

**TAIWAN FINANCIAL HOLDING CO., LTD.
AND ITS SUBSIDIARIES**

Consolidated Financial Statements

**December 31, 2012 and 2011
(With Independent Auditors' Report Thereon)**

Address: No. 120, Sec. 1, Chongqing South Road, Taipei, Taiwan, R.O.C.

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, 2012, 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 Statement of Financial Accounting Standards No.7, "Consolidated Financial Statements". In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Taiwan Financial Holding Co., Ltd. and its subsidiaries do not prepare a separate set of combined financial statements.

Truthfully yours,

TAIWAN FINANCIAL HOLDING CO., LTD.

By

Teng-Cheng Liu
Chairman

March 28, 2013

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Taiwan Financial Holding Co., Ltd. and its subsidiaries (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years ended December 31, 2012 and 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of some investee companies. The Company's investment in those investee companies on December 31, 2012 and 2011, was \$33,305,362 thousand and \$31,481,606 thousand, respectively, constituting 0.75% and 0.74%, respectively, of total consolidated assets, and its equity in earnings of those investee companies was \$1,995,417 thousand and \$2,508,749 thousand, respectively, constituting 25.20% and 54.05%, respectively, of the consolidated income before income tax, for the years ended December 31, 2012 and 2011. The consolidated financial statements of those investee companies were audited by other auditors, whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for those investee companies, is based solely on the reports of the other auditors. The details are as described in note (12).

We conducted our audits in accordance with the "Regulations Governing Auditing and Certification of Financial Statements 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 about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Taiwan Financial Holding Co., Ltd. and its subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years ended December 31, 2012 and 2011, in conformity with the "Regulations Governing the Preparation of Financial Reports by Financial Holding Companies", the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", and accounting principles generally accepted in the Republic of China.

As described in note (3), effective January 1, 2011. Taiwan Financial Holdings and its subsidiaries adopted the third amendment of the Statement of Financial Accounting Standards (SFAS) No. 34 “Financial Instruments: Recognition and Measurement” revised by the Financial Accounting Standards Committees. In accordance with the SFAS No.34, the recognition, subsequent valuation and impairment losses of loans and receivables shall comply with the new amendment. The amendment also applies to the terms and conditions of restructured and negotiable debts. Please see note (5), (8), (9) and (13) for further descriptions.

The consolidated financial statements of the Company shall be audited by the Ministry of Audit in accordance with the related regulations of the Law of Audit. The 2011 and 2010 consolidated financial statements of the Company were audited by the Ministry of Audit, the results are as described in note 42 (11); the revised items were adjusted in the consolidated financial statements of the Company.

March 28, 2013

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

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

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2012 and 2011

(expressed in thousands of New Taiwan Dollars)

	December 31, 2012	December 31, 2011	Percentage change		December 31, 2012	December 31, 2011	Percentage change
Assets				Liabilities and Stockholders' Equity			
Cash and cash equivalents (notes 4 and 37)	\$ 120,604,340	97,988,304	23	Deposits of Central Bank and other banks (notes 18 and 37)	\$ 213,374,465	208,926,475	2
Placement with Central Bank and call loans to banks (notes 5, 9, 37 and 38)	549,627,869	488,555,403	13	Commercial paper payable, net (note 19)	519,880	499,537	4
Financial assets measured at fair value through profit or loss, net (notes 6, 35 and 37)	147,512,761	111,746,984	32	Financial liabilities measured at fair value through profit or loss (notes 20, 35 and 37)	4,508,508	4,274,874	5
Bills and bonds purchased under resell agreements (note 7)	23,106,942	12,402,851	86	Bills and bonds sold under repurchase agreements (note 7)	13,341,805	15,638,050	(15)
Receivables, net (notes 8, 9 and 28)	98,341,071	91,084,216	8	Payables (note 21)	69,404,869	69,231,005	-
Discounts and loans, net (notes 9, 35 and 37)	2,182,122,142	2,158,327,794	1	Deposits and remittances (notes 22 and 37)	3,277,797,765	3,202,888,078	2
Available-for-sale financial assets, net (notes 10, 32, 35 and 38)	777,192,341	802,058,331	(3)	Other financial liabilities (notes 25 and 35)	13,185,447	11,246,261	17
Held-to-maturity financial assets, net (notes 11, 32, 35 and 38)	244,048,117	227,724,845	7	Reserves for operation and liabilities (note 24)	534,299,189	467,108,298	14
Investments under equity method, net (note 12)	40,936,053	37,544,129	9	Other liabilities (notes 15, 26 and 27)	<u>34,999,248</u>	<u>31,707,537</u>	10
Other financial assets, net (notes 8, 9, 13, 32 and 35)	114,965,947	110,755,243	4	Total liabilities	<u>4,161,431,176</u>	<u>4,011,520,115</u>	4
Real estate investments, net (notes 14 and 15)	4,773,134	4,057,036	18	Stockholders' equity (notes 15, 28 and 29):			
Fixed assets, net (notes 15, 26 and 32)	98,436,106	99,049,681	(1)	Common stock	<u>90,000,000</u>	<u>90,000,000</u>	-
Intangible assets (note 16)	1,177,207	830,361	42	Additional paid-in capital	<u>111,632,634</u>	<u>112,095,429</u>	-
Other assets (notes 17, 32 and 38)	16,919,776	19,082,920	(11)	Retained earnings:			
				Legal reserve	2,758,570	2,352,676	17
				Special reserve	5,924,552	5,227,896	13
				Unappropriated retained earnings	<u>8,449,361</u>	<u>6,658,934</u>	27
					<u>17,132,483</u>	<u>14,239,506</u>	20
				Equity adjustments:			
				Unrealized gains on revaluation increments	28,112,517	27,175,554	3
				Cumulative translation adjustments	(810,653)	(370,052)	(119)
				Unrealized gains on financial instruments	13,523,945	7,418,299	82
				Net losses not recognized as pension cost	<u>(1,258,296)</u>	<u>(870,753)</u>	(45)
					<u>39,567,513</u>	<u>33,353,048</u>	19
				Total stockholders' equity	258,332,630	249,687,983	3
				Commitments and contingencies (note 39)			
Total Assets	<u><u>\$ 4,419,763,806</u></u>	<u><u>4,261,208,098</u></u>	4	Total Liabilities and Stockholders' Equity	<u><u>\$ 4,419,763,806</u></u>	<u><u>4,261,208,098</u></u>	4

See accompanying notes to consolidated financial statements.

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Income

For the years ended December 31, 2012 and 2011
(expressed in thousands of New Taiwan Dollars, except for earnings per share)

	2012	2011	Percentage change
Interest income	\$ 66,827,124	62,088,506	8
Less: interest expenses	<u>33,186,012</u>	<u>30,701,427</u>	8
Net interest income	33,641,112	31,387,079	7
Non-interest income, net			
Net income on service charges and commissions	3,172,020	3,730,333	(15)
Net insurance business income (note 31)	33,433,548	31,325,073	7
Gains (losses) on financial assets and liabilities at fair value through profit or loss (note 6)	14,029,859	(7,452,108)	288
Realized gains on available-for-sale financial assets (note 10)	2,933,880	2,651,465	11
Realized gains on held-to-maturity financial assets	60,083	64,704	(7)
Gains on equity investments recognized under the equity method (note 12)	2,304,262	2,646,724	(13)
Gains on real estate investments	87,898	43,229	103
Foreign exchange (losses) gains	(1,799,868)	4,823,608	(137)
Asset impairment (losses) gains on reversal of impairment (note 32)	(72,267)	37,027	(295)
Other net non-interest (losses) income:			
Self-managed and commissioned sales (note 17)	147,698,592	151,965,102	(3)
Government grant income (note 42)	18,525,118	18,619,038	(1)
Gains on disposal of properties, plant, and equipment (note 15)	812,794	421,670	93
Other miscellaneous income	1,025,516	1,500,024	(32)
Self-managed and commissioned cost of sales (note 17)	(146,867,152)	(151,065,996)	3
Excess interest expenses (notes 8)	(10,288,089)	(10,103,378)	(2)
Other miscellaneous expenses	<u>(817,028)</u>	<u>(869,236)</u>	6
Net revenue	<u>97,880,278</u>	<u>79,724,358</u>	23
Bad debt expenses (note 9)	<u>3,107,905</u>	<u>5,054,016</u>	(39)
Provisions for insurance policy reserves (note 33)	<u>67,635,554</u>	<u>50,751,321</u>	33
Operating expenses:			
Personnel expenses (note 27)	12,705,105	12,785,984	(1)
Depreciation and amortization expenses	1,369,927	1,483,982	(8)
Other business and administrative expenses	<u>5,144,798</u>	<u>5,007,154</u>	3
Total operating expenses	<u>19,219,830</u>	<u>19,277,120</u>	-
Income before income taxes	7,916,989	4,641,901	71
Income tax expense (note 28)	<u>620,628</u>	<u>582,967</u>	6
Consolidated total income	<u><u>\$ 7,296,361</u></u>	<u><u>4,058,934</u></u>	80
Attributable to:			
Parent company shareholders	\$ 7,296,361	4,058,934	80
Minority interest	<u>-</u>	<u>-</u>	-
	<u><u>\$ 7,296,361</u></u>	<u><u>4,058,934</u></u>	80
	Before	After	Before
	income tax	income tax	income tax
Basic earnings per share (note 30)	<u><u>\$ 0.88</u></u>	<u><u>0.81</u></u>	<u><u>0.52</u></u>
	<u><u>0.45</u></u>		

See accompanying notes to consolidated financial statements.

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2012 and 2011
(expressed in thousands of New Taiwan Dollars)

	Retained earnings					Equity adjustments				
	Common stock	Additional paid-in capital	Legal reserve	Special reserve	Unappropriated retained earnings	Cumulative translation adjustments	Net losses not recognized as pension cost	Unrealized gains on financial instruments	Unrealized gains on revaluation increments	Total
Balance as of January 1, 2011	\$ 90,000,000	111,516,202	1,610,266	4,653,557	9,729,678	(465,473)	(2,183)	28,019,454	15,116,171	260,177,672
Consolidated total income for the year ended December 31, 2011	-	-	-	-	4,058,934	-	-	-	-	4,058,934
Appropriation of retained earnings:										
Legal reserve	-	-	742,410	-	(742,410)	-	-	-	-	-
Special reserve	-	-	-	2,969,640	(2,969,640)	-	-	-	-	-
Cash dividends	-	-	-	-	(6,017,628)	-	-	-	-	(6,017,628)
Special reserve reversal	-	-	-	(2,600,000)	2,600,000	-	-	-	-	-
Additional paid-in capital from investee company	-	579,227	-	-	-	-	-	-	-	579,227
Change in unrealized gains on revaluation increments	-	-	-	-	-	-	-	-	12,059,383	12,059,383
Change in unrealized gains of available-for-sale financial assets	-	-	-	-	-	-	-	(20,601,155)	-	(20,601,155)
Change in cumulative translation adjustments	-	-	-	-	-	95,421	-	-	-	95,421
Special reserve recognized under equity method	-	-	-	66,638	-	-	-	-	-	66,638
Reserves for default losses transferred to special reserve	-	-	-	138,061	-	-	-	-	-	138,061
Net losses not recognized as pension cost	-	-	-	-	-	-	(868,570)	-	-	(868,570)
Balance as of December 31, 2011	<u>90,000,000</u>	<u>112,095,429</u>	<u>2,352,676</u>	<u>5,227,896</u>	<u>6,658,934</u>	<u>(370,052)</u>	<u>(870,753)</u>	<u>7,418,299</u>	<u>27,175,554</u>	<u>249,687,983</u>
Consolidated total income for the year ended December 31, 2012	-	-	-	-	7,296,361	-	-	-	-	7,296,361
Appropriation of retained earnings:										
Legal reserve	-	-	405,894	-	(405,894)	-	-	-	-	-
Special reserve	-	-	-	1,849,656	(1,849,656)	-	-	-	-	-
Cash dividends	-	-	-	-	(4,403,384)	-	-	-	-	(4,403,384)
Special reserve reversal	-	-	-	(1,153,000)	1,153,000	-	-	-	-	-
Additional paid-in capital from investee company	-	(462,795)	-	-	-	-	-	-	-	(462,795)
Change in unrealized gains on revaluation increments	-	-	-	-	-	-	-	-	936,963	936,963
Change in unrealized gain of available-for-sale financial assets	-	-	-	-	-	-	-	6,105,646	-	6,105,646
Change in cumulative translation adjustments	-	-	-	-	-	(440,601)	-	-	-	(440,601)
Net losses not recognized as pension cost	-	-	-	-	-	-	(387,543)	-	-	(387,543)
Balance as of December 31, 2012	<u><u>\$ 90,000,000</u></u>	<u><u>111,632,634</u></u>	<u><u>2,758,570</u></u>	<u><u>5,924,552</u></u>	<u><u>8,449,361</u></u>	<u><u>(810,653)</u></u>	<u><u>(1,258,296)</u></u>	<u><u>13,523,945</u></u>	<u><u>28,112,517</u></u>	<u><u>258,332,630</u></u>

See accompanying notes to consolidated financial statements.

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2012 and 2011
(expressed in thousands of New Taiwan Dollars)

	2012	2011
Cash flows from operating activities:		
Consolidated total income	\$ 7,296,361	4,058,934
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	1,374,415	1,488,140
Provisions for bad debt expense	3,074,321	4,744,057
Provisions for reserves	67,191,509	51,325,438
Losses (gains) on disposal of financial assets	13,699,341	(1,716,873)
Amortization of financial assets premium (discount)	1,453,843	(3,643,078)
Loss on bad debt received	3,217,589	4,102,760
Investments income recognized under equity method	(2,304,262)	(2,646,724)
Cash dividend received from investee under equity method	1,029,823	759,148
Gains on disposal of fixed assets	(792,819)	(930,738)
(Gains) losses on write-off of printed matter, (recovery) reduction of inventory to market, and fixed asset reclassification	(224,302)	250,465
Unrealized valuation (gains) losses on financial assets and liabilities	(2,793,676)	271,339
Impairment losses on financial assets	12,289	137
Gains on reversal of impairment on financial assets	-	(1,156)
Impairment losses on non-financial assets	4,971	4,036
Gains on reversal of impairment on non-financial assets	-	(40,044)
Net Change of operating assets and liabilities		
Net change of operating assets		
Increase in receivables	(8,179,879)	(1,137,106)
Increase in bills and bonds purchased under resell agreements	(1,909,889)	(2,737,659)
(Increase) decrease in deferred income tax assets	(167,639)	236,711
Increase in trading financial assets	(12,630,259)	(11,357,305)
Increase in other financial assets	(7,823,492)	(2,950,758)
Decrease (increase) in other assets	3,201,193	(5,397,276)
Net change of operating liabilities		
Increase (decrease) in payables	511,717	(983,180)
Increase in accrued pension liabilities	177,572	444,690
Decrease in trading financial liabilities	(307,909)	(548,280)
(Decrease) increase in bills and bonds sold under repurchase agreements	(2,296,244)	5,836,839
Increase (decrease) in other liabilities	966,645	(663,763)
Net cash provided by operating activities	<u>63,781,219</u>	<u>38,768,754</u>

See accompanying notes to consolidated financial statements.

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows (continued)

For the years ended December 31, 2012 and 2011
(expressed in thousands of New Taiwan Dollars)

	2012	2011
Cash flows from investing activities:		
Acquisition of financial assets designated as at fair value through profit or loss	\$ (7,312,974)	(11,528,078)
Proceeds from disposal of financial assets designated as at fair value through profit or loss	9,122,152	4,056,872
Acquisition of available-for-sale financial assets	(4,094,219,290)	(3,909,983,459)
Proceeds from disposal of available-for-sale financial assets	40,249,276	116,433,425
Proceeds received on the maturity of available-for-sale financial assets	4,069,208,516	3,794,300,535
Proceeds received on the maturity of financial assets designated as at fair value through profit or loss	3,584,884	2,320,951
Proceeds received on the maturity of bond investment in non-active market at cost	1,548,161	1,182,195
Acquisition of held-to-maturity financial assets	(188,431,923)	(190,365,893)
Proceeds from disposal of held-to-maturity financial assets	31,452,861	5,305,000
Proceeds from received on the maturity of held-to-maturity financial assets	124,623,430	150,350,882
Proceeds from equity reduction of available-for-sale financial assets	-	3,069
Cash dividend received from available-for-sale financial assets	51,601	330,242
Proceeds from disposal of hedging derivatives instrument	1,169	259
(Increase) decrease in placement with Central Bank and call loans to banks	(11,901,027)	29,738,637
Acquisition of fixed assets	(635,365)	(722,392)
Proceeds from sale of fixed assets and non-operating assets	697,829	498,651
Acquisition of bond investment in non-active market	(25,663,316)	(31,400,496)
Proceeds from disposal of bond investment in non-active market at cost	14,147,006	16,176,850
Acquisition of intangible assets	(697,668)	(292,260)
Increase in discounts and loans	(21,953,107)	(84,622,983)
Increase in purchase of real estate investment	(758,449)	(740,349)
Decrease (increase) in other financial assets	320,427	(15,262)
(Increase) decrease in other assets	<u>(8,577,620)</u>	<u>898,056</u>
Net cash used in investing activities	<u>(65,143,427)</u>	<u>(108,075,548)</u>
Cash flows from financing activities:		
Decrease in other loans	-	(82,017)
Increase in commercial paper payables	20,343	19,756
Increase in other financial liabilities	2,851,737	4,553,096
Increase (decrease) in other liabilities	1,705,697	(171,238)
Cash dividend paid	(4,587,871)	(4,493,370)
Increase in deposits of Central Bank and other banks	4,447,991	1,313,537
Increase in deposits and remittances	<u>74,918,971</u>	<u>35,721,771</u>
Net cash provided by financing activities	<u>79,356,868</u>	<u>36,861,535</u>
Exchange effect	5,947,074	(3,138,460)
Net increase (decrease) in cash and cash equivalents	83,941,734	(35,583,719)
Cash and cash equivalents at beginning of year	<u>867,511,740</u>	<u>903,095,459</u>
Cash and cash equivalents at end of year	<u>\$ 951,453,474</u>	<u>867,511,740</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 43,176,859</u>	<u>39,840,996</u>
Income tax paid	<u>\$ 1,155,300</u>	<u>556,079</u>
Financial and investing activities not affecting cash:		
Unrealized gains (losses) on financial instruments	<u>\$ 6,105,646</u>	<u>(20,601,155)</u>
Unrealized increments on revaluation	<u>\$ 936,963</u>	<u>12,059,383</u>
Cumulative foreign currency translation adjustments	<u>\$ (440,601)</u>	<u>95,421</u>
Special reserve	<u>\$ -</u>	<u>204,699</u>
Change in additional paid-in capital	<u>\$ (462,795)</u>	<u>579,227</u>
Net losses not recognized as pension costs	<u>\$ (387,543)</u>	<u>(868,570)</u>

See accompanying notes to consolidated financial statements.

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(expressed in thousands of New Taiwan Dollars, unless otherwise specified)

(1) Organization and Business

1) Taiwan Financial Holding Co., Ltd.

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 follows the Financial Holding Company Act.

As of December 31, 2012 and 2011, there were 8,795 and 8,673 employees in the Company and its subsidiaries, respectively.

2) The consolidated subsidiaries' businesses

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 engaged in the following business:

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

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. 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'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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) Summary of Significant Accounting Policies

The financial statements of the Company and its subsidiaries have been prepared in the local currency and in Chinese. The financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language financial statements, the Chinese version shall prevail.

1) Basis of preparation

The Company and its subsidiaries' consolidated financial statements were prepared in conformity with relevant government customs. The Company prepared the accompanying financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China (ROC) when customs are inapplicable.

The Company and its subsidiaries are government-owned enterprises, and their accounting practices mainly follow the Budget Law, Account Settlement Law and Uniform Regulations on Accounting Systems for Banks Governed by the MOF. The annual financial statements are audited by the Ministry of Audit (the MOA) to ensure that the Company and its subsidiaries comply with the budget approved by the Legislative Yuan. The financial statements become final only after such an audit by the MOA. Adjustments are amended in the preparation of consolidated financial statement in accordance to the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

The financial statements of 2011 and 2010 were approved by the MOA, and the beginning balance in 2012 and 2011 were the same as the approved closing balances in 2011 and 2010, respectively.

The differences between the financial statements certified by the MOA and that audited by the independent auditors are described in note (42) 11.

2) Principles of consolidation

The consolidation of financial statements is made in accordance with the requirements of the "Regulations Governing the Preparation of Financial Reports by Financial Holding Companies" and ROC Statement of Financial Accounting Standards (ROC SFAS) No. 7 "Consolidated Financial Statements". All material inter-company transactions have been eliminated in the consolidated financial statements.

The following entities have been included in the consolidated financial statements:

Name of the investor	Name of the subsidiary	Business	Shareholding percentage	
			December 31, 2012	December 31, 2011
The Company	BOT	Banking	100.00 %	100.00 %
The Company	BTLI	Life Insurance	100.00 %	100.00 %
The Company	BTS	Securities	100.00 %	100.00 %

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

3) Foreign currency transactions

The financial statements of the Company and its subsidiaries are presented in New Taiwan Dollar. Non-derivative transactions in foreign currency are translated at the exchange rate on the date of transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. All differences are taken to the Consolidated Income statement for the period. If the non-monetary assets or liabilities are measured at fair value through profit or loss, the resulting unrealized exchange gains (loss) from such translation is reflected in the accompanying statement of income. If the non-monetary assets or liabilities are measured at fair value through shareholder's equity, the resulting unrealized exchange gains (loss) from such translation are recorded as a separate component of shareholder's equity.

The financial statements of overseas operating entities reported in functional currencies are translated into New Taiwan Dollars at the exchange rates prevailing on the balance sheet date, with the exception of stockholders' equity, which is translated at historical rates. Translation differences resulting from the translation of these financial statements into New Taiwan Dollars are recorded as cumulative translation adjustment, a separate component of shareholders' equity.

4) Use of estimates

The preparation of the accompanying financial statements requires management of the Company and its subsidiaries to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

5) Accounting basis cash-flow

Cash and cash equivalents are the basis for the preparation of cash flow. Cash comprise of cash on hand, demand deposit, check deposit, timed deposit and NCD that are fully redeemable upon cancellation. Cash equivalents comprise of short-term, highly liquid investments that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of changes in value. Investment normally meets the definition of a cash equivalent when it has a maturity of three months or less from the date of acquisition, such as short term bills.

6) Cash and cash equivalents

Cash and cash equivalents refer to cash on hand, notes and checks for clearing, petty cash, bank deposits and placement with other banks.

7) Financial assets or liabilities at fair value through profit or loss

1. An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition.
 - (a) Financial assets and liabilities held for trading purposes are classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term. Derivatives held by the Company and its subsidiaries, other than designated hedging securities, are classified in this category.

(Continued)

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

- (b) An embedded derivative shall be separated from the master contract, but if the entity is unable to determine reliably the fair value of an embedded derivative separately either at acquisition or at the subsequent balance sheet date, it shall designate the entire hybrid contract as at fair value through profit or loss, either to eliminate or significantly reduce accounting mismatch that would otherwise arise from financial assets.
 - (c) Financial assets or liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Financial assets purchased or sold regularly is recognized using either trade date accounting (except for bonds and funds recognized using settlement date accounting).
2. Derivative financial instruments refer to transactions such as forward contracts, interest swaps, cross currency swaps, asset swaps and options that are engaged in by the Company and its subsidiaries in foreign exchange, interest rate and capital markets. In addition to their application in hedge accounting, derivative financial instruments are for trading purposes. Derivative financial instruments for trading purposes are involved in creating markets, serving customers and other related arbitrage activities.

Derivative financial instruments for trading purposes are assessed by the fair value method. Any relevant net present value created shall be recognized as current gains or losses. Fair value refers to the formal transaction price fully recognized and agreed by both parties. The fair value generally is the trading price in an active market. If there is no trading price available, the fair value should be estimated by a valuation method or model.

The right of set-off of derivative financial instruments measured by the fair value method is enforceable by law. In net settlement, financial assets are offset with liabilities and disclosed in net amount.

