,851	1,646,099,287
Capital adequacy ratio			10.73%	10.92%	11.38%
Common stock - based capital ratio			8.93%	10.01%	10.50%
Tier 1 risk based capital ratio			8.93%	10.01%	10.50%
Leverage ratio			3.58%	4.40%	4.45%

The subsidiary, BTLI

The fair value of the financial instruments

The management of the subsidiary, BTLI regards that the carrying amount of the financial assets and liabilities amortized at cost is close to its fair value.

	December 31, 2013		December 31, 2012		January 1, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Cash and cash equivalents	\$ 22,859,656	22,859,656	40,147,289	40,147,289	24,868,033	24,868,033
Receivables	3,282,052	3,282,052	4,139,681	4,139,681	2,334,985	2,334,985
Current tax assets	908,411	908,411	774,948	774,948	522,172	522,172
Financial assets measured at fair value through profit or loss	195,292	195,292	834,218	834,218	979,164	979,164
Available-for-sale financial assets	48,136,850	48,136,850	40,809,899	40,809,899	43,264,835	43,264,835
Debt investments without quoted price in active market	55,509,059	52,292,200	40,972,005	40,972,005	33,525,229	33,525,229
Held-to-maturity financial assets	197,658,767	195,919,650	181,947,391	186,074,396	176,735,640	178,294,996
Other financial assets-net	44,585,700	44,585,700	41,900,000	41,900,000	20,326,000	20,326,000
Loans	11,620,809	11,620,809	10,788,881	10,788,881	10,436,679	10,436,679
Refundable deposits	2,730,192	2,726,701	2,615,341	2,794,641	1,864,481	1,961,791
Financial liabilities:						
Payables	23,196,712	23,196,712	27,387,192	27,387,192	30,072,432	30,072,432
Current tax liabilities	158	158	216	216	-	-
Financial liabilities measured at fair value through profit or loss	566,702	566,702	35,267	35,267	915,132	915,132

The valuation techniques used by the subsidiary, BTLI to calculate fair value

The subsidiary, BTLI uses the following methods to calculate the fair values of the financial assets and liabilities.

1. For the short-term financial instruments, the carrying amounts on the balance sheet reasonably approximate their fair value due to the relatively short term nature of these financial instruments. These financial instruments include cash and cash equivalents, receivables, payables, other financial assets, deposits received and so on.
2. For the financial assets and liabilities with standard terms and quoted prices in active market such as the callable corporate bonds, listed stocks, bills of exchange, their fair values are estimated based on market prices.
3. The quoted price in the market is used to measure the fair value of the derivative. When the quoted price is unavailable, the option pricing model is used to estimate the fair value of the option; and the discounted present value of the cash flow using the proper yield is adopted to calculate the fair value for the other derivatives.
4. The option pricing model is used for the financial guarantee contracts to estimate the fair value. The main assumptions of the model are the probability of default for certain counterparties (using the credit information in the market as the valuation basis) and the loss caused by the default.
5. Except for the above, the other financial assets and liabilities use the discounted cash flow analysis to estimate their fair value.

The level information of the fair value – the Subsidiary, BTLI

The methods and hypothesis that the subsidiary, BTLI uses to evaluate the fair value of financial instruments are as follows:

1. Level One:

It refers to the quoted price of similar financial instruments in an active market. An active market indicates the market that is in conformity with all the following conditions. The products in the market have homophily; it is easy to find a willing party; the price information is attainable for the public. The equity investments, beneficiary certificates, popular Taiwan government bonds and derivatives with quoted price in an active market are classified as level 1.

2. Level Two:

The observable inputs include directly (such as prices) or indirectly (such as those inferred from the prices) observable input parameters attained from an active market except the quoted prices in an active market. For example:

- (a) The quoted price for similar financial instruments in an active market. It means that the price of the held financial instrument is derived from the latest transaction price for a similar financial instrument. A similar financial instrument is decided by the characteristics and the terms. The fair value refers to the observable price for the similar financial instrument adjusted by some factors such as the time lag, the difference of terms, the price involving with the related parties and the relativity between the observable price for the similar instrument and the price for the owned instruments.
- (b) Quoted prices for identical or similar assets or liabilities in market those are not active.
- (c) Inputs other than quoted prices which are observable for the asset or liability such as interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads. Inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.
- (d) Inputs that are derived principally from or corroborated by observable market data by correlation or other means ('market-corroborated inputs').

3. Level Three:

The input parameters used are not attainable market information. (Unobservable input parameters such as the option pricing model using historical volatility. Because the historical volatility cannot represent the expected future volatility for all market participants.)

Financial instruments measured at fair value	December 31, 2013			
	Total	Level One	Level Two	Level Three
Non-derivative financial instruments				
Assets:				
Available-for-sale financial assets	\$ 48,136,850	44,388,947	3,747,903	
Domestic equity investments	23,350,210	23,350,210	-	-
Debt investments	17,943,885	14,195,982	3,747,903	-
Foreign equity investments	6,842,755	6,842,755	-	-
Derivative financial instruments				
Assets :				
Financial measured at fair value through profit or loss	195,292	-	195,292	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	566,702	-	566,702	-

Financial Status

		December 31, 2012			
Financial instruments measured at fair value		Total	Level One	Level Two	Level Three
Non-derivative financial instruments					
Assets:					
Available-for-sale financial assets	\$	40,809,899	26,408,084	14,401,815	
Equity investments		12,684,388	12,684,388	-	-
Debt investments		15,195,099	793,284	14,401,815	-
Others		12,930,412	12,930,412	-	-
Derivative financial instruments					
Assets:					
Financial assets measured at fair value through profit or loss		834,218	-	834,218	-
Liabilities :					
Financial liabilities measured at fair value through profit or loss		35,267	-	35,267	-

		January 1, 2012			
Financial instruments measured at fair value		Total	Level One	Level Two	Level Three
Non-derivative financial instruments					
Assets					
Financial assets measured at fair value through profit or loss	\$	766,821	766,821		
Held-for-trading financial assets		553,057	553,057		
Equity investments		544,866	544,866	-	-
Others		8,191	8,191	-	-
Financial assets designated as at fair value through profit or loss		213,764	213,764	-	-
Available-for-sale financial assets		43,264,835	27,031,246	16,233,589	
Equity investments		17,900,545	17,900,545	-	-
Debt investments		17,778,536	1,544,947	16,233,589	-
Others		7,585,754	7,585,754	-	-
Derivative financial instruments					
Assets:					
Financial assets measured at fair value through profit or loss		212,343	-	212,343	-
Liabilities					
Financial liabilities measured at fair value through profit or loss		915,132	-	915,132	-

The subsidiary, BTLI does not have any transfer between level 1 and level 2.

The Subsidiary, BTS

Credit Risk

1. 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, 2013	December 31, 2012	January 1, 2012
Cash and cash equivalents	\$ 183,610	48,371	47,687
Financial assets measured at fair value through profit or loss	580,701	403,211	73,559
Available-for-sale financial assets	1,605,126	1,233,014	974,206
Loans and receivables	5,524,214	3,720,187	5,779,743
\$	7,893,651	5,404,783	6,875,195

The maximum exposure amounts by regions are as follows:

	Units: Thousands of New Taiwan Dollars		
	December 31, 2013 (Taiwan)	December 31, 2012 (Taiwan)	January 1, 2012 (Taiwan)
Cash and cash equivalents	\$ 183,610	48,371	47,687
Financial assets measured at fair value through profit or loss	580,701	403,211	73,559
Available-for-sale financial assets	1,605,126	1,233,014	974,206
Loans and receivables	5,524,214	3,720,187	5,779,743
	\$ 7,893,651	5,404,783	6,875,195

The maximum exposure amounts by counterparties are as follows:

	Government	Finance	Other companies	Individuals	Total
December 31, 2013					
Cash and cash equivalents	\$ -	183,610	-	-	183,610
Financial assets measured at fair value through profit or loss – current	-	69,245	511,456	-	580,701
Available-for-sale financial assets – current	101,324	801,545	702,257	-	1,605,126
Loans and receivables	359,129	-	-	5,165,085	5,524,214
	\$ 460,453	1,054,400	1,213,713	5,165,085	7,893,651
December 31, 2012					
Cash and cash equivalents	\$ -	48,371	-	-	48,371
Financial assets measured at fair value through profit or loss – current	-	179,643	223,568	-	403,211
Available-for-sale financial assets – current	152,563	426,883	653,568	-	1,233,014
Loans and receivables	-	-	1,782	3,718,405	3,720,187
	\$ 152,563	654,897	878,918	3,718,405	5,404,783
January 1, 2012					
Cash and cash equivalents	\$ -	47,687	-	-	47,687
Financial assets measured at fair value through profit or loss – current	-	30,989	42,570	-	73,559
Available-for-sale financial assets – current	103,349	342,067	528,790	-	974,206
Loans and receivables	-	-	1,624	5,778,119	5,779,743
	\$ 103,349	420,743	572,984	5,778,119	6,875,195

2. The concentration of credit risk

Because of various unrelated customers, the subsidiary, BTS believes that the concentration of the credit risk is minimal.

3. The credit quality information

	Units: Thousands of New Taiwan Dollars		
	December 31, 2013		
	Normal	Abnormal	Subtotal(A)
Cash and cash equivalents	\$ 183,610	-	183,610
Financial assets measured at fair value through profit or loss	580,701	-	580,701
Available-for-sale financial assets	1,605,126	-	1,605,126
Loans and receivables	5,524,214	-	5,524,214
Total	\$ 7,893,651	-	7,893,651

Financial Status

December 31, 2012			
	Normal	Abnormal	Subtotal(A)
Cash and cash equivalents	\$ 48,371	-	48,371
Financial assets measured at fair value through profit or loss	403,211	-	403,211
Available-for-sale financial assets	1,233,014	-	1,233,014
Loans and receivables	3,720,187	-	3,720,187
Total	\$ 5,404,783	-	5,404,783

January 1, 2012			
	Normal	Abnormal	Subtotal(A)
Cash and cash equivalents	\$ 47,687	-	47,687
Financial assets measured at fair value through profit or loss	73,559	-	73,559
Available-for-sale financial assets	974,206	-	974,206
Loans and receivables	5,779,743	-	5,779,743
Total	\$ 6,875,195	-	6,875,195

Liquidity Risk

The following tables represent the expiration date of the financial liabilities. The amounts included the estimated interest expenses but without considering the effects of the netting agreements.

		1~30 days	31~90 days	91days ~ 1 year	Over 1 year	Total
December 31, 2013						
Non-derivatives financial liabilities						
Short-term loans	\$	200,792	-	-	-	200,792
Commercial paper payable		1,499,705	-	-	-	1,499,705
Financial liabilities measured at fair value through profit or loss – current		38,283	-	-	-	38,283
Bonds sold under repurchase agreements		1,861,783	-	-	-	1,861,783
Deposits received from securities borrowers		26,317	26,317	52,635	-	105,269
Guaranteed price deposits received from securities borrowers		28,935	28,935	57,868	-	115,738
Accounts payables		2,678,986	-	-	-	2,678,986
Advance receipts		11	-	-	-	11
Collections		147,779	-	-	-	147,779
Other payables		64,071	-	-	-	64,071
Other payables- related-party		53,026	-	-	-	53,026
Current tax liabilities		1,508	-	-	-	1,508
Other non-current liabilities		-	-	-	5,266	5,266
	\$	6,601,196	55,252	110,503	5,266	6,772,217

		1~30 days	31~90 days	91days ~ 1 year	Over 1 year	Total
December 31, 2012						
Non-derivative financial liabilities						
Commercial paper payable	\$	519,880	-	-	-	519,880
Financial liabilities measured at fair value through profit or loss – current		12,376	-	-	-	12,376
Bonds sold under repurchase agreements		1,343,407	-	-	-	1,343,407
Deposits received from securities borrowers		14,092	14,092	28,186	-	56,370
Guaranteed price deposits received from securities borrowers		15,480	15,480	30,959	-	61,919
Payables		1,546,220	-	-	-	1,546,220
Advance receipts		1,811	-	-	-	1,811
Collections		5,848	-	-	-	5,848
Other payables		56,419	-	-	-	56,419
Other payables-related-party		46,110	-	-	-	46,110
Non-current liabilities		-	-	-	3,707	3,707
	\$	-	-	-	-	-

	1~30 days	31~90 days	91days ~ 1 year	Over 1 year	Total
January 1, 2012					
Non-derivative financial liabilities					
Commercial paper payable	\$ 499,537	-	-	-	499,537
Financial liabilities measured at fair value through profit or loss — current	212	-	-	-	212
Bonds sold under repurchase agreements	731,885	-	-	-	731,885
Deposits received from securities borrowers	12,725	12,725	25,450	-	50,900
Guaranteed price deposits received from securities borrowers	13,992	13,991	27,982	-	55,965
Payables	3,936,800	-	-	-	3,936,800
Advance receipts	1,626	-	-	-	1,626
Collections	4,779	-	-	-	4,779
Other payable	55,882	-	-	-	55,882
Other payable-related-party	45,610	-	-	-	45,610
Non-current liabilities	-	-	-	4,351	4,351
	\$ 5,303,048	26,716	53,432	4,351	5,387,547

The subsidiary, BTS does not expect the occurrence of the actual cash flow will be earlier or significantly different.

Price Risk

1. Price risk

Sensitivity analysis

	Units: Millions of New Taiwan Dollars	
	Equity	Gain or loss
December 31, 2013		
Price rises 10%	95.84	26.61
Price falls 10%	(32.33)	(12.03)
	Equity	Gain or loss
December 31, 2012		
Price rises 10%	41.38	24.58
Price falls 10%	(57.91)	(6.44)
	Equity	Gain or loss
January 1, 2012		
Price rises 10%	1.04	28.58
Price falls 10%	(156.54)	(41.74)

2. Interest rate risk

The overview of the financial instruments held with interest rates is as follows:

	Units: Thousands of New Taiwan Dollars		
	December 31, 2013	December 31, 2012	January 1, 2012
Financial instruments with fixed rate :			
Convertible bonds	\$ 576,562	402,525	99,997
Government bonds	101,324	152,563	103,349
Corporate bonds	898,229	653,567	501,662
Financial bonds	303,469	208,779	-
	\$ 1,879,584	1,417,434	705,008

Financial Status

Currency Risk

	December 31, 2013		
	Foreign currency (in thousand dollars)	Exchange rate (in dollars)	NTD
Financial assets :			
Monetary items:			
CNY	94,251	4.9130	463,055

The subsidiary, BTS does not have currency risk as at December 31, and January 1 2012.

The currency risk is mainly arisen from the available-for-sale financial assets-current and receivables denominated in foreign currencies. Foreign currency differences arising on retranslation. A 1% strengthening/ weakening of the TWD against the CNY at the end of the reporting period would have increased (decreased) profit before tax by \$4,613 thousand dollars in 2013. The analysis assumes that all other variables in particular interest rates remained constant.