8) Available-for-sale financial assets

Available-for-sale financial assets are recorded at fair value, and the change in market value is adjusted against shareholders' equity. Financial assets or liabilities purchased or sold regularly is recognized using either trade date accounting (except for bonds and funds recognized using settlement date accounting). Impairment loss is recognized when there is objective evidence of impairment thereof. If, in a subsequent period, the amount of the impairment loss decrease, then for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to equity; for debt securities, the amount of the decrease is recognized in profit or loss, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES**Notes to Consolidated Financial Statements****9) Held-to-maturity financial assets**

Held-to-maturity financial assets are debt instruments held by the Company and its subsidiaries with positive intention and ability to hold to maturity, recorded at amortized cost. Held-to-maturity financial assets are measured at fair value upon initial recognition plus transaction costs, and recognized through profit or loss at derecognition, impairment or amortization. Financial assets or liabilities purchased or sold regularly is recognized using either trade date accounting. Impairment loss is recognized when there is objective evidence of impairment. If the impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit and loss. The carrying value after the reversal should not exceed the amortized balance of the assets assuming no impairment loss was recognized

10) Hedge accounting

Financial instruments held by the Company and its subsidiaries which meet all the criteria for applying hedge accounting are treated with fair value hedge accounting. Gains or losses on a hedging instrument resulting from fair-value revaluation or exchange rate variation are recognized through profit or loss in the current year immediately. Gains or losses on a hedged item arising from the exposures to targeted risks is reflected in the face value of that hedged item and recognized through profit or loss in the current year immediately.

11) Financial assets carried at cost

Financial assets measured at costs are unquoted equity instrument whose fair value cannot be reliably measured. Impairment loss is recognized if there is objective evidence of impairment thereof, and this recognized amount is non-reversible.

12) Bond investment in non-active market

Bond investments in non-active market are recorded at amortized cost. The asset is measured at fair value upon initial recognition plus any transaction costs incurred for acquiring such asset. When buying or selling financial assets in a regular way, apply the trade date accounting.

Impairment loss is recognized when there is objective evidence of impairment thereof. If the impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit and loss. The carrying value after the reversal should not exceed amortized balance of the assets assuming no impairment loss was recognized.

13) Notes receivables, account receivables and other receivables

Notes receivable and account receivables result from services provided and goods sold other receivables resulted from non-operating activities.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES**Notes to Consolidated Financial Statements****14) Loans**

Loans are recorded by the amount of outstanding principal, with unearned income excluded. Interest income is recognized revenue on an accrual basis.

Recording of interest receivable of loans would be suspended if either of the following conditions is met:

1. Collection of payment of principal or interest accrued is considered highly unlikely; or,
2. Payment of principal or interest accrued is over 6 months past due.

Interest revenue is recognized upon receipt of interest for the period when recording of accrued interest is suspended.

The Company first assesses whether any objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment impairment. Impairment loss is recognized and measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced using an allowance account. The amount of the loss shall be recognized in profit or loss. When determining impairment loss, the estimated future cash flows should include collaterals and the recoverable amount from associated insurance contracts.

If in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date when impairment is reversed. The amount of the reversal shall be recognized in profit or loss.

The asset valuation of subsidiary, BOT, complies with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" for certain loans with uncollectible risks. The subsidiary, BOT, shall allocate sufficient loan loss provision. Uncollectible loans are written off upon approval of Board of Directors and notify the internal audit committee. The recovery of written-off loans is accounted for under the reversal of the allowance of doubtful accounts.

Effective July 1st, 1999, the subsidiary, BOT, adopted the interpretation letter of Tai Chai Rong No. 88733168 issued on June 30, 1999 by reserving 3% of sales as loan loss provision to accelerate the recovery of over-dued loans. Additionally, the subsidiary, BOT, also adopted interpretation letter No. 09200114870 issued on June 25, 2003 by extending the content from the previous interpretation letter, 3% reserve from the sales shall be terminated when over-dued loan falls below 1%. Adopting the aforementioned rules, loan loss provision shall be accounted for under "bad debt expense" and "provision for bad debt".

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Subsidiary BTLI conforms to “Regulations Governing the Procedures for Insurance institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans” for loan provisions, taking into the characteristics and nature of the loans and its collectability into consideration. From January 1st, 2011, 0.5% of loan loss provision will be recognized from normal loans from the first category less life insurance loan and prepaid insurance fee.

The allowance of doubtful accounts is decided by the higher result of note (9) or the method described above.

Subsidiary BTLI adopted the interpretation letter of Tai Chia Bao No. 0920750506 on April 30, 2003 and No. 0920751057 on July 22, 2003, the insurance subsidiary will decrease the allowance for doubtful accounts, which resulted from three percent of sales tax which are not yet written off. While the NPL ratio is less than one percent for three months, the decreased allowance for doubtful accounts will be recognized as special reserve, and the next month is allowed not to prepare the allowance for doubtful accounts and special reserves.

15) 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.

The allowance of doubtful accounts is decided by the higher result of note (9) or the method described above.

16) 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. The related interest revenue or expenses are recorded on an accrual basis.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES**Notes to Consolidated Financial Statements****17) Non-financial asset impairment**

The Company and its subsidiaries adopted SFAS No.35 “Accounting for Asset Impairment”. In accordance with standard, the Company and its subsidiaries identified indications that asset is impaired on balance sheet date (besides cash-generating units and goodwill), and should estimate the recoverable amount for the asset, which if it's lower than its carrying amount, the carrying amount of the asset should be reduced to its recoverable amount, and the reduction should be recognized as impairment loss. The accumulated impairment loss of an asset (other than goodwill) recognized in prior years should be reversed if, subsequently, there has been a change in the estimates used to determine the asset's recoverable amount so as to increase the recoverable amount. Then, the asset's carrying amount should be increased to its recoverable amount but should not exceed the carrying amount of an asset that would have been determined net of depreciation or amortization had no impairment loss been recognized for the asset in prior years.

18) Investment under equity method

Long-term investments in which the Company and its subsidiaries have more than 20% of the investee's voting shares or are able to exercise significant influence over the investee's operating and financial policies are accounted for by the equity method. The difference between net equity value of long-term investments based on percentage of voting rights and investment cost is as follows:

1. The original difference between investment cost and underlying equity in net assets, if it had originally be analyzed the causes of the difference, should continue the same way as the previous analysis has indicated. However, the goodwill in the difference should not be amortized anymore, and the goodwill that had been amortized shall not be reversed.
2. If the total difference had be chosen to be amortized over certain period, then the unamortized difference of investment cost over underlying equity in net assets shall follow the same treatment as goodwill (where difference should not be amortized anymore, and the amortized amount shall not be reversed).
3. The deferred credit in the difference shall continue to be amortized over the remaining amortization period.

Goodwill shall be evaluated on an annual basis or when there is any indication that good will may be impaired, the recoverable amount less than book value is recognized as impairment loss.

Gains or losses on disposal of long-term equity investment are calculated based on the difference between selling price and book value. The capital surplus arising from long-term equity investment is adjusted to profit and loss based on the percentage sold.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES**Notes to Consolidated Financial Statements****19) Real estate investments**

Real estate investments are recorded at cost and necessary expenditure at acquisition, the value on balance sheet date is determined by the lower value between the book value and fair value. If a decline in the investment's value is validated along with minor probability of recovering, the investment is written down to reflect such a decline, and the resulting loss is recognized as current gains or losses when such decline occurs. The major renewals and improvements, which result in the prolonged service life or the increased value of real estate, are capitalized. Repairs and maintenance are expensed as incurred. The cost of an investment in real estate, its corresponding revaluation surplus, and accumulated depreciation are written off upon retirement or disposal. The gains or losses resulting from disposal of an investment in real estate are recognized as an operating gains or losses respectively.

20) Fixed assets

Land is stated at acquisition cost, which can be revalued in accordance with related laws. Reserve for land appreciation tax is allocated and recorded as other liabilities. During a land transfer, both land revaluation increments and the reserves for land revaluation increment tax should be transferred with the acquisition cost of such land.

Fixed assets other than land are assessed based on acquisition cost, including capitalization of any interest accrued in obtaining such assets before reaching usable condition. Major additions, improvements and renewals are capitalized, whereas maintenance and repairs are expensed when occurred. Fixed assets without use value or left unused should be reclassified as idle assets, where the cost, cumulative depreciation and cumulative impairment of such assets are all transferred to depreciation and impairment of idle assets.

Depreciation of fixed assets is by the straight-line method over the estimated useful lives of the respective assets. The useful lives of leasehold improvements are the shorter of the lease period or service life. Upon reaching its useful life, if it is still in use, a depreciable asset can have its remaining useful life re-estimated and depreciation expense can continue to be allocated over its residual value.

In compliance with Accounting Research and Development Foundation Interpretation letter number 340, the Company and its subsidiaries have recorded the estimated dismantlement or restoration obligation for a fixed asset while it is not used for producing inventory as the cost of such asset since November 20, 2008. Every single part of the fixed asset that is significant should be depreciated individually.

The Company and its subsidiaries re-evaluate the remaining useful life, depreciation method and residual value of each fixed asset at the end of each accounting period. Changes in those elements are accounted for as changes in accounting estimate.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The estimated useful lives of fixed assets are as follows:

Land improvements	5 to 55 years
Buildings	8 to 55 years
Machinery and equipment	2 to 20 years
Transportation equipment	2 to 12 years
Miscellaneous equipment	3 to 10 years
Leasehold improvements	5 years

Gains or losses on the disposal of fixed assets are recorded as non-operating income or loss.

21) Intangible assets

The Company and its subsidiaries adopted SFAS No. 37 "Intangible Assets". In accordance with SFAS No. 37, intangible assets are recorded at cost, which is measured at fair value. Subsequent to their initial recognition, their book values are their cost plus their incremental value that resulted from revaluation minus accumulated amortization and impairment loss.

Amortization is computed using the straight-line method. The Company and its subsidiaries should reevaluate the residual value, estimated useful lives, and amortization method at least once every year. Changes in the above factors will be regarded as changes in accounting estimate. The estimated useful lives of major intangible assets are as follows:

Computer software	3 to 5 years
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At the end of each accounting period, the Company and its subsidiaries evaluate the residual value, the useful life and the method of amortization. Changes in those elements are considered changes in accounting estimate.

22) Deferred expense

Deferred expense is mainly telephone installation and subsidy for electrical wires that are deferred from 3-5 years.

23) Separate accounts—insurance instruments

The insurance subsidiary is engaged in selling investment-type insurance commodities. The payment of premiums (net of administrative expenses) is recorded in a separate account which should only be used in a way agreed to by the proposer. The assets of separate accounts are valued at market price on the valuation date, and the Company follows the related rules and financial accounting standards in the ROC to determine the net asset value. In accordance with Insurance Financial Reporting Standards, the assets, liabilities, revenue and expenses are recorded as "separate account—insurance instrument assets", "separate account—insurance instrument liabilities", "separate account—insurance instrument revenue" and "separate account—insurance instrument expenses", respectively.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES**Notes to Consolidated Financial Statements****24) Collateral assumed**

Collateral assumed are stated at the net realizable value: the amount the Company and its subsidiaries receive when debtors cannot meet their obligations and the collateral and residuals are auctioned off. Any discrepancy from the initial claim will be reflected as credit loss. Gains or losses on disposition are included in current earnings. The Company and its subsidiaries recognize impairment loss on collateral on the balance sheet date if the book value of collateral exceeds net fair value.

25) Other assets**1. Statutory deposits**

In accordance with the ROC Insurance Law, the insurance subsidiary should deposit in the National Treasury an amount equal to 15% of its issued capital as guarantee for its insurance business. The insurance subsidiary made these deposits in the form of government bonds and financial bills, and such deposits were allowed by the Ministry of Finance.

2. Non-operating assets

The cost of inactively and useless assets are stated at the lower of net realizable value or book value. The cumulative depreciation and impairment of those non-operating assets are also transferred to non-operating assets. Depreciation expense would continue to be incurred over the remaining estimated useful lives of the non-operating assets.

26) Due from representative organization

According to Military Insurance Act, the insurance subsidiary engages in the Military insurance business and the related transactions are recorded in due from representative organization based on Military insurance accounting requirement. Charges from military insurance business are recorded as fee income, and the agent fee from other institutions are recorded as expenses. Moreover, funding for military insurance is kepted by the subsidiary and the interest is paid and recorded as interest expense.

27) Reserve for operations and liabilities

The Company and its subsidiaries comply in accordance with the regulations of the respective authorities which include the provision for operating loss, insurance, unearned premiums, outstanding losses, special reserve, reserve for breach of contract, loss on sales of securities purchased and premium deficiency, recognized as expenses for the period. Effective January 1, 2011, in accordance with Jing Guan Securities No. 0990073857, reserves for breach of contract and loss on sales of securities shall be transferred to special reserves for the purpose of covering company losses. Only when special reserve reaches 50% of the capital, it can be used for additional investment in capital.

(Continued)

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

Life insurance industry should recognized foreign exchange volatility reserve for foreign investment assets since March 1, 2012. They can transfer part of the special reserves-significant incidents and the special reserves risk volatility to be the preliminary balance of foreign exchange volatility reserve. However, the amount should less than half of the special reserves-significant incidents and the special reserves risk volatility on December 31, 2011. Special reserves should be recognized the same as the preliminary balance of foreign exchange volatility reserve in three years. The recognized amount of special reserves for the first year can't lower than one-third of the after tax preliminary balance, and the accumulated amount of special reserves for the first two years can't lower than two-thirds of the after tax preliminary balance.

The insurance subsidiary conduct the liability adequacy test base on the commodity types (or the entire company contract), and apply the Actuarial Standards of Practice NO.40-contract catalog and liability adequacy test issued by the Actuarial institute of the Republic of China. This test compares the net carrying amount of insurance liabilities deducted deferred cost and related intangible assets with the estimated amount of the future cash flow from the insurance contract, and recognizes the difference as the expense if the net carrying amount is less than the other.

28) Pension

Retirement, relief and severance of employees of the subsidiaries BOT, LBOT, BTS and BTLI were calculated based on service years until December 31, 1981. From January 1, 1982, to April 30, 1997, they were dealt with according to "The Regulations on Employee's Retirement, Relief and Severance for State-run Financial and Insurance Enterprises Owned by the Ministry of Finance". The Company and its subsidiaries contributed 4% to 8.5% of salaries as prior service cost; in addition, employees contributed 3% of total monthly salaries to a pension fund each month. After May 1, 1997, when the Labor Standards Law was implemented, 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. For cleaning and maintenance workers, service costs equivalent to 8% to 15% of total monthly salaries are accrued over the workers' careers based on plan benefit formulas. The workers' pension fund is deposited in an account with the Company and its subsidiaries for the purpose of paying pension benefits to the workers when retiring.

The Labor Pension Act of the R.O.C. ("the Act"), which adopts a defined contribution scheme, is effective from July 1, 2005. In accordance with the Act, employees of the Company and its subsidiaries 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. For employees subject to the Act, the Company and its subsidiaries shall make monthly contributions to the employees' individual pension accounts of 6% of the employees' monthly wages. The related net pension cost is recorded in current income based on the actual contribution made to the pension funds.

The defined benefit pension plan has used the balance sheet date as the measurement date to complete an actuarial valuation of accumulated payment obligation is excess of pension fund assets at fair value. At the balance sheet date, the Company and its subsidiaries recognize minimum pension liabilities and, based on the pension plan's actuarial liabilities, record net pension cost, including current service cost and transitional net assets, prior service cost, and pension profit or loss, amortized over the average remaining length of service of employees by the straight-line method.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES**Notes to Consolidated Financial Statements****29) Income tax**

The income tax of the Company and its subsidiaries is calculated in accordance with SFAS No. 22 "Income Taxes". Deferred income tax is determined based on differences between the financial statement and tax basis of assets and liabilities, using enacted tax rates in effect during the years in which the differences are expected to be reversed. The income tax effects due to taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects due to deductible temporary differences, utilization of loss carryforwards and income tax assets is evaluated, and a valuation allowance is recognized accordingly.

The adjustments of income tax for the prior year are recorded as income tax expenses in the current year.

Since the Company and its subsidiaries are a government-owned enterprise, income tax should be determined by the Ministry of Audit.

In accordance with the Financial Holding Company Act, Article 49, the Company has adopted the Company as the taxpayer to file a consolidated corporate income tax return starting from 2008. Other tax matters should be handled by each entity of the Company and its subsidiaries. When preparing its financial statements, the Company accounts for its income tax in conformity with SFAS No. 22 "Income Taxes". However, the Company also adjusts the related income tax balance in a reasonable and systematic way to reflect the differences computed for purposes of filing a consolidated corporate income tax return with the Company as the taxpayer. The adjustments resulting from using the Company as the taxpayer to file a consolidated corporate income tax return is recorded under receivable from (payable to) affiliated parties.

30) Revenue recognition

1. Interest income from the Company's banking loans is accrued on the unpaid principal balance in accordance with the terms of the loans. No interest revenue is recognized on loans and other credits that are classified as nonperforming loans until the interest is collected. Interest income from bailout and loan extension is recorded as deferred income in accordance with the government authorities' provision and it will be recognized until collected. Service income is recognized on an accrual basis.

A cash dividend is recognized as revenue on the ex-dividend date, while a stock dividend can only be booked as an increase in shares rather than as revenue in accordance with ROC generally accepted accounting principles. The Company should estimate dividend revenue with its issue condition when they invests in cumulative non-participating preference shares.

In accordance with the regulation of "Insurance Act for Government employees", the losses and underlying debt accrued by May 30, 1999 has been replenished by MOF and recognized as revenue by the Company. The losses occurred after the aforementioned date is replenished by an adjustment of the insurance premium.

2. In terms of the insurance contracts and the financial products with discretionary participation feature for BTLI, the premium of the first and the subsequent period is recognized as revenue when the insurance process is completed and the due date comes. The policy acquisition costs such as commission expenses, is recognized as current expenses when the insurance contracts become effective.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The premiums of insurance contracts not belong to investment-linked insurance and classified as financial products without discretionary participation feature are recognized as “provision for insurance contracts with financial product features”. The acquisition costs are used to write off “provision for insurance contracts with financial product features” when the insurance contracts become effective.

The premiums of insurance contracts belong to investment-linked insurance and classified as financial products without discretionary participation feature are all recognized as “Liabilities on Insurance Product – Separated Account” after deducting the expenses such as the front-end load and investment administrative service charge. The acquisition costs of investment administrative service, including the commission expenses and the additional charges related to the issue of new contracts, are recognized as “deferred acquisition costs”.

The service charges which BTLI collects from the policyholder of insurance contracts not belong to investment-linked insurance and classified as financial products without discretionary participation feature include contract administrative charge, investment administrative charge, rescinding charge and others. The service charge is recognized as revenue when it is collected. When BTLI collects certain service charge which makes it obligated to provide future service (ex: Front-end load), then the service charge deferred to recognize as revenue when the service is provided.

3. For the subsidiary BTS, brokerage commissions, profit or loss from trading securities, and relevant brokerage securities transaction charges are recognized on the dealing date. Interest income or expenses of margin loans, securities financing and refinancing, bonds purchased under agreement to resell and sold under agreement to repurchase, and brokerage commission for introducing futures contracts are recognized during the transaction periods on an accrual basis. Underwriting commissions are recognized when collected, and underwriting transaction fees are recognized when the contract becomes effective.

31) Contingent liability and commitment

If commitment and contingent liabilities are highly probable, and the amount can be measured reliably, the provision shall be recognized accordingly. If the contingent liability is highly probably but cannot be measured reliably, it shall be disclosed in the notes in the financial statements.

32) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity). The operating results from operating segments are regularly review by the Company and its subsidiaries' chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

33) Others

1. Insurance contract classification

An insurance contract is a contract under which one party (the insurer) 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 Company identifies the significant insurance risk if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario.

An insurance contract with financial Instrument features means the contract is able to transfer significant insurance risk. Financial risk refers to the risk resulting from possible changes in one or more 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.

A contract that qualifies as an “insurance contract” remains an “insurance contract” until all rights and obligations are extinguished or expired even if the insurance risk significantly mitigated. However, if an insurance contract with financial instrument feature transfers significant risk to the Company 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:

- (a) that are likely to be a significant portion of the total contractual benefits;
- (b) whose amount or timing of distribution of additional benefits is contractually at the discretion of the company; and
- (c) the additional benefits are contractually based on:
 - a) the performance of a specified pool of contracts or a specified type of 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 of the 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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES**Notes to Consolidated Financial Statements****2. Reinsurance**

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.

If there is evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the insurance subsidiaries 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 subsidiaries shall recognize the difference between the recoverable amount and the book value of the previously stated right as impairment loss.

For the reinsurance contract, the insurance subsidiaries 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 subsidiaries will recognize and measure it as deposit accounting. The consideration received or paid by the Insurance subsidiaries 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.

3. Other assets- Inventory

The costs of inventories are necessary expenditures and charges for bringing the inventory to the salable and useable condition and location. Inventories shall be measured at the lower of cost and net realizable value. Cost of inventories are prepared using weighted average cost formula and net realizable value as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

4. Earnings per share

Earnings per share are calculated by dividing net income after tax by the weighted-average number of shares outstanding in each period.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Reasons for and Effects of Accounting Changes

- 1) Effective January 1, 2011, the Company and its subsidiaries adopted the third amendment of SFAS No. 34 "Financial Instruments: Recognition and Measurement" revised by the Financial Accounting Standards Committees. In accordance with SFAS No. 34, the recognition, subsequent valuation and impairment losses of loans and receivables shall comply with the new amendment. The amendment also applies to the debt restructuring and debt negotiation. Please see Note 5, 8, 9 and 13 for further descriptions.
- 2) Effective January 1, 2011, the Company and its subsidiaries adopted SFAS No. 41 "Operating Segments." In accordance with SFAS No. 41, an entity shall disclose information to enable users of its financial statements to evaluate the nature and financial impact of the business activities in which it engages and the economic environments in which it operates. The Company and its subsidiaries determine and present the operating segments based on the information that is internally provided to the chief operating decision maker. The Standard also supersedes SFAS No. 20 "Segment Reporting." Such changes in accounting principle did not have any significant impact for the year ended December 31, 2011.
- 3) Effective January 1, 2011, the Company and its subsidiaries adopted interpretation letter Jing Guan No. 0990073857 to transfer reserve for breach of contract and loss on sales of securities to special reserves.
- 4) Effective from January 1, 2011, the Company's insurance subsidiaries adopted Republic of China Statement of Financial Accounting Standards (SFAS) No.40 "Insurance Contract", such changes in accounting principle did not have significant impact for the year ended December 31, 2011.
- 5) BTLI adopted interpretation letter Jing-Guan No. 10102501561 published on February 7, 2012 to revise recording method of special reserves for life insurance firms. The influence for 2012 annual report are as follows:

Item	Before	2012 After	Difference
Income before tax	\$ 7,843,229	7,916,989	73,760
Income after tax	7,235,140	7,296,361	61,221
EPS before tax	0.88	0.88	-
EPS	0.81	0.81	-
Foreign-exchange volatility reserves (Debit for every recorded special insurance reserves)	-	73,760	73,760 (note)
Special reserves-significant incidents (Recorded reserve for operating and liabilities)	203,856	101,928	(101,928) (note)
Special reserves-risk volatility (Recorded reserve for operating and liabilities)	137,584	68,792	(68,792) (note)
Foreign-exchange volatility reserves (Recorded reserve for operation and liabilities)	-	96,960	96,960 (note)
Shareholders' equity	258,372,351	258,433,572	61,221

Note: Foreign-exchange volatility reserves \$96,960 on December 31, 2012 is transferred from special reserves-significant incidents \$101,928 and special reserves-risk volatility \$68,792 on March 1, 2012 and reduced reclaimed of foreign-exchange volatility reserves by \$73,760 this year.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(4) Cash and Cash Equivalents

	The year ended December 31, 2012	The year ended December 31, 2011
Cash on hand and petty cash	\$ 11,959,498	10,483,673
Foreign currency on hand	5,453,671	5,845,726
Bank deposits	47,789,573	21,562,098
Notes and checks for clearing	11,768,506	8,904,406
Placement with banks	<u>43,633,092</u>	<u>51,192,401</u>
	<u><u>\$ 120,604,340</u></u>	<u><u>97,988,304</u></u>

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

	The year ended December 31, 2012	The year ended December 31, 2011
Cash on hand	\$ 120,604,340	97,988,304
Call loans to banks and bank overdraft	140,411,653	72,374,442
Placement with Central Bank, including reserve checking account and foreign—currency—denominated deposit reserves	27,954,705	46,820,477
Negotiable certificates of deposit (NCDs)	614,518,774	631,220,453
Investment in bills and securities maturing within 90 days	<u>47,964,002</u>	<u>19,108,064</u>
Total	<u><u>\$ 951,453,474</u></u>	<u><u>867,511,740</u></u>

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

	The year ended December 31, 2012	The year ended December 31, 2011
Call loans to banks	\$ 140,442,053	72,379,420
Less: allowance for doubtful accounts—call loans to banks	(30,400)	(4,978)
Reserves for deposits—A account and reserves for deposits—foreign-currency, etc.	27,954,705	46,820,477
Reserves for deposits—B account	62,743,516	60,077,287
Deposits in Central Bank	<u>318,517,995</u>	<u>309,283,197</u>
	<u><u>\$ 549,627,869</u></u>	<u><u>488,555,403</u></u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- 1) The reserves for deposits is required by the Banking Law and is determined by applying the reserve ratios by the Central Bank to the monthly average balance of each type of deposit. The reserve amount is deposited in the reserve deposit account at the Central Bank. According to the regulations, such reserve for deposits—B account cannot be withdrawn except for monthly adjustments of the reserve for deposits.
- 2) As of December 31, 2012 and 2011, 60% of the deposits collected by BOT on behalf of government institutions from government organizations amounting to \$4,345,419 and \$5,077,052, respectively, were deposited in the Central Bank and cannot be withdrawn, according to the regulations.

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

	The year ended December 31, 2012	The year ended December 31, 2011
Financial assets held for trading		
Commercial paper	\$ 31,909,877	7,477,954
Government bonds	704,084	966,154
Listed stocks, beneficiary certificates and monetary instruments	78,407,882	74,355,186
Domestic convertible bonds	996,918	193,006
Corporate and financial bonds	24,782	12,708
Foreign government bonds	2,213,812	2,254,871
Trading securities	<u>552,835</u>	<u>432,883</u>
	<u>114,810,190</u>	<u>85,692,762</u>
Derivative financial instruments	<u>7,642,686</u>	<u>17,253</u>
Financial assets designated as at fair value through profit or loss:		
Foreign government and financial bonds	20,581,246	24,189,751
Add: adjustment valuation	<u>4,478,639</u>	<u>1,847,218</u>
Total	<u><u>\$ 147,512,761</u></u>	<u><u>111,746,984</u></u>
Financial assets and liabilities designated at fair value through profit or loss, net:		
	The year ended December 31, 2012	The year ended December 31, 2011
Cash dividend of financial assets	\$ 2,079,929	2,434,829
Gains from disposal of financial assets, net	40,386,865	81,412,686
Valuation (losses) gains of financial assets, net	7,899,239	(8,298,202)
Losses from disposal of financial liabilities, net	(36,811,829)	(75,616,575)
Valuation gain (losses) gains of financial liabilities	<u>475,655</u>	<u>(7,384,846)</u>
Total	<u><u>\$ 14,029,859</u></u>	<u><u>(7,452,108)</u></u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

For details of the valuation of financial assets measured at fair value through profit or loss, please see note 35, "Information on Financial Instruments".

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

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

	The year ended December 31, 2012	The year ended December 31, 2011
Bills and bonds purchased under resell agreements:		
Government bonds	\$ 389,073	2,459,465
Negotiable certificates of deposit	5,648,155	1,403,553
Commercial paper	17,069,714	8,539,833
Total	<u>\$ 23,106,942</u>	<u>12,402,851</u>
Bills and bonds sold under repurchase agreements:		
Government bonds	\$ 12,992,332	12,931,846
Commercial paper	349,473	2,706,204
Total	<u>\$ 13,341,805</u>	<u>15,638,050</u>

(8) Receivables, Net

	The year ended December 31, 2012	The year ended December 31, 2011
Accounts receivable	\$ 1,331,020	1,310,990
Long-term receivable — payment on behalf of government	28,875,801	34,821,221
Accrued revenue	815,486	528,263
Interest receivable	13,753,832	12,596,122
Insurance receivable	1,669,649	205,333
Refundable income tax	2,911,681	2,433,731
Notes receivable and acceptance notes receivable	3,064,890	2,827,244
Factoring receivable — without recourse	17,657,859	10,054,670
Margin loans receivable	2,028,144	1,770,825
Others — shall be replenished by state treasury	21,620,758	22,572,919
Others — undelivered spot exchange	2,344	1,906
Others — collection and payment transfer by ATM (Net)	1,455,277	1,329,159
Others — foreign exchange accounting transfer	2,070,823	-
Others	1,908,070	864,485
Subtotal	99,165,634	91,316,868
Less: allowance for doubtful accounts	824,563	232,652
Total	<u>\$ 98,341,071</u>	<u>91,084,216</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

In accordance with Executive Yuan Tai-79-JEN-Cheng-SZU-tsu No. 14225, in 2012 and 2011, the BOT paid a premium savings account interest rate in excess of the regular rate of 1.8005% and 1.7868%, respectively, and the resulting interest expenses were \$7,996,175 and \$7,907,574, respectively, due to executing the government premium savings policy.

As of December 31, 2012 and 2011, BOT, instead of the government, had paid premium savings interest expenses amounting to \$75,812,742 (booked in long-term receivable \$28,875,801 and other financial asset – temporary advances of \$46,936,941 and \$81,737,714 (booked in long-term receivable of \$34,821,221 and other financial assets – temporary advances of \$46,916,493), respectively. Please refer to note (13) “Other financial assets – net” for further descriptions.

(9) Discounts and loans – Net

	The year ended December 31, 2012	The year ended December 31, 2011
Discounts and import-export negotiations	\$ 5,490,786	4,415,954
Short-term loans and overdrafts	270,251,830	374,970,679
Short-term secured loans and secured overdrafts	82,499,396	83,050,582
Insurance loans	5,969,738	6,037,958
Accounts receivable financing	265,346	142,685
Medium-term loans	688,781,695	600,661,125
Medium-term secured loans	278,913,744	288,495,159
Long-term loans	185,874,999	182,011,229
Long-term secured loans	672,052,225	628,352,806
Non-performing loans	<u>10,032,163</u>	<u>8,276,652</u>
Subtotal	2,200,131,922	2,176,414,829
Less: allowance for doubtful accounts	<u>18,009,780</u>	<u>18,087,035</u>
Total	<u>\$ 2,182,122,142</u>	<u>2,158,327,794</u>

Estimation tables of allowance for doubtful accounts of loans and receivables are as follows:

Loans

Item		Total Loans		Allowance for doubtful accounts	
		December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
There is objective evidence of impairment on individual asset	Individual assessment of impairment	34,275,894	20,824,187	4,492,298	6,805,532
	Combined assessment of impairment	14,137,972	15,188,305	4,483,970	3,473,720
There is no objective evidence of impairment on individual asset	Combined assessment of impairment	2,151,718,056	2,140,402,337	9,033,512	7,807,783
Subtotal		2,200,131,922	2,176,414,829	18,009,780	18,087,035

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Receivables (including other financial assets)

Item		Total Loans		Allowance for doubtful accounts	
		December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
There is objective evidence of impairment on individual asset	Individual assessment of impairment	1,033,607	134,421	613,279	65,584
	Combined assessment of impairment	251,711	289,347	151,243	89,405
There is no objective evidence of impairment on individual asset	Combined assessment of impairment	294,615,712	220,444,111	223,753	120,587
Subtotal		295,901,030	220,867,879	988,275	275,576
Total		2,496,032,952	2,397,282,708	18,998,055	18,362,611

Changes of allowance for doubtful accounts of loans and receivables are as follows:

	The year ended December 31, 2012	The year ended December 31, 2011
Loan:		
Opening balance	\$ 18,087,036	11,670,326
Provision for doubtful accounts	2,826,703	4,773,893
Write-off	(5,949,262)	(2,518,860)
Recovery of written-off	3,198,212	4,076,296
Effects of exchange rate changes and others	(152,909)	85,380
Ending balance	<u>\$ 18,009,780</u>	<u>18,087,035</u>
Receivables (including other financial assets):		
Opening balance	\$ 275,576	288,782
Reversal of doubtful accounts	247,618	(29,836)
Write-off	(12,085)	(12,589)
Recovery of written-off	24,954	28,537
Effects of exchange rate changes and others	452,212	682
Ending balance	<u>\$ 988,275</u>	<u>275,576</u>

Details of allowance for doubtful accounts were as follows:

	The year ended December 31, 2012	The year ended December 31, 2011
Call loans to bank	\$ 30,400	4,978
Receivables	824,563	232,652
Discounts and loans	18,009,780	18,087,035
Other financial assets	133,312	37,946
Total	<u>\$ 18,998,055</u>	<u>18,362,611</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Details of bad debt expense were as follows:

	The year ended December 31, 2012	The year ended December 31, 2011
Bad debt	\$ 3,074,321	4,744,057
Reserve for guarantee liability	<u>33,584</u>	<u>309,959</u>
Total	<u>\$ 3,107,905</u>	<u>5,054,016</u>

As of December 31, 2012 and 2011, the amount of loans where interest accruals had been ceased of the Company and its subsidiaries which are Bank of Taiwan and Bank Taiwan Life Insurance Co., Ltd. were \$10,146,246 and \$8,326,113, respectively, which was booked in discounts and loans—nonperforming loans and other financial assets—overdue receivables.

Effective January 1, 2011, the Company and its subsidiaries adopted the third amendment of SFAS No. 34 “Financial Instruments: Recognition and Measurement” revised by the Financial Accounting Standards Committees. In accordance with SFAS No. 34, the recognition, subsequent valuation and impairment losses of loans and receivables shall comply with the new amendment from the beginning of 2011. Financial Accounting Standards Committees also amended “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans” and “Regulations Governing the Procedures for Insurance institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans”. Effective January 1, 2011, the subsidiary Bank will reserve 0.5% of allowance for bad debt and reserve for guarantees from loans in the first category less the loans of government debt. Similarly, the insurance subsidiary shall reserve 0.5% of allowance for bad debt based on loans from the first category less life insurance liability and prepaid insurance. The Company and its subsidiaries conformed to the aforementioned regulations for reserving allowance for bad debt and reserve for guarantees.

Please see note (35), "Information on Financial Instruments", for the valuation of loans granted by the Company and its subsidiaries.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	The year ended December 31, 2012	The year ended December 31, 2011
Domestic:		
Negotiable certificates of deposit	\$ 607,100,000	622,500,000
Government bonds	24,967,487	27,329,372
Corporate bonds	21,497,197	17,252,068
Financial bonds	18,816,727	10,448,549
Real estate securitization	-	10,000
Financial asset securitization	995,505	995,505
Listed stocks and beneficiary certificates	48,650,638	53,309,854
Preferred stocks	22,502	1,430,356
Real estate Investment Trust	515,340	2,061,434
	<u>722,565,396</u>	<u>735,337,138</u>
Foreign:		
Foreign bonds	35,941,605	55,253,521
Beneficiary certificates	5,355,770	2,800,261
	<u>41,297,375</u>	<u>58,053,782</u>
Less: accumulated impairment	1,140,920	1,296,432
Add: valuation adjustment	14,470,490	9,963,843
Total	<u>\$ 777,192,341</u>	<u>802,058,331</u>

- 1) Please see note (35), "Information on Financial Instruments", for valuation of available-for-sale financial assets.
- 2) The subsidiary BOT recognized reversed impairment gain of \$1,156 as a result of individual asset impairment valuation on March 17, 2011.
- 3) Realized profit or loss from available-for-sale financial assets

	The year ended December 31, 2012	The year ended December 31, 2011
Cash dividend	\$ 1,137,469	1,104,667
Gains (losses) on disposal, net	1,796,411	1,546,798
Total	<u>\$ 2,933,880</u>	<u>2,651,465</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	The year ended December 31, 2012	The year ended December 31, 2011
Domestic:		
Financial bonds	\$ 45,200,212	30,684,106
Corporate bonds	45,295,914	48,433,030
Negotiable certificates of deposits	8,793,255	8,720,452
Commercial paper	16,054,125	11,630,110
Government bonds	44,386,334	39,758,516
Treasury bonds	-	1,487,480
Real estate securitization	-	30,381
Preferred stocks	-	291,090
Structured deposit	<u>800,000</u>	<u>800,000</u>
	<u>160,529,840</u>	<u>141,835,165</u>
Foreign:		
Foreign bonds	83,589,251	86,095,915
Less: accumulated impairment	<u>70,974</u>	<u>206,235</u>
	<u>83,518,277</u>	<u>85,889,680</u>
Total	<u><u>\$ 244,048,117</u></u>	<u><u>227,724,845</u></u>

Please see note (35), "Information on Financial Instruments", for valuation of held-to-maturity investment.

(12) Investments under Equity Method, Net

	The year ended December 31, 2012		The year ended December 31, 2011	
	Percentage of Ownership (%)	Amount	Percentage of Ownership (%)	Amount
Hua Nan Financial Holdings Co., Ltd.	25.07	\$ 33,287,676	25.07	31,466,383
Taiwan Life Insurance Co., Ltd.	21.59	3,601,027	21.59	1,987,762
Kaohsiung Ammonium Sulfate Co., Ltd.	91.86	2,393,485	91.86	2,420,898
Tang Eng Iron Works Co., Ltd.	21.37	1,636,179	21.37	1,653,863
Tai Yi Real-Estate Management Co., Ltd.	30.00	17,686	30.00	15,223
Total		<u><u>\$ 40,936,053</u></u>		<u><u>37,544,129</u></u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- 1) The initial costs of long-term equity investment under the equity method were as follows:

Name of Investee	The year ended December 31, 2012	The year ended December 31, 2011
Hua Nan Financial Holdings Co., Ltd.	\$ 8,105,279	8,105,279
Taiwan Life Insurance Co., Ltd.	812,325	812,325
Kaohsiung Ammonium Sulfate Co., Ltd.	1,377,872	1,377,872
Tang Eng Iron Works Co., Ltd.	1,451,074	1,451,074
Tai Yi Real Estate Management Co., Ltd.	3,793	3,793
	\$ 11,750,343	11,750,343

- 2) The gains or losses on long-term investments under the equity method were as follows:

Name of Investee	The year ended December 31, 2012	The year ended December 31, 2011
Hua Nan Financial Holdings Co., Ltd.	\$ 1,992,954	2,503,775
Taiwan Life Insurance Co., Ltd.	437,561	62,708
Kaohsiung Ammonium Sulfate Co., Ltd.	(27,413)	(28,212)
Tang-Eng Iron Works Co., Ltd.	(101,303)	103,479
Tai Yi Real-Estate Management Co., Ltd.	2,463	4,974
	\$ 2,304,262	2,646,724

- The financial statements of the Company and its subsidiaries' investee companies—Hua Nan Financial Holdings Co., Ltd. and Tai Yi Real-Estate Management Co., Ltd. under equity method were audited by other auditors, and the related equity in earnings has \$1,995,417 and \$2,508,749 for the year ended December 31, 2012 and 2011, respectively.
- The financial statements of the Company and its subsidiaries' investee company—Kaohsiung Amonium Sulfate Co., Ltd. under equity method was not audited by auditors, and the related equity in losses were \$27,413 and \$28,212 for the year ended December 31, 2012 and 2011, respectively.
- Since Kaohsiung Ammonium Sulfate Co., Ltd. was in the process of liquidation and the liquidators and supervisors were appointed by the Ministry of Economic Affairs, the Company and its subsidiaries have no control power over such investee.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- 3) Details of the Company and its subsidiaries' recognition of unrealized increments on revaluation and cumulative translation adjustments under stockholders' equity were as follows:

Name of investee	Unrealized increments on revaluation		Cumulative translation adjustments	
	2012	2011	2012	2011
Hua Nan Financial Holdings Co., Ltd.	\$ 901,150	441,814	(27,447)	35,587
Taiwan Life Insurance Co., Ltd.	29,450	21,880	(1,748)	4,538
Tang Eng Iron Works Co., Ltd.	83,762	-	-	-
	<u>\$ 1,014,362</u>	<u>463,694</u>	<u>(29,195)</u>	<u>40,125</u>

- 4) Details of the Company and its subsidiaries' recognition of additional paid-in capital and unrealized losses or gains on financial instruments under stockholders' equity were as follows:

Name of investee	Additional paid-in capital		Unrealized losses and gains of financial instruments	
	2012	2011	2012	2011
Hua Nan Financial Holdings Co., Ltd.	\$ (463,083)	463,082	459,664	(919,726)
Taiwan Life Insurance Co., Ltd.	288	116,144	1,154,805	(755,166)
Tang Eng Iron Works Co., Ltd.	-	-	(142)	434
	<u>\$ (462,795)</u>	<u>579,226</u>	<u>1,614,327</u>	<u>(1,674,458)</u>

- 5) Details of the net loss not recognized as pension costs in 2012 and 2011 were as follows:

Name of investee	2012	2011
Taiwan Life Insurance Co., Ltd.	\$ <u>6,521</u>	<u>74</u>

- 6) Details of the special reserve recognized under equity method in 2012 and 2011 were as follows:

Name of investee	2012	2011
Hua Nan Financial Holdings Co., Ltd.	\$ <u>-</u>	<u>66,638</u>

- 7) Details of the Bank's cash dividends received from its long-term equity investments under the equity method in 2012 and 2011 were as follows:

Name of investee	2012	2011
Hua Nan Financial Holdings Co., Ltd.	\$ 1,029,823	582,919
Taiwan Life Insurance Co., Ltd.	-	176,229
	<u>\$ 1,029,823</u>	<u>759,148</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- 8) The Company and its subsidiaries' investee, Hua Nan Financial Holdings Co., Ltd., increased its share capital by cash on December 27, 2011. The Company and its subsidiaries' shareholding percentage decreased from 29.36% to 25.07% as the Company and its subsidiaries do not hold the shares of the investee by percentage.
- 9) The Company and its subsidiaries investee, Taiwan Life Insurance Co., Ltd., increased its share capital by cash on November 2, 2011. The Company and its subsidiaries shareholding percentage decreased from 23.76% to 21.59% as the Company and its subsidiaries do not hold the shares of the investee by percentage.

(13) Other Financial Assets, Net

	The year ended December 31, 2012	The year ended December 31, 2011
Temporary advances	\$ 56,159,008	57,100,344
Less: allowance for doubtful accounts — temporary advance	(42,250)	(10,691)
Financial assets carried at cost	11,092,326	11,092,326
Less: accumulated impairment financial assets carried at cost	(12,426)	(137)
Bond investments with no active market	43,012,877	37,326,838
Less: accumulated impairment — bond investment with no active market	-	(317,888)
Overdue receivables	114,083	49,458
Less: allowance for doubtful accounts — overdue receivables	(91,062)	(27,255)
Hedging derivative financial assets	3,543	3,074
Separate account insurance product assets	4,686,044	5,490,078
Bills purchased	20,252	21,789
Others	<u>23,552</u>	<u>27,307</u>
Total	<u><u>\$ 114,965,947</u></u>	<u><u>110,755,243</u></u>

- 1) Please see note (35), "Information on Financial Instruments", for valuation of hedging derivative financial assets and bond investments with no active market.
- 2) Please see note (8), "Receivables", for description of temporary advance of excess interest expense on behalf of the government.
- 3) Convertible bond \$436,875 of Promos technologies matured on February 14, 2012, so its relative accumulated loss \$305,813 were transferred to other receivables and allowance for doubtfully accounts.
- 4) On December 31, 2012, BOT assessed individually asset and recognized an impairment loss amounting to \$12,426.
- 5) As of December 31, 2012 and 2011, BOT, instead of the government, had paid premium savings interest expenses amounting to \$75,812,742 and \$81,737,714, and the overdone amount are \$46,936,941 and \$46,916,493 (booked under temporary advances).

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(14) Real Estate Investments, Net

	The year ended December 31, 2012	The year ended December 31, 2011
Real estate investments	\$ 5,096,020	4,337,660
Less: accumulated depreciation	<u>322,886</u>	<u>280,624</u>
Total	<u><u>\$ 4,773,134</u></u>	<u><u>4,057,036</u></u>

(15) Fixed Assets, Net

	The year ended December 31, 2012	The year ended December 31, 2011
Cost:		
Land	\$ 4,913,018	4,913,030
Land revaluation increments	81,567,575	81,736,647
Land improvements	14,964	14,964
Buildings (including revaluation increments)	15,337,939	14,998,570
Machinery and equipment	6,177,275	5,887,734
Transportation equipment	1,108,570	1,106,261
Miscellaneous equipment	1,044,910	1,053,853
Leasehold improvements	692,163	662,910
Construction in progress and order parts	<u>348,118</u>	<u>665,260</u>
Subtotal	<u>111,204,532</u>	<u>111,039,229</u>
Accumulated depreciation:		
Land improvement	13,337	12,975
Buildings	5,926,526	5,609,947
Machinery and equipment	4,461,985	4,148,434
Transportation equipment	883,404	853,743
Miscellaneous equipment	824,767	811,957
Leasehold improvements	<u>591,338</u>	<u>552,492</u>
Subtotal	<u>12,701,357</u>	<u>11,989,548</u>
Accumulated impairment	<u>67,069</u>	<u>-</u>
Net	<u><u>\$ 98,436,106</u></u>	<u><u>99,049,681</u></u>

On May 31, 2012 and March 11, 2011, the Company and its subsidiaries assessed individually asset and recognized an impairment loss amounting to \$59,978 and \$4,036, a reversal on impairment loss amounting to \$0 and \$23,282; (decrease) increase unrealized increments on revaluation by \$(12,061) and \$119,733, respectively.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The Company and its subsidiaries have conducted revaluations of lands and buildings many times over past years. As of December 31, 2012 and 2011, revaluation increments of lands were \$81,567,575 and \$81,736,647, respectively, and estimated tax payables on land increments were \$18,290,593 and \$18,367,918 (recorded in other liabilities), respectively.

To comply with government policy, the Company and its subsidiaries sold land, buildings and equipments and recognized gains on disposal of property, plant and equipment of \$812,794 and \$421,670 recorded in the years ended December 31, 2012 and 2011, respectively.

As of December 31, 2012 and 2011, BTS pledged fixed assets as collateral.

As of December 31, 2012, the part of the land and buildings (including real estate investment) of the Company and its subsidiaries were leased out. The book value (including revaluation increments) of the rental land was \$35,759,957. Most of the rental buildings have been fully depreciated over their useful lives. The estimated future lease revenue was as follows:

Period	Amount
2013.01.01~2013.12.31	\$ 264,047
2014.01.01~2014.12.31	181,068
2015.01.01~2015.12.31	93,827
2016.01.01~2016.12.31	29,372
2017.01.01~2017.12.31	98,779
	<u>\$ 667,093</u>

(16) Intangible Assets

As of December 31, 2012 and 2011, the details of intangible assets were as follows:

	The year ended December 31, 2012	The year ended December 31, 2011
Original cost:		
Computer software	\$ 842,351	990,838
Add: acquisition	570,125	292,260
Less: accumulated amortization	<u>235,269</u>	<u>452,737</u>
Ending balance	<u>\$ 1,177,207</u>	<u>830,361</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(17) Other Assets — Net

	The year ended December 31, 2012	The year ended December 31, 2011
Prepayments	\$ 7,350,312	6,074,917
Refundable deposits	2,634,926	1,862,710
Operating guarantee deposits and settlement and clearing funds	107,452	93,097
Temporary advance and amount being transferred	203,627	202,079
Deferred income tax assets, net	2,138,917	2,018,960
Non-operating assets (including revaluation increments)	1,029,873	1,044,568
Brokering transaction debit balance, net	9,447	38,738
Collateral assumed, net	1,076,959	1,076,959
Deferred pension cost	259,529	622,896
Inventory	1,812,216	5,994,550
Others	296,518	53,446
Total	<u>\$ 16,919,776</u>	<u>19,082,920</u>

1) Prepayments

	The year ended December 31, 2012	The year ended December 31, 2011
Prepaid expense	\$ 714,243	866,995
Prepaid tax	31,395	34,817
Prepaid stock dividends and bonus	4,275,737	4,120,249
Other prepayments	2,328,937	1,052,856
	<u>\$ 7,350,312</u>	<u>6,074,917</u>

2) Non-operating assets, net

	The year ended December 31, 2012	The year ended December 31, 2011
Land	\$ 1,006,941	1,015,351
Buildings	53,185	53,185
Miscellaneous equipment	92	92
Less: accumulated depreciation — buildings	24,892	23,578
accumulated impairment	5,453	482
	<u>\$ 1,029,873</u>	<u>1,044,568</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The Company and subsidiaries recognized gains on reversal on impairment loss of \$16,762 and unrealized increments on revaluation of \$199 based on the result of impairment assessment of individual asset on March 11, 2011.