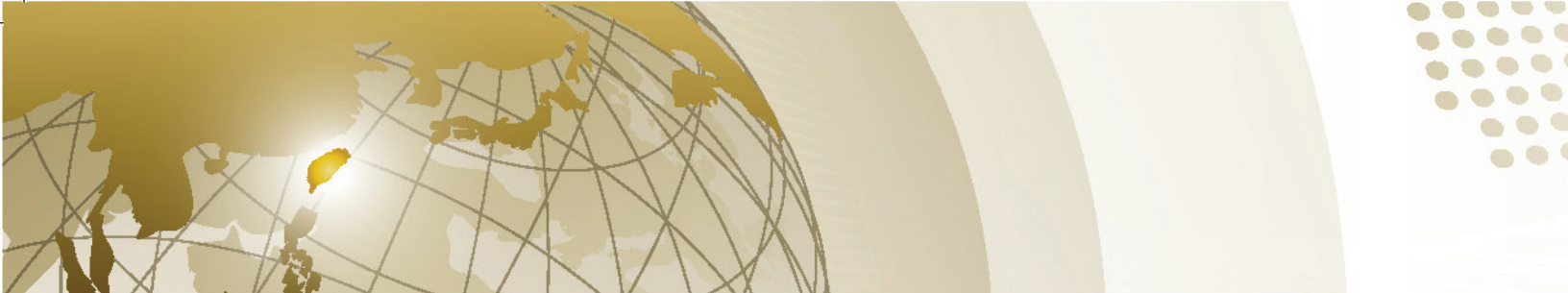
Fair value

1. The fair value information of the financial assets and liabilities are as follows:

	December 31, 2013		December 31, 2012		January 1, 2012	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets :						
Cash and cash equivalents	\$ 183,610	183,610	48,371	48,371	47,687	47,687
Financial assets measured at fair value through profit or loss – current	774,855	774,855	559,438	559,438	425,168	425,168
Available-for-sale financial assets – current	1,943,859	1,943,859	1,511,691	1,738,692	1,420,031	1,420,031
Bond investments purchased under resell agreements	861,517	861,517	338,777	338,777	177,561	177,561
Margin loans receivable	2,856,777	2,856,777	2,028,144	2,028,144	1,770,825	1,770,825
Notes receivables	-	-	1,782	1,782	1,624	1,624
Accounts receivables	2,667,437	2,667,437	1,690,262	1,780,543	4,007,294	4,007,294
Other current assets	138,060	138,060	1,501	1,501	430	430
Other non-current assets	404,221	404,221	380,092	380,092	350,395	350,395
Financial liabilities:						
Short-term loans	200,792	200,792	-	-	-	-
Commercial paper payable	1,499,705	1,499,705	519,880	519,880	499,537	499,537
Financial liabilities measured at fair value through profit or loss – current	38,283	38,283	12,376	12,376	212	212
Bonds sold under repurchase agreements	1,861,783	1,861,783	1,343,407	1,343,407	731,885	731,885
Deposits received from securities borrowers	105,269	105,269	56,370	56,370	50,900	50,900
Guaranteed price deposits received from securities borrowers	115,738	115,738	61,919	61,919	55,965	55,965
Payables	2,678,986	2,678,986	1,546,220	1,546,220	3,936,800	3,936,800
Other payables	64,071	64,071	56,419	56,419	55,882	55,882
Other payables-related-party	53,026	53,026	46,110	46,110	45,610	45,610
Other non-current liabilities	5,266	5,266	3,707	3,707	4,351	4,351

2. The methods and hypothesis that the subsidiary, BTS uses to evaluate the fair value of financial instruments are as follows.

- (a) The carrying amounts on the balance sheet date reasonably approximate their fair value due to the relatively short term nature of these financial instruments. These financial instruments include cash and cash equivalent, accounts related to securities financing and refinancing, securities lending



receivables, reverse repo, notes receivable, accounts receivable, other receivables, security of business, clearing and settlement fund, refundable deposit, shore-term loan, commercial papers payable, repo, accounts payable, other payables, deposits received and so on.

- (b) For the financial assets with quoted prices in an active market, their fair values are valued by the market prices. When the quoted price is unavailable, the valuation method of which the variables and hypothesis are similar to the pricing model used by the other market participants is adopted. For parameter setting, the subsidiary, BTS uses the discount rate which is equal to the return rate of the financial instrument with same characteristics and it also considers the credit rating of counterparties, the expiration date, the volatility of the trading target and other factors.
- (c) When the quoted price is unavailable, the applicable valuation model is used to estimate the fair value. For the future options, the valuation models such as Black Scholes Model, Black 76 model and Merton are used. For the interest rate swap contracts, the discounted cash flow method is used. For the bond option, the binary tree method is used.
- (d) If the market prices of the received collaterals are available, the fair values are valued using the market prices. If otherwise, the carrying amounts are reasonable to approximate as their fair value.
- (e) The fair values of other long-term liabilities are valued at the present value of the expected cash flows discounted at the available long-term borrowing rate of the subsidiary, BTS.

3. Fair Value Level

Financial instruments measured at fair value are classified into three levels according to their valuation method.

- (a) Level One: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- (b) Level Two: Inputs other than quoted prices belonging to level 1 that are observable for the asset or liability, either directly (price) or indirectly (inferred by price.)
- (c) Level Three: Inputs for the asset or liability are not based on observable market data (unobservable inputs.)

		December 31, 2013			
		Total	Level One	Level Two	Level Three
Non-derivative financial instruments:					
Assets					
Financial assets measured at fair value through profit or loss	\$	770,717	450,402	320,315	-
Equity investments		194,154	179,002	15,152	-
Debt investments		576,563	271,400	305,163	-
Available-for-sale financial assets		1,943,859	640,838	1,303,021	-
Equity investments		338,733	338,733	-	-
Debt investments		1,303,021	-	1,303,021	-
Others		302,105	302,105	-	-
Liabilities					
Financial liabilities measured at fair value through profit or loss		976	976	-	-
Derivative financial instruments:					
Assets					
Financial assets measured at fair value through profit or loss		4,138	-	4,138	-
Liabilities					
Financial liabilities measured at fair value through profit or loss		37,307	-	37,307	-

Financial Status

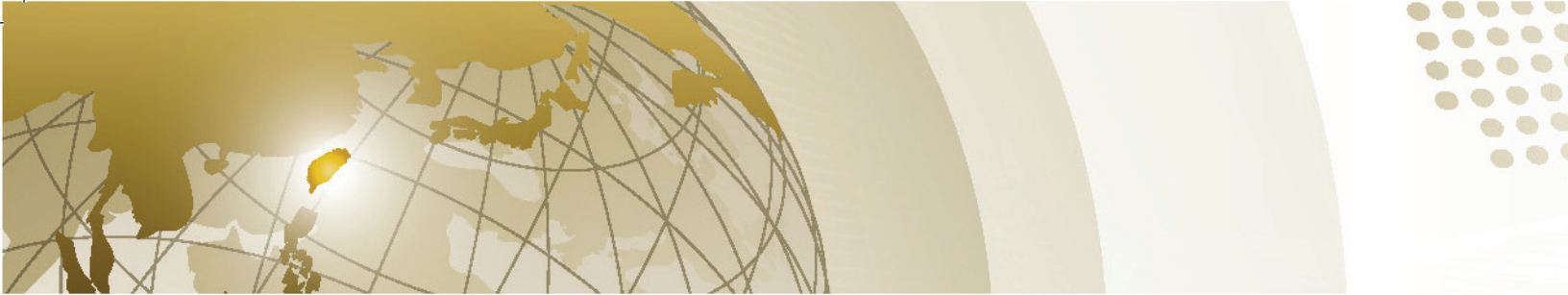
December 31, 2012				
	Total	Level One	Level Two	Level Three
Non-derivative financial instruments:				
Assets				
Financial assets measured at fair value through profit or loss	\$ 558,752	314,120	244,632	-
Equity investments	156,227	128,077	28,150	-
Debt investments	402,525	186,043	216,482	-
Available-for-sale financial assets	1,511,691	496,782	1,014,909	-
Equity investments	278,677	278,677	-	-
Debt investments	1,014,909	-	1,014,909	-
Others	218,105	218,105	-	-
Liabilities				
Financial liabilities measured at fair value through profit or loss	1,133	1,133	-	-
Derivative financial assets				
Assets				
Financial assets measured at fair value through profit or loss	\$ 686	-	686	-
Liabilities				
Financial liabilities measured at fair value through profit or loss	11,243	-	11,243	-
January 1, 2012				
	Total	Level One	Level Two	Level Three
Non-derivative financial assets				
Assets				
Financial assets measured at fair value through profit or loss	\$ 424,479	387,865	36,614	-
Equity investments	351,610	344,596	7,014	-
Debt investments	72,869	43,269	29,600	-
Available-for-sale financial assets	1,420,031	815,020	605,011	-
Equity investments	445,825	445,825	-	-
Debt investments	632,139	27,128	605,011	-
Others	342,067	342,067	-	-
January 1, 2012				
	Total	Level One	Level Two	Level Three
Derivative financial assets :				
Assets				
Financial assets measured at fair value through profit or loss	689	-	689	-
Liabilities				
Financial liabilities measured at fair value through profit or loss	212	-	212	-

(49) The Nature and Scope of the Insurance Contract Risk

1) The objectives, strategies, procedures and methods of the risk management for insurance contract:

1. The structure, organization and the responsibility of the risk management

The risk management structure of the subsidiary, BTLI includes the board of the directors, risk management committee, internal audit department, risk management department and business units. Their responsibilities are as follows:



(a) Board of Directors

- a) The Board of Directors is the decision-maker and responsible for the overall risks.
- b) The Board of Directors shall formulate risk management policies according to the entire operational strategies and business environment, monitor the risk management mechanism consistently, and control the company's risk status in order to ensure that there is sufficient capital in response to all risks.

(b) Risk management committee

- a) Execute and implement the risk management strategies and coordinate the risk management events with different departments.
- b) Formulate risk management policies, structure, organize function, and set up qualified and quantified management standards. Report the performance of the risk management and appropriate advices to the Board of Directors accordingly.

(c) Risk management department

- a) Responsible for the overall risk management of the subsidiary, BTLI.
- b) Implement, monitor and follow up the decisions of risk management made by the Board of Directors or the risk management committee. And turn in the risk management report to them. If any risk exposures exceeding the capacity of the subsidiary is discovered, the department has to take actions immediately and reports to the Board of Directors.
- c) Assist the Board of Directors in the implementation and formulation of the risk management policies.
- d) Establish the subsidiary, BTLI's primary risk management standards and procedures as a reference for all units and report them to the Parent Company for future reference.
- e) Report to the Board of Directors and risk management committee on a regular basis for the conditions of all risk management in order to master the risk. The risk management report shall be send to the risk management department of the Holding Company on monthly basis.

(d) All operational units

Each department shall identify, evaluate, and control the risks resulted from new products or new business and establish the risk management regulations accordingly.

(e) Auditing office of the Board of Directors

The auditing office shall audit the respective departments of the BTLI in respect of the performance of the risk management in accordance with the applicable regulations and legislations.

2. Risk management procedures and protocols

- (a) Risk management procedures include risk identification, measurement and response to risk, monitoring and data communication. Moreover, to integrate risk management procedures to an operational level, in order to reflect the impact of risk from various operations.
- (b) Establish relevant risk indicators for all risks for operations concerning the procedures, period and frequency of identification, measurement and evaluation of risk as means of decision making. It also includes evaluating performances and allocating resources.

- (c) After the evaluation and compilation of risk, the appropriate responding procedure from BTLI shall include the following:
- a) Risk averse: to exclude any participation or terminate the operations and activities.
 - b) Risk transfer: to reinsure or transfer all or partial risks to a third party.
 - c) Risk control: to adopt risk controlling procedures in order to minimize any impact.
 - d) Risk tolerance: to tolerate any possible impact of risk by not initiating procedures as means of changing the probabilities of outcome.
- (d) Establish a risk monitoring system, timely scrutinize and monitor all risks. If risks are in excess, it should report and respond accordingly.
- (e) The aforementioned risk monitoring and reporting system shall change with the adjustment of operating objectives, risk exposure and external conditions of the subsidiary, including the effectiveness of the risk management system and the appropriateness of risk elements.

2) Information of insurance risk

1. Sensitivity of insurance risk – Insurance contracts and financial instruments with discretionary feature:

December 31, 2013			
Assumed change	Changes in profit or loss before tax	Changes in shareholder's equity	
Death rate	X1.1	(13,698)	(11,328)
Morbidity	X1.1	(18,906)	(15,692)
Contract Default Rate	X0.9	(34,438)	(28,584)
Expense	X1.1	(288,985)	(239,857)
Ratio of Return on Investment	(0.25)%	(852,674)	(707,720)
December 31, 2012			
Assumed changes	Changes in profit or loss before tax	Changes in shareholder's equity	
Death rate	X1.1	(13,812)	(11,464)
Morbidity	X1.1	(17,531)	(14,550)
Contract Default Rate	X0.9	(28,149)	(23,363)
Expense	X1.1	(280,597)	(232,896)
Ratio of Return on Investment	(0.25)%	(759,940)	(630,750)
January 1, 2012			
Assumed change	Changes in profit or loss before tax	Changes in shareholder's equity	
Death rate	X1.1	(12,744)	(10,577)
Morbidity	X1.1	(21,089)	(17,504)
Contract Default Rate	X0.9	(14,764)	(12,254)
Expense	X1.1	(259,194)	(215,131)
Ratio of Return on Investment	(0.25)%	(639,071)	(530,429)

2. 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 subsidiary's management in insurance risk, BTLI established "BTLI reinsurance management plan" to further implement all sorts of risk managing strategies. As a result, the concentration risks are minimal.