3) Collateral assumed, net

	The year ended December 31, 2012	The year ended December 31, 2011
Collateral assumed	\$ 1,093,456	1,093,456
Less: accumulated impairment	<u>16,497</u>	<u>16,497</u>
	<u><u>\$ 1,076,959</u></u>	<u><u>1,076,959</u></u>

4) Inventory

	The year ended December 31, 2012	The year ended December 31, 2011
Inventory	\$ 1,837,838	6,244,475
Less: allowance for inventory devaluation	<u>(25,622)</u>	<u>(249,925)</u>
	<u><u>\$ 1,812,216</u></u>	<u><u>5,994,550</u></u>

Changes of allowances for inventory devaluation were as follows:

	The year ended December 31, 2012	The year ended December 31, 2011
Opening balance	\$ 249,925	3,575
Provision (reversal) for the current period	<u>(224,303)</u>	<u>246,350</u>
Closing balance	<u><u>\$ 25,622</u></u>	<u><u>249,925</u></u>

The inventory (gains) losses recognized for the years ended December 31, 2012 and 2011 were \$(224,303) and \$246,350; write-down of inventories to realizable value in the amount of \$246,350 in 2011. The increase in net realizable value recognized reduced operating costs amount to \$224,303, because previously caused inventories to net realizable value below costs factors have disappeared in 2012.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(18) Deposits of Central Bank and Other Banks

	The year ended December 31, 2012	The year ended December 31, 2011
Call loans from bank	\$ 171,051,568	167,538,254
Postal deposits transferred	3,205,362	3,404,645
Deposits from Central Bank	9,676,169	12,005,704
Deposits from other banks	27,351,993	25,282,765
Bank overdrafts	<u>2,089,373</u>	<u>695,107</u>
	<u><u>\$ 213,374,465</u></u>	<u><u>208,926,475</u></u>

(19) Commercial Paper Payable—Net

	The year ended December 31, 2012	The year ended December 31, 2011
Commercial paper	\$ 520,000	500,000
Less: commercial paper discount	<u>120</u>	<u>463</u>
Total	<u><u>\$ 519,880</u></u>	<u><u>499,537</u></u>

For the years ended December 31, 2012 and 2011, the annual interest rates ranged from 0.938%~1.028% and 0.928%~0.958%, respectively. As of December 31, 2012 and 2011, unissued commercial paper facilities amounted to approximately \$2,980,000 and \$2,500,000 thousand. There were no assets pledged as collateral for issuing commercial paper for the years ended December 31, 2012 and 2011.

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

	The year ended December 31, 2012	The year ended December 31, 2011
Held-for-trading financial liabilities		
Foreign exchange options premium	\$ 126,688	22,440
Stock warrants	5,180	-
Valuation adjustment-foreign exchange options	(49,671)	(13,327)
Valuation adjustment-stock warrants	(4,047)	-
Valuation adjustment-FX swaps and cross currency swaps	3,081,190	3,042,673
Valuation adjustment-interest rate swaps	754,810	906,650
Valuation adjustment-forward foreign exchange	542,135	316,438
Valuation adjustment-asset-Swaps	<u>52,223</u>	<u>-</u>
	<u><u>\$ 4,508,508</u></u>	<u><u>4,274,874</u></u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

For valuation of financial liabilities at fair value through profit or loss, please refer to note (35).

(21) Payables

	The year ended December 31, 2012	The year ended December 31, 2011
Accounts payable	\$ 12,590,057	10,941,024
Receipts under custody	1,293,343	1,181,647
Accrued expense	2,817,914	2,832,186
Interest payable	13,093,002	12,713,800
Bank acceptances	3,080,210	2,724,821
Due from representative organization	26,083,290	28,822,442
Other payables — ATM temporary receipts, payments and inter-branch differences	1,476,089	1,259,252
Other payables — collection and payment transfer by ATM (net)	1,713	-
Other payables — collection bills	979,490	1,410,373
Other payables — payments awaiting transfer	5,066,383	4,545,731
Other payables — foreign exchange awaiting transfer	470,141	-
Other payables — non-recourse factoring	464,073	-
Other payables — others	1,989,164	2,799,729
	<u>\$ 69,404,869</u>	<u>69,231,005</u>

(22) Deposits and Remittances

	The year ended December 31, 2012	The year ended December 31, 2011
Checking account deposits	\$ 37,723,315	34,873,580
Government deposits	217,407,712	227,242,671
Demand deposits	272,041,563	246,371,660
Time deposits	453,470,593	468,871,243
Savings account deposits	2,296,652,586	2,224,960,904
Remittances	501,996	568,020
	<u>\$ 3,277,797,765</u>	<u>3,202,888,078</u>

(23) Other loans

As of December 31, 2012 and 2011, the unused limit of the Company and its subsidiaries' short-term loans were \$7,000,000 and \$8,250,000, respectively.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(24) Reserves for Operation and Liabilities

	The year ended December 31, 2012	The year ended December 31, 2011
Reserves for unearned premium	\$ 363,574	367,649
Reserves for life insurance liability	337,063,756	286,036,341
Special reserves for life insurance	407,601	589,071
Reserves for claim outstanding	88,188	67,281
Reserves for operating loss	26,800	26,800
Reserves for guarantees	624,406	591,441
Reserves for labor insurance liability	194,662,096	178,024,493
Reserve for insufficient premiums	965,808	1,405,222
Foreign exchange volatility reserve	96,960	-
Total	<u>\$ 534,299,189</u>	<u>467,108,298</u>

(25) Other Financial Liabilities

	The year ended December 31, 2012	The year ended December 31, 2011
Appropriated loan funds	\$ 376,265	671,370
Separate account—insurance liabilities	4,686,044	5,490,078
Hedging derivative financial liabilities	301,390	409,907
Principal from structured products	7,821,748	4,674,906
	<u>\$ 13,185,447</u>	<u>11,246,261</u>

Commencing from January 1, 2011, the Financial Supervisory Commission issued the “Regulations for the accounting principle for principal received from structured products”. In accordance with the regulation, principal received from structured products shall be booked under other financial liabilities under the corresponding account name. Such changes will not be reclassified as principal received from structured products that were booked under savings in December 31, 2010 approved by the Natinoal Audit Office. For details of hedging derivative financial liabilities on December 31, 2012 and 2011, please refer to note (35).

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(26) Other Liabilities

	The year ended December 31, 2012	The year ended December 31, 2011
Advance collections	\$ 1,790,748	1,209,755
Guarantee deposits received	4,578,212	4,651,029
Estimated tax payable on land increments	18,290,593	18,367,918
Temporary receipt awaiting transfer	80,415	43,485
Accrued pension liabilities	5,508,214	5,044,448
Others	4,751,066	2,390,902
	<u>\$ 34,999,248</u>	<u>31,707,537</u>

(27) Pension

The reconciliation of the plan's funded status and accrued pension liabilities was as follows:

	The year ended December 31, 2012		The year ended December 31, 2011	
	Regular Employees	Regular Labor	Regular Employees	Regular Labor
Benefit obligation:				
Vested benefit obligation	\$ (6,099,963)	(537,478)	(5,443,850)	(434,375)
Non-vested benefit obligation	<u>(4,564,028)</u>	<u>(570,540)</u>	<u>(4,676,163)</u>	<u>(583,898)</u>
Accumulated benefit obligation	(10,663,991)	(1,108,018)	(10,120,013)	(1,018,273)
Additional benefits based on future salaries	<u>(2,750,308)</u>	<u>(307,158)</u>	<u>(2,851,357)</u>	<u>(324,624)</u>
Projected benefit obligation (PBO)	(13,414,299)	(1,415,176)	(12,971,370)	(1,342,897)
Fair value of plan assets	<u>5,462,419</u>	<u>1,078,121</u>	<u>5,368,377</u>	<u>1,033,255</u>
Funding status	(7,951,880)	(337,055)	(7,602,993)	(309,642)
Unrecognized transitional net benefit obligation (assets)	272,616	192,302	344,000	226,596
Unrecognized prior service cost	133,116	(9,123)	153,595	(12,771)
Unrecognized pension loss (gain)	3,971,476	(22,972)	3,652,682	(65,690)
Accrued minimum pension liability recognized	<u>(1,626,900)</u>	<u>(129,794)</u>	<u>(1,298,920)</u>	<u>(131,305)</u>
Accrued pension liabilities	<u>\$ (5,201,572)</u>	<u>(306,642)</u>	<u>(4,751,636)</u>	<u>(292,812)</u>
Vested benefit	<u>\$ (6,448,480)</u>	<u>(578,811)</u>	<u>(6,476,656)</u>	<u>(511,530)</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The components of net pension costs for the year 2012 and 2011 were as follows:

	2012		2011	
	Regular Employees	Regular Labor	Regular Employees	Regular Labor
Service cost	\$ 580,455	49,588	858,191	59,395
Interest cost	201,881	21,905	213,575	22,064
Expected return on plan assets	(82,667)	(17,309)	(101,777)	(19,999)
Amortization and deferred cost	221,764	30,950	202,037	20,265
Settlement gain or loss	3,275	-	-	-
Net pension costs	<u>\$ 924,708</u>	<u>85,134</u>	<u>1,172,026</u>	<u>81,725</u>

The details of pension expenses for 2012 and 2011 as follows:

	2012	2011
Pension expenses:		
Defined benefit pension plan	\$ 1,009,842	1,253,751
Defined contribution pension plan	113,773	147,705

Actuarial assumptions:

	2012	2011
Discount rate	1.65%, 1.75%, 1.50% and 2%	2.00 %
Rate of increase in future compensation	2.00 %	2.00 %
Rate of expected return on plan assets	1.65%, 1.75%, 2.00% and 2.20%	1.5% and 2.00%

Pension expense in December 31, 2012 and 2011 were \$1,123,615 and \$1,401,456, and accrued pension liabilities in December 31, 2012 and 2011 were \$5,508,214 and \$5,044,448 (recorded in other liabilities).

(28) Income Tax

The income tax expenses are summarized below:

	The year ended December 31, 2012	The year ended December 31, 2011
Current income tax	\$ 928,256	453,200
Deferred income tax expense (benefit)	(307,628)	129,767
Income tax expense	<u>\$ 620,628</u>	<u>582,967</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The maximum income tax rate was lowered to 17% beginning 2010 according to the amendment of the "Income Tax Act" issued on June 15, 2010. Hence, the Company was subject to a maximum income tax rate of 17% in 2011 and 2010, and the Company adopted the "Income Basic Tax Act".

For the year ended December 31, 2012 and 2011, the differences between the "expected" income tax at the statutory income tax rate and the income tax expense in the accompanying financial statements were as follows:

	The year ended December 31, 2012	The year ended December 31, 2011
Expected income tax expenses	\$ 1,345,888	789,123
Gains on securities transactions exempt from tax	(111,148)	(56,902)
Valuation losses (gains) on domestic financial instruments	250,681	(13,634)
Tax-free earnings from OBU	(333,129)	(122,838)
Investment gains recognized under the equity method	(391,725)	(449,943)
Gain on disposal of land	(136,489)	(70,029)
Available-for-sale financial assets	2,089	-
(Reversal gains) impairment losses of assets	10,196	(6,121)
Tax-free dividends	(702,478)	(743,207)
High speed railway and cost reversal	457,598	549,205
Allowance for deferred income tax assets	(333,917)	426,091
Income tax expenses of overseas branches	456,327	362,539
Income basic tax	117,694	45,758
Adjustment of combined corporate income tax filing	(11,175)	(127,526)
Adjustment of income taxes estimated in prior years	-	118
Others	216	333
Income tax expenses	<u>\$ 620,628</u>	<u>582,967</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The major components of deferred income tax expense (benefit) were as follows:

	The year ended December 31, 2012	The year ended December 31, 2011
Pension costs in excess of tax limits	\$ (6,240)	503,936
Gains (losses) on valuation of foreign and derivative financial instruments	255,296	(673,471)
Unrealized gains (losses) on foreign currency exchange	(707,445)	357,182
Impairment loss on financial assets	22,994	88,448
Loss carryforward	172,022	(60,788)
Adjustment of combined corporate income tax filing	(48,433)	(127,526)
Deferred tax expense of overseas branches	4,226	-
Excess of allowance for doubtful account	45	-
Others	(93)	41,986
Deferred income tax expense (benefit)	<u>\$ (307,628)</u>	<u>129,767</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The temporary differences, loss carryforward, and tax effects relating to deferred income tax assets were as follows:

	The year ended December 31, 2012		The year ended December 31, 2011	
	Amount	Income tax effect	Amount	Income tax effect
Deferred income tax assets:				
Pension costs in excess of tax limits	\$ 3,531,306	600,322	3,402,765	578,470
Loss carryforward	4,396,416	747,391	5,153,400	876,078
Excess of allowance for doubtful accounts	14,071	2,392	-	-
Accumulated impairment loss of collateral assumed	16,494	2,804	16,494	2,804
Unrealized losses on foreign currency exchange	7,837,076	1,332,303	4,427,271	752,636
Impairment losses on financial assets	216,394	36,787	206,235	35,060
Unrealized gains or losses on foreign and derivative financial instruments	(925,794)	(157,385)	716,259	121,764
Allowance for inventory devaluation	25,622	4,356	-	-
Foreign deferred income tax assets—loss carryforward and exchange effect	1,020,806	173,537	-	372,665
Others	165,341	28,108	713,006	121,211
Subtotal		2,770,615		2,860,688
Allowance for deferred income tax assets		(474,139)		(808,056)
		<u>\$ 2,296,476</u>		<u>2,052,632</u>
Deferred income tax liabilities:				
Unrealized exchange gain	\$ 730,353	124,160	-	-
Foreign deferred income tax liabilities—changes in exchange	196,465	33,399	-	33,672
		<u>\$ 157,559</u>		<u>33,672</u>
Deferred income tax assets—net		<u>\$ 2,138,917</u>		<u>2,018,960</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

According to income tax law, loss of a company could be used to offset taxable income in next ten years. On December 31, 2012, the amount of loss which could be used to offset taxable income was as follows:

Fiscal years	The year ended December 31, 2012	Last year offsetable
2008, applied amount	\$ 32,856	2018
2009, assessed amount	1,993,914	2019
2010, applied amount	1,865,725	2020
2011, applied amount	357,576	2021
2012, estimated amount	<u>146,345</u>	2022
	<u>\$ 4,396,416</u>	

The Company and its subsidiaries' income tax returns for all years through 2011 were audited by the MOA. Except for 2009, the income tax returns for the years from 2008 to 2011 are not assessed by the National Tax Administration.

Beginning 2008, the Company and its subsidiary BOT adopted a combined income tax declaration to report their tax. The subsidiaries BTLI and BTS join in adoption in 2009. As of December 31, 2012 and 2011, the details of receivables and payables resulting from income tax were as follows:

Fiscal years	The year ended December 31, 2012			
	Tax receivables from affiliated parties (booked in accounts receivable)	Tax payables to affiliated parties	Income tax receivables from National Tax Administration (booked in accounts receivable)	Income tax payables to National Tax Administration (booked in accounts payable)
2008	\$ -	740,542	740,551	1,295
2010	24,061	430,221	430,272	-
2011	21,549	797,990	806,181	-
2012	<u>-</u>	<u>521,996</u>	<u>525,710</u>	<u>-</u>
	<u>\$ 45,610</u>	<u>2,490,749</u>	<u>2,502,714</u>	<u>1,295</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Fiscal years	The year ended December 31, 2011			
	Tax receivables from affiliated parties (booked in accounts receivable)	Tax payables to affiliated parties	Income tax receivables from National Tax Administration (booked in accounts receivable)	Income tax payables to National Tax Administration (booked in accounts payable)
2008	\$ -	740,542	740,551	1,295
2010	24,061	430,221	430,272	-
2011	<u>21,549</u>	<u>797,990</u>	<u>806,181</u>	<u>-</u>
	<u><u>\$ 45,610</u></u>	<u><u>1,968,753</u></u>	<u><u>1,977,004</u></u>	<u><u>1,295</u></u>

The reconciliation of the balances of current income tax expense, deferred income tax expense, deferred income tax assets, and income tax receivables under the provisions of SFAS No. 22 "Income Taxes" to the related balances computed for filing combined corporate income tax returns with the Company as the taxpayer was as follows:

	The year ended December 31, 2012			
	Current income tax expense (benefit)	Deferred income tax expense (benefit)	Deferred income tax assets, net	Affiliated Company receivable
Amount computed under SFAS No. 22	\$ 928,256	(307,628)	2,138,917	2,278,484
Difference adjustments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amount computed for filing combined corporate income tax return	<u><u>\$ 928,256</u></u>	<u><u>(307,628)</u></u>	<u><u>2,138,917</u></u>	<u><u>2,278,484</u></u>

	The year ended December 31, 2011			
	Current income tax expense (benefit)	Deferred income tax expense (benefit)	Deferred income tax asset, net	Affiliated Company receivable
Amount computed under SFAS No. 22	\$ 453,200	129,767	2,018,960	1,977,004
Difference adjustments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amount computed for filling combined corporate income tax returns	<u><u>\$ 453,200</u></u>	<u><u>129,767</u></u>	<u><u>2,018,960</u></u>	<u><u>1,977,004</u></u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2012 and 2011, unappropriated retained earnings were as follows:

Fiscal years	The year ended December 31, 2012	The year ended December 31, 2011
1998 and after	\$ <u><u>8,449,361</u></u>	<u><u>6,658,934</u></u>

(29) Stockholders' Equity

1) Common stock

On January 1, 2008, the Company was incorporated through switch of shares and issued 9,000,000 thousand shares of common stock with a par value of \$10. As of December 31, 2012, the Company had authorized and issued \$90,000,000 thousand dollars of common stock.

2) Additional paid-in capital

The change in additional paid-in capital for the six-month periods ended December 31, 2012 and 2011 were as follows:

	Capital surplus	
	The year ended December 31, 2012	The year ended December 31, 2011
Beginning balance	\$ 112,095,429	111,516,202
Recognition of change in the subsidiaries' additional paid-in capital under equity method	(462,795)	579,227
Closing balance	\$ <u><u>111,632,634</u></u>	<u><u>112,095,429</u></u>

3) Distribution of unappropriated earnings

The articles of incorporation of the Company stipulate that net income should be distributed as follows:

1. to offset prior years' deficit;
2. to appropriate 10% as legal reserve;
3. to appropriate 40~60% and the same amount of unrealized loss on financial instruments under stockholders' equity as special reserve;
4. to appropriate dividends.

The remaining balance plus prior year's accumulated unappropriated earnings will be distributed under the applicable laws and regulations.

According to the Company's articles of incorporation, cash dividend cannot be distributed in excess of 15% of total capital unless the legal reserve reaches the total amount of capital.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

4) Special reserves

The board of directors agreed to distribute unappropriated earning using special reserve of \$1.153 billion and \$2.6 billion on December 8, 2011 and December 28, 2012, respectively.

(30) Earnings per Share

	The year ended December 31, 2012		The year ended December 31, 2011	
	Pretax	After tax	Pretax	After tax
Net income (for common stockholders)	\$ <u>7,916,989</u>	<u>7,296,361</u>	<u>4,641,901</u>	<u>4,080,591</u>
Weighted average outstanding shares (shares in thousands)	<u>9,000,000</u>	<u>9,000,000</u>	<u>9,000,000</u>	<u>9,000,000</u>
Primary earnings per share (in Dollars)	\$ <u>0.88</u>	<u>0.81</u>	<u>0.52</u>	<u>0.45</u>

(31) Net Insurance Business Income

	The year ended December 31, 2012		
	Government Employee School Staff Insurance	BTLI	Total
Gross written premiums	\$ 17,992,149	56,702,546	74,694,695
Reinsurance claims recovery	-	26,537	26,537
Investment-type insurance policy revenue	-	1,632,268	1,632,268
Insurance business revenue	<u>17,992,149</u>	<u>58,361,351</u>	<u>76,353,500</u>
Re-insurance expense	-	78,105	78,105
Direct business expense	-	24,076	24,076
Insurance payments	28,267,159	12,861,647	41,128,806
Stability fund	-	56,697	56,697
Investment-type insurance policy expense	-	1,632,268	1,632,268
Insurance business expense	<u>28,267,159</u>	<u>14,652,793</u>	<u>42,919,952</u>
Net insurance income (loss)	\$ <u>(10,275,010)</u>	<u>43,708,558</u>	<u>33,433,548</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	The year ended December 31, 2011		
	Government Employee School Staff Insurance	BTLI	Total
Gross written premiums	\$ 17,695,580	50,896,340	68,591,920
Reinsurance claims recovery	-	24,898	24,898
Investment-type insurance policy revenue	-	2,297,029	2,297,029
Insurance business revenue	<u>17,695,580</u>	<u>53,218,267</u>	<u>70,913,847</u>
Re-insurance expense	-	81,882	81,882
Direct business expense	-	41,477	41,477
Insurance payments	26,971,342	10,146,153	37,117,495
Stability fund	-	50,891	50,891
Investment-type insurance policy expense	-	2,297,029	2,297,029
Insurance business expense	<u>26,971,342</u>	<u>12,617,432</u>	<u>39,588,774</u>
Net insurance income	<u>\$ (9,275,762)</u>	<u>40,600,835</u>	<u>31,325,073</u>

(32) Assets impairment

	2012	2011
Opening balance	\$ 1,837,671	4,445,866
Loss recognized on assets impairment	72,267	4,173
Loss reversed	-	(41,200)
Unrealized gain on revaluation increments	(92,306)	(119,932)
Offset	(175,017)	(2,450,481)
Reclassification	(166,262)	-
Exchange difference	<u>(163,014)</u>	<u>(755)</u>
Ending balance	<u>\$ 1,313,339</u>	<u>1,837,671</u>

The components of accumulated impairment loss are as the follows:

	The year ended December 31, 2012	The year ended December 31, 2011
Available-for-sale financial assets	\$ 1,140,920	1,296,432
Held-to-maturity financial assets	70,974	206,235
Other financial assets	12,426	318,025
Other assets	21,950	16,979
Fixed assets	<u>67,069</u>	<u>-</u>
	<u>\$ 1,313,339</u>	<u>1,837,671</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(Loss) gain on impairment was composed as the follows:

	The year ended December 31, 2012	The year ended December 31, 2011
Available-for-sale financial assets	\$ -	1,156
Other financial assets	-	(137)
Fixed assets	(59,978)	19,246
Other assets	(12,289)	16,762
	<u>\$ (72,267)</u>	<u>37,027</u>

(33) Provisions (Recoveries) for Insurance Policy Reserves

	The year ended December 31, 2012	The year ended December 31, 2011
Policyholders' reserve	\$ 68,114,663	51,178,295
Special reserve	12,856	46,970
Claim reserve	21,209	(5,528)
Insufficient premium reserve	(439,414)	(468,416)
Foreign exchange volatility reserve	(73,760)	-
	<u>\$ 67,635,554</u>	<u>50,751,321</u>

(34) Disclosure in insurance contracts

1) Description for insurance contract recognition

1. 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, 2012 and 2011 were as follows:

(a) Details of liability reserve

	The year ended December 31, 2012		
	Insurance Contract	Financial products with discretionary participation feature	Total
Life insurance	\$ 203,722,095	122,545,691	326,267,786
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
Total	<u>\$ 207,898,367</u>	<u>129,165,389</u>	<u>337,063,756</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The year ended December 31, 2011

	Insurance Contract	Financial products with discretionary participation feature	Total
Life insurance	\$ 177,172,272	98,952,526	276,124,798
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
Total	<u>\$ 180,900,778</u>	<u>105,135,563</u>	<u>286,036,341</u>

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

The year ended December 31, 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	37,925,322	25,789,664	63,714,986
Reclaim	(10,454,675)	(1,740,977)	(12,195,652)
Exchange rate effect	(449,907)	-	(449,907)
Others	(23,151)	(18,861)	(42,012)
Total	<u>\$ 207,898,367</u>	<u>129,165,389</u>	<u>337,063,756</u>

The year ended December 31, 2011

	Insurance Contract	Financial products with discretionary participation feature	Total
Balance as at January 1, 2011	\$ 153,492,502	84,636,298	238,128,800
Provision	34,728,135	22,522,137	57,250,272
Reclaim	(7,561,928)	(2,003,926)	(9,565,854)
Exchange rate effect	261,790	-	261,790
Others	(19,721)	(18,946)	(38,667)
Total	<u>\$ 180,900,778</u>	<u>105,135,563</u>	<u>286,036,341</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Details of provision for unearned premium

The year ended December 31, 2012			
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	\$ 5,221	10,592	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	<u>37</u>	<u>-</u>	<u>37</u>
Subtotal	<u>352,982</u>	<u>10,592</u>	<u>363,574</u>
Deduction of provision for unearned premium- outward:			
Personal life insurance	487	115	602
Personal injury insurance	9,236	-	9,236
Group insurance	<u>6,308</u>	<u>-</u>	<u>6,308</u>
Subtotal	<u>16,031</u>	<u>115</u>	<u>16,146</u>
Total	<u>\$ 336,951</u>	<u>10,477</u>	<u>347,428</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The year ended December 31, 2011			
		Financial products with discretionary participation feature	
	Insurance Contract		Total
Personal life insurance	\$ 4,860	8,399	13,259
Personal injury insurance	83,698	-	83,698
Personal health insurance	117,850	-	117,850
Group insurance	152,811	-	152,811
Investment-linked insurance	<u>31</u>	<u>-</u>	<u>31</u>
Subtotal	<u>359,250</u>	<u>8,399</u>	<u>367,649</u>
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	<u>1</u>	<u>-</u>	<u>1</u>
Subtotal	<u>19,875</u>	<u>85</u>	<u>19,960</u>
Total	<u>\$ 339,375</u>	<u>8,314</u>	<u>347,689</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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

The year ended December 31, 2012			
	Insurance Contract	Financial products with discretionary participation feature	Total
January 1, 2012	\$ 359,250	8,399	367,649
Provision	352,978	10,591	363,569
Reclaim	(359,244)	(8,399)	(367,643)
Other	(1)	-	(1)
December 31, 2012	<u>352,983</u>	<u>10,591</u>	<u>363,574</u>
Deduction of provision for unearned premium- outward:			
January 1, 2012	19,875	85	19,960
Provision	16,032	114	16,146
Reclaim	<u>(19,875)</u>	<u>(85)</u>	<u>(19,960)</u>
December 31, 2012	<u>16,032</u>	<u>114</u>	<u>16,146</u>
Total	<u><u>\$ 336,951</u></u>	<u><u>10,477</u></u>	<u><u>347,428</u></u>
The year ended December 31, 2011			
	Insurance Contract	Financial products with discretionary participation feature	Total
January 1, 2011	\$ 354,057	8,296	362,353
Provision	359,250	8,399	367,649
Reclaim	<u>(354,056)</u>	<u>(8,297)</u>	<u>(362,353)</u>
December 31, 2011	<u>359,251</u>	<u>8,398</u>	<u>367,649</u>
Deduction of provision for unearned premium- outward:			
January 1, 2011	20,273	55	20,328
Provision	19,875	85	19,960
Reclaim	<u>(20,273)</u>	<u>(55)</u>	<u>(20,328)</u>
December 31, 2011	<u>19,875</u>	<u>85</u>	<u>19,960</u>
Total	<u><u>\$ 339,376</u></u>	<u><u>8,313</u></u>	<u><u>347,689</u></u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Details of provision for claims

The year ended December 31, 2012			
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life Insurance			
– Reported but unpaid	\$ 5,627	20,726	26,353
– Unreported and unpaid	1,878	899	2,777
Personal injury insurance			
– Reported but unpaid	2	-	2
– Unreported and unpaid	9,207	-	9,207
Personal health insurance			
– Reported but unpaid	1,142	-	1,142
– Unreported and unpaid	15,969	-	15,969
Group insurance			
– Reported but unpaid	1,392	-	1,392
– Unreported and unpaid	31,346	-	31,346
	<u>66,563</u>	<u>21,625</u>	<u>88,188</u>
Deduction of provision for claims-outward:			
Personal life Insurance	120	57	177
Personal injury insurance	322	-	322
Personal health insurance	7	-	7
Group insurance	<u>1,933</u>	<u>-</u>	<u>1,933</u>
Total	<u>2,382</u>	<u>57</u>	<u>2,439</u>
Net	<u>\$ 64,181</u>	<u>21,568</u>	<u>85,749</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The year ended December 31, 2011			
		Financial products with discretionary participation feature	Total
	Insurance Contract		
Personal life Insurance			
– Reported but unpaid	\$ 4,888	518	5,406
– Unreported and unpaid	167	1,715	1,882
Personal injury insurance			
– Reported but unpaid	1,136	-	1,136
– Unreported and unpaid	6,911	-	6,911
Personal health insurance			
– Reported but unpaid	4,040	-	4,040
– Unreported and unpaid	13,535	-	13,535
Group insurance			
– Reported but unpaid	2,511	-	2,511
– Unreported and unpaid	30,725	-	30,725
Unitlinked insurance			
Unreported and unpaid	<u>1,135</u>	<u>-</u>	<u>1,135</u>
	<u>65,048</u>	<u>2,233</u>	<u>67,281</u>
Deduction of provision for claims-outward:			
Personal life Insurance	-	1	1
Personal injury insurance	587	-	587
Personal health insurance	4	-	4
Group insurance	<u>2,149</u>	<u>-</u>	<u>2,149</u>
Total	<u>2,740</u>	<u>1</u>	<u>2,741</u>
Net	<u>\$ 62,308</u>	<u>2,232</u>	<u>64,540</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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

The year ended December 31, 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
Reclaim	<u>(219,577)</u>	<u>(6,831)</u>	<u>(226,408)</u>
December 31, 2012	<u>66,563</u>	<u>21,625</u>	<u>88,188</u>
Deduction of provision for claims-outward			
January 1, 2012	2,740	1	2,741
Provision	9,287	160	9,447
Reclaim	<u>(9,645)</u>	<u>(104)</u>	<u>(9,749)</u>
December 31, 2012	<u>2,382</u>	<u>57</u>	<u>2,439</u>
Closing Balance	<u>\$ 64,181</u>	<u>21,568</u>	<u>85,749</u>
The year ended December 31, 2011			
	Insurance Contract	Financial products with discretionary participation feature	Total
January 1, 2011	\$ 68,799	1,269	70,068
Provision	188,013	4,848	192,861
Reclaim	<u>(191,764)</u>	<u>(3,884)</u>	<u>(195,648)</u>
December 31, 2011	<u>65,048</u>	<u>2,233</u>	<u>67,281</u>
Deduction of provision for claims-outward			
January 1, 2011	-	-	-
Provision	10,906	1	10,907
Reclaim	<u>(8,166)</u>	<u>-</u>	<u>(8,166)</u>
December 31, 2011	<u>2,740</u>	<u>1</u>	<u>2,741</u>
Closing Balance	<u>\$ 62,308</u>	<u>2,232</u>	<u>64,540</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(d) Details of special reserve for life insurance

The year ended December 31, 2012			
	Insurance Contract	Financial products with discretionary participation feature	Total
Legal reserve			
Personal life insurance	\$ 3,882	1,854	5,736
Personal injury insurance	28,896	-	28,896
Personal health insurance	61,241	-	61,241
Group insurance	<u>70,916</u>	<u>-</u>	<u>70,916</u>
	164,935	1,854	166,789
Provision for bonus risk	<u>240,812</u>	<u>-</u>	<u>240,812</u>
Total	<u>\$ 405,747</u>	<u>1,854</u>	<u>407,601</u>

The year ended December 31, 2011			
	Insurance Contract	Financial products with discretionary participation feature	Total
Legal reserve			
Personal life Insurance	\$ 8,261	3,709	11,970
Personal injury insurance	60,097	-	60,097
Personal health insurance	123,711	-	123,711
Group insurance	<u>145,662</u>	<u>-</u>	<u>145,662</u>
	337,731	3,709	341,440
Provision for bonus risk	<u>247,631</u>	<u>-</u>	<u>247,631</u>
Total	<u>\$ 585,362</u>	<u>3,709</u>	<u>589,071</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The reconciliation of the abovementioned changes in special reserve is listed below:

	The year ended December 31, 2012			
	Insurance Contract	Financial products with discretionary participation feature	Other	Total
January 1, 2012	\$ 585,362	3,709	-	589,071
Provision of special reserve-significant incident over 15 years	(2,429)	-	-	(2,429)
The amount of actual indemnity minus provision of special reserve-significant incident exceeds expected indemnity	(1,503)	-	-	(1,503)
Provision of bonus risk reserve	58,680	-	-	58,680
Reclaim of bonus risk reserve	(41,892)	-	-	(41,892)
Other	(192,471)	(1,855)	-	(194,326)
Closing Balance	<u>\$ 405,747</u>	<u>1,854</u>	<u>-</u>	<u>407,601</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	The year ended December 31, 2011			
	Insurance Contract	Financial products with discretionary participation feature	Other	Total
January 1, 2011	\$ 534,031	8,070	-	542,101
Provision of special reserve-significant incident over 15 years	(4,857)	-	-	(4,857)
The amount of actual indemnity minus provision of special reserve-significant incident exceeds expected indemnity	(570)	-	-	(570)
Contingent special reserve-risk volatility exceeds 30% of retained premium	(42,811)	(4,361)	-	(47,172)
Provision of bonus risk reserve	123,909	-	-	123,909
Reclaim of bonus risk reserve	(24,340)	-	-	(24,340)
Closing Balance	<u>\$ 585,362</u>	<u>3,709</u>	<u>-</u>	<u>589,071</u>

(e) Premium deficiency reserve

	The year ended 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	<u>\$ 965,808</u>	<u>-</u>	<u>965,808</u>

	The year ended December 31, 2011		
	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	<u>\$ 1,405,222</u>	<u>-</u>	<u>1,405,222</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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

The year ended December 31, 2012			
		Financial products with discretionary participation feature	
	Insurance Contract		Total
January 1, 2012	\$ 1,405,222	-	1,405,222
Provision	37,720	-	37,720
Reclaim	(477,134)	-	(477,134)
Closing Balance	<u>\$ 965,808</u>	<u>-</u>	<u>965,808</u>

The year ended December 31, 2011			
		Financial products with discretionary participation feature	
	Insurance Contract		Total
January 1, 2011	\$ 1,873,638	-	1,873,638
Provision	10,545	-	10,545
Reclaim	(478,961)	-	(478,961)
Closing Balance	<u>\$ 1,405,222</u>	<u>-</u>	<u>1,405,222</u>

(f) Special reserve-significant incidents and special reserve-risk volatility detail:

The year ended December 31, 2012			
		Financial products with discretionary participation feature	
	Insurance Contract		Total
Personal life insurance	\$ 2,052	4,768	6,820
Personal injury insurance	28,119	-	28,119
Personal health insurance	51,035	-	51,035
Group insurance	67,155	-	67,155
Total	<u>\$ 148,361</u>	<u>4,768</u>	<u>153,129</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The year ended December 31, 2011			
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	\$ 718	1,925	2,643
Personal injury insurance	10,925	-	10,925
Personal health insurance	17,651	-	17,651
Group insurance	24,143	-	24,143
Total	<u>\$ 53,437</u>	<u>1,925</u>	<u>55,362</u>

(g) Details of provision for liability adequacy

Financial contract and financial products with discretionary participation feature		
	The year ended December 31, 2012	The year ended December 31, 2011
Unearned premium reserve	\$ 10,629	-
Liability reserve	336,933,043	285,895,331
Premium deficiency reserve	949,521	1,399,587
Special reserve of life insurance	240,812	-
Book value of insurance liability	<u>\$ 338,134,005</u>	<u>287,294,918</u>
Estimate of present cash flow	<u>\$ 335,674,601</u>	<u>247,430,606</u>
Provision for liability adequacy balance	<u>\$ -</u>	<u>-</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Short term insurance: All short term insurance are tested.

The year ended December 31, 2012

	Loss %	Fee %	Expense %	Combined %
short term insurance	40.5 %	12.8 %	23.3 %	76.5 %

The year ended December 31, 2011

	Loss %	Fee %	Expense %	Combined %
short term insurance	38.6 %	12.9 %	17.2 %	69.0 %

Reinsurance:

The year ended December 31, 2012

	Reinsurance	Agency and transaction fee	Reinsurance paid	Combined %
Short term	5,104	2,447	1,978	86.7 %

The year ended December 31, 2011

	Reinsurance	Agency and transaction fee	Reinsurance paid	Combined %
Short term	5,651	2,388	1,740	73.0 %

The liability adequacy test method of the Company is listed below:

	December 31, 2012	December 31, 2011
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
Group	Test long and short term insurance separately	Test long and short term insurance separately
Significant assumption	Discount rates are calculated using the best estimated scenario investment return based on Assumption actuary report of 2011, with unchanged assumption for discount rates after 30 year	Set up the assumed discount rate of future years based on the assets allocation of the company and the weighted average investments reward ratio

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(h) Foreign exchange volatility reserve

a) Hedge strategy and exposure of foreign exchange volatility

Up to the end of 2012, the whole hedge rate was 75%. We should adjust the hedge rate regarding to future foreign exchange and hedge cost in order to ease foreign exchange volatility risk.

b) Adjust meant of foreign exchange volatility reserve is as follows:

	Financial products with discretionary participation feature The year ended December 31, 2012
January 1, 2012	\$ 170,720
Fixed provision	94,730
Incremental provision	322,699
Reclaim	(491,189)
December 31, 2012	<u>\$ 96,960</u>

2. Revenue of matured retention premium

	The year ended December 31, 2012		
	Insurance Contract	Financial products with discretionary participation feature	Total
Written premium revenue	\$ 32,569,689	24,127,753	56,697,442
Reinsurance premium revenue	<u>5,104</u>	<u>-</u>	<u>5,104</u>
Premium revenue	<u>32,574,793</u>	<u>24,127,753</u>	<u>56,702,546</u>
Deduct: Reinsurance premium expenses	77,876	229	78,105
Provision of net unearned	<u>(2,424)</u>	<u>2,163</u>	<u>(261)</u>
	<u>75,452</u>	<u>2,392</u>	<u>77,844</u>
Revenue of matured retention premium	<u>\$ 32,499,341</u>	<u>24,125,361</u>	<u>56,624,702</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The year ended December 31, 2011

	Insurance Contract	Financial products with discretionary participation feature	Total
Written premium revenue	\$ 29,524,131	21,366,558	50,890,689
Reinsurance premium revenue	<u>5,651</u>	<u>-</u>	<u>5,651</u>
Premium revenue	<u>29,529,782</u>	<u>21,366,558</u>	<u>50,896,340</u>
Deduct: Reinsurance premium expenses	81,712	170	81,882
Provision of net unearned premium	5,591	73	5,664
	<u>87,303</u>	<u>243</u>	<u>87,546</u>
Revenue of matured retention premium	<u><u>\$ 29,442,479</u></u>	<u><u>21,366,315</u></u>	<u><u>50,808,794</u></u>

3. Retained insurance claims and benefits

The year ended December 31, 2012

	Insurance Contract	Financial products with discretionary participation feature	Total
Claims of directly written insurance contracts	\$ 10,882,825	1,976,844	12,859,669
Claims of reinsurance	<u>1,978</u>	<u>-</u>	<u>1,978</u>
Insurance claims and benefits	10,884,803	1,976,844	12,861,647
Deduct: Amortized reinsurance claims and benefits	(26,379)	(158)	(26,537)
Retained insurance claims and benefits	<u><u>\$ 10,858,424</u></u>	<u><u>1,976,686</u></u>	<u><u>12,835,110</u></u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The year ended December 31, 2011			
	Insurance Contract	Financial products with discretionary participation feature	Total
Claims of directly written insurance contracts	\$ 7,938,805	2,205,608	10,144,413
Claims of reinsurance	<u>1,740</u>	<u>-</u>	<u>1,740</u>
Insurance claims and benefits	7,940,545	2,205,608	10,146,153
Deduct: Amortized reinsurance claims and benefits	<u>(24,898)</u>	<u>-</u>	<u>(24,898)</u>
Retained insurance claims and benefits	<u><u>\$ 7,915,647</u></u>	<u><u>2,205,608</u></u>	<u><u>10,121,255</u></u>

2) Subsidiary, BTLI –The property and scope regarding the risk of insurance contracts

1. The target, policy, procedure and method of risk management for insurance contract

(a) The system, organization and the range of responsibilities of risk management

The risk management structure of the Bank includes the Board of Directors, risk management committee, internal audit department and authorities in charge of all business units. Their responsibilities are as follows:

a) Board of Directors

- a. The Board of Director holds the highest responsibility in maintaining the risk management of the subsidiary
- b. The Board of Directors shall formulate operating strategies according to the operating condition of the subsidiary, establishing effective risk management policy, ensuring the consistency of the risk managing system and the condition of the subsidiary as well as the capital adequacy in response of all risks.

b) Risk management Committee

- a. Executing and implementing the risk management strategy and integrating risk-related issues between various units across the subsidiary.
- b. Formulate risk management policies, structure, organize function, and assemble qualified and quantified management standards. To report to the Board of Directors on a timely basis as well as reflecting the conditions of risk management along with compulsory suggestions for improvements.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

c) Risk management department

- a. Responsible of the overall risk management of the subsidiary.
- b. Implement, monitor and measure the subsequent conditions of the policies and procedures approved by the Board of Directors or the risk management committee and report back to them. If any risk exposures exceeding the capacity of the subsidiary is discovered, the department has the responsibility to take reasonable actions and report to the Board of Directors.
- c. Assist the Board of Directors in the implementation and formulation of risk management policies.
- d. Establish the subsidiary's primary risk management standards and procedures as a reference for all units and to report to the Parent company for back additional investigation.
- e. Report to the Board of Directors and risk management committee on a regular basis regarding all operational risk management conditions as means of control and understanding the subsidiary's risk tolerance for decision making. Monthly reports on risk management shall be reported to the Parent Company.

d) All operational units

Every department shall identify, evaluate, and control the risks of any new products or operations and establish the risk management process accordingly.

e) Auditing office of the Board of Directors

The auditing office shall audit the subsidiary, BTLI's condition of risk management in accordance with applicable regulations and legislations.

(b) Risk management procedures and protocols

- a) Risk management procedures and protocols 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 operations and activities
 - b. Risk transfer: to reinsure or transfer all risks or partial risks to a third party.
 - c. Risk control: to adopt risk controlling procedures in order to minimize any impact.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- 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
- (a) Sensitivity of insurance risk – Insurance contracts and financial products with discretionary feature:

The year ended December 31, 2012

	Rate	Rate	Rate
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)

The year ended December 31, 2011

	Rate	Rate	Rate
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)	(530,409)

- (b) The statement of insurance risk concentration

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, BTLI does not have concerns in high risk concentration.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Claim development trend

a) Development trend of direct business loss

Life insurance

Occurrence year	Development year								Claim provision
	1	2	3	4	5	6	7	8	
<=92	-	-	-	-	-	-	-	-	-
93	-	-	-	-	-	-	-	-	-
94	19,029	27,915	28,250	28,310	28,310	28,311	28,308	28,313	-
95	28,076	36,415	37,486	37,546	37,605	37,896	37,896	-	7
96	23,431	30,238	30,314	30,337	30,346	30,346	-	-	4
97	22,730	29,165	29,225	34,651	34,651	-	-	-	110
98	29,207	35,332	35,355	35,355	-	-	-	-	130
99	15,701	19,978	20,025	-	-	-	-	-	771
100	18,332	22,984	-	-	-	-	-	-	1,099
101	28,407	-	-	-	-	-	-	-	10,017
Provision for unreported and unpaid claims									12,138
Less: reported and unpaid claims									(1,000)
Unreported provision for claims									<u>11,138</u>

Injury insurance

Occurrence year	Development year								Claim provision
	1	2	3	4	5	6	7	8	
<=92	-	-	-	-	-	-	-	-	-
93	-	-	-	-	-	-	-	20,227	-
94	75,837	113,480	114,324	119,720	119,904	120,170	120,227	-	-
95	61,402	78,349	83,850	84,379	84,391	84,401	84,404	-	-
96	328,882	412,974	427,079	428,696	429,778	429,781	-	-	128
97	65,499	90,685	92,741	92,763	92,793	-	-	-	68
98	50,763	68,954	73,277	74,543	-	-	-	-	189
99	59,149	87,759	93,667	-	-	-	-	-	1,286
100	57,707	76,399	-	-	-	-	-	-	4,024
101	52,147	-	-	-	-	-	-	-	20,753
Provision for unreported and unpaid claims									26,448
Less: reported and unpaid claims									(161)
Unreported provision for claims									<u>26,287</u>

Health insurance

Occurrence year	Development year								Claim provision
	1	2	3	4	5	6	7	8	
<=92	-	-	-	-	-	-	-	-	-
93	-	-	-	-	-	-	-	-	-
94	88,099	104,375	105,542	105,625	105,625	105,665	105,665	105,665	-
95	79,512	95,289	96,086	96,146	96,169	96,169	96,219	-	-
96	73,363	89,548	90,485	90,521	90,521	90,521	-	-	22
97	77,081	93,683	94,387	94,427	94,434	-	-	-	36
98	80,722	98,054	98,697	98,749	-	-	-	-	46
99	75,685	92,546	93,689	-	-	-	-	-	96
100	82,324	103,408	-	-	-	-	-	-	1,078
101	93,290	-	-	-	-	-	-	-	21,309
Provision for unreported and unpaid claims									22,587
Less: reported and unpaid claims									(713)
Unreported provision for claims									<u>21,874</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

b) Development trend of retained business loss

Life insurance

Occurrence year	Development year								Claim provision
	1	2	3	4	5	6	7	8	
<=92	-	-	-	-	-	-	-	-	-
93	-	-	-	-	-	-	-	-	-
94	16,649	25,013	25,348	25,408	25,408	25,409	25,406	25,411	-
95	23,116	31,085	32,156	32,216	32,274	32,566	32,566	-	6
96	21,589	27,846	27,922	27,945	27,954	27,954	-	-	3
97	20,586	26,572	26,632	31,557	31,557	-	-	-	100
98	26,735	32,460	32,483	32,483	-	-	-	-	120
99	14,579	18,556	18,602	-	-	-	-	-	716
100	17,044	21,246	-	-	-	-	-	-	1,016
101	27,153	-	-	-	-	-	-	-	9,575
Provision for unreported and unpaid claims									11,536
Less: reported and unpaid claims									(1,000)
Unreported provision for claims									<u>10,536</u>

Injury insurance

Occurrence year	Development year								Claim provision
	1	2	3	4	5	6	7	8	
<=92	-	-	-	-	-	-	-	-	-
93	-	-	-	-	-	-	-	-	-
94	67,186	99,922	100,749	104,686	104,870	105,135	105,192	105,192	-
95	56,994	72,341	77,378	77,864	77,876	77,886	77,890	-	-
96	186,425	238,051	246,126	247,043	247,954	247,957	-	-	73
97	54,149	75,927	77,889	77,910	77,941	-	-	-	57
98	46,207	63,048	67,051	68,196	-	-	-	-	173
99	52,837	78,304	83,945	-	-	-	-	-	1,153
100	53,385	70,902	-	-	-	-	-	-	3,735
101	49,116	-	-	-	-	-	-	-	19,547
Provision for unreported and unpaid claims									24,738
Less: reported and unpaid claims									(161)
Unreported provision for claims									<u>24,577</u>

Health insurance

Occurrence year	Development year								Claim provision
	1	2	3	4	5	6	7	8	
<=92	-	-	-	-	-	-	-	-	-
93	-	-	-	-	-	-	-	-	-
94	88,099	104,375	105,542	105,625	105,625	105,665	105,665	105,665	-
95	79,512	95,289	96,086	96,146	96,169	96,169	96,219	-	-
96	73,363	89,548	90,485	90,521	90,521	90,521	-	-	22
97	77,081	93,683	94,387	94,427	94,434	-	-	-	36
98	80,722	98,054	98,697	98,749	-	-	-	-	46
99	75,685	92,546	93,689	-	-	-	-	-	96
100	82,324	103,408	-	-	-	-	-	-	1,078
101	93,290	-	-	-	-	-	-	-	21,309
Provision for unreported and unpaid claims									22,587
Less: reported and unpaid claims									(713)
Unreported provision for claims									<u>21,874</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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 change of estimation or judgment is regarded as changes in accounting estimates and the amount of changes is recognized as current gains and losses. Some claims may be delayed to inform BTLI. In addition, when estimating the potential compensation amount of unreported claims, it involves vast past compensation experience and subjective judgment, therefore, it is not able to confirm that the estimated reserve for claims on the balance sheet date will equal to the final compensation amount. The estimate of reserve for claims is based on the information currently available, however, the final result may deviate the original estimate due to the subsequent development.

The above table demonstrates the development trend of claims (excluding the claims which will confirm the compensation amount and time in one year). The vertical shaft represents the year which the claim event occurred, and the horizontal shaft represents the development years. Every slash represents the accumulated compensation amount at the end of each year. The compensation amount refers to the claims whether they are ruled or not. It explains how BTLI estimates the compensation amount of each year as time passes by. The scenario and trend which affect the amount of reserve for claims may not be the same as they will be in the future; therefore, the estimated future compensation amount is not able to be determined by the claim development trend revealed by the above table.

3. Information of insurance risk

(a) Credit risk

The credit risk of insurance contract mainly comes from the inability of reinsurers to fulfill the obligation of reinsurance contracts and caused the subsidiary, BTLI, to encounter financial losses. The credit rating of the counter-party for the subsidiary, BTLI, for the years ended December 31, 2012 are all above S&P A-. The details were as follows:

Name	The year ended December 31, 2012		Date of rating
	Credit rating agent	Credit rating	
Central Re	S&P	A-	10.20.2006
Munich Re	S&P	AA-	12.22.2006
Swiss Re	S&P	AA-	10.28.2011
Cologne Re	S&P	AA+	02.04.2010
Gibraltar Re	S&P	AA-	02.26.2009
Dai-ichi Mutual Life	S&P	A	03.23.2006

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Liquidity risk

The subsidiary, BTLI, estimates its future insurance liability cash flow based on the effective premiums from traditional insurance, life insurance, interest-linked annuity and foreign currency insurance for the year ended December 31, 2012, as well as the subsidiary's actual experience in associated actuarial assumptions (such as death rate, contract defaults, expenses, agent fee, compulsory bonus dividend, mortality rate and announced interest rate). The liability cash flow is greater than, the actual cash flow in the long term (10 years from now); however, taking subsidiary's cash and cash equivalents and future insurance premiums into account, the cash flow gap shall be closed in the long term.