3. Claim development trend

(a) Development trend of direct business loss

The development trends of the accumulated claims for the past seven to nine years on December 31, 2013, December 31, 2012 and January 1, 2012 are as follows:

December 31, 2013

Occurrence year	Development year									Claim Provision
	1	2	3	4	5	6	7	8	9	
94	182,965	245,770	248,116	253,655	253,839	254,146	254,200	254,206	254,206	-
95	168,989	210,053	217,422	218,071	218,164	218,466	218,522	218,531	218,531	-
96	425,676	532,759	547,878	549,554	550,644	550,647	550,650	550,656	550,657	7
97	165,310	213,533	216,353	221,841	221,880	221,880	221,906	221,913	221,913	33
98	160,616	202,264	207,253	208,575	208,645	208,763	208,787	208,794	208,795	150
99	150,536	200,284	207,399	208,693	208,873	208,966	208,991	208,997	208,997	304
100	158,363	203,032	210,538	212,303	212,469	212,566	212,592	212,599	212,599	2,061
101	174,158	224,510	229,147	231,262	231,430	231,551	231,579	231,586	231,586	7,076
102	184,175	234,427	239,922	242,058	242,264	242,379	242,408	242,415	242,415	58,240

Provision for unreported and within 1 year unpaid claims

67,871

Add: over 1 year reported but unpaid claims

9,159

Unreported provision claims

77,030

December 31, 2012

Occurrence year	Development year								Claim provision
	1	2	3	4	5	6	7	8	
94	182,965	245,770	248,116	253,655	253,839	254,146	254,200	254,205	-
95	168,989	210,053	217,422	218,071	218,164	218,466	218,519	218,526	7
96	425,676	532,759	547,878	549,554	550,644	550,648	550,796	550,801	153
97	165,310	213,533	216,353	221,841	221,878	222,038	222,087	222,093	215
98	160,692	202,340	207,329	208,647	208,807	208,961	209,006	209,012	365
99	150,536	200,284	207,380	209,172	209,361	209,479	209,529	209,533	2,153
100	158,363	202,791	206,905	208,653	208,818	208,940	208,989	208,993	6,202
101	173,845	219,338	223,394	225,544	225,703	225,868	225,916	225,922	52,077

Provision for unreported and within 1 year unpaid claims

61,172

Add: over 1 year reported but unpaid claims

27,016

Unreported provision claims

88,188

January 1, 2012

Occurrence year	Development year							Claim Provision
	1	2	3	4	5	6	7	
94	182,965	245,770	248,116	253,655	253,839	254,146	254,206	-
95	168,989	210,053	217,422	218,071	218,164	218,174	218,218	44
96	425,676	532,759	547,878	549,554	550,635	551,234	551,442	807
97	165,310	213,533	216,353	221,828	222,044	222,189	222,236	408
98	160,692	202,340	207,314	209,711	209,890	210,011	210,050	2,736
99	150,591	199,967	204,054	205,948	206,153	206,296	206,342	6,375
100	157,898	199,271	203,061	205,001	205,186	205,314	205,355	47,457

Provision for unreported and within 1 year unpaid claims

57,827

Add: over 1 year reported but unpaid claims

9,454

Unreported provision claims

67,281

Financial Status

(b) Development trend of retained business loss

The development trends of the accumulated claims for the past seven to nine years on December 31, 2013, December 31, 2012 and January 1, 2012 are as follows:

December 31, 2013

Occurrence year	Development year									Claim Provision
	1	2	3	4	5	6	7	8	9	
94	171,933	229,310	231,639	235,718	235,902	236,210	236,264	236,270	236,270	-
95	159,622	198,715	205,620	206,227	206,320	206,622	206,678	206,686	206,686	-
96	281,376	355,445	364,533	365,509	366,428	366,431	366,434	366,440	366,440	6
97	151,816	196,181	198,907	203,895	203,934	203,934	203,958	203,965	203,965	31
98	153,588	193,486	198,155	199,356	199,426	199,536	199,559	199,566	199,567	141
99	143,101	189,407	196,245	197,433	197,596	197,682	197,706	197,712	197,712	279
100	152,753	195,787	202,913	204,555	204,711	204,801	204,827	204,833	204,833	1,920
101	166,933	216,587	220,987	222,945	223,103	223,214	223,242	223,249	223,250	6,663
102	177,476	225,494	230,636	232,663	232,854	232,964	232,992	232,999	232,999	55,523

December 31, 2012

Occurrence year	Development year								Claim Provision
	1	2	3	4	5	6	7	8	
94	171,933	229,310	231,639	235,718	235,902	236,210	236,264	236,269	-
95	159,622	198,715	205,620	206,227	206,320	206,622	206,675	206,681	6
96	281,376	355,445	364,533	365,509	366,428	366,431	366,526	366,530	99
97	151,816	196,181	198,907	203,895	203,932	204,076	204,121	204,126	194
98	153,664	193,562	198,231	199,428	199,576	199,718	199,761	199,767	339
99	143,101	189,407	196,236	197,870	198,041	198,150	198,197	198,200	1,964
100	152,753	195,555	199,442	201,066	201,219	201,334	201,381	201,384	5,829
101	169,560	213,695	217,582	219,628	219,779	219,936	219,983	219,990	50,430

January 1, 2012

Occurrence year	Development year							Claim Provision
	1	2	3	4	5	6	7	
94	171,933	229,310	231,639	235,718	235,902	236,210	236,270	-
95	159,622	198,715	205,620	206,227	206,320	206,330	206,370	40
96	281,376	355,445	364,533	365,509	366,419	366,772	366,893	474
97	151,816	196,181	198,907	203,882	204,066	204,191	204,231	349
98	153,664	193,562	198,215	200,420	200,585	200,697	200,732	2,517
99	143,157	189,220	192,966	194,695	194,879	195,009	195,050	5,830
100	153,820	193,892	197,530	199,363	199,538	199,661	199,699	45,879

The subsidiary, BTLI provides claim reserve based on the expected future payments and relevant compensation process cost of reported and unreported claims. Such provision operation 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 as current gains and losses. Some customers may be delayed to inform the claims to the subsidiary, 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 the subsidiary, 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.

3) Credit risk, liquidity risk and market risk of insurance contracts

1. Credit risk

December 31, 2013			
Name	Credit rating agent	Credit rating	Date of rating
Central Re	S&P	A	102.06.10
Munich Re	S&P	AA-	95.12.22
Swiss Re	S&P	AA-	100.10.28
Cologne Re	S&P	AA+	99.02.04
Gibraltar Re	S&P	AA-	98.02.26
Scor Global Life Re	S&P	A+	101.06.04
Dai-ichi Mutual Life	S&P	A	95.03.23

December 31, 2012			
Name	Credit rating agent	Credit rating	Date of rating
Central Re	S&P	A-	95.10.20
Munich Re	S&P	AA-	95.12.22
Swiss Re	S&P	AA-	100.10.28
Cologne Re	S&P	AA+	99.02.04
Gibraltar Re	S&P	AA-	98.02.26
Scor Global Life Re	S&P	A+	101.06.04
Dai-ichi Mutual Life	S&P	A	95.03.23

January 1, 2012			
Name	Credit rating agent	Credit rating	Date of rating
Central Re	S&P	A-	95.10.20
Munich Re	S&P	AA-	95.12.22
Swiss Re	S&P	AA-	100.10.28
Cologne Re	S&P	AA+	99.02.04
America	S&P	AA-	98.03.31
Gibraltar Re	S&P	AA-	98.02.26
Dai-ichi Mutual Life	S&P	A	95.03.23

2. Liquidity risk

The liquidity risk of insurance contracts refers that the obligations cannot be settled when due.

The maturity analysis of insurance and investment contract liabilities on December 31, 2013, December 31, 2012, and January 1, 2012 are as follows:

Financial Status

Units: Millions of New Taiwan Dollars

Undiscounted expected cash outflow (inflow) on December 31, 2013				
< 12 months	1~5 years	>5 years	total	
\$ 39,256	184,081	530,352	\$	753,689
Undiscounted expected cash outflow (inflow) on December 31, 2012				
< 12 months	1~5 years	> 5 years	total	
\$ 14,025	207,617	484,999	\$	706,641
Undiscounted expected cash outflow (inflow) on January 1, 2012				
< 12 months	1~5 years	>5 years	total	
\$ 78	192,829	348,822	\$	541,729

3. 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 the subsidiary, BTLI's forecasted interest rate with the return on investment for the year ended December 31, 2013, the undertaken risk is within the acceptable level.

4) Information regarding risk exposure for embedded insurance contracts not measured using fair value: None.

(50) Pledged Assets

The carrying amounts of the pledged assets offered by the Company and its subsidiaries are as follows:

The subsidiary, BOT

Pledged assets	Purpose of pledge	December 31, 2013	December 31, 2012	January 1, 2012
Available-for-sale financial assets — bonds	Guarantee deposit for provisional seizure against defaulted loans and others	\$ 279,500	225,000	241,400
Held-to-maturity financial assets — government bonds	Guarantee deposit for provisional seizure against defaulted loans and others	-	10,200	10,200
Available-for-sale financial assets — bonds	Operating deposit for securities investment trust and consulting	150,000	150,000	150,000
Available-for-sale financial assets — bonds	Guarantee deposits for trust business compensation reserve	50,000	100,000	100,000
Held-to-maturity financial assets — government bonds	Guarantee deposits for trust business compensation reserve	400,000	300,000	300,000
Available-for-sale financial assets — negotiable certificate of deposit	Payment and settlement systems of Central Bank	25,000,000	25,000,000	25,000,000
		\$ 25,879,500	25,785,200	25,801,600

The subsidiary, BTLI

Pledged assets	Purpose of pledge	December 31, 2013	December 31, 2012	January 1, 2012
Government bonds	operation guarantee deposits	\$ 2,716,350	2,561,956	1,811,990

According to the Insurance Act, the subsidiary, BTLI uses the government bonds as the operation guarantee deposits and put them in the central bank. The face values of the government bonds are \$2,550,000, \$2,550,000 and \$1,900,000 thousand dollars on December 31, 2013 and 2012, and January 1, 2012, respectively. The operation guarantee deposits are recorded in other assets.

The subsidiary, BTS

Pledged assets	Purpose of pledge	December 31, 2013	December 31, 2012	January 1, 2012
Property and Equipment—Land	Short-term loans	\$ 379,309	379,309	379,309
Property and Equipment— Building	Short-term loans	68,339	70,996	73,940
		<u>\$ 447,648</u>	<u>450,305</u>	<u>453,249</u>

(51) Commitments and Contingencies

1) Commitments and contingencies

1. Commitments and contingencies of the subsidiary, BOT

	December 31, 2013	December 31, 2012	January 1, 2012
Consignment collection	\$ 52,322,587	43,825,073	48,803,965
Contract guarantee on behalf of counter parties	3,339,044	3,780,562	5,393,061
Traveler's checks held on consignment	1,229,319	1,173,028	1,087,707
Marketable securities held as custodian	1,668,910,750	1,552,788,585	1,612,616,773
Letters of credit	32,737,581	46,718,813	43,112,360
Goods held in custody	14,316,968	12,696,949	10,797,009
Issuance of New Taiwan Dollars	1,558,048,571	1,439,592,396	1,322,680,282
Trustee of behalf of Lenders	880,318,278	863,881,944	816,438,869
Guarantee notes payable	-	214,900	240,200
Registered government bonds for sale	474,860,600	400,317,500	331,884,300
Registered short term bills for sale	186,737,836	200,823,700	265,095,673
Consigned sales of goods	2,330,513	2,316,501	1,947,495
Trust liabilities	535,650,876	512,856,940	505,848,030
Guarantees	83,279,532	73,486,171	71,389,619
	<u>\$ 5,494,082,455</u>	<u>5,154,473,062</u>	<u>5,037,335,343</u>

2. Commitments and contingencies of the subsidiary, BTLI

The contract guarantee on behalf of counter parties of the subsidiary, BTLI are \$2,633 thousand, \$2,373 thousand and \$2,431 thousand dollars on December 31, 2013, December 31, 2012 and January 1, 2012, respectively.

3. 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

Financial Status

BTS is unable to fulfill its obligation to the TSE, the proxies must then act pursuant to said obligations and responsibilities.

2) Balance sheet, income statement and details of assets under trust

Trust assets	December 31, 2013	December 31, 2012	January 1, 2012
Deposits			
Deposits in the BOT	\$ 31,238,139	31,552,700	26,596,608
Deposits in other banks	4,401,991	3,197,294	3,029,334
Short term investment			
Investment in funds	174,442,560	176,166,500	163,596,031
Investment in bonds	201,695,311	181,509,311	196,046,874
Common stock investment–marketable securities	46,403,259	49,740,466	51,158,626
Receivables			
Interest receivable	1,408,992	1,244,485	1,434,094
Cash dividend receivable	1,538	1,190	1,604
Receivables from trading securities	740,029	368,435	402,087
Receivables from forward contracts	8,002,289	6,340,990	9,558,813
Prepaid expense	970	1,785	677
Real estate			
Land	12,419,874	8,667,018	1,992,865
Buildings	143,500	147,154	151,797
Construction in progress	6,099,891	3,809,955	621,565
Marketable securities under custody	48,652,533	50,109,657	51,257,055
Total of trust assets	\$ 535,650,876	512,856,940	505,848,030
Trust liabilities	December 31, 2013	December 31, 2012	January 1, 2012
Payables			
Payables from trading securities	\$ 301,829	138,736	271,267
Payables from forward contracts	7,975,500	6,326,250	9,535,900
Payables from management fee	4,046	1,998	1,964
Payables from supervision fee	325	323	100
Other payables	285	227	168
Tax payable	208	285	280
Securities held in custody payable	48,652,533	50,109,657	51,257,055
Trust capital			
Money trust	386,836,981	380,068,690	372,183,932
Marketable securities trust	2,497,474	6,589,900	8,280,795
Real estate investment trust	27,195,633	23,172,998	4,763,696
Other reserve and accumulated income			
Accumulated loss	33,383,769	28,412,668	31,085,015
Foreign currency translation	(1,095,677)	(6,161,908)	1,410,786
Deferred unrealized income	9,193,039	9,200,613	10,002,421
Current income	20,704,931	14,996,503	17,054,651
Total of trust liabilities	\$ 535,650,876	512,856,940	505,848,030

Notes: The funds invested by the OBU branch of the subsidiary, BOT are included. The amounts on December 31, 2013, December 31, 2012 and January 1, 2012 are \$289,171 thousand dollars, \$314,730 thousand dollars and \$392,589 thousand dollars, respectively.

Details of trust	December 31, 2013	December 31, 2012	January 1, 2012
Deposits			
Deposits in the Bank	\$ 31,238,139	31,552,700	26,596,608
Deposits in other banks	4,401,991	3,197,294	3,029,334
Short term investment			
Investment in funds	174,442,560	176,166,500	163,596,031
Investment in bonds	201,695,311	181,509,311	196,046,874
Common stock investment– marketable securities	46,403,259	49,740,466	51,158,626
Real estate			
Land	12,419,874	8,667,018	1,992,865
Buildings	143,500	147,154	151,797
Construction in progress	6,099,891	3,809,955	621,565
Marketable securities under custody	48,652,533	50,109,657	51,257,055
Trust capital	\$ 525,497,058	504,900,055	494,450,755

Income statement for assets under trust	December 31, 2013	December 31, 2012
Trust revenue		
Capital interest revenue	\$ 9,433,617	9,345,735
Cash dividend revenue	2,318,628	2,833,571
Realized capital gain shares	4,083,806	895,543
Realized capital gain fund	1,734,464	328,887
Realized exchange gain – bond	1,799,725	2,894,220
Realized foreign exchange gain	746,848	-
Realized gain on property exchange	823,399	86,051
Income from beneficiary certificates	274,682	-
Total trust revenue	21,215,169	16,384,007
Trust expense		
Capital management fee	473,886	339,453
Realized foreign exchange loss	-	432,610
Realized loss on property exchange	-	457,324
Tax expense	5,497	113,691
Supervisory fee	338	459
Storage fee	7,859	11,155
Commission fee	16	13
Other expense	22,642	32,799
	510,238	1,387,504
Net income	\$ 20,704,931	14,996,503

3) Supplementary information for government employees' insurance department

1. Balance sheets

	Government employees insurance department		
	December 31, 2013	December 31, 2012	January 1, 2012
Cash and cash equivalents	\$ 32,288,292	21,373,048	24,911,164
Financial assets at fair value through profit or loss	99,412,781	85,703,614	65,802,579
Receivables, net	19,220,747	22,494,214	23,330,050
Current income tax assets	631	3,367	-
Held to maturity financial assets	57,668,646	54,953,270	50,321,722
Property and equipment, net	11,935	13,902	6,832
Intangible assets, net	3,992	4,791	442
Other assets, net	9,585,446	10,162,145	13,690,111
Total assets	\$ 218,192,470	194,708,351	178,062,900

Financial Status

	Government employees insurance department		
	December 31, 2013	December 31, 2012	January 1, 2012
Financial liabilities measured at fair value through profit or loss \$	6,182	43	5,254
Payables	1,591,709	35,883	33,146
Provisions	216,594,551	194,672,423	178,024,500
Other liabilities	28	2	-
Total liabilities	\$ 218,192,470	194,708,351	178,062,900

2. Income statement

	Government employees insurance department	
	December 31, 2013	December 31, 2012
Net interest income	\$ 1,447,520	1,325,944
Service fee expenses	22,715	88,678
Gain (loss) on financial assets and liabilities at fair value through profit or loss	9,724,337	8,750,735
Foreign exchange gain (loss)	740,029	(1,651,528)
Premium income	20,863,142	17,992,149
Government subsidy	15,696,251	18,525,118
Insurance payments	(26,426,619)	(28,267,159)
Provision for insurance premium reserve	(21,922,128)	(16,632,709)
Miscellaneous expense	(94,103)	(515,694)
Miscellaneous revenue	82,880	515,558
Net revenue	134,024	131,092
Bad debt expenses and reserve for guarantees	(55)	-
Employee benefits	117,427	114,866
Depreciation and amortization expenses	4,148	2,340
Other general and administrative expenses	12,504	13,886
	134,024	131,092
Net income	\$ -	-

Note: According to Government Employees and School Staff Insurance Act, if GESSI experiences a loss, the loss before May 31, 1999, would be covered by the Ministry of Finance; and the loss after that date would be covered by an adjustment of the insurance premium.