(c) Market risk

Market risk in insurance contracts refers to the adverse changes in the market resulting in the returns on investment lower than the assumed interest rate for the insurance designed. As a result, insurers are subject to financial losses. Considering the subsidiary, BTLI's assumed interest with the return on investment for the year ended December 31, 2012, the risk taken by BTLI is within the acceptable level after evaluation.

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

(35) Information on Financial Instruments

1) Information on fair value of financial instruments

	The year ended December 31, 2012		The year ended December 31, 2011	
	Book Value	Fair Value	Book Value	Fair Value
Financial Assets:				
Financial assets measured at fair value through profit or loss	\$ 147,512,761	147,512,761	111,746,984	111,746,984
Discounts and loans, net	2,182,122,142	2,182,122,142	2,158,327,794	2,158,327,794
Available-for-sale financial assets	777,192,341	777,192,341	802,058,331	802,058,331
Held-to-maturity financial assets	244,048,117	248,320,864	227,724,845	222,699,405
Other financial assets	114,965,947	114,965,947	110,755,243	110,755,243
Financial Liabilities:				
Financial liabilities measured at fair value through profit or loss	4,508,508	4,508,508	4,274,874	4,274,874
Other financial liabilities	13,185,447	13,185,447	11,246,261	11,246,261

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- 2) The derivative financial instruments hold by the Company and the subsidiaries were as follows:

	The year ended December 31, 2012		The year ended December 31, 2011	
	Book value	Notional amount	Book value	Notional amount
Derivative financial assets:				
Buy side foreign exchange option	\$ 66,487	10,205,222	8,938	5,049,048
Structured products	7,542,327	7,533,514	-	-
Fx Swaps and Cross currency swaps	3,730,860	440,867,610	9,058,832	547,123,559
Interest rate swaps	3,069	490,127	409,929	9,031,487
Foreign exchange forward transaction	543,839	62,693,851	1,163,071	56,492,748
Assets-Swaps	61,856	2,032,450	-	-
Commercial paper with fixed rate	(3,874)	1,200,000	(3,679)	1,700,000
Derivative financial liabilities:				
Stock warrants	1,133	4,047	-	-
Sell side foreign exchange option	77,017	10,273,357	9,113	4,949,172
Fx Swaps and Cross currency swaps	3,081,190	402,059,661	3,042,673	309,667,710
Interest rate swaps	754,810	15,073,803	906,650	15,668,237
Foreign exchange forward transaction	542,135	57,426,372	316,438	37,951,077
Assets-Swaps	52,223	2,235,695	-	-

- 3) Methods and assumptions used by the Company and its subsidiaries for fair value evaluation of financial instruments were as follows:

1. Since these instruments have short-term maturities, the book value is a reasonable basis to estimate the fair value. This method is applied to cash and cash equivalents, placement with Central Bank and call loans to banks, bills and bonds purchased under resell agreements, receivables, other financial assets, deposits of Central Bank and other banks, bills and bonds sold under repurchase agreements, payables, deposits and other liabilities.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

2. When the financial assets have a public quotation from an active market, the market price is considered the fair value. If a quoted market price is unavailable, then the fair value is determined based on a valuation model. The estimates and assumptions of the valuation model adopted by the Company and its subsidiaries are identical to those adopted by other market participants.
 3. The interest on discounts and loans is calculated by a floating rate; therefore, the book value is the fair value.
 4. Most deposits mature within one year. If it matures in more than one year, the interest is calculated by a floating rate. Thus the book value is the fair value.
 5. The fair value of each forward contract is determined by the discounted cash flow using Reuters forward rate upon maturity. The fair value of interest rate swaps and cross currency swaps is calculated either by the quotation from the counterparty or by the price from Bloomberg, while the Black Scholes model is applied to evaluate the fair value of options.
- 4) The fair values of the financial instruments of the Company and its subsidiaries which were based on the quoted market price or a valuation model were as follows:

	The year ended December 31, 2012		The year ended December 31, 2011	
	Quoted market price	Valuation model	Quoted market price	Valuation model
Financial assets:				
Financial assets measured at fair value through profit or loss	\$ 79,336,672	68,176,089	66,847,255	44,899,729
Discounts and loans, net	-	2,182,122,142	-	2,158,327,794
Available-for-sale financial assets	82,967,811	694,224,530	91,697,334	710,360,997
Held-to-maturity financial assets	46,102,859	202,218,005	42,399,402	180,300,003
Other financial assets	-	114,965,947	-	110,755,243
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss	-	4,508,508	-	4,274,874
Other financial liabilities	-	13,185,447	-	11,246,261

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011, the Company and its subsidiaries recognized (losses) gains on valuation of \$(4,684,206) and \$11,452,185, respectively, based on a valuation model. The details were as follows:

	The year ended December 31, 2012	The year ended December 31, 2011
Financial assets:		
Valuation (losses) gains for assets held for trading	\$ (6,457,709)	836,962
Valuation (losses) gains for assets designated at fair value	1,200,424	(410,753)
(Losses) gains on impairment for available-for-sale financial assets	155,512	129,463
Valuation (losses) gains for hedging derivatives	1,638	(3,139,414)
(Losses) gains on impairment for bond investment in non-active	317,888	(8,138)
(Losses) gains on impairment for assets are carried at cost	(12,289)	(137)
market		
Subtotal	<u>(4,794,536)</u>	<u>(2,592,017)</u>
Financial liabilities:		
Valuation (losses) gains for liabilities held for trading	1,813	14,198,760
Valuation (losses) gains for derivatives	<u>108,517</u>	<u>(154,558)</u>
Subtotal	<u>110,330</u>	<u>14,044,202</u>
Total	<u><u>\$ (4,684,206)</u></u>	<u><u>11,452,185</u></u>

5) Financial risk information

1. Market risk

(a) BOT

Market risk (also called "price risk") means changes such as in interest rates, exchange rates, and the prices of equity securities and instruments which may result in a loss for BOT, either on or off the balance sheet.

In order to establish and effectively operate the Market Risk Control Mechanism, all subsidiaries, in accordance with their cash capital and operating condition, implement appropriate market risk control in daily operations and management procedures, such as

- a) Identifying, evaluating and analyzing (qualification/non-qualification) risks and adopting appropriate methods (including risk hedging, risk sharing, risk reduction, and risk bearing).
- b) Each unit following the Market Risk Management Guidelines for position management, actively monitoring various limits, and reporting to the responsible unit or the risk management department.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- c) Verifying the position data and profit or loss status with the accounting department to ensure the consistency and completeness of data, and setting up a separate risk management unit to help control BOT's overall market risk.

BOT utilizes the standard method (IMA) for calculating market risk capital to meet the requirement of the competent authority. In the future, the Bank will adopt a market risk management system and use VAR to enhance risk gain or loss analysis and overall reporting ability. Furthermore, BOT will amend relevant policies and standards in accordance with the request of regulators.

(b) BTI

Fair value of the domestic and foreign bonds held by the Company varies according to the fluctuation of market interest or exchange rate. In order to prevent the risk of exchange rate, the Company signed foreign exchange forward contracts to hedge.

The investments held by BTI are classified as trading security financial assets and available-for-sale financial assets. Due to the value of the assets are measured in fair value, BTI shall be exposed to the risk of changing price of market.

(c) BTS

Market risk is the risk that the Company will suffer losses due to market interest rate or exchange rate fluctuation. If the transaction purpose is to hedge, market risk will be eliminated by the hedged items. If the transaction purpose is trading, the Company will set a stop-loss point in the beginning. Therefore, the Company can confine the losses within an expected range.

BTS can manage its risk through the following:

- a) The content, range of transaction, and authorization of levels should be clearly defined.
- b) Risk should be identified, measured, supervised, and controlled while operating financial instrument, the risk undertaken should be within the capacity of BTS.
- c) Establishing risk target of market, precaution system, overrunning handling, and communication system to take proper policy of market risk, in order to accomplish fully supervising and prevention.
- d) Establishing market risk information management system, including transaction system, operating system, and risk management system to define the responsibility, ensure the independence of the system, and keep the system proper and in balance.
- e) Create a model of market risk to assess and express the exposure of BTS, furthermore, to systematically manage the risk exposed.
- f) Assessing market risk and preparing paper work before creating financial instrument, changing operating process, or developing information system and explore new financial services and products.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- g) Enforcing the professional knowledge and training, and harness risk sensitivity within the corporation culture.

2. Credit risk

- (a) The possibility of a loss occurring due to the failure of a counterparty or third party to meet contractual debt obligations

Commodities owned and issued by the Company and its subsidiaries may cause a loss when the contractual debt obligations are not met. Therefore, the Company and its subsidiaries always conduct credit evaluations in accordance with the Credit Policy and Regulation in handling credit business such as loans, commitments and guarantees. The details were as follows:

				(In millions of NTD)
The year ended December 31, 2012				
Item	Secured amount	Total amount	Percentage of total amount	
Loan (note 1)	\$ 1,286,840	2,208,132	58.49	
Acceptances	455	3,059	14.87	
Guarantees on loans	11,410	73,600	15.50	
The year ended December 31, 2011				
Item	Secured amount	Total amount	Percentage of total amount	
Loan (note 1)	\$ 1,123,076	2,176,415	51.60	
Acceptances	155	2,715	3.63	
Guarantees on loans	9,967	71,487	20.85	

Note 1: Amounts of loans exclude advances and off-balance-sheet items.

Collateral which the Company and its subsidiaries requires may include a deposit receipt, inventories, machinery and equipment, marketable securities, other property, and guarantees. If the customers default, the Company and its subsidiaries will, as required by circumstances, foreclose the collateral or execute other rights arising out of the guarantees given. Since most of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash demands. The maximum potential amount of future payments represents the notional amounts that could be lost under the guarantees if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from collateral held or pledged.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Credit risk—disclosure of the maximum credit exposure

The book value and the maximum credit exposure of various commodities owned by the Company are disclosed below:

Items	(In millions of NTD)	
	The year ended December 31, 2012	Maximum credit exposure (notes 2 and 3)
	Book value	
Financial assets measured at fair value through profit or loss	\$ 147,513	145,866
Available-for-sale financial assets	777,192	145,077
Held-to-maturity financial assets	244,048	243,392
Loans and advances (note 1)	2,256,291	2,001,284
Hedging derivatives	4	4
Debt investments without quoted price in active markets	43,013	43,013
Financial assets carried at cost	11,080	11,080

Note 1: The aforementioned "loans and advances" refer to the outstanding amounts of discounts; overdrafts; treasury overdrafts; guarantee overdrafts; short-term, medium-term and long-term secured/unsecured loans; import bill advances/export bill purchases; short-term loans and nonperforming loans.

Note 2: In the amounts of maximum credit exposure, held-for-trading financial assets exclude treasury bonds \$995 million, and government bonds amounting to \$652 million; available-for-sale financial assets exclude government bonds amounting to \$24,948 million and negotiable certificates of deposit amounting to \$607,167 million; held-to-maturity financial assets exclude government bonds amounting to \$656 million; loans and advances exclude Central Government loans amounting to \$223,338 million; Bureau of National Health Insurance loans to \$18,000 million and Central Government short-term advance amounting to \$13,669 million.

Note 3: The amount of maximum credit exposure is positive at the balance sheet date.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Items	The year ended December 31, 2011	
	Book value	Maximum credit exposure (notes 2 and 3)
Financial assets measured at fair value through profit or loss	\$ 111,747	110,865
Available-for-sale financial assets	802,058	151,397
Held-to-maturity financial assets	227,725	187,966
Loans and advances (note 1)	2,233,515	1,933,223
Hedging derivatives	3	3
Debt investments without quoted price in active markets	37,009	37,009
Financial assets carried at cost	11,092	11,092

Note 1: The aforementioned "loans and advances" refer to the outstanding amounts of discounts; overdrafts; treasury overdrafts; guarantee overdrafts; short-term, medium-term and long-term secured/unsecured loans; import bill advances/export bill purchases; short-term loans and nonperforming loans.

Note 2: In the amounts of maximum credit exposure, held-for-trading financial assets exclude government bonds amounting to \$882 million; available-for-sale financial assets exclude government bonds amounting to \$28,051 million and negotiable certificates of deposit amounting to \$622,610 million; held-to-maturity financial assets exclude government bonds amounting to \$39,759 million; loans and advances exclude Central Government loans amounting to \$258,642 million; Bureau of National Health Insurance loans to \$28,100 million and Central Government short-term advance amounting to \$13,550 million.

Note 3: The amount of maximum credit exposure is positive at the balance sheet date.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Disclosure of obvious concentration of credit risk

When transactions involving a commodity are concentrated in a single industry or location, the ability to fulfill the contract may be affected by economic or other factors; thus, concentration of credit risk occurs. The concentration of credit risk of the Company and its subsidiaries is disclosed below:

- a) The details of loans to various industries and the greatest credit exposure for the years ended December 31, 2012 and 2011 were as follows:

(In millions of NTD)			
The year ended December 31, 2012			
Industry type	Book value (note 1)	Percentage of total loans (%)	Maximum credit exposure (note 2)
Individuals	\$ 727,834	33.08	727,834
Government agencies	423,364	19.24	182,026
Manufacturing	391,723	17.81	391,723
Transportation and storage	128,872	5.86	128,872
Utilities	114,902	5.22	114,902
Others	<u>413,437</u>	<u>18.79</u>	<u>395,437</u>
Total	<u>\$ 2,200,132</u>	<u>100.00</u>	<u>1,940,794</u>

Note 1: The book value means the outstanding amounts (NT\$10,027 million exclude overdue credit card fee receivables and overdue security deposit) of discounts; overdrafts; treasury overdrafts; guarantee overdrafts; short-term, medium-term and long-term secured/unsecured loans; import bill advances/export bill purchases and nonperforming loans.

Note 2: The greatest credit exposure is the remaining amount when loans amounting to \$223,338 million to the Central Government and \$18,000 million to the Bureau of National Health Insurance loans are deducted from book value.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Industry type	The year ended December 31, 2011		
	Book value (note 1)	Percentage of total loans (%)	Maximum credit exposure (note 2)
Individuals	\$ 693,596	31.87	693,596
Government agencies	452,601	20.80	165,859
Manufacturing	384,217	17.65	384,217
Transportation and storage	127,593	5.86	127,593
Utilities	123,856	5.69	123,856
Others	<u>394,552</u>	<u>18.13</u>	<u>394,552</u>
Total	<u>\$ 2,176,415</u>	<u>100.00</u>	<u>1,889,673</u>

Note 1: The book value means the outstanding amounts (NT\$1 million exclude overdue credit card fee receivables and overdue security deposit) of discounts; overdrafts; treasury overdrafts; guarantee overdrafts; short-term, medium-term and long-term secured/unsecured loans; import bill advances/export bill purchases and nonperforming loans.

Note 2: The maximum credit exposure is the remaining amount when loans amounting to \$258,642 million to the Central Government and \$28,100 million to the Bureau of National Health Insurance loans are deducted from book value.

- b) The details of loans to various areas and the maximum credit exposure for the years ended December 31, 2012 and 2011 were as follows:

Areas type	(In millions of NTD) The year ended December 31, 2012		
	Book value (note 1)	Percentage of total loans (%)	Maximum credit exposure (note 2)
Domestic	\$ 2,037,767	92.62	1,796,429
Foreign	<u>162,365</u>	<u>7.38</u>	<u>162,365</u>
Total	<u>\$ 2,200,132</u>	<u>100.00</u>	<u>1,958,794</u>

Note 1: The book value means the outstanding amounts (NT\$10,027 million exclude overdue credit card fee receivables and overdue security deposit) of discounts; overdrafts; treasury overdrafts; guarantee overdrafts; short-term, medium-term and long-term secured/unsecured loans; import bill advances/export bill purchases and nonperforming loans.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 2: The maximum credit exposure is the remaining amount when loans amounting to \$223,338 million to the Central Government and \$18,000 million to the Bureau of National Health Insurance loans are deducted from book value.

The year ended December 31, 2011			
Areas type	Book value (note 1)	Percentage of total loans (%)	Maximum credit exposure (note 2)
Domestic	\$ 2,029,091	93.23	1,742,349
Foreign	147,324	6.77	147,324
Total	<u>\$ 2,176,415</u>	<u>100.00</u>	<u>1,889,673</u>

Note 1: The book value means the outstanding amounts (NT\$1 million exclude overdue credit card fee receivables and overdue security deposit) of discounts; overdrafts; treasury overdrafts; guarantee overdrafts; short-term, medium-term and long-term secured/unsecured loans; import bill advances/export bill purchases and nonperforming loans.

Note 2: The maximum credit exposure is the remaining amount when loans amounting to \$258,642 million to the Central Government and \$28,100 million to the Bureau of National Health Insurance are deducted from book value.

- (d) Off-balance sheet credit risk (including loan commitments, net settlement, and offset rights)

The Company and its subsidiaries, when offering services of loan commitments, net settlement, and offset rights, always assesses credibility carefully. Collateral acquired by the Company and its subsidiaries, due to loans, loan commitments, net settlement, and guarantee, could be disposed on the basis of a notice of ownership transfer in order to protect the rights and decrease the credit risk of the Company and its subsidiaries. The fair value of collaterals would not be considered when the greatest credit exposure is disclosed.

Item	Unit: million dollars	
	Amount of disclosure of the maximum credit exposure	
	The year ended December 31, 2012	The year ended December 31, 2011
Irrevocable loan commitments (loan commitments)	<u>\$ 523,383</u>	<u>390,357</u>
Account receivable under the letter of credit	<u>\$ 46,719</u>	<u>43,112</u>
Guarantees receivable	<u>\$ 73,486</u>	<u>71,390</u>
Acceptance receivable	<u>\$ 3,059</u>	<u>2,715</u>

(Continued)

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

Note: The amount of greatest credit exposure only considers the positive account at balance sheet date. The Company and its subsidiaries assess the counterparty with off balance sheet commitment and guarantee without considering its type.

3. Liquidity risk

Liquidity risk includes market liquidity risk and capital liquidity risk (financial risk). Market liquidity risk is the risk of facing market price movement in processing or offsetting assets caused by a low-volume market. Capital liquidity risk, on the other hand, is the risk of default at the maturity due to inability to sell assets or obtain sufficient capital. The Company and its subsidiaries have different policies in accordance with capital demands for different kinds of business aiming to effectively monitor market liquidity risk. The finance department is in charge of the overview of capital and conducts a daily review to respond to system risk and capital demand in abnormal conditions.

In addition to all of the above, the attention and support from senior management are important to the success of the risk management system. Under the authorization of the senior management, the Company and its subsidiaries are gradually implementing the risk management system.

The Company and its subsidiaries control the trading risk of commodities by means of the aforementioned position limits, setting stop-loss points and operation guidelines at the management level. In addition, the Company and its subsidiaries utilize financial tools of the money market and foreign exchange market, together with appropriate liquid assets to plan for future cash demand.

Capital and working capital of The Company and its subsidiaries are sufficient to perform all contract obligations, so there is no liquidity risk.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The analysis of maturity of the subsidiary BOT as of December 31, 2012 and 2011, is as follows:

	The year ended December 31, 2012				
	1~30 days	31~90 days	91 days~ one year	Over one year	Total
Asset					
Cash and cash equivalents	\$ 29,179,310	-	-	-	29,179,310
Placement with Central Bank and call loans to banks	73,188,463	263,106,664	124,386,149	110,129,177	570,810,453
Financial assets measured at fair value through profit or loss, net	29,729,707	7,991,169	4,383,704	18,725,844	60,830,424
Bills and bonds purchased under resell agreements	4,980,621	-	-	-	4,980,621
Available-for-sale financial assets, net	456,701,305	111,463,724	70,127,883	96,577,839	734,870,751
Held-to-maturity financial assets, net	1,500,506	3,140,753	1,829,860	584,984	7,056,103
Hedging derivative assets	3,543	-	-	-	3,543
Financial assets carried at cost	-	-	-	11,079,900	11,079,900
Debt investments without quoted price in active markets	-	-	290,350	2,115,636	2,405,986
Investments under equity method, net	-	-	-	35,393,882	35,393,882
Receivables, net	17,711,691	1,145,081	382,798	21,387,480	40,627,050
Discounts and loans, net	140,232,617	171,976,142	519,326,707	1,347,950,933	2,179,486,399
Non-performing loans	669,591	-	-	9,471,083	10,140,674
Total assets	<u>\$ 753,897,354</u>	<u>558,823,533</u>	<u>720,727,451</u>	<u>1,653,416,758</u>	<u>3,686,865,096</u>
Liabilities					
Deposits of Central Bank and other banks	\$ 111,935,915	60,531,563	20,718,369	20,188,618	213,374,465
Payables	15,060,761	14,612	144,130	26,315,483	41,534,986
Financial liabilities measured at fair value through profit or loss	458,839	41,108	-	4,376,963	4,876,910
Bonds and bills sold under repurchase agreements	6,900,462	4,659,274	438,662	-	11,998,398
Hedging derivative liabilities	301,390	-	-	-	301,390
Other financial liabilities	-	-	-	376,265	376,265
Deposits and remittances	261,389,677	358,340,428	1,108,256,327	1,566,917,287	3,294,903,719
Total liabilities	<u>\$ 396,047,044</u>	<u>423,586,985</u>	<u>1,129,557,488</u>	<u>1,618,174,616</u>	<u>3,567,366,133</u>
Gaps	<u>\$ 357,850,310</u>	<u>135,236,548</u>	<u>(408,830,037)</u>	<u>35,242,142</u>	<u>119,498,963</u>

Note: The table contains the amounts for the bank departments of BOT only.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	The year ended December 31, 2011				
	1~30 days	31~90 days	91 days~ one year	Over one year	Total
Asset					
Cash and cash equivalents	\$ 25,233,775	-	-	-	25,233,775
Placement with Central Bank and call loans to banks	38,702,180	221,480,349	127,314,375	126,319,259	513,816,163
Financial assets measured at fair value through profit or loss, net	5,501,626	6,714,417	2,905,636	30,018,005	45,139,684
Bills and bonds purchased under resell agreements	3,231,949	-	-	-	3,231,949
Available-for-sale financial assets, net	315,920,821	266,954,423	77,090,954	97,407,267	757,373,465
Held-to-maturity financial assets, net	2,001	-	89,528	529,338	620,867
Hedging derivative assets	3,074	-	-	-	3,074
Financial assets carried at cost	-	-	-	11,092,189	11,092,189
Debt investments without quoted price in active markets	-	605,500	454,110	2,891,537	3,951,147
Investments under equity method, net	-	-	-	32,479,598	32,479,598
Receivables, net	9,990,711	1,108,127	646,911	16,547,065	28,292,814
Discounts and loans, net	202,617,269	175,031,865	412,495,247	1,368,715,956	2,158,860,337
Non-performing loans	253,196	-	-	8,059,436	8,312,632
Total assets	<u>\$ 601,456,602</u>	<u>671,894,681</u>	<u>620,996,761</u>	<u>1,694,059,650</u>	<u>3,588,407,694</u>
Liabilities					
Deposits of Central Bank and other banks	\$ 102,494,969	63,188,499	17,567,343	25,675,664	208,926,475
Payables	11,869,584	11,302	148,956	25,282,175	37,312,017
Financial liabilities measured at fair value through profit or loss	553,783	64,551	-	3,279,298	3,897,632
Bonds and bills sold under repurchase agreements	9,715,429	4,715,540	475,196	-	14,906,165
Hedging derivative liabilities	409,907	-	-	-	409,907
Other financial liabilities	-	-	-	671,369	671,369
Deposits and remittances	305,811,927	338,382,799	1,092,169,729	1,481,646,232	3,218,010,687
Total liabilities	<u>\$ 430,855,599</u>	<u>406,362,691</u>	<u>1,110,361,224</u>	<u>1,536,554,738</u>	<u>3,484,134,252</u>
Gaps	<u>\$ 170,601,003</u>	<u>265,531,990</u>	<u>(489,364,463)</u>	<u>157,504,912</u>	<u>104,273,442</u>

Note: The table contains the amounts for the bank departments of BOT only.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

4. Cash flow risk and fair value risk of interest rate change

Floating assets and floating liabilities of the Company and its subsidiaries may change due to movement in future cash flow caused by movement of market rate, and hence create risk.

(a) Information on expected final maturity and expected reprising date

As of December 31, 2012 and 2011, the expected reprising date and expected final maturity would not be affected by the contract effective date. The following table shows the interest risk of the Company and its subsidiaries. Non-derivative assets and liabilities are listed at book value without deducting any allowance or adjustment. Derivative assets and liabilities are listed at book value. The book value is further categorized by the earlier of the maturity date or reprising date. The book values of commodities owned or issued by BOT, categorized by different maturity or reprising dates (the earlier date of the two dates), were as follows:

(In millions of NTD)					
The year ended December 31, 2012					
	1~30 days	31~90 days	91 days~ one year	Over one year	Total
Assets					
Financial assets measured at fair value through profit or loss	\$ 29,729	7,991	4,384	18,726	60,830
Bills and bonds purchased under resell agreements	4,981	-	-	-	4,981
Available-for-sale financial assets	456,701	111,464	70,128	96,578	734,871
Held-to-maturity financial assets	1,501	3,141	1,830	585	7,057
Hedging through derivative assets	4	-	-	-	4
Financial assets carried at cost	-	-	-	11,080	11,080
Debt investment without quoted price in active market	-	-	290	2,116	2,406
Placement with Central Bank and call loans to banks	73,188	263,107	124,386	110,129	570,810
Discounts and loans, net	140,233	171,976	519,327	1,347,950	2,179,486
Investment under equity method	-	-	-	35,393	35,393
Other assets	27,904	11,623	1,178	214,576	255,281
Total assets	<u>\$ 734,241</u>	<u>569,302</u>	<u>721,523</u>	<u>1,837,133</u>	<u>3,862,199</u>
Liabilities					
Deposits of Central Bank and other banks	\$ 111,936	60,532	20,718	20,189	213,375
Financial liabilities measured at fair value through profit or loss	458	41	-	4,377	4,876
Bills and bonds sold under repurchase agreements	6,900	4,659	439	-	11,998
Hedging derivative liabilities	301	-	-	-	301
Other financial liabilities — appropriation for loans	-	-	-	376	376
Deposits	260,888	358,340	1,108,256	1,566,918	3,294,402
Long-term liabilities	-	-	-	24,428	24,428
Other liabilities	14,803	7	207	49,360	64,377
Total liabilities	<u>\$ 395,286</u>	<u>423,579</u>	<u>1,129,620</u>	<u>1,665,648</u>	<u>3,614,133</u>
Stockholders' equity	<u>\$ 338,955</u>	<u>145,723</u>	<u>(408,097)</u>	<u>171,485</u>	<u>248,066</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Note: The table contains the amounts for the bank departments of BOT only.

	The year ended December 31, 2011				
	1~30 days	31~90 days	91 days~ one year	Over one year	Total
Assets					
Financial assets measured at fair value through profit or loss	\$ 5,501	6,714	2,906	30,018	45,139
Bills and bonds purchased under resell agreements	3,232	-	-	-	3,232
Available-for-sale financial assets	315,921	266,954	77,091	97,407	757,373
Held-to-maturity financial assets	2	-	90	529	621
Hedging through derivative assets	3	-	-	-	3
Financial assets carried at cost	-	-	-	11,092	11,092
Debt investment without quoted price in active market	-	606	453	2,892	3,951
Placement with Central Bank and call loans to banks	38,702	221,480	127,314	126,320	513,816
Discounts and loans, net	202,608	175,032	412,495	1,368,716	2,158,851
Investment under equity method	-	-	-	32,479	32,479
Other assets	18,980	4,708	1,516	222,458	247,662
Total assets	<u>\$ 584,949</u>	<u>675,494</u>	<u>621,865</u>	<u>1,891,911</u>	<u>3,774,219</u>
Liabilities					
Deposits of Central Bank and other banks	\$ 102,495	63,188	17,567	25,676	208,926
Financial liabilities measured at fair value through profit or loss	603	65	-	3,279	3,947
Bills and bonds sold under repurchase agreements	9,715	4,716	475	-	14,906
Hedging derivative liabilities	410	-	-	-	410
Other financial liabilities—appropriation for loans	-	-	-	671	671
Deposits	305,244	338,383	1,092,170	1,481,646	3,217,443
Long-term liabilities	-	-	-	24,112	24,112
Other liabilities	8,207	26,945	2,416	20,789	58,357
Total liabilities	<u>\$ 426,674</u>	<u>433,297</u>	<u>1,112,628</u>	<u>1,556,173</u>	<u>3,528,772</u>
Stockholders' equity	<u>\$ 158,275</u>	<u>242,197</u>	<u>(490,763)</u>	<u>335,738</u>	<u>245,447</u>

Note: The table contains the amounts for the bank departments of BOT only.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Effective interest rate (excluding financial assets for trading purposes)

The effective interest rates, classified by currencies, of the commodities owned or issued by the BOT as of December 31, 2012 and 2011, were as follows:

Item	The year ended December 31, 2012	
	NTD	USD
Available-for-sale financial assets:		
Government bonds	0.7800%~6.2602%	0.7500%~5.7500%
Financial bonds	1.2300%~2.3000%	0.4355%~7.3000%
Corporate bonds	1.2000%~3.0500%	1.0000%~6.5000%
Negotiable certificates of deposit of Central Bank	0.8700%~1.0500%	-
Taipei City Government bonds	1.2000%	-
Beneficiary certificates—financial assets securitization	2.4600%	-
Beneficiary certificates—real estate investment trust	-	5.7500%
Held-to-maturity financial assets:		
Government bonds	0.95000%~4.084344%	-
Financial bonds	-	0.65125%~3.5000%
Corporate bonds	-	3.1590%
Debt investment without quoted price in active markets:		
Beneficiary certificates—real estate investment trust	-	0.44900%~1.25900%
Loans and discounts:		
Short-term loans	0.50211%~14.5000%	0.4500%~6.8100%
Medium-term loans	0.84200%~18.0000%	0.4045%~6.8500%
Long-term loans	0.84200%~10.0000%	0.66525%~3.56000%
Liabilities:		
Short-term loans	-	0.2600%~1.1400%
Hedging derivative instrument:		
IRS	-	0.75850%~3.72400%

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Item	The year ended December 31, 2011	
	NTD	USD
Available-for-sale financial assets:		
Government bonds	0.7909%~6.9000%	1.2200%~7.3750%
Financial bonds	1.2300%~2.3000%	0.5056%~7.3000%
Corporate bonds	1.0002%~3.0500%	0.5456%~6.5000%
Negotiable certificates of deposit of Central Bank	0.8700%~1.0500%	-
Taipei City Government bonds	1.2000%	-
Beneficiary certificates—financial assets securitization	2.4600%	-
Beneficiary certificates—real estate investment trust	2.6800%	5.7500%~0.0000%
Held-to-maturity financial assets:		
Government bonds	1.3930%~6.0664%	-
Beneficiary certificates—real estate investment trust	2.4000%	-
Debt investment without quoted price in active markets:		
Beneficiary certificates—real estate investment trust	-	0.51830%~1.79360%
Loans and discounts:		
Short-term loans	0.5021%~18.0000%	0.4500%~6.1500%
Medium-term loans	0.10530%~18.0000%	0.4411%~6.8500%
Long-term loans	0.01530%~10.0000%	0.69022%~2.25000%
Liabilities:		
Short-term loans	-	0.2000%~2.0000%
Hedging derivative instrument:		
IRS	-	0.77211%~4.57375%

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

5. Fair-value hedge

Financial instruments held by the Company and Subsidiaries are applicable to hedge accounting. The Company and Subsidiaries adopted fair value hedge accounting and should disclose the following:

(a) Fair value hedge

Gains (losses) due to re-measuring with fair value of hedge instrument, or change of exchange rate, should be recognized as gains (losses) of the period; gains (losses) due to hedging are the adjustment of the hedged target and should be recognized as gains (losses) of the period.

(b) Fair value hedge should disclose the following:

a) Description of hedging:

Currently the Tokyo, and Singapore branches of BOT adopt fair value hedge accounting and hold IRSs as designated hedging instruments to hedge the exposure to interest risk on investment in fixed-rate bonds.

b) Description and balance sheet fair value of financial commodities designated as hedging instruments:

		The year ended December 31, 2012	
Hedged item	Designated hedging instruments	Original amount	Fair value
Foreign bonds	IRS	\$ 290,909	3,137
Foreign bonds	Assets swap contract	145,454	406
Foreign bonds	IRS	5,380,874	(290,849)
Foreign bonds	Assets swap contract	378,181	(10,541)
		The year ended December 31, 2011	
Hedged item	Designated hedging instruments	Original amount	Fair value
Foreign bonds	IRS	\$ 149,333	3,074
Foreign bonds	IRS	6,160,551	(409,907)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

c) Nature of hedged risk:

The hedged items of the hedge accounting adopted by the Company and its subsidiaries are fixed-rate bond investments. Thus, IRSs are used to hedge interest risk (adopting interest fair value hedging—swapping a fixed rate for a floating rate).

6. Levels of the fair value hierarchy of financial instruments

Financial instrument item measured at fair value	The year ended December 31, 2012			
	Total	Level 1 (note 1)	Level 2 (note 2)	Level 3 (note 3)
Non-derivative financial instruments				
Assets:				
Financial assets measured at fair value through profit or loss	\$ 135,568,196	82,338,296	52,083,511	1,146,389
Held-for-sale financial assets				
Investment in stocks	45,704,323	45,704,323	-	-
Investment in bonds	3,715,620	3,038,176	677,444	-
Others	64,848,141	31,743,156	33,104,985	-
Original recognized at fair value	21,300,112	1,852,641	18,301,082	1,146,389
Available-for-sale financial assets				
Investments in stocks	51,953,835	51,953,835	-	-
Investment in bonds	100,759,908	6,268,824	94,491,084	-
Others	624,478,598	15,294,901	608,980,797	202,900
Other financial assets				
Debt securities investment in non-active market	43,012,877	465,390	42,547,487	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	1,133	1,133	-	-
Derivative financial instruments				
Assets:				
Financial assets measured at fair value through profit or loss	11,944,565	686	11,943,879	-
Other financial assets				
Hedging derivative financial assets	3,543	-	3,543	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	4,507,375	92,490	4,414,885	-
Other financial liabilities				
Hedging derivative financial liabilities	301,390	-	301,390	-

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Financial instrument item measured at fair value	The year ended December 31, 2011			
	Total	Level 1 (note 1)	Level 2 (note 2)	Level 3 (note 3)
Non-derivative financial instruments				
Assets:				
Financial assets measured at fair value through profit or loss	\$ 101,110,582	73,010,279	28,100,303	-
Held-for-sale financial assets				
Investment in stocks	43,058,398	43,058,398	-	-
Investment in bonds	3,635,272	3,622,583	12,689	-
Others	30,494,957	23,018,149	7,476,808	-
Original recognized at fair value	23,921,956	3,311,150	20,610,806	-
Available-for-sale financial assets				
Investments in stocks	61,111,520	61,111,520	-	-
Investment in bonds	108,861,862	31,887,704	76,974,158	-
Others	632,084,949	9,437,298	622,647,651	-
Other financial assets				
Debt securities investment in non-active market	37,008,950	-	37,008,950	-
Derivative financial instruments				
Assets:				
Financial assets measured at fair value through profit or loss	10,636,402	-	10,636,402	-
Other financial assets				
Hedging derivative financial assets	3,074	-	3,074	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	4,274,874	212	4,274,662	-
Other financial liabilities				
Hedging derivative financial liabilities	409,907	-	409,907	-

Note1: Level inputs are quoted prices in active markets for identical assets or liabilities the Company have the ability to access. In accordance with section 5, of SFAS No.34 "Financial Instruments: Recognition and Measurement", an active market satisfies all of the following conditions:

- (a) The products traded in the market are homogeneous in nature.
- (b) Parties willing to trade are readily available in the market.
- (c) Price information is publicly available.

Note2: Level 2 inputs are fair value of the financial instruments that are observable but not considered level 1 quotes price, including the observable input parameters that are obtained directly (i.e., prices) or indirectly (i.e., derived from prices) from an active market. For instance.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- (a) The quoted prices of similar financial instruments in active market. The fair value of financial instruments owned by the Company is inferred from the recent trading price of similar financial instruments. The similar financial instrument is judged according to the characteristic and trading conditions. Fair value of financial instruments should be priced using observable trading prices adjusted over time, trading conditions and the impact of related parties and its observable trading prices and associated nature of the product.
- (b) Quoted prices of similar or identical financial instruments in non-active markets.
- (c) Fair value price using valuation models. The input parameters of the valuation models (i.e., interest rates, yield curve, volatility...etc.) is based on available data in the market, such as input parameters, which is an estimated figure derived from public data. The price of financial instruments is estimated by using the parameters which could reflect the expectation from market participants.
- (d) The majority of the input parameters are derived from, or corroborated by, observable market data.

Note 3: Level 3 means input parameters are not based on observable market data (unobservable inputs such as: option pricing model using historical volatility index, as historical volatility does not represent the expected future volatility from market participants).

Name	Opening balance	Valuation gain or loss booked on net income for current period or shareholders' equity	Increase		Decrease foreign exchange		Change	Ending balance
			Buy issue or discount	Transferred to Level 3	Sale, disposal or settle at premium	Transferred out from Level 3		
Financial Assets measured at Fair value through profit or loss								
Financial assets designated as fair value through profit or loss	\$ -	(15,011)	-	1,533,508	372,108	-	-	1,146,389
Available-for-sale financial assets	-	16	211,553	-	-	-	(8,669)	202,900
Total	\$ -	(14,995)	211,553	1,533,508	372,108	-	(8,669)	1,349,289

(36) Disclosure of Risk Management Policy

1) The Company

The risk management organization of the Company includes the board of directors, risk management committee, and risk administrative office.

The responsibility of each risk management level is as follows:

1. The board of directors is the highest decision-making unit, and it has the final responsibility for the Company's overall risk. According to the overall operating strategies and management environments, the board of directors approves the risk management policies, supervises the operating effectiveness of the risk management system, fully controls the risk situation, and ensures having sufficient capital for dealing with all risks.
2. The Company set up the risk management committee under the board of directors to execute the risk management policies approved by the board of directors and coordinate the related risk management matters within the group.

(Continued)

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

3. The risk administrative office is the independent risk management unit and is responsible for the implementation of overall risk management. For all risk management decisions and assignments of the board of directors and risk management committee, the risk administrative office must supervise and follow up the execution by the related units, and present the risk management report to the board of directors and risk management committee. If it finds significant exposure that endangers the financial situation, operations, or legal compliance, the risk administrative office should report to the board of directors immediately.
- 2) BOT
1. Risk management structure and protocols
 - (a) Risk management structure

The risk management structure of the Bank includes the Board of Directors, risk management committee, risk management department, authorities in charge all business units.

 - a) The Board of Director holds the highest responsibility in maintaining the risk management of the Bank, which includes formulating strategies accordingly, establishing the risk management policy, ensuring the consistency of the risk managing system, identifying all the risk matures and retain all the resources available for encountering all sorts of unexpected risks.
 - b) The role of risk management committee established by the Board of Directors includes implementing the risk management strategy and integrating risk-related issues between various units across the bank.
 - c) The role of the risk management department includes monitoring all risk management issues independently and on an operational level. The risk management department is also in charge in investigating into any relevant departments and reports directly to the Board of Directors. Similarly, if any risk exposures exceeding the capacity of the Bank is discovered, the department has the responsibility to take reasonable actions and report to the Board of Directors.
 - d) Every department shall identify, evaluate, and control the risks of any new products or operations and establish the risk management process accordingly. In addition, to monitor the relevant risks in compliance with the risk management policy of the Bank.
 - e) All operational units shall comply with internal regulations for risk management.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES**Notes to Consolidated Financial Statements****(b) Risk management policies**

Every operations engaged by the Bank, including off-balance sheet operations, are included within the risk management system of the Bank, which contains credit risk, market risk, operational risk, interest rate risk, liquidity risk, national risk, legal risk and so forth. The brief risk management policy is as follows:

- a) Monitor the settlement ratio of the Bank in relevance to the operational size, credit risk, market risk, operational risk and the future prospects.
- b) Establish a risk measuring and monitoring procedure system in order to measure and monitor risks effectively.
- c) Taking in the risk capacity, capital reserve, nature of debts, performance and rewards into consideration, the Bank shall manage the risks of operating across all units.
- d) Establish a valuation system for the quality and classification of assets to consistently monitor excess risk exposures with large concentration, and to accrue allowance for losses.
- e) Establish information safety system and emergency system concerning banking operations, transactions and data sharing. Additionally, to establish an independent and effective risk management system through means of appropriate policies, procedures and tools in order to increase the efficiency of the risk managing across all operations.

(c) The management mechanism of risk is as follows:

- a) The bank should effectively identify, measure, monitor and control risks when engages in various businesses, and control risks in the affordable range to achieve the goal of rationalization between risk management and remuneration.
- b) Establish risk indicators and early warning mechanism to adopt appropriate risk monitoring.
- c) Establish a risk communication mechanism, which can regular or timely report complete risk messages up and down to agencies and communicate between departments. The bank also discloses the information of risk accordance with regulations.
- d) When develops new kinds of businesses, changes the operating procedures and develops or runs new information system, the Bank should estimate the risk and prepare appropriate written operating procedures and management rules.
- e) Strengthen the training of professional risk management staff, and education and training general employees' about risk management to base on the Bank's risk management culture.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Method of measuring and controlling risk and exposure quantitative information

A financial commodity refers to a contract in which a financial asset is created for one party and a financial liability is created for the other. The major financial assets of the Bank are loans, receivables, and negotiable security investments. The related risk and management policy are as follows:

(a) Credit risk management:

a) New Basel Capital Accord

According to the requirements of the New Basel Capital Accord, the Bank adopt standard method in the calculation of the minimum capital requirements of the first pillar of credit risk assets and capital, and each type of exposure risk weighting applies to the competent authority as required with the tax credit method to measure the assessment should be provision of capital.

b) For the overall management of the Bank's credit risk, the Bank formulate rules and regulations, specifications, operating manuals to effectively identify, measure, monitor and control credit risk in the full line of policy, organization, business, information and processes.

- a. As policy and strategy, the Bank has established policies and guidelines, such as the specification of the credit policy, credit risk management criteria, credit criteria, credit information criteria.
- b. As organization and structure, set of hierarchical authority approach and functionality commission and set various permissions and management mechanism by the degree of risk and the amount.
- c. Set the practices for each business and goods, such as "consumer loans", "general working capital" and "corporate credit rating," credit related approaches to follow.

c) Implement hierarchical authority system

Approved permission of credit extension cases and cleared up non-performing loans, the Bank use hierarchical authority, each stratification has different quota. Each approved level has a credit review panel or committee, collection review panel or committee, and indeed perform within the competence of the cases are under consideration, in order to ensure the quality of loan assets.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- d) Management of large exposure and excessive concentration
- a. In accordance with the Banking Law, loans to the Bank's responsible person, Bank employees, and persons having material interest with the Bank are controlled in accordance with stipulated quotas. The Bank has established rules for credit risk management of loans to enterprise groups and ratios for loan risk exposure to different industries, and it controls credit quotas for trading partners, issuers, and guarantors in accordance with their external credit ratings.
 - b. The Bank's Treasury Department, OBU, and foreign branches set up policies based on external credit evaluation for loan quota management in money market, foreign exchange, and negotiable security trading.
 - c. Each year, to reinforce the control of credit risk in regard to individual countries, the national risk quota, in accordance with the placing in Euro money Magazine, is allocated to the Financing Department, OBU, and foreign branches. The business recorded by the Bank includes loan assets, transaction assets, and off-balance sheet positions.
- e) As a valid measure of assessing the quality of loan assets, the Bank has not only doing credit operating before extending loans but also strengthen post-loan management, the method is as follows:
- a. When handling credit business, the Bank collect detailed review of credit information management and fully understand the counterparty like their credit status, funds using, the source of repayment, to ensure claims and borrower's future prospects.
 - b. The Bank has a provision about "Credit review and Follow-up evaluations" which can credit review and follow-up evaluations. According to this provision, the bank set an independent organization for handling credit review, monitoring borrowers' current situation. In the credit period, the Bank doing credit review by each borrower's credit rates, also, the Bank handles follow-up evaluations to the important borrowers, and timing of return.
 - c. The Bank has a provision about "Credit warning mechanism", which can warn the risk early and take some necessary response measures to safeguard the quality of loan assets.
 - d. In accordance with the provision about "Provision of asset evaluate loss and bad debt of nonperforming loans approach", the bank regularly assesses and monitors the quality of various types of assets, strengthen the abnormal credit management and book allowance for doubtful accounts. The Bank also establishes a management mechanism for loan cases and nonperforming loans cleaning.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Market risk management

Market risk is also called “pricing risk.” It means changes such as in interest rates, exchange rates, and the prices of equity securities and instruments which may result in a loss for the Bank, either on or off the balance sheet.

The Bank controls all probable loss from unfavorable market price changes when engaged in financial instruments trading positions.

- a) The bank sets the rule about permitting financial instruments’ content, the range and the authorization of each department. When transactions each financial instrument, the Bank required to effectively identify, measure, supervise and control its risks. When faced with exposure to market risks, taking into consideration the Bank's risk appetite and cost-effectiveness, to take appropriate countermeasures market risk management, including risk aversion, risk transfer, risk control and risk undertake.
- b) For the effective control of the profit and loss about holding financial instruments’, a daily evaluation of the trading book site and a monthly evaluation of the banking book. The prices are from exchanges, electronic screen, independent broker and custodian’s quotes, and counterparty reference price.
- c) The Bank has a comprehensive risk monitoring process, ongoing by day-to-day business activities. The contents which the Bank is monitoring includes each trading unit, the whole of the financial instruments and the process of individual transactions, such as parts of movements, profit and loss, changes in trading patterns, the subject of the transaction. The above should be the limit of the Bank, stop-loss, overrun processing requirements and the scope of authorization within.

The Bank utilizes the standard VAR method for calculating market risk capital to meet the requirement of the Basel Accord. In the future, the Bank will adopt a market risk management system and use to enhance risk gain or loss analysis and overall reporting ability. Furthermore, the Bank will amend relevant policies and standards in accordance with the request of management agencies.

(c) Operational risk management

In order to reduce operational risk, and the implementation of operational risk management in various businesses, the Bank has the relevant regulations and operating manuals and standard operating process (SOP) to develop various businesses, which is built on a World Wide Web site and employees can refer it to do business. The bank also set computer connection operations, information and network security management, internal audit and self-audits, data processing outsourcing operating rules, and follow-up evaluations regularly, to facilitate compliance and control operational risk.

For evaluating of the Bank's operational risk loss effective, the bank follows the rules” operational risk loss event collection guidelines” and “Taiwan bank operational risk loss events recorded table”, each departments full and accurate record all units of each loss event, inform and keep track of and process until the case concluded. The Bank use these date to establish database and use it to analysis the frequency of risk and how severity of the money loss.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(d) Interest rate and liquidity risk management

- a) The Bank has set up an Assets and Liabilities Management Committee to strengthen the structure of assets and liabilities. Under the leadership of the president, the Committee is divided into Management, Finance, and Capital subcommittees; and this Committee is responsible for setting guidelines for assets and liabilities management, liquidity position management, management of interest rate risk, and the review of the deposit and loan structure.
- b) Setting up management policy for liquidity and interest rate risk; setting up guidelines for liquidity risk management
 - a. Management of interest-rate sensitive gap: The ratio of New Taiwan Dollar interest-rate sensitive assets to liabilities shall fall between 80% and 140%. The ratio of New Taiwan Dollar capital gap to owner's equity shall be maintained between positive/negative 100%. The difference in re-pricing the foreign interest rate shall not exceed total assets of all currencies by 35%.
 - b. Management of liquidity risk
 - (i) Maintain liquid ratio: According to the Central Bank's "Liquidity Guidelines for Financial Institutions," the Bank shall maintain the liquidity ratio of all deposits greater than 10%.
 - (ii) Management of loan-to-deposit ration: the loan-to-deposit ratio should be in between 65%~87%, where the alarm rate is between 68%~86% as an indicator for future liquidity management.
 - (iii) Short-term gap analysis: 1-10 day and 11-30 day gaps are calculated; and the period gap is greater than zero.
 - (iv) Foreign currency gap management: Make sure the ratio of accumulated capital liquidity gap to each currency assets of the four major foreign currencies of the Bank (U.S. Dollar, HK dollar, JP yen, and Euro) measured for every month and every term under one year between $\pm 50\%$ and $\pm 40\%$.
 - (v) Capital management: Full use is made of the Assets and Liabilities Management Information System on a regular basis to analyze maturity gaps of assets and liabilities and changes in maturity structure. The appropriate allocation and utilization of funds, and the adjustment of the capital structure are carried out in accordance with the capital situation. In the management of New Taiwan Dollar funds, in addition to maintaining an appropriate level of cash on hand and of securities that can be converted quickly into cash, the Bank has set policies for the reporting of New Taiwan Dollar funds to provide for the timely reporting of receipts or disbursements of large amounts of funds. The Bank also carries out gap analysis of the maturity amount of purchased bills, bonds, and call loans so as to lower liquidity risk. In the management of foreign currencies, the Bank uses the maturity method to carry out funds gap analysis of the actual funds to be received or paid out within the next year.