(52) Losses Due to Major Disasters: None.

(53) Subsequent events: None.

(54) Other

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

By nature	December 31, 2013			December 31, 2012		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	1,895,380	10,870,004	12,765,384	1,911,618	10,824,450	12,736,068
Labor and health insurance	119,173	529,786	648,959	118,943	474,937	593,880
Pension	2,755	872,437	875,192	2,805	878,520	881,325
Others	4	224,293	224,297	6	220,994	221,000
Depreciation	95,928	918,859	1,014,787	82,328	953,998	1,036,326
Amortization	-	415,001	415,001	-	352,969	352,969

2) Government audit adjustments for fiscal year ended December 31, 2012 and 2011

The accounting records as at and for the year ended December 31, 2012 and 2011, have been audited and examined by the MOA, and the resulting adjustments are summarized as follows:

The Company

1. December 31, 2012

Balance Sheet	As Previously Reported December 31, 2012	Adjustments —Increase (Decrease)	As Audited by the MOA, December 31, 2012
Assets			
Receivables, net	\$ 98,341,073	71,137	98,412,210
Fixed assets, net	98,436,106	(44)	98,436,062
Other assets	16,919,777	(27,968)	16,891,809
Liabilities			
Payables	69,404,868	(8,484)	69,396,384
Stockholders' equity			
Unappropriated retained earnings	8,449,361	51,609	8,500,970
Income statement	As Previously Reported 2012	Adjustments —Increase (Decrease)	As Audited by the MOA, 2012
Net interest income	\$ 33,641,113	174	33,641,287
Net revenues of service charges and commissions	3,172,020	(61,668)	3,110,352
Gain (loss) on financial assets and liabilities measured at fair value through profit or loss	14,029,860	(141,888)	13,887,972
Foreign exchange gain (loss)	(1,799,868)	(76)	(1,799,944)
Other non interest gain (loss)	10,089,751	126,389	10,216,140
Net revenue	97,880,278	(77,069)	97,803,209
Bad debt expenses	3,107,905	465	3,108,370
Operating expenses	19,219,830	(70,140)	19,149,690
Income before tax expenses	7,916,989	(7,394)	7,909,595
Income tax expense	620,629	(59,003)	561,626
Net income	7,296,360	51,609	7,347,969

2. December 31, 2011

Balance Sheet	As Previously Reported December 31, 2011	Adjustments —Increase (Decrease)	As Audited by the MOA, December 31, 2011
Assets			
Receivables, net	\$ 91,051,049	33,167	91,084,216
Loans and discounts, net	2,158,391,915	(54,117)	2,158,337,798
Liabilities			
Payables	69,230,298	707	69,231,005
Stockholders' equity			
Unappropriated retained earnings	6,680,590	(21,657)	6,658,933
Income statement	As Previously Reported 2011	Adjustments —Increase (Decrease)	As Audited by the MOA, 2011
Net revenues of service charges and commissions	\$ 3,778,928	(48,595)	3,730,333
Other non-interest gain (loss)	10,462,563	4,661	10,467,224
Bad debt expenses	4,999,902	54,114	5,054,016
Operating expenses	19,333,759	(56,639)	19,277,120
Income before tax expenses	4,683,310	(41,409)	4,641,901
Income tax expense	602,719	(19,752)	582,967
Net income	4,080,591	(21,657)	4,058,934

Financial Status

The subsidiary, BOT

The accounting records as at and for the year ended December 31, 2012 and 2011, have been audited and examined by the MOA, and the resulting adjustments are summarized as follows:

1. December 31, 2012

Balance Sheet	As Previously Reported December 31, 2012	Adjustments — Increase (Decrease)	As Audited by the MOA, December 31, 2012
Asset			
Receivables, net	\$ 91,268,044	3,350	91,271,394
Liabilities			
Payables	42,146,153	(19)	42,146,134
Stockholders' equity			
Unappropriated retained earnings	8,377,872	3,369	8,381,241
Income statement	2012	— Increase (Decrease)	2012
Income tax expense	\$ 861,112	(3,369)	857,743
Net income	7,224,872	3,369	7,228,241

2. December 31, 2011

Balance Sheet	As Previously Reported December 31, 2011	Adjustments — Increase (Decrease)	As Audited by the MOA, December 31, 2011
Asset			
Receivables, net	\$ 86,422,934	16,846	86,439,780
Loans and discounts, net	2,153,645,231	(54,113)	2,153,591,118
Liabilities			
Payables	39,471,578	2	39,471,580
Accrued pension liability	4,566,754	(2)	4,566,752
Stockholders' equity			
Unappropriated retained earnings	6,301,072	(37,267)	6,263,805
Income statement	2011	— Increase (Decrease)	2011
Other non-interest gain (losses)	\$ (3,092,639)	9,271	(3,083,368)
Bad debt expense	4,991,365	54,109	5,045,474
Personnel expense	11,928,775	(3,430)	11,925,345
Income tax expense	789,301	(4,141)	785,160
Net income	3,701,072	(37,267)	3,663,805

The subsidiary, BTLI

The subsidiary, BTLI's financial statements were prepared in accordance to the ROC GAAP as at and for the years ended 2012 and 2011, have been audited by the MOA. There were no adjustment noted between the audited results and the original accounting records.

The subsidiary, BTS

The accounting records as at and for the year ended December 31, 2012 and 2011, have been audited and examined by the MOA, and the resulting adjustments are summarized as follows:

1. December 31, 2012

Balance Sheet	As Previously Reported December 31, 2012	Adjustments —Increase (Decrease)	As Audited by the MOA, December 31, 2012
Assets			
Deferred tax assets	\$ 598	40	638
Liabilities			
Other payables- related-party	44,991	1,119	46,110
Stockholders' equity			
Unappropriated retained earnings	23,011	(1,079)	21,932
Income statement	As Previously Reported 2012	Adjustments —Increase (Decrease)	As Audited by the MOA, 2012
Income tax expense	\$ 2,338	1,079	3,417
Net income	23,011	(1,079)	21,932

2. December 31, 2011

Balance Sheet	As Previously Reported December 31, 2011	Adjustments —Increase (Decrease)	As Audited by the MOA, December 31, 2011
Liabilities			
Other payables- related-party	\$ 44,902	708	45,610
Stockholders' equity			
Unappropriated retained earnings	73,432	(708)	72,724
Income statement	As Previously Reported 2011	Adjustments —Increase (Decrease)	As Audited by the MOA, 2011
Income tax expense	\$ 24,012	708	24,720
Net income	73,432	(708)	72,724

3) Financial information classified by business type

December 31, 2013

Businesses	Banking business	Insurance business	Securities business	Government insurance	Other operations	Total
Net interest income	24,444,037	9,373,539	105,488	1,447,520	1	35,370,585
Non-interest income, net	25,722,886	16,656,199	409,874	(1,313,496)	(1,267)	41,474,196
Net revenue	50,166,923	26,029,738	515,362	134,024	(1,266)	76,844,781
Bad debt expense	2,697,539	2,326	-	-	-	2,699,865
Reserve for guarantees	21,922,183	24,695,895	-	(55)	-	46,618,023
Operating expenses	17,853,826	818,565	340,601	134,079	129,102	19,276,173
Net income before income tax	7,693,375	512,952	174,761	-	(130,368)	8,250,720
Income tax expenses	1,449,163	(84,502)	10,783	-	(118,211)	1,257,233
Cumulative effect of changes in accounting principles	-	-	-	-	-	-
Net income	6,244,212	597,454	163,978	-	(12,157)	6,993,487

Financial Status

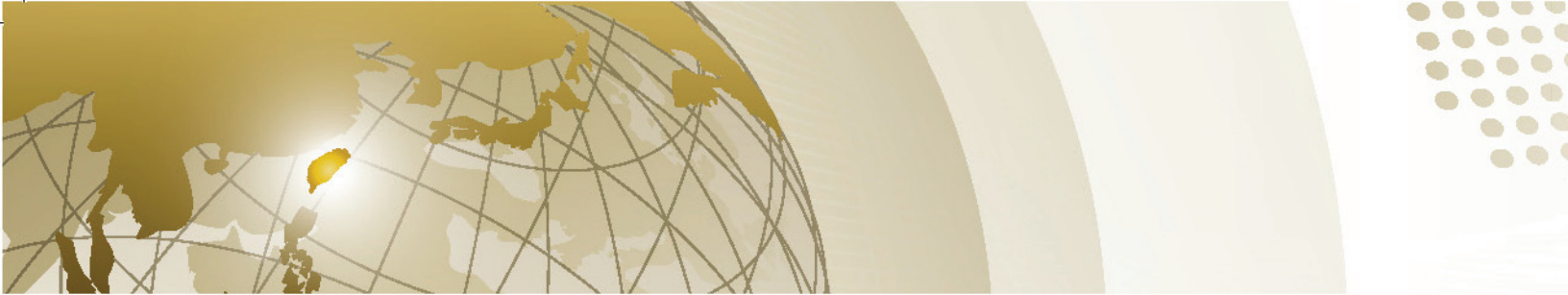
December 31, 2012

Items	Business	Banking business	Insurance business	Securities business	Government insurance	Other operations	Total
Net interest income		22,777,127	8,922,947	86,706	1,325,944	(1)	33,112,723
Non-interest income, net		21,110,337	44,146,186	328,618	(1,194,852)	(7,289)	64,383,000
Net revenue		43,887,464	53,069,133	415,324	131,092	(7,290)	97,495,723
Bad debt expense		3,107,865	411	-	-	-	3,108,276
Reserve for guarantees		16,632,709	51,001,882	-	-	-	67,634,591
Operating expenses		17,553,761	780,867	336,562	131,092	127,329	18,929,611
Net income before income tax		6,593,129	1,285,973	78,762	-	(134,619)	7,823,245
Income tax expenses		862,558	(203,589)	3,418	-	(97,652)	564,735
Cumulative effect of changes in accounting principles		-	-	-	-	-	-
Net income		5,730,571	1,489,562	75,344	-	(36,967)	7,258,510

4) The balance sheets and income statements of the subsidiaries

1. Balance sheets

	Bank of Taiwan (Individual)		
	December 31, 2013	December 31, 2012	January 1, 2012
Cash and cash equivalents	\$ 119,265,263	72,812,404	76,426,176
Placement with central bank and call loans to banks	585,444,071	549,627,869	488,555,403
Financial assets measured at fair value through profit or loss	166,714,218	146,534,038	110,886,007
Hedging financial assets, net	5,443	3,543	3,074
Bills and bonds purchased under resell agreements	6,173,451	4,980,621	3,231,949
Receivables-net	82,258,188	89,166,548	84,601,770
Current tax assets	2,301,083	2,131,424	1,872,826
Loans and discounts, net	2,240,652,458	2,177,133,260	2,153,591,119
Available-for-sale financial assets – net	765,521,333	734,870,751	757,373,465
Held-to-maturity financial assets – net	73,044,728	62,009,085	50,957,785
Investments under equity method, net	34,941,396	34,652,109	32,075,050
Other financial assets-net	70,317,917	69,668,204	72,202,088
Property and equipment, net	97,497,978	98,086,367	98,711,359
Intangible assets	1,047,495	1,164,105	821,057
Deferred tax assets	204,531	331,086	267,915
Other assets, net	9,030,041	10,620,513	13,541,968
Total assets	\$ 4,254,419,594	4,053,791,927	3,945,119,011
Deposits of central bank and other banks	\$ 252,738,244	213,374,465	208,926,475
Financial liabilities measured at fair value through profit or loss	3,999,496	4,876,954	3,902,885
Hedging financial liabilities, net	225,806	301,390	409,907
Bills and bonds sold under repurchase agreements	19,036,703	11,998,398	14,906,165
Payables	44,801,734	41,988,683	39,429,620
Current tax liabilities	97,148	96,083	33,893
Deposits and remittances	3,409,804,155	3,294,903,719	3,218,010,687
Financial bonds payable	15,998,240	-	-
Other financial liabilities	1,243,698	8,198,013	5,346,276
Provision	232,743,115	210,201,483	192,806,676
Deferred tax liabilities	18,266,259	18,359,086	18,278,673
Other liabilities	7,482,893	7,671,101	7,134,077
Total liabilities	4,006,437,491	3,811,969,375	3,709,185,334



Bank of Taiwan (Individual)			
	December 31, 2013	December 31, 2012	January 1, 2012
Capital stock	70,000,000	70,000,000	70,000,000
Capital surplus	105,496,092	105,453,034	105,453,034
Retained earnings			
Legal reserve	27,386,900	25,218,428	24,119,287
Special reserve	16,488,296	15,087,006	15,998,121
Unappropriated retained earnings	7,085,827	8,381,241	6,263,805
	50,961,023	48,686,675	46,381,213
Other equity	21,524,988	17,682,843	14,099,430
Total equity	247,982,103	241,822,552	235,933,677
Total liabilities and stockholders' equity	\$ 4,254,419,594	4,053,791,927	3,945,119,011

BankTaiwan Life Insurance			
	December 31, 2013	December 31, 2012	January 1, 2012
Cash and cash equivalents	\$ 22,859,656	40,147,289	24,868,033
Receivables	3,282,052	4,139,681	2,334,985
Current tax assets	908,441	774,948	522,172
Financial assets measured at fair value through profit or loss	195,292	834,218	979,164
Available-for-sale financial assets	48,136,850	40,809,899	43,264,835
Investments under equity method, net	5,533,592	5,426,140	4,990,952
Debt investments without quoted price in active market	55,509,059	40,972,005	33,525,229
Held-to-maturity financial assets	197,658,767	181,947,391	176,735,640
Other financial assets-net	44,585,700	41,900,000	20,326,000
Real estate investments	6,111,686	4,890,098	4,175,573
Loans	11,620,809	10,788,881	10,436,679
Reinsurance assets	16,588	22,133	22,773
Property and equipment, net	770,660	776,259	773,316
Intangible assets	10,950	11,674	7,751
Deferred tax assets	1,802,766	1,758,768	1,380,275
Other assets	2,758,200	2,749,454	1,898,414
Separate account-insurance assets	2,476,824	4,686,044	5,490,078
Total assets	\$ 404,237,892	382,634,882	331,731,869
Payables	\$ 23,196,712	27,387,192	30,072,432
Current tax liabilities	158	216	-
Financial liabilities measured at fair value through profit or loss	566,702	35,267	915,132
Insurance liabilities	363,607,014	338,722,137	288,294,844
Other liabilities	379,313	3,562,746	1,194,365
Provisions	572,029	600,594	530,987
Deferred tax liabilities	38,079	215,684	60,006
Separate account-insurance liabilities	2,476,824	4,686,044	5,490,078
Foreign-exchange volatility reserves	439,970	96,960	-
Total liabilities	391,276,801	375,306,840	326,557,844
Capital stock	17,000,000	11,000,000	11,000,000
Capital surplus	366,463	360,000	360,000
Retained earnings			
Legal reserve	96,557	52,673	-
Special reserve	549,661	448,656	236,686
Unappropriated retained earnings	(565,866)	(128,527)	8,175
	80,352	372,802	244,861
Other equity	(4,485,724)	(4,404,760)	(6,430,836)
Total equity	12,961,091	7,328,042	5,174,025
Total liabilities and stockholders' equity	\$ 404,237,892	382,634,882	331,731,869

Financial Status

BankTaiwan Securities			
	December 31, 2013	December 31, 2012	January 1, 2012
Current assets	\$ 9,507,420	6,279,103	7,993,008
Property and equipment, net	490,974	479,228	483,303
Intangible assets	2,848	1,303	1,522
Deferred tax assets	1,201	638	37
Other non-current assets	404,221	380,092	350,395
Total assets	\$ 10,406,664	7,140,364	8,828,265
Current liabilities	\$ 6,766,951	3,651,655	5,384,491
Reserves	130,832	138,661	107,804
Deferred tax liabilities	89,970	89,296	89,296
Other non-current liabilities	5,266	3,707	4,351
Total liabilities	6,993,019	3,883,319	5,585,942
Capital stock	3,000,000	3,000,000	3,000,000
Retained earnings	381,653	263,857	322,091
Other equity	31,992	(6,812)	(79,768)
Total equity	3,413,645	3,257,045	3,242,323
Total liabilities and stockholders' equity	\$ 10,406,664	7,140,364	8,828,265

BankTaiwan Insurance Broker			
	December 31, 2013	December 31, 2012	January 1, 2012
Cash and cash equivalents	\$ 192,146	-	-
Receivables	96,520	-	-
Property and equipment, net	4,633	-	-
Intangible assets	530	-	-
Other assets	6,228	-	-
Total assets	\$ 300,057	-	-
Payables	\$ 87,322	-	-
Current tax liabilities	30,358	-	-
Reserves	23,788	-	-
Other liabilities	9,234	-	-
Total liabilities	150,702	-	-
Capital stock	20,000	-	-
Retained earnings	129,355	-	-
Total equity	149,355	-	-
Total liabilities and stockholders' equity	\$ 300,057	-	-

(Note) The Bank 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.

2. Income statements

Bank of Taiwan (Individual)		
	2013	2012
Interest income	\$ 59,252,282	56,039,716
Less: interest expense	(33,364,505)	(31,952,145)
Net interest income	25,887,777	24,087,571
Other non-interest income	3,513,759	4,786,638
Net revenue	29,401,536	28,874,209
Bad debt expense and reserve for guarantees	(2,697,539)	(3,107,865)
Operating expenses	(17,955,435)	(17,722,916)
Net income before income tax	8,748,562	8,043,428
Income tax expense	(1,422,668)	(862,560)
Net income	7,325,894	7,180,868
Other comprehensive income	3,557,719	3,199,492
Total comprehensive income (loss) after tax for the period	10,883,613	10,380,360
Basic earnings per share (In dollars)	1.05	1.03

	BankTaiwan Life Insurance	
	2013	2012
Operating income	\$ 58,996,644	67,392,599
Operating cost	(58,550,596)	(66,616,061)
Operating expense	(841,411)	(826,323)
Operating loss	(395,363)	(49,785)
Non operating income (expense)	(15,801)	21,445
Net income before income tax	(411,164)	(28,340)
Income tax revenue	84,502	203,590
Net income	(326,662)	175,250
Other comprehensive income	(36,572)	1,978,768
Total comprehensive income (loss) after tax for the period	(363,234)	2,154,018
Basic earnings per share (In dollars)	(0.23)	0.16

	BankTaiwan Securities	
	2013	2012
Revenue	\$ 513,335	448,390
Cost and expense	(428,370)	(433,427)
Net operating income	84,965	14,963
Non operating income	47,669	11,183
Net income before income tax	132,634	26,146
Income tax expense	(10,783)	(3,417)
Net income	121,851	22,729
Other comprehensive income	50,102	42,900
Total comprehensive income (loss) after tax for the period	171,953	65,629
Basic earnings per share (In dollars)	0.41	0.08

	BankTaiwan Insurance Brokers	
	2013	2012
Operating income	\$ 1,075,731	-
Operating cost	(843,413)	-
Operating expense	(76,411)	-
Net operating income	155,907	-
Non operating expense	(57)	-
Net income before income tax	155,850	-
Income tax expense	(26,495)	-
Net income	129,355	-
Other comprehensive income	-	-
Total comprehensive income (loss) after tax for the period	129,355	-
Basic earnings per share (In dollars)	71.97	-

(55) Notes to Disclosure Items

1) Information on significant transactions:

Following the principle of financial report for public bank, the disclosure of information on significant transaction of the Company and its subsidiaries were as follow:

1. Information regarding securities where the accumulated purchase or sale amounts for the period exceed NT\$300 million or 10% of the Bank's paid in capital: None.

Financial Status

2. Information on the acquisition of real estate for which the purchase amount exceeded NT\$300 million or 10% of the Bank's paid-in capital:

Unit: Thousand NTD

Name of company	Name of assets	Original purchase date	Amount	Actual payments	Counterparty	Relationship	If the counterparty is the related party, the last time transfer information are as follows:				Determine method	Purpose	Others
							Owner	Relationship	Transfer date	Amount			
The subsidiary, BTLI	Some land and buildings in No.258, Jiankang Rd., Zhonghe Dist., New Taipei City	2013.01.09	305,000	305,000	Kingbox Technology Co., Ltd.	Non related-party				-	Valuation report	Real estate investments	
The subsidiary, BTLI	Some land and buildings in No. 12, Guangfu Rd., Hsinchu City	2013.01.10	968,000	968,000	EPOCH E. M. S. LIMITED	Non related-party				-	Valuation report	Real estate investments	

3. Information on the disposal of real estate for which the sale amount exceeded NT\$300 million or 10% of the Bank's paid-in capital:

Unit: Thousand NTD

Name of company	Name of assets	Date	Original purchase date	Book value	Amount	Detail of receiving payment	Gain (loss) on disposal of assets	Transaction person	Relation with transaction person	Purpose of disposal assets	Determine method	Others
Bank of Taiwan	Lot number 231-1 and 44 others lands in Shuanglian sec., Datong Dist., Taipei City	102.3.29	36.5.1	147,974	543,590	Bidders need to pay for security deposit, which is 10% of the base price, when entering a bid, and need to settle in forty days after the next day of announcement for winning the bid.	388,966	○○ Tsai and 5 others	None	Follow the budget	After consulting the price form the appraisal company, reviewing by the Bank's consulting team, reviewing by the auditor of board of directors, approved by the general manager of the base price of opening bid for 539,520 NTD.	

4. Information regarding discounted processing fees on transactions with related parties for which the amount exceeded \$5 million: Note.
5. Information regarding receivables from related parties for which the amount exceeded \$300 million or 10% of the Bank's paid-in capital: Note.
6. Information regarding selling non-performing loans:

(a) The information regarding selling non-performing loans were as follow:

Unit: Thousand NTD

Transaction date	Transaction person	Contain of loans	Book value	Selling price	Gain (loss) on disposal	Condition with contract	Relation with the Bank
2013.2.27	A Company	General working capital loans	51,625	61,950	10,325	-	Non-related parties
2013.7.15	B Company	Construction loans, domestic machine	-	18,444	18,444	-	Non-related parties

(b) Information regarding selling non-performing loans for which the amount exceeded \$1 billion: None.

7. Approved securitization instrument types and related information according to "asset backed securitization" or "mortgage backed securitization": None.

3) Information regarding investment in China:

1. Information on investees' names, locations, etc. in China:

Unit: Thousand NTD

Name of the investee	Investee's main operation	Paid in capital	Way of investing	Opening balance of accumulate investment amount from Taiwan	Remit or regain investment amount in current period		Ending balance of accumulate investment amount from Taiwan	% of share	Gain (loss) on investment in current period	Ending balance of book value	Remit back by gain from investment
					Remit	Regain					
Bank of Taiwan, Shanghai Branch	Banking business	2,456,560	(5)	2,456,500	-	-	2,456,500	-%	96,168	2,483,376	-

2. Rationed investment in China:

Unit: Thousand CNY dollars

Thousand USD dollars

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
2,456,500	2,456,500	148,789,261

4) Subsidiaries lending to other parties, guarantees and endorsements for other parties, securities held as of December 31, 2012, securities for which purchase or sale amount for the period exceed \$300 million or 10% of the Bank's paid-in capital, and trading in derivative financial instruments: Note.

(56) Segment Information

The Company and its subsidiaries have six reportable segments, as describes below. Each department offers different services and products, and are managed separately based on their diverse techniques and marketing tactic. The higher level managements of the Company and its subsidiaries review each department's internal management report on a quarterly basis. The information of asset and income disclose by segments are in accordance with the significant accounting policies stated above. The following describes the operations in each of the Company and its subsidiaries' reportable segments:

- 1) Bank department: include 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.
- 2) Government employees' insurance department: include managing government employees' insurance business; auditing insurance, cash settlement, and issue business; analyzing, managing, and taking statistics of government employees' insurance business, and etc.
- 3) Department of Procurement: include 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.
- 4) Department of Precious Metals: include 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.

Financial Status

- 5) BankTaiwan Insurance Broker: operation businesses include insuring personal, property insurance, related services, and the business approved by the authority which related to insurance broker.

2013									
	Bank department	Department of Government Employees Insurance	Department of Procurement	Department of Precious Metals	Insurance Business	Securities Business	Other business	Reconciliatio n and elimination	Total
Interest income	\$ 57,804,653	1,447,520	80	30	9,657,751	130,230	418	(187,924)	68,852,758
Less: interest expense	33,364,506	-	-	-	192,674	21,587	91,330	(187,924)	33,482,173
Interest income, net	24,440,147	1,447,520	80	30	9,465,077	108,643	(90,912)	-	35,370,585
Non-interest income, net	13,913,684	4,923,605	393,582	26,244	15,641,991	375,798	7,349,090	(7,260,088)	35,363,906
Other non-interest income	12,177,218	(6,237,100)	(10,504)	249,160	19,074	21,835	604	(109,997)	6,110,290
Net income	50,531,049	134,025	383,158	275,434	25,126,142	506,276	7,258,782	(7,370,085)	76,844,781
Bad debt expenses and reserve for guarantees	24,619,722	(55)	-	-	24,698,221	-	-	-	49,317,888
Operating costs	17,622,593	134,080	118,595	79,808	839,085	373,642	231,967	(123,597)	19,276,173
Continuing operating income before income tax	\$ 8,288,734	-	264,563	195,626	(411,164)	132,634	7,026,815	(7,246,488)	8,250,720
Continuing operating income after income tax	\$ 6,865,705	-	264,563	195,626	(326,662)	121,851	7,118,531	(7,246,127)	6,993,487
Total assets	\$ 4,043,650,688	218,192,470	3,145,911	1,594,177	404,237,892	10,406,664	268,449,751	(310,911,275)	4,638,766,278
Total Liabilities	\$ 3,796,128,773	218,192,470	2,881,349	1,398,551	391,276,801	6,993,019	15,655,967	(46,405,081)	4,386,121,849

2012									
	Bank department	Department of Government Employees Insurance	Department of Procurement	Department of Precious Metals	Insurance Business	Securities Business	Other business	Reconciliatio n and elimination	Total
Interest income	\$ 54,713,696	1,325,944	67	9	9,211,961	107,411	209	(134,323)	65,224,974
Less: interest expense	31,952,145	-	-	-	218,187	16,830	59,412	(134,323)	32,112,251
Interest income, net	22,761,551	1,325,944	67	9	8,993,774	90,581	(59,203)	-	33,112,723
Non-interest income, net	14,517,996	(3,087,125)	503,920	25,830	42,620,716	314,412	7,378,846	(7,392,668)	54,881,927
Other non-interest income	6,966,300	1,892,273	(6,750)	606,903	171,922	1,006	(4,900)	(125,681)	9,501,073
Net income	44,245,847	131,092	497,237	632,742	51,786,412	405,999	7,314,743	(7,518,349)	97,495,723
Bad debt expenses and reserve for guarantees	19,740,574	-	-	-	51,002,293	-	-	-	70,742,867
Operating costs	17,385,488	131,092	123,057	83,279	812,459	379,853	153,884	(139,501)	18,929,611
Continuing operating income before income tax	\$ 7,119,785	-	374,180	549,463	(28,340)	26,146	7,160,859	(7,378,848)	7,823,245
Continuing operating income after income tax	\$ 6,262,044	-	374,179	549,463	175,249	22,728	7,258,511	(7,383,664)	7,258,510
Total assets	\$ 3,866,130,092	194,708,351	3,790,189	2,470,385	382,634,882	7,140,364	257,267,589	(293,904,563)	4,420,237,289
Total Liabilities	\$ 3,625,231,181	194,708,351	3,416,010	1,920,923	375,306,840	3,883,319	10,692,198	(41,496,924)	4,173,661,898

The financial statement of the Company and its subsidiaries on December 31th, 2012 were followed the ROC GAAP as stated in 4(1). This financial statement was included in the first-time adoption of International Financial Reporting Standards, and the period of building International Financial Reporting

Standards financial statement approved by Financial Supervisory Commission R.O.C. Also, this financial statement is in accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards which endorsed by Financial Supervisory Commission R.O.C.

The financial impact between current GAAP and IFRSs are listed below:

1) Reconciliation of balance sheet

Account Name	December 31, 2012			January 1, 2012			Note
	GAAP	IFRS Conversion Impact	IFRSs	GAAP	IFRS Conversion Impact	IFRSs	
Assets							
Cash and Cash Equivalents	\$ 120,604,338	(41,900,000)	78,704,338	\$ 97,988,304	(15,900,000)	82,088,304	N
Placement with Central Bank and Call Loans to Banks	549,627,869	-	549,627,869	488,555,403	-	488,555,403	
Financial Assets Measured at Fair Value through Profit or Loss, Net	147,512,761	(1,157)	147,511,604	111,746,985	-	111,746,985	K
Available for sale Financial Assets, Net	777,192,341	-	777,192,341	802,058,331	-	802,058,331	A
Hedging Financial Assets	-	3,543	3,543	-	3,074	3,074	N
Bills and Bonds Purchased under Resell Agreements	23,106,943	-	23,106,943	12,402,850	-	12,402,850	
Receivables, Net	98,412,210	(1,549,267)	96,862,943	91,084,216	1,534,682	92,618,898	A, B, E, N
Current Income Tax Assets	-	3,077,593	3,077,593	-	2,468,548	2,468,548	A, E
Loans and Discounts, Net	2,182,122,142	-	2,182,122,142	2,158,327,798	-	2,158,327,798	
Reinsurance Assets	-	22,133	22,133	-	22,701	22,701	N
Held to maturity Financial Assets, Net	244,048,116	(91,639)	243,956,477	227,724,844	(31,419)	227,693,425	A
Investments under Equity Method, Net	40,936,052	(857,803)	40,078,249	37,544,129	(478,128)	37,066,001	J
Other Financial Assets, Net	114,965,946	42,260,452	157,226,398	110,755,243	16,362,183	127,117,426	A, B, N
Investment Property	4,773,134	(492,373)	4,280,761	4,057,036	(495,579)	3,561,457	I
Property and Equipment, Net	98,436,092	1,522,154	99,958,246	99,049,684	1,540,055	100,589,739	G, I
Intangible Assets	1,177,207	-	1,177,207	830,360	-	830,360	
Deferred Tax Assets	-	2,090,493	2,090,493	-	1,648,226	1,648,226	A, E, L
Other Assets	16,891,809	(3,653,770)	13,238,039	19,082,915	(3,671,280)	15,411,635	A, C, E, G, N
Total assets	\$ 4,419,806,960	430,359	4,420,237,319	\$ 4,261,208,098	3,003,063	4,264,211,161	
Liabilities							
Deposits of Central Bank and other banks	\$ 213,374,465	-	213,374,465	\$ 208,926,475	-	208,926,475	
Financial Liabilities Measured at Fair Value through Profit or Loss	4,508,507	-	4,508,507	4,274,875	-	4,274,875	
Hedging Financial Liabilities	-	301,390	301,390	-	409,907	409,907	N
Bills and Bonds Sold under Repurchase Agreements	13,341,805	-	13,341,805	15,638,050	-	15,638,050	
Commercial Paper Payables	519,880	-	519,880	499,537	-	499,537	
Payables	69,396,384	1,655,758	71,052,142	69,231,005	4,295,684	73,526,689	A, B, D, E, H, M, N
Current Income Tax Liabilities	-	143,704	143,704	-	80,797	80,797	E
Deposits and Remittances	3,277,797,764	-	3,277,797,764	3,202,888,078	-	3,202,888,078	
Provisions	534,299,188	15,574,485	549,873,673	467,108,499	14,734,226	481,842,725	A, C, D, M
Other Financial Liabilities	13,185,447	(301,390)	12,884,057	11,246,260	(409,907)	10,836,353	N
Deferred Tax Liabilities	-	18,664,067	18,664,067	-	18,427,976	18,427,976	A, E, F, H, M
Other Liabilities	34,999,251	(23,798,907)	11,200,344	31,707,538	(23,412,364)	8,295,174	C, E, M
Total liabilities	4,161,422,691	12,239,107	4,173,661,798	4,011,520,317	14,126,319	4,025,646,636	
Equity							
Capital stock	90,000,000	-	90,000,000	90,000,000	-	90,000,000	
Common stock	90,000,000	-	90,000,000	90,000,000	-	90,000,000	
Capital surplus	111,632,634	(247,217)	111,385,417	112,095,429	(710,212)	111,385,217	J
Retained earnings	17,184,092	14,734,811	31,918,903	14,239,505	15,351,176	29,590,681	
Legal reserve	2,758,570	-	2,758,570	2,352,676	-	2,352,676	
Special reserve	5,924,552	(204,699)	5,719,853	5,227,896	(204,699)	5,023,197	J, M
Unappropriated retained earnings	8,500,970	14,939,510	23,440,480	6,658,933	15,555,875	22,214,808	A, C, D, E, F, H, J, K, L, M
Other equity	39,567,513	(26,296,242)	13,271,271	33,353,047	(25,764,220)	7,588,827	A, C, F, H, J, L, H
Total equity	258,384,239	(11,808,648)	246,575,591	249,687,981	(11,123,256)	238,564,725	
Total liabilities and equity	\$ 4,419,806,930	430,459	4,420,237,389	\$ 4,261,208,298	3,003,063	4,264,211,361	

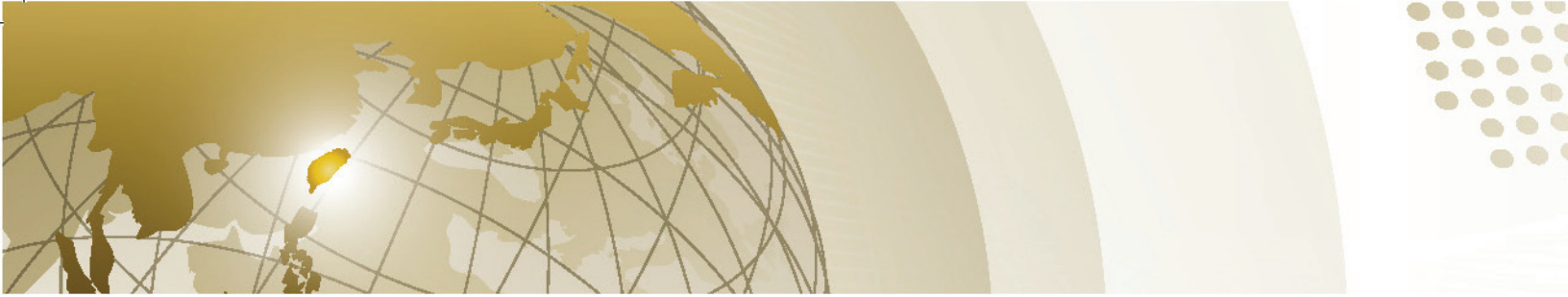
2) Reconciliation of income statement

	2012		
	GAAP	IFRS Conversion Impact	IFRSs
Interest income	\$ 66,827,299	(1,602,325)	65,224,974
Less: Interest expense	(33,186,012)	1,073,761	(32,112,251)
Net interest income	33,641,287	(528,564)	33,112,723
Service fees ,net	3,110,352	61,851	3,172,203
Premiums income	33,433,548	-	33,433,548
Gain (loss) on financial assets or liabilities measured at fair value through profit or loss	13,887,972	732,880	14,620,852
Realized gain (loss)on available for sale financial assets	2,933,879	440	2,934,319
Foreign exchange gain (loss)	(1,799,944)	(12,039)	(1,811,983)
Share of income of equity accounted investees	2,304,261	230,617	2,534,878
Provision of impairment loss on assets	(72,267)	(12,061)	(84,328)
Realized gains (losses) on held to maturity financial assets	60,083	(72,163)	(12,080)
Gains (losses) on investment property	87,897	6,621	94,518
Other non- interest income	10,214,088	(713,015)	9,501,073
Net revenues	97,801,156	(305,433)	97,495,723
Bad debt expense and reserve for guarantees	3,110,234	(1,958)	3,108,276
Provisions for policyholder's reserve premium	67,635,553	(962)	67,634,591
Operating expenses	19,149,692	(220,081)	18,929,611
	-	-	-
Continuing operating income before income tax	7,905,677	(82,432)	7,823,245
Income tax expense	561,624	3,111	564,735
Continuing operating income after income tax	7,344,053	(85,543)	7,258,510
Discontinued operations gains or losses	-	-	-
Net income	\$ 7,344,053	(85,543)	7,258,510

3) Notes to the above reconciliation reports

1. Effective interest rate method

According to IAS No. 39 accepted by FSC, the amortization of financial assets will be calculated using the effective interest rate method instead of straight-line method. On January 1 and December 31, 2012, the effect of this adjustment on related accounts are as follows: for available-for-sale financial assets, a decrease of \$6,646 and a increase of \$2,527; for held-to-maturity financial assets, a decrease of \$31,419 and \$91,639, respectively; for other financial assets, an increase of \$12,178 and \$1,738, respectively; for other assets, an increase of \$110,877 and \$97,564, respectively; for provision, an increase of \$15,220 and \$10,327, respectively; for accounts receivable, a decrease of \$2,196 and \$1,310, respectively; for available-for-sale financial assets valuation adjustment, an increase of \$6,646 and \$2,527, respectively; for deferred income tax assets, an increase of \$54,908 and \$260,511, respectively; for deferred income tax liabilities, an increase of \$52 and \$258,142, respectively; for other equities, an increase of \$61,503 and \$5,220, respectively; for current income tax assets, an increase of \$55 and a decrease of \$40, respectively; for accounts payable, an increase of \$0 and a decrease of \$40, respectively; and for retained earnings, an increase of \$67,574 and a decrease of \$6,825, respectively. Also, for the consolidated comprehensive income statement for the year 2012, this adjustment increases interest income by \$28,450, reduces gains or losses on financial assets and liabilities measured at fair value through profit or loss by \$12, increases realized gains on



available-for-sale financial assets by \$440, realized losses on held-to-maturity financial assets by \$72,163, foreign exchange losses by \$12,039, reduces non-interest income by \$23,968, and insurance reserve by \$4,893.

2. Regular way purchase or sale

In accordance with International Accounting Standards No. 39 accepted by FSC, the adjustment on January 1 and December 31, 2012 are as follows: increases other financial assets by \$453,079 and \$362,257, respectively, receivables by \$1,413 and \$908, respectively; and payables by \$454,492 and \$363,165, respectively.

3. Employee benefits - adjustments to pension actuarial gains and losses and pension obligations

Elect to adopt the exemption related to employee benefits in IFRS 1, on January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for provisions, an increase of \$3,545,151 on both dates; and for retained earnings, a decrease of \$3,545,151 on both dates.

The Company and its subsidiaries applied retroactive application of IAS 19, and adjusted the related balances of net unrecognized transitional benefit obligation and pension liability under the R.O.C. GAAP.

On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for provisions, an increase of \$673,752 and \$890,232, respectively; for retained earnings, a decrease of \$673,752 and \$890,232, respectively; for other assets, a decrease of \$622,896 and \$535,528, respectively; for other liability, a decrease of \$1,491,540 and \$1,781,673, respectively; and for other equities, an increase of \$868,644 and \$1,249,665, respectively.

For the consolidated comprehensive income statement for the year 2012, the adjustments increase the fee and commission revenue by \$14,361 and reduce the operating expense by \$227,628.

4. Employee benefits-retiree deposits with favorable rates and bonus, special care fund

According to IAS 19 and the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, effective 2013, retiree deposits with favorable rates should be recognized as post-employment benefits with actuarial amount. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for provisions, an increase of \$6,887,557 and \$7,355,997, respectively; for retained earnings, a decrease of \$6,887,557 and \$7,301,584, respectively; and for payable, a decrease of \$0 and \$54,413. Also, for the consolidated comprehensive income statement for the year 2012, this adjustment reduces a non-interest income by \$408,447, the fee and commission revenue by \$5,580 and the operating expense by \$12,499.

Also, the bonus and special care fund should be recognized as post-employment benefits with actuarial amount. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for provisions, an increase of \$221,462 and \$209,505, respectively; and for retained earnings, a decrease of \$221,462 and \$209,505, respectively. For the consolidated comprehensive income statement for the year 2012, this adjustment reduces fee and commission revenue by \$11 and non-interest revenue by \$532.

5. Income tax

Following IAS 12, the Company and its subsidiaries should reevaluate and adjust the deferred tax assets. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for deferred income tax assets, a decrease of \$355,116 and \$355,116, respectively; for retained earnings, a decrease of \$355,116 and \$355,116, respectively.

The temporary difference of the land revaluation increments tax payable under taxable should be reclassified to deferred tax liabilities. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for other liabilities, a decrease of \$18,367,918 and \$18,290,593, respectively; and for deferred income tax liabilities, an increase of \$18,367,918 and \$18,290,593, respectively.

In accordance with IAS 1, current tax assets, current tax liabilities and deferred tax assets should be recorded separately in the financial statement. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for current income tax assets, an increase of \$2,433,730 and \$3,046,237, respectively; for retained earnings, a decrease of \$0 and \$4,818, respectively; for receivables, a decrease of \$2,433,730 and \$3,051,055, respectively; for current income tax assets, an increase of \$34,818 and \$31,396, respectively; for other assets, a decrease of \$34,818 and \$31,396, respectively; for deferred tax assets, an increase of 2,018,959 and \$2,128,099, respectively; for other assets, a decrease of \$2,018,959 and \$2,128,099, respectively; for current income tax liabilities, an increase of \$80,797 and \$143,704, respectively; for payable, a decrease of \$80,797 and \$143,704, respectively.

Following IAS 12, the Company and its subsidiaries must consider the statutory tax set-off rights of deferred tax assets and liability. Both deferred tax assets and liabilities were increased by \$157,385 on December 31, 2012.

As the evaluation of assets, liabilities, equities, revenue and expense are different between GAAP and IFRS, operating performance and financial condition have different result, and income tax expense increased by \$3,111.

6. Deemed costs of property and equipment

According to the exemption about deem cost of property and equipment, the revaluation of land in accordance with the ROC GAAP was transferred to retained earnings. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for other equities, a decrease of \$24,429,414 and \$24,356,256, respectively; and for deferred liabilities, an increase of \$10,043 and \$9,726, respectively and for retained earnings, an increase of \$24,419,371 and \$24,346,530. Also, for the consolidated comprehensive income statement for the year 2012, this adjustment increases the impairment loss of assets by \$12,061, reduces the non-interest income by \$59,230 and increases the operating expense by \$1,868.

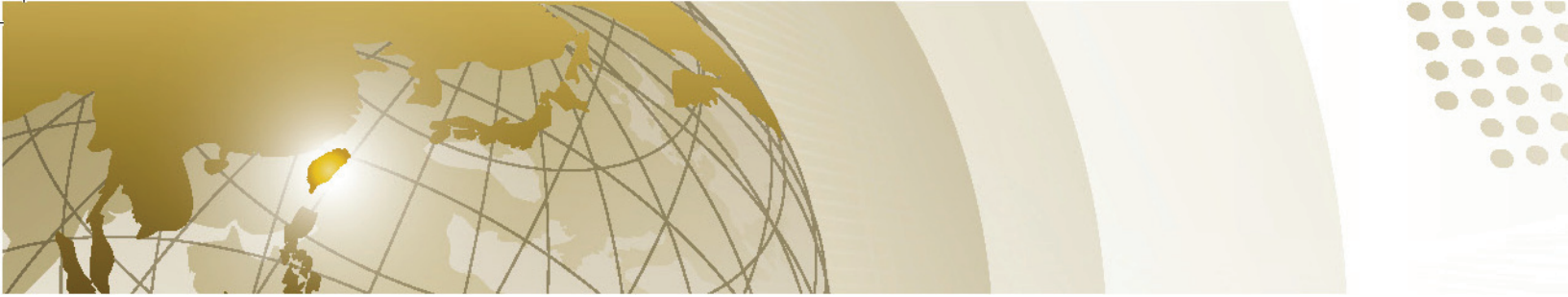
7. Reclassification of property and equipment

The Company and its subsidiaries reclassified other assets to property and equipment. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for other assets, a decrease of \$1,044,476 and \$1,029,781, respectively; and for property and equipment, an increase of \$1,044,476 and \$1,029,781, respectively. Also, for the consolidated comprehensive income statement for the year 2012, this adjustment reduces the non-interest income by \$35,017 and operating expenses by \$35,017.

8. Deem cost of Investment Property

Adopt the exemption of IFRS 1 for the deem cost of investment property, and transfer the revaluation of land and buildings to retained earnings.

On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for other equities, a decrease of \$123,179 and \$118,940, respectively; for payables, a decrease of \$0 and \$2, respectively; for retained earnings, an increase of \$102,239 and \$98,722, respectively; and for



deferred liabilities, an increase of \$20,940 and \$20,220, respectively. Also, for the consolidated comprehensive income statement for the year 2012, this adjustment decreases the gains on investment property by \$4,097 and increases the operating expense by \$140.

9. Reclassification of Investment Property

On January 1 and December 31, 2012, the Company and its subsidiaries reclassified the property and equipment to investment property by \$66,548 and \$66,544, respectively. Also, for the consolidated comprehensive income statement for the year 2012, this adjustment reduces the gains on investment property by \$122, increases the operating expense by \$1,274 and a non-interest income by \$1,396.

Following IFRS 40, the Company and its subsidiaries also reclassified the real estate investments which were not the investment property to operational property. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follow: for investment property, a decrease of \$562,127 and \$557,917, respectively; and for property and equipment, an increase of \$562,127 and \$557,917, respectively.

Reclassifying the investment property of intra transaction to property and equipment increases the gains on investment property by \$10,840 and increases the operating expense by \$10,840 on consolidated income statement for the year 2012.

10. Investments under equity method, net

The Company and its subsidiaries retrospectively apply IAS 28 to adjust items related to invest related enterprises. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for investments under equity method, a decrease of \$478,128 and \$857,803, respectively; for APIC, a decrease of \$710,212 and \$247,417, respectively; for special reserves, a decrease of \$346,396, on both dates; for other equities, a decrease of \$2,486,101 and \$3,619,301, respectively; and for retained earnings, an increase of \$3,064,581 and \$3,355,311. Also, for the consolidated comprehensive income statement for the year 2012, this adjustment increases the gains on investments of related enterprises and joint venture under equity method by \$230,617.

According to IAS 28, when the Company and its subsidiaries loses influence on related enterprises, the related gains and losses should be transferred from equity to net income. The adjustment on January 1 and December 31, 2012 increases other equity by \$128,551 and reduces retained earnings by \$128,551.

11. Financial instruments are altered to measure at fair value

The Company and its subsidiaries recorded the emerging stock held by securities subsidiary at cost according to "Regulations Governing the Preparation of Financial Reports by Securities Firms". In accordance with the IAS 39 financial instruments: recognition and measurement, the equity investment without active market should be measured at fair value if it is possible. This adjustment on December 31, 2012 decreases the financial assets measured at fair value through profit of loss and retained earnings by \$1,157. Also, for the consolidated comprehensive income statement for the year 2012, this adjustment decreases the gains on financial assets measured at fair value through profit or loss by \$1,157.

12. Translation of financial statements of the foreign operation

The Company and its subsidiaries adopts the exemption of IFRS 1 about cumulative translation differences of foreign branches. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for retained earnings, a decrease of \$414,852 on both dates; for other equities, an increase of \$344,327 and \$414,819, respectively; and for deferred income tax assets, a

decrease of \$70,525 and \$33, respectively.

13. Provisions

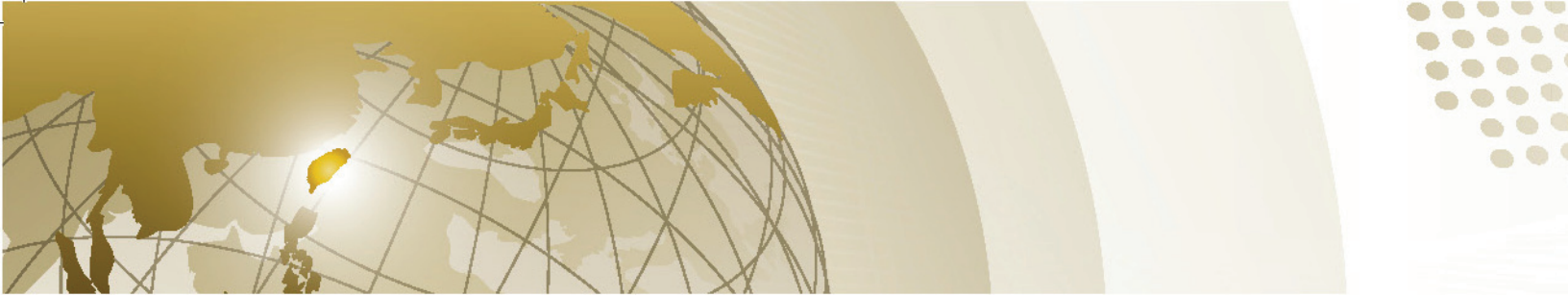
According to IFRS 1, provisions should be recognized separately, and accrued pension liabilities would be eliminated. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for other liabilities, a decrease of \$3,552,906 and \$3,723,021, respectively; for payables, a decrease of \$832 and \$86, respectively; and for provisions, an increase of \$3,553,738 and \$3,723,107, respectively.

The provision of decommissioning liabilities under payables was reclassified to provision, and this adjustment on January 1 and December 31, 2012 reduces the payables by \$8,066 and \$6,955, respectively and increases the provision by \$8,066 and \$6,955, respectively.

According to IFRS 4 Recognition of Insurance Reserves, the after tax balance of the special reserve- significant incident and special reserve – significant changes on January 1, 2012 deducting the foreign exchange volatility reserve recognized on March 1, 2012 is transferred to special reserve. The effect of this adjustment on January 1 and December 31, 2012 to related accounts is as follow: for provision, a decrease of \$170,720 and \$166,789, respectively; for special reserve, an increase of \$141,697 on both dates; for deferred tax liabilities, an increase of \$29,023 and \$28,354, respectively; and for retained earnings, a decrease of \$0 and \$3,262, respectively. Also, for the consolidated comprehensive income statement for the year 2012, this adjustment increases the insurance liabilities reserve by \$3,931.

14. Others

- (a) According to IAS 7, the timed deposit over three months cannot be regarded as cash and cash equivalents. Therefore the Company and its subsidiaries transferred it to other financial assets. The effect of this adjustment on January 1 and December 31, 2012 on related accounts is as follow: for cash and cash equivalents, a decrease of \$15,900,000, and \$41,900,000, respectively; and for other financial assets, an increase of \$15,900,000, and \$41,900,000, respectively.
- (b) Consigned securities transaction was recognized in net according to the original regulation. After adopting IFRS, the related debit and credit accounts should be recorded separately. The effect of this adjustment on January 1 and December 31, 2012 on related accounts is as follow: for receivable, an increase of \$3,969,195 and \$1,505,738, respectively; for payables, an increase of \$3,930,887 and \$1,497,793, respectively; and for other assets, a decrease of \$38,308, and \$7,945, respectively.
- (c) Following the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, effective 2013, the Company and its subsidiaries record the hedging derivative financial assets and liabilities separately. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for other financial assets, a decrease of \$3,074 and \$3,543, respectively; for hedging derivative financial assets, an increase of \$3,074 and \$3,543, respectively; for other financial liabilities, a decrease of \$409,907 and \$301,390, respectively; and for hedging derivative financial liabilities, an increase of \$409,907 and \$301,390, respectively.
- (d) According to the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, effective 2013, the Company and its subsidiaries record reinsurance assets. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for receivable, a decreased of \$0 and \$3,548, respectively; for other assets, a decrease of \$22,701 and \$18,585, respectively; and for reinsurance assets, an increase of \$22,701 and \$22,133.

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- (e) According to the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, effective 2013, the Company and its subsidiaries reclassified the interest revenue and expense of financial assets or liabilities measured at fair value through profit or loss to gains and losses of the financial assets and the interest revenue and expense of the hedging instrument to other non-interest income. For the consolidated comprehensive income statement for the year 2012, this adjustment reduces interest income by \$ 1,630,775, reduces interest expense by \$ 1,073,761, increases the gains and losses on financial assets or liabilities measured at fair value through profit or loss by \$ 734,049 and decrease a non-interest income by \$177,035.
- (f) According to the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, effective 2013, the Company and its subsidiaries reclassified some revenue and expense accounts. For the consolidated comprehensive income statement for the year 2012, this adjustment increases the fee and commission revenue by \$53,801, reduces other non-interest income by \$10,714 and increases the bad debt expense and reserve for guarantees by \$1,958 and operating expense by \$40,409.

15. Special reserve

In accordance with Permit No. 1010012865 (see note 2) issued by FSC on April 6, 2012, first time adoption of IFRS, special reserves should be recorded as the same amount as that of the unrealized revaluation surplus, and the cumulative translation differences are transferred to retained earnings while applying the exemption of IFRS 1. However, special reserve could be recognized as the increment of retained earnings due to adoption of IFRS. The special reserves should be reversed in proportion to utilize, dispose or reclassify the related accounts subsequently. On December 31, 2012, the unrealized revaluation surplus is \$24,445,251 and the cumulative translation difference is negative. However, the net increment of retained earnings due to adoption of IFRS is \$14,939,510. Hence, the there were increased of special reserve by \$14,939,510.

16. Reconciliation of cash flow

Beside the differences stated above, the cash flow has no other significant differences between ROC GAAP and IFRS endorsed by Financial Supervisory Commission R.O.C.

4) **According to IFRS 1 First-time Adoption of International Financial Reporting Standards, except for adopting optional exemptions or mandatory exceptions, the Company and its subsidiaries should prepare the financial statements following effectively the accounting standards, and it should also make retroactive application to past years.**

The instructions of adopted optional exemptions are as follow:

1. The Company and its subsidiaries do not apply the retroactive application of IFRS 3 for the acquisition or merger that had existed before the date of transition to IFRS.
2. If, before the date of its first IFRS balance sheet, the Company and its subsidiaries had revalued any of these assets under its previous GAAP either to fair value or to a price-index-adjusted cost, that previous GAAP revalued amount at the date of the revaluation can become the deemed cost of the asset under IFRS. If the carrying amount of property, plant and equipment includes amounts under previous GAAP that do not qualify for capitalization in accordance with IFRSs, the Company and its subsidiaries will elect to use the previous GAAP carrying amount of such items as deemed cost on the initial adoption of IFRSs
3. The Company and its subsidiaries elect to recognize all cumulative actuarial gains and losses for all defined benefit plans at the opening IFRS balance sheet date.

4. The Company and its subsidiaries elect to reset translation reserve included in equity under previous GAAP to zero.
5. Because the carrying amount of intangible assets includes amounts under previous GAAP that do not qualify for capitalization in accordance with IFRSs, the Company and its subsidiaries elect to use the previous GAAP carrying amount of such items as deemed cost on the initial adoption of IFRSs.
6. According to IFRIC 1 - Changes in Existing Decommissioning, Restoration and Similar Liabilities, changes in decommissioning, restoration and similar liabilities are required to be capitalized as part of the cost of the item and depreciated prospectively over the remaining life of the item to which they relate. The Company and its subsidiaries applied retroactive application. But there is no significant difference required to be adjusted.
7. The Company and its subsidiaries apply the exemption of IFRS 4 Insurance Contract, and they do not have to disclose the compensation information for past five years before the end of the year of first-time adoption.

STEADYING FORCE

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VII. Financial Status, Financial Performance, and Risk Management

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VII. Financial Status, Financial Performance, and Risk Management

1. Financial Status

Unit: NT\$1,000

Item \ Year	2013	2012	Difference	
			Amount	%
Cash and Cash Equivalents	260,624	309,775	-49,151	-15.87
Receivables-Net	35	124	-89	-71.77
Current Tax Assets	289,463	171,222	118,241	69.06
Long-Term Investment at Equity-Net	264,356,839	252,407,638	11,949,201	4.73
Fixed Assets-Net	6,274	7,024	-750	-10.68
Intangible Assets-Net	356	125	231	184.8
Other Assets-Net	3,236,103	4,371,681	-1,135,578	-25.98
Total Assets	268,149,694	257,267,589	10,882,105	4.23
Payables	28,983	21,469	7,514	35
Other Borrowing	11,600,000	5,800,000	5,800,000	100
Debt Reserves	98,992	87,038	11,954	13.73
Other Debt	3,777,290	4,783,691	-1,006,401	-21.04
Total Debt	15,505,265	10,692,198	4,813,067	45.01
Capital	90,000,000	90,000,000	—	—
Additional Paid-In Capital	111,434,739	111,385,217	49,522	0.04
Retained Earnings	34,138,434	31,918,903	2,219,531	6.95
Other Items of Shareholders' Equity	17,071,256	13,271,271	3,799,985	28.63
Total Shareholders' Equity	252,644,429	246,575,391	6,069,038	2.46

Financial Status and Risk Management

2. Financial Performance

Unit: NT\$1,000

Item \ Year	2013	2012	Difference	
			Amount	%
Investment Income Recognized Under Equity Method	7,121,083	7,378,846	-257,763	-3.49
Other Income	1,527	1,542	-15	-0.97
Operating Expenses	(155,556)	(153,885)	-1,671	1.09
Other Expenses & Losses	(91,778)	(65,645)	-26,133	39.81
Net Income Before Income Tax	6,875,276	7,160,858	-285,582	-3.99
Consolidated Net Income	6,993,487	7,258,510	-265,023	-3.65
Other Comprehensive Income(Loss) for the Period	3,558,360	5,155,540	-1,597,180	-30.98
Total Comprehensive Income(Loss) After Tax for the Period	10,551,847	12,414,050	-1,862,203	-15

3. Cash Flows

(1) Analysis of Cash Flow Changes in 2013

Item \ Year	2013	2012	Change(%)
Cash Flow Ratio	12,551.92	21,832.72	-0.43
Cash Flow Adequacy Ratio	102.1	101.19	0.90
Cash Flow Satisfied Ratio	60.62	288,980.70	99.98

(2) Cash Liquidity in the Coming Year

Unit: NT\$1,000


Beginning Cash Balance	Net cash flow from Operating Activities for Entire Year	Net Cash Outflows for Entire Year	Cash Surplus (or Deficit)	Measures to Make Up for Cash Deficit
260,624	-134,820	226,944	352,748	None

4. Impact of Material Capital Expenditures on Financial and Operating Condition in 2013: None

5. Policy on Strategic Investments, and the State of Its Implementation

(1) Policy on 2013 Strategic Investments

To coordinate with the TFH group's business expansion policy, BOT established an insurance brokerage



to introduce a diverse range of insurance products, and used the group's cross-selling strength to enhance overall performance.

(2) Main Reasons for Profits/Losses on Strategic Investments, and Plans for Addressing any Losses

TFH continued to integrate group resources while tapping into the synergies of cross-selling, cost reductions, and capital efficiency. Two of our three wholly owned subsidiaries—BOT and BTS—were profitable in 2013, while BTLI posted a loss because it had to set aside additional policy reserves. In 2013, TFH carried out a cash capital increase of NT\$6 billion at BTLI to put the company on firmer financial footing and afford it greater operational flexibility. To get on stronger financial footing, BTLI intends to adjust its product line-up, step up efforts to promote protection products and long-term installment-premium life insurance products, and improve capital allocations to establish a better match between assets liabilities.

(3) 2014 Investment Plan

Acting in line with the group's development roadmap, TFH intends to strengthen management of its investee companies as a means of building up the group's business capabilities and competitive position in the market. And in response to the state of the economy and the financial industry, the group will continue to observe and carefully evaluate to identify appropriate investment targets and make timely investments in subsidiaries. The ultimate goal is to expand the group's scope of business.

6. Risk Management

(1) Risk Management Structure and Policy

i. Risk Management Structure

TFH's risk management organizational structure includes the Board of Directors, the Risk Management Committee, the Department of Risk Management, and the subsidiaries. The responsibilities of each are as follows:

- (A) The Board of Directors is TFH's highest risk management unit, and bears ultimate responsibility for the overall level of risk borne by the group.
- (B) The Risk Management Committee reports to the Board of Directors, implements the risk management decisions adopted by the Board, and acts as a liaison between group members on risk management matters.
- (C) The Risk Management Department is an independent risk management unit. It is in overall charge of all risk management matters, monitors the implementation of risk management decisions and directives adopted by the Board of Directors and the Risk Management Committee, and reports to them on the findings of its monitoring operations.
- (D) The Risk Management Department at TFH and each of its subsidiaries reports regularly to the Board of Directors on the status of risk management in the areas it is responsible for, so that we can be aware of whether our risks are within acceptable bounds.

Financial Status and Risk Management

- (E) Each TFH subsidiary is expected to: identify, assess, and control risks connected with the businesses it runs and any new-type business or new-type product associated therewith; adopt risk management rules; enforce and review those rules; and cooperate with the efforts of the Risk Management Department to implement risk controls.
- (F) The risk management unit at TFH and each of its subsidiaries reports regularly to the Board of Directors and the Risk Management Committee on the status of risk management in the areas it is responsible for, so that we can be aware of whether our risks are within acceptable bounds.

ii. Risk Management Policy

To strictly implement legal compliance and spur sound business practices throughout the group, TFH and its subsidiaries are paying close attention to the full range of risks, both on and off the balance sheet. TFH has adopted a unified risk management policy and set of guidelines which TFH and all group subsidiaries are expected to adhere to. We are also working with our subsidiaries to help them formulate and implement their own risk management rules. In addition to complying with the requirements of the competent authorities, the group is also acting in accordance with legislation governing financial holding companies by implementing integrated risk management, by strengthening management of interested parties, large risk exposures, and capital adequacy, and by carrying out monitoring and controlling of risk limits. We also report on groupwide risk monitoring and control, and submit the reports regularly to our Risk Management Committee and Board of Directors.

TFH establishes an integrated risk management mechanism; formulates risk management guidelines; sets qualitative and quantitative control indicators; oversees the efforts of group subsidiaries to improve their risk management, and requires them, when warning indicators are triggered, to submit corrective actions; regularly holds meetings of the Risk Management Committee, which reviews overall risks and reports its findings to the Board of Directors so that top management can better understand risk exposures and judge whether they are at acceptable levels, thus serving an early warning function; ascertains the safety of group businesses; and makes sure that the group's integrated risk management mechanism is being properly implemented. The group's risk management mechanism, and the principal risk management guidelines, are as follows:

(A) Integrated management of risks

To ensure proper management of the group's risks, TFH has adopted groupwide risk management policies and risk management guidelines in accordance with legal requirements and the nature of the group's businesses. These policies and guidelines determine how TFH and its subsidiaries manage risk. TFH also exercises oversight to make sure that each subsidiary further adopts its own risk management rules based on the above, and checks to see that these rules are properly enforced.

(B) Integrated management of interested parties

TFH has adopted operating rules governing the group's exposure to interested parties as well as the control of interested-party transactions. These rules provide an integrated set of requirements regarding how TFH and its subsidiaries fill out reports on interested parties, establish files,



update information, carry out periodic file maintenance, and check information to ensure its accuracy. TFH also oversees the execution of subsidiaries to establish operating procedures for control of the group interested-party transactions, and uses groupwide platforms to carry out regular monitoring and control, so as to complete the group's interested party management mechanism.

(C) Integrated management of large risk exposures

To avoid excessive concentration of group risks, TFH has adopted a set of rules governing loans, guarantees, and other transactions between any group subsidiary and any single party, single group of related parties, or single group of related enterprises. TFH also oversees efforts by its subsidiaries to adopt risk limits and warning indicators. In addition, TFH regularly compiles and analyzes large exposures, closely tracks the risk indicators for the group as a whole and for individual subsidiaries, and acts in a timely manner to propose corrective actions and reap greater benefits from integrated management.

(D) Integrated management of capital adequacy

In order to effectively monitor, control, and evaluate the group's capital adequacy, TFH has adopted groupwide capital adequacy target ratios and warning ratios. We have also guided group subsidiaries through the process of establishing suitable capital allocations, asking each of them to adopt capital adequacy target ratios and warning ratios suited to its own particular business. TFH has also adopted capital efficiency standards by which to evaluate subsidiary performance, thereby inducing the subsidiaries to support group policies and maintain appropriate capital adequacy. In this manner, we promote effective capital allocations.

(E) Regular submission of integrated monitoring and control reports

The TFH Risk Management Committee meets once per quarter to analyze overall group risks, asset quality at each subsidiary, risk limits and stop loss performance, the status of bonds that have been targeted for special monitoring, collection of operational risk data, risk limits for interested parties, and large exposures. Integrated group risk reports are prepared and submitted to the Risk Management Committee and the Board of Directors, and serve as reference in the making of policy decisions.


(F) Guidelines for management of principal risks

a. Guidelines for management of credit risks

- (a) In order to effectively classify and manage different types of credit risk, TFH subsidiaries perform overall assessments of counterparties and investment instruments. They also assess the financial and operating condition of borrowers, as well as borrowers' solvency, ability to put up collateral, and creditworthiness. Based on the results, the subsidiaries set up internal credit rating systems, which they use as the basis for assessing loan applications, pricing, and evaluating performance. They also link credit rating systems to interest margins in order to maintain a proper relationship between credit risks and returns.

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- (b) In order to better control credit risks, TFH subsidiaries mitigate or transfer risks by, for example, demanding collateral or guarantees, entering into bilateral or multilateral netting agreements, including early termination clauses in contracts, and using credit derivatives or other risk transfer instruments.
 - (c) TFH subsidiaries have established credit risk information management systems, and take internal historical information on credit risks and retain it on file, as their internal rules require.
 - (d) In response to macroeconomic conditions, and in line with the characteristics of different customers and transactions, TFH subsidiaries identify and measure credit risks, and carry out appropriate monitoring and control. Group subsidiaries have adopted risk exposure and concentration limits for counterparties from different industries, and these are adjusted in response to changing economic conditions and evolving business strategies.
- b. Guidelines for management of market risks
- (a) TFH subsidiaries regularly carry out market assessments for their investment positions in order to effectively control market risks.
 - (b) TFH subsidiaries are gradually setting up market risk information management systems, and taking internal historical information on market risks and retaining it on file. For different categories of products, revenues, risk exposures, and transaction amounts, group subsidiaries carry out assessments and make regular updates.
 - (c) The risk factors (e.g. interest rates, exchange rates, and price volatility) monitored by the market risk management systems of TFH subsidiaries are identified and measured as on-balance sheet and off-balance sheet market risks, and are considered in their totality by the subsidiaries when they adopt risk limits, transaction caps, authorized trading amounts, and stop loss requirements. In addition, possible adjustments are considered from time to time in response to changing economic and financial conditions.
- c. Guidelines for management of liquidity risks
- (a) TFH and its subsidiaries have adopted liquidity risk management rules appropriate to their respective businesses, maintain suitable liquidity ratios and duration gaps, and have emergency response plans in place. In addition, they have multiple funding sources to ensure a sufficient level of diversity.
 - (b) In order to reduce the adverse impact of insufficient liquidity, and to respond to changing economic and financial conditions, TFH and its subsidiaries have adopted liquidity risk indicators and limits, and they carry out analyses to predict the state of liquidity and funds under different situations, so as to develop response strategies. Possible amendments to related company by-laws are considered in a timely manner.
- d. Guidelines for management of operational risks
- (a) For each line of business, TFH and its subsidiaries have adopted operating procedures, established schemes for the segregation of authority and duties, and set up internal checks



and balances. These measures are intended to reduce the occurrence of errors and malfeasance.

- (b) TFH and its subsidiaries collect information on losses stemming from operational risks and retain the information on file, as required under the companies' internal rules. In addition, they analyze operational risk losses in order to provide a basis of reference for efforts to improve internal control procedures.
- (c) When losses occur, TFH and its subsidiaries handle them in accordance with their internal rules. When a material loss occurs, they report it to the appropriate government authority, which then escalates the matter within the organization and notifies the TFH Risk Management Department to deal with it. In addition, such a matter will, if necessary, be reported to local law enforcement bodies or another appropriate authority to seek emergency remedy.

(2) Impact of changes to important domestic and foreign policies or laws upon the company's financial and operating condition, and the group's response

- i. The Central Bank now allows authorized foreign exchange banks to handle RMB deposits, loans, and wire transfers, and such banks may also apply for permission to handle trading in derivatives that link to assets in mainland China. In addition, securities firms, investment trust firms, investment consulting firms, and insurers are now allowed by the Central Bank to handle RMB products. The Shanghai branch of BOT, after being selected by the Central Bank as the NT Dollar clearing bank in the mainland, later obtained the required approvals from the mainland authorities and on 2nd April 2013 began handling cash exchanges between RMB and NT Dollars, thereby adding to the currencies in which economic and trade activities can be settled, and affording companies greater flexibility in the management of their funds.
- ii. The Financial Supervisory Commission now allows certain mainland-based companies to issue RMB-denominated straight corporate bonds in Taiwan, with the restriction that such bonds may only be sold to qualified institutional investors. The three types of companies allowed to do so are: a qualified mainland bank and its overseas branches and banking subsidiaries; a mainland banking subsidiary of a Taiwanese financial institution; and a company registered in the mainland that is controlled by a company listed in Taiwan (and is included in the controlling company's consolidated financial statements). This measure will help to expand participation in the market for Formosa Bonds, provide an additional channel for the repatriation of RMB currency, and afford qualified institutional investors greater efficiency and flexibility in their RMB asset allocations. The three subsidiaries of TFH are actively involved in the market for Formosa Bonds, whether it be on the issuance or underwriting end, or on the investment side. This market is expanding their business scope, providing a greater range of asset allocation choices, and enabling them to achieve better performance.
- iii. In response to the entry into force of the amended Personal Information Protection Act, TFH has strengthened its data security controls by adopting procedures for the collection, handling, and use

Financial Status and Risk Management

of personal data. These measures are designed to safeguard the interests of customers.

- iv. In order to guide the insurance industry toward greater focus on the essence of what insurance is all about, and to properly reflect market interest rates while ensuring the soundness of the reserves set aside by insurers, the Financial Supervisory Commission has lowered valuation interest rates for new contracts sold by life insurers three times, on 1st July 2012, 1st January 2013, and 1st January 2014. The sharpest rate cuts apply to short-term endowment insurance, so as to encourage life insurers to adopt sound business practices. BTLI, in order to cooperate with the policies of Taiwan's insurance supervisory authority, is gradually adjusting its product mix, adding more protection products and long-term installment-premium products to make these the mainstay of its business. At the same time, it is reducing its sales of single-premium quasi-savings products in order to bolster its financial and operating condition.

(3) Impact of changing technologies and industries on financial and operating condition, and the group's response

BOT continues to improve the management of its information systems. Prior to last year, it had already obtained ISO 27001 certification of its information security management system, ISO 20000 certification of its information technology service management system, and BS 25999 certification of its business continuity management system. It followed up on these successes in 2013 by obtaining ISO 22301 certification from the British Standards Institution for its business continuity management system, and is the only financial institution from Taiwan with this certification. Also, in order to provide customers with quick, convenient, and secure services that are largely available online, BOT has set up an operating procedure for the computerization of all its banking services. New technologies and equipment enable customers to directly log on to the bank's computers via various types of terminals and mobile devices to check accounts and handle transactions. The availability of multiple service channels means that BOT can interface with customers in many different ways. The result is higher overall efficiency.

(4) Impact of changes in the image of TFH and its subsidiaries, and the group's response

The TFH group's banking, life insurance, and securities subsidiaries are guided by a "customer first" philosophy, and this is reflected in their 2013 credit ratings, which for each is the highest granted to any firm in their respective industries. The Executive Yuan, moreover, has awarded each of them an "A" rating for their outstanding business performance. During the past fiscal year, TFH subsidiaries took active part in community service activities, supported social service groups, and provided financial sponsorship for many types of cultural and sports events in a concerted effort to give back to society.

BOT has long enjoyed the strong trust of its customers, and in the past year won numerous awards both at home and abroad. The US-based Global Finance magazine, named BOT one of the "10 Safest Banks In Asia" and one of the "World's 50 Safest Banks." It is the only domestic bank to make these lists. Also, BOT was named by the European Bank for Reconstruction and Development as the "Most Active Confirming Bank" under the EBRD's Trade Facilitation Program in 2012. Here in Taiwan, Wealth News magazine in 2013 handed BOT three separate prizes in its "consumer finance brand" category (best domestic bank; best bank image; best bank products). In a survey of the customers of wealth



management banks by Business Today magazine, BOT was the most highly recommended bank, while the same magazine conducted an assessment of wealth management banks that also placed BOT in the top spot, and the bank was a recipient of a MOF Award for Superior Government Service Quality as well as a 2013 Gold Award for Superior Government Service Quality. BOT has also received ISO 22301 certification from the British Standards Institution for its business continuity management system, the first financial institution in Taiwan thus certified.

The 13- and 25-month persistency rates of the TFH insurance subsidiary, BTLI, were both among the best in the industry, and the company also won four awards (best fulfillment of corporate social responsibility; best insurance professionalism; best product innovation; best integrated promotions).

(5) Concentration Risks and Response Measures

To avoid allowing our business to become overly concentrated, TFH's banking subsidiary has set limits on the percentage of loans and investments that can go to any particular type of customer or economic sector, or to affiliated enterprises. TFH has a detailed and comprehensive integrated risk control system to exercise rigorous monitoring and control over the degree of concentration of large risk exposures to any single party, single group of related parties, or single group of related enterprises.

(6) Impact from Material Share Transferring of a Director, Supervisor, or Shareholder with more than 1 Percent Stake in TFH.

None (TFH is a state-run enterprise wholly owned by the government, with its shares owned by MOF. All our directors and supervisors are the Ministry's juristic-person representatives.)

7. Crisis Management Mechanism

In order to establish a groupwide system for preventing the occurrence of emergency situations, to respond promptly and effectively once they do occur, and to follow up with remedial action to deal with the aftermath, TFH and its subsidiaries have adopted a number of emergency response measures and contingency plans. We have set up an Emergency Response Taskforce and Spokesperson system, and when an emergency occurs we will be prepared to activate our Groupwide Emergency Notification and Communications System. Specified emergency response units are now in place to take charge in case of emergency and handle events in accordance with established operating procedures.

VIII. Miscellaneous

1. TFH Affiliates

Types of business conducted by TFH affiliates including Banking, securities, insurance, insurance brokerage.
Basic informations are as below:

Name	Date Founded	Address	Paid-in Capital	Main Businesses
BOT	May 20, 1946	No. 120, Sec.1, Chongqing S. Rd., Taipei City, Taiwan	NT\$70 billion	Banking
BTLI	Jan 2, 2008	6F., No.69, Sec.2, Dunhua S. Rd., Taipei City, Taiwan	NT\$17 billion	Life Insurance
BTS	Jan 2, 2008	6-9F., No.58, Chongqing S. Rd., Taipei City, Taiwan	NT\$3 billion	Securities
BTIB	Jan 23, 2008	4F., No.49, Sec.1, Wuchang St., Taipei City, Taiwan	NT\$20 million	Insurance Brokerage

2. Domestic and Overseas Branches of BOT

Please refer to BOT website: www.bot.com.tw/english

3. Domestic Branches of BTLI

Please refer to BTLI website: www.twfhclife.com.tw

4. Domestic Branches of BTS

Please refer to BTS website: www.twfhcsec.com.tw

5. Domestic Service Units of BTIB

Please refer to BTIB website: bot.map.com.tw

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