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

- (vi) Establish “Bank of Taiwan operational crisis management plan” for prevention and preparation when crisis occurs. To minimize the damage effect, protect and maintain the stability of operation.

3. Risk Management system is following:

- (a) The bank was do many business activities, it should be identify, measure, supervise and control the any risk, we need control the any risk be have that under the bearable range then achieve to the goal of risk management and reasonable of return.
- (b) Build up risk index and warning system, for taking suitable risk supervise.
- (c) Build up risk-communication system. These concludes to report upside, to delivery downside, or communicate parallel in administration periodically or in due time, and disclose in according to related laws.
- (d) Before developing the new activities and goods, change the system of process and developing or starting the new information system. It should to estimate the risk and to issue the system of process and control method with risk management.
- (e) For keeping the bank risk management culture, should train its employees the risk management, and the professional risk manager is the most be.

4. The policy of reduction of credit risk in terms of pledges and guarantees

In its consideration of credit control and business promotion, the Bank attempted to decrease the burden of credit risk by increasing collateral or strengthening the guarantee, based on the Bank’s credit and pledge policy. Collateral and guarantees include mortgages on real estate or property (i.e., land, building, machinery, car, ship, aircraft, etc.), pledges of securities or other rights (i.e., certificates of deposit; various bonds, stocks, or other securities), guarantees provided by government agencies, banks, or credit-guarantee institutions authorized by the government, and any other guarantee or collateral approved by the Bank.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

3) BTLI

1. Financial risk information

(a) Market Risk

The fair value of the domestic and overseas bond investments fluctuate with market interest rates and exchange rates. For overseas investment, BTLI reduces the market risk using forward exchange rate contracts.

BTLI's security investment can be categorized as trading financial assets and available-for-sale financial assets. As such assets are measured at fair value; BTLI is subject to the risk of security price fluctuations.

(b) Credit Risk

BTLI identifies cash and cash equivalents, security investment and bond investment as its principal source of underlying credit risk. In terms of the credit risk arising from various investments made and with counter-parties, limits are set against the agreed credit scoring along with complimenting trading policies to diversify credit risk. Thus, the financial assets acquired are not exposed to material credit risk.

(c) Liquidity Risk

BTLI's liquidity position, including its capital and operational fund, are adequate for additional increase in assets, paying for maturing liabilities and comply with all agreements. Therefore, liquidity risk concerning contractual compliance is non-existent.

BTLI's derivative products related to forward contracts operate in highly liquid market; as a result, liquidity risks are minimal as products are likely sold at reasonable prices. Due to the continuous renewal of forward contracts and other paid derivatives, funding risks are effectively reduced.

Liquidity risks are expected from partial security and bond investment that are categorized as investments from non-active market, similarly, investments in active markets are assumed to be sold promptly at similar prices to that of fair value.

(d) Cash flow risk from change in interest rates

Cash flow is influenced by the change in interest rates which may affect the effective interest rate of bonds. Consequently, as floating interest rates are adopted in parts of BTLI's bond investment, cash flow are subject to interest rate risks.

2. Risk control and hedging policies

The various risk associated in BTLI's operations are all included in the area for risk management, such as embedding systematic risk measurement and monitoring system that allows operations to be tolerated within an acceptable level. Communication system for risk is designed to deliver timely and punctual risk-related data. Taking initial capital, characteristics of liability, performance and reward into consideration, BTLI effectively allocates and manages their assets and risk.

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

All operations conducted by BTLI are effectively identified, measured, monitored and controlled. Risk is controlled within a tolerated level as an approach to meet reasonable performance targets. The Board retains the highest responsibility for the overall risk management of BTLI, where the risk management committee is responsible for implementing approved risk management decisions and the negotiation and collaboration of risk-associated matters.

4) BTS

For the requirements of business, BTS has set up an overall risk management system to effectively control all kinds of risk. The system can assure the achievement of BTS's long-term and steady management, profit growth, and strategy. At the same time, it formed a department with sole responsibility for risk control under the secretary unit of the risk management committee to handle these affairs and to exercise authority independently except over the operating unit and trade activities. The formation of the risk management organization by BTS includes the board of directors, the risk management committee, the administrative office, and all business units to execute the risk management decisions made by the board of directors and coordinate the related risk management matters across departments.

All risks of the business on or off the balance sheet should be subsumed under risk management, including market risk, credit risk, liquidity risk, operating risk, and other risk (for example legal risk, strategy risk, and reputation risk).

The related management systems of all kinds of risk are as follows:

1. BTS should effectively identify, measure, supervise, and control all risks when engaging in business. BTS should control the risk to a tolerable degree to reach the target of risk management and compensation rationalization.
2. Establish a risk indicator and warning system to implement the appropriate risk monitoring.
3. Establish a communication system. The complete risk information should be periodically given to senior management, conveyed to subordinates, and communicated across departments, and be available to the public according to the regulations.
4. Before developing new business or merchandise, changing the operating procedure, or developing the information system or operation, BTS should estimate the risk in advance and prepare the appropriate operating procedure and control method for the related risk.
5. Educate the professional risk management staff and provide education and training in risk management to the personnel of the operating unit to strengthen BTS's risk management culture.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(37) Related-Party Transactions

1) Name of related party and relationship

Name of related-party	Relationship with the Company
Hua Nan Financial Holdings Co., Ltd.	Investee company of BOT and BTLI under the equity method
Taiwan Life Insurance Co., Ltd.	Investee company of BOT and BTLI under the equity method
Tang-Eng Iron Works Co., Ltd.	Investee company of BOT under the equity method
Kaohsiung Ammonium Sulfate Co., Ltd.	Investee company of BOT under the equity method
Other related parties	Directors, supervisors, managers, their spouses and relatives

2) Significant related-party transactions

1. Bank deposits

	December 31, 2012		December 31, 2011	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	\$ <u>35,755</u>	<u>0.01</u>	<u>105,445</u>	<u>0.02</u>

2. Placement with banks

	December 31, 2012		December 31, 2011	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	\$ <u>30,217</u>	<u>0.01</u>	<u>23,301</u>	<u>0.01</u>

3. Deposits of banks

	December 31, 2012		December 31, 2011	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	\$ <u>268,592</u>	<u>0.49</u>	<u>728,860</u>	<u>0.15</u>

Interest rates of related-party transactions are the same as those with non-related parties.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

4. Call loans to banks

The year ended December 31, 2012

		Highest balance	Ending balance	Annual interest rate (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$	6,574,565	<u>391,973</u>	0.15~0.75	<u>739</u>

The year ended December 31, 2011

		Highest balance	Ending balance	Annual interest rate (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$	8,572,450	<u>-</u>	0.200~0.800	<u>2,035</u>

Interest rates of related-party transactions are the same as those with non-related parties.

5. Deposits

		December 31, 2012		December 31, 2011	
		Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	\$	44,535	-	47,659	-
Taiwan Life Insurance Co., Ltd.		6,223	-	11,168	-
Kaohsiung Ammonium Tang-Eng Iron Works Co., Sulfate Co., Ltd.		141,462 21	- -	101,734 357	0.01 -
Total	\$	<u>192,241</u>	<u>-</u>	<u>160,918</u>	<u>0.01</u>

The interest rates applied are computed by the basic rates displayed, thus, the interest rate for deposits is similar as those between the related parties and other general non-related parties.

6. Receivable

		December 31, 2012		December 31, 2011	
		Amount	Percentage of deposits of banks	Amount	Percentage of deposits of banks
Hua Nan Financial Holdings Co., Ltd.	\$	<u>1,587</u>	<u>-</u>	<u>1,589</u>	<u>-</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

7. Finamca; assets measured at fair value through profit or loss — Current

Name	Summary	For the year ended 2012	For the year ended 2011
Hun Nan Financial Holdings Co., Ltd.	Securities Underwriting	\$ <u><u>-</u></u>	<u><u>335,142</u></u>

8. Bond purchased under resell agreements

For the year ended 2012	
Amount	ending balance
Hun Nan Financial Holdings Co., Ltd.	\$ <u><u>400,475</u></u> <u><u>-</u></u>

The interest revenue of bond purchased under resell agreement in 2012 is \$178. There was no translation in 2011.

9. Available-for-sale financial asset — Current

Name	Summary	For the year ended 2012	For the year ended 2011
Hun Nan Financial Holdings Co., Ltd.	Equity underwriting	\$ <u><u>168,000</u></u>	<u><u>327,000</u></u>

10. Mortgage loans for real estate (in discounts and loans)

Mortgage loans for real estate for the Company and its subsidiaries' directors, supervisors, and staff and their spouses and close relatives for the year's periods ended December 31, 2012 and 2011:

	The year ended December 31, 2012	The year ended December 31, 2011
Mortgage loans for real estate	\$ <u><u>297,710</u></u>	<u><u>308,067</u></u>
Interest receivable	\$ <u><u>236</u></u>	<u><u>213</u></u>

The interest range was 0.95% to 1.57% and 0.95% to 1.76% for the years periods ended December 31, 2012 and 2011, respectively.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

11. Loans

December 31, 2012							
Category	House holder amount or name of related party	Highest balance in current period	Ending balance	Status of performance		Type of collateral	Differences in transaction terms between related and non- related parties
				Performing loans	Non- performing loans		
Consumer loans	40	19,348	12,584	12,584	-	None	None
House mortgages	103	521,012	41,317	41,317	-	Land and buildings	None
Call loans to banks	Hua Nan Financial Holding Co., Ltd.	5,500,000	-	-	-	None	None
"	Taiwan business bank Co., Ltd.	6,000,000	-	-	-	"	None
Secured overdrafts loans	Tang-Eng Iron Works Co., Ltd.	608,315	84,270	84,270	-	Land and factory	None
Short-term secured loans	Tang-Eng Iron Works Co., Ltd.	121,569	95,028	95,028	-	"	None
Long-term secured loans	Tang-Eng Iron Works Co., Ltd.	900,000	741,000	741,000	-	"	None

December 31, 2011							
Category	House holder amount or name of related party	Highest balance in current period	Ending balance	Status of performance		Type of collateral	Differences in transaction terms between related and non- related parties
				Performing loans	Non- performing loans		
Consumer loans	36	19,559	12,857	12,857	-	None	None
House mortgages	99	545,136	442,658	442,658	-	Land and building	None
Other loans	Tang-Eng Iron Works Co., Ltd.	104,566	-	-	-	Land and building	None
"	Tang-Eng Iron Works Co., Ltd.	266,141	266,141	266,141	-	Land and building	None
"	Tang-Eng Iron Works Co., Ltd.	1,500,000	900,000	900,000	-	Land and building	None
Call loans to banks	Hua Nan Financial Holding Co., Ltd.	23,711,368	1,060	1,060	-	None	None

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

12. Derivative instruments:

December 31, 2012						
Name of related party	Title of derivative instruments	Contract period	Nominal amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	AEBH410927 forward	2004.11.30~2013.01.28	136,967	(1,194)	Valuation adjustment of financial liabilities at fair value through profit or loss — current — held-for-trading — forward	(1,194)
Taiwan Life Insurance Co., Ltd.	AEBH411027 forward	2004.12.31~2013.01.28	135,502	(1,181)	"	(1,181)
Taiwan Life Insurance Co., Ltd.	AEBH510877 forward	2005.11.25~2013.01.28	140,375	(1,224)	"	(1,224)
Taiwan Life Insurance Co., Ltd.	BHSW010121 swap	2010.05.07~2013.01.16	145,100	68	Valuation adjustment of financial assets at fair value through profit or loss — current — held for trading — swap	68
Taiwan Life Insurance Co., Ltd.	BHSW010122 swap	2010.05.07~2013.01.16	435,300	203	"	203
Taiwan Life Insurance Co., Ltd.	BHSW010141 swap	2010.06.25~2013.03.18	2,617,821	(5,477)	Valuation adjustment of financial liabilities at fair value through profit or loss — current — held-for-trading — swap	(5,477)
Taiwan Life Insurance Co., Ltd.	BHSW010205 swap	2010.10.15~2013.01.09	583,882	(3,199)	"	(3,199)
Taiwan Life Insurance Co., Ltd.	BHSW110252 swap	2011.09.22~2013.02.22	436,290	(843)	"	(843)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2012						
Name of related party	Title of derivative instruments	Contract period	Nominal amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	BHSW210038 swap	2012.02.03~2013.02.07	293,180	(2,861)	Valuation adjustment of financial liabilities at fair value through profit or loss — current — held for trading — swap	(2,861)
Taiwan Life Insurance Co., Ltd.	BHSW210095 swap	2012.03.21~2013.02.26	872,610	(1,730)	"	(1,730)
Taiwan Life Insurance Co., Ltd.	BHSW210118 swap	2012.05.17~2013.01.22	583,840	(3,178)	"	(3,178)
Taiwan Life Insurance Co., Ltd.	BHSW21021 swap	2012.05.21~2012.08.09	292,685	(2,354)	"	(2,354)
Taiwan Life Insurance Co., Ltd.	BHSW210158 swap	2012.08.09~2013.02.21	579,726	870	Valuation adjustment of financial assets at fair value through profit or loss — current — held for trading — swap	870
Taiwan Life Insurance Co., Ltd.	BHSW210273 swap	2012.12.11~2013.03.20	290,870	(613)	Valuation adjustment of financial liabilities at fair value through profit or loss — current — held for trading — swap	(613)
Taiwan Life Insurance Co., Ltd.	BHSW810239 swap	1998.11.06~2013.02.22	145,430	(281)	"	(281)
Taiwan Life Insurance Co., Ltd.	BHSW910020 swap	1999.02.07~2013.02.22	136,369	(263)	"	(263)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2012						
Name of related party	Title of derivative instruments	Contract period	Nominal amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	BHSW910022 swap	1999.02.18~2013.02.21	232,688	(449)	Valuation adjustment of financial liabilities at fair value through profit or loss—current—held for trading—swap	(449)
Taiwan Life Insurance Co., Ltd.	BHSW910064 swap	1999.04.09~2013.02.22	290,860	(562)	"	(562)
Taiwan Life Insurance Co., Ltd.	BHSW910339 swap	1999.12.17~2013.01.16	1,160,800	541	Valuation adjustment of financial assets at fair value through profit or loss—current—held for trading—swap	541

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011						
Name of related party	Title of derivative instruments	Contract period	Nominal amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	AEBH410927 forward	2004.11.30~2012.01.12	141,326	237	Valuation adjustment of financial assets at fair value through profit or loss—current—held-for-trading—forward	237
Taiwan Life Insurance Co., Ltd.	AEBH411027 forward	2004.12.31~2012.01.12	139,814	234	"	234
Taiwan Life Insurance Co., Ltd.	AEBH510877 forward	2005.11.25~2012.01.12	144,842	243	"	243
Taiwan Life Insurance Co., Ltd.	BHSW010121 swap	2010.05.07~2012.02.16	150,148	1,085	Valuation adjustment of financial assets at fair value through profit or loss—current—held for trading—swap	1,085
Taiwan Life Insurance Co., Ltd.	BHSW010122 swap	2010.05.07~2012.02.16	450,443	3,256	"	3,256
Taiwan Life Insurance Co., Ltd.	BHSW010141 swap	2010.06.25~2011.02.14	2,714,535	7,733	"	7,733
Taiwan Life Insurance Co., Ltd.	BHSW010205 swap	2010.10.15~2012.02.07	603,310	1,691	"	1,691
Taiwan Life Insurance Co., Ltd.	BHSW110252 swap	2011.09.22~2012.01.13	453,447	601	"	601
Taiwan Life Insurance Co., Ltd.	BHSW810239 swap	2008.11.06~2012.01.13	151,149	200	"	200

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011						
Name of related party	Title of derivative instruments	Contract period	Nominal amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	BHSW910020 swap	2009.02.09~2012.01.13	141,732	188	Valuation adjustment of financial assets at fair value through profit or loss—current—held for trading—swap	188
Taiwan Life Insurance Co., Ltd.	BHSW910022 swap	2009.02.18~2012.01.13	241,838	321	"	321
Taiwan Life Insurance Co., Ltd.	BHSW910064 swap	2009.04.09~2012.01.13	302,298	401	"	401
Taiwan Life Insurance Co., Ltd.	BHSW910339 swap	2009.12.17~2012.02.16	110,080	8,682	"	8,682

Note 1: The disclosure of the derivative instruments is by related party.

Note 2: Derivative financial instruments are assessed by the fair value method. Any relevant net present value created shall be recognized as current valuation adjustment.

Note 3: The ending balances of financial assets / liabilities at fair value through profit or loss and hedging derivative assets / liabilities are shown in the balance sheet item amount column.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

3) Information on related party transactions amounting to more than \$100,000 thousand

1. BOT

Since the related-party transactions had been offset when the Company prepared the consolidated financial statements, only one of the consolidated parties needs to disclose its related-party information.

(a) Name of related-party and relationship

Name of related party	Relationship with Bank of Taiwan
Taiwan Financial Holding Co., Ltd.(the Company)	Parent Company
BankTaiwan Life Insurance Co., Ltd. (BTLI)	Subsidiary held completely by the Company
BankTaiwan Securities Co., Ltd. (BTS)	Subsidiary held completely by the Company
Hua Nan Financial Holdings Co., Ltd	Investee company of BOT under the equity method
Taiwan Life Insurance Co., Ltd.	Investee company of BOT under the equity method
Tang-Eng Iron Works Co., Ltd.	Investee company of BOT under the equity method
Kaohsiung Ammonium Sulfate Co., Ltd.	Investee company of BOT under the equity method
Others	Directors, supervisors, managers, their spouses and relatives

(b) Significant related-party transactions

a) Deposits of banks

	December 31, 2012	December 31, 2011
Hua Nan Financial Holdings Co., Ltd.	\$ <u>268,592</u>	<u>728,860</u>

b) Call loans from banks (included in due to banks)

		2012		
	Highest balance	Ending balance	Interest rate (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$ 6,574,565	<u>391,973</u>	0.15~0.75	<u>739</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

			2011	
	Highest balance	Ending balance	Interest rate (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$ 8,572,450	<u>-</u>	0.2~0.8	<u>2,035</u>

Interest rates of related-party transactions are the same as those with non-related parties.

c) Other assets-prepaid dividends

	The year ended December 31, 2012	The year ended December 31, 2011
The Company	\$ <u>4,594,012</u>	<u>4,371,752</u>

d) Deposits

	The year ended December 31, 2012	The year ended December 31, 2011
The Company	\$ 309,735	171,328
BTLI	16,504,966	14,707,240
BTS	319,947	300,697
Taiwan Life Insurance Co., Ltd.	6,223	11,168
Kaohsiung Ammonium Sulfate Co., Ltd.	141,462	101,734
Hua Nan Financial Holdings Co., Ltd.	44,535	47,659
Tang-Eng Iron Works Co., Ltd.	<u>21</u>	<u>357</u>
Total	\$ <u>17,326,889</u>	<u>15,340,183</u>

Interest rates of related-party transactions are the same as general accounts.

e) Fee revenue

	The year ended December 31, 2012	The year ended December 31, 2011
BTLI	\$ <u>1,054,299</u>	<u>842,883</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

f) Loans

December 31, 2012							
Category	Amount or name of related party	Highest balance in current period	Ending balance	Status of performance		Type of collateral	Differences in transaction terms between related and non-related parties
				Performing loans	Non-performing loans		
Consumer loans	40	19,348	12,584	12,584	-	None	None
House mortgages	103	521,012	41,317	41,317	-	Land and buildings	None
Call loans to banks	Hua Nan Financial Holding Co., Ltd.	5,500,000	-	-	-	None	None
"	Taiwan business bank Co., Ltd.	6,000,000	-	-	-	"	None
Secured overdrafts loans	Tang-Eng Iron Works Co., Ltd.	608,315	84,270	84,270	-	Land and factory	None
Short-term secured loans	Tang-Eng Iron Works Co., Ltd.	121,569	95,028	95,028	-	"	None
Long-term secured loans	Tang-Eng Iron Works Co., Ltd.	900,000	741,000	741,000	-	"	None

December 31, 2011							
Category	Amount or name of related party	Highest balance in current period	Ending balance	Status of performance		Type of collateral	Differences in transaction terms between related and nonrelated parties
				Performing loans	Non-performing loans		
Consumer loans	36	19,559	12,857	12,857	-	None	None
House mortgages	99	545,136	442,658	442,658	-	Land, building and negotiable securities	None
Other loans	Tang-Eng Iron Works Co., Ltd.	104,566	-	-	-	Land, building and negotiable securities	None
"	Tang-Eng Iron Works Co., Ltd.	266,141	266,141	266,141	-	Land, building and negotiable securities	None
"	Tang-Eng Iron Works Co., Ltd.	1,500,000	900,000	900,000	-	Land, building and negotiable securities	None
Call loans to banks	Hua Nan Financial Holding Co., Ltd.	23,711,368	1,060	1,060	-	None	None

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

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

g) Derivative instruments

December 31, 2012						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	AEBH410927 forward	2004.11.30~2013.01.28	136,967	(1,194)	Valuation adjustment of financial liabilities at fair value through profit or loss – held-for-trading – forward	(1,194)
Taiwan Life Insurance Co., Ltd.	AEBH411027 forward	2004.12.31~2013.01.28	135,502	(1,181)	"	(1,181)
Taiwan Life Insurance Co., Ltd.	AEBH510877 forward	2005.11.25~2013.01.28	140,375	(1,224)	"	(1,224)
Taiwan Life Insurance Co., Ltd.	BHSW010121 swap	2010.05.07~2013.01.16	145,100	68	Valuation adjustment of financial assets at fair value through profit or loss – held for trading – swap	68
Taiwan Life Insurance Co., Ltd.	BHSW010122 swap	2010.05.07~2013.01.16	435,300	203	"	203
Taiwan Life Insurance Co., Ltd.	BHSW010141 swap	2010.06.25~2013.03.18	2,617,821	(5,477)	Valuation adjustment of financial liabilities at fair value through profit or loss – held for trading – swap	(5,477)
Taiwan Life Insurance Co., Ltd.	BHSW010205 swap	2010.10.15~2013.01.09	583,882	(3,199)	"	(3,199)
Taiwan Life Insurance Co., Ltd.	BHSW110252 swap	2011.09.22~2013.02.22	436,290	(843)	"	(843)
Taiwan Life Insurance Co., Ltd.	BHSW210038 swap	2012.02.03~2013.02.07	293,180	(2,861)	"	(2,861)
Taiwan Life Insurance Co., Ltd.	BHSW210095 swap	2012.03.21~2013.02.26	872,610	(1,730)	"	(1,730)
Taiwan Life Insurance Co., Ltd.	BHSW210118 swap	2012.05.17~2013.01.22	583,840	(3,178)	Valuation adjustment of financial liabilities at fair value through profit or loss – held for trading – swap	(3,178)
Taiwan Life Insurance Co., Ltd.	BHSW21021 swap	2011.05.21~2013.01.23	292,685	(2,354)	"	(2,354)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2012						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	BHSW210158 swap	2012.08.09~2013.02.21	579,726	870	Valuation adjustment of financial assets at fair value through profit or loss – held for trading – swap	870
Taiwan Life Insurance Co., Ltd.	BHSW210273 swap	2012.12.11~2013.03.20	290,870	(613)	Valuation adjustment of financial liabilities at fair value through profit or loss – held for trading – swap	(613)
Taiwan Life Insurance Co., Ltd.	BHSW810239 swap	1998.11.06~2013.02.22	145,430	(281)	"	(281)
Taiwan Life Insurance Co., Ltd.	BHSW910020 swap	1999.02.09~2013.02.22	136,369	(263)	"	(263)
Taiwan Life Insurance Co., Ltd.	BHSW910022 swap	1999.02.18~2013.02.22	232,688	(449)	"	(449)
Taiwan Life Insurance Co., Ltd.	BHSW910064 swap	1999.04.09~2013.02.22	290,860	(562)	Valuation adjustment of financial liabilities at fair value through profit or loss – held for trading – swap	(562)
Taiwan Life Insurance Co., Ltd.	BHSW910339 swap	1999.12.17~2013.01.16	1,160,800	541	Valuation adjustment of financial assets at fair value through profit or loss – held for trading – swap	541
Bank Taiwan Life Insurance Co., Ltd.	CLSW010081 swap	2010.03.11~2013.05.20	1,161,080	(787)	Valuation adjustment of financial liabilities at fair value through profit or loss – held for trading – swap	(787)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010111 swap	2010.04.19~2013.06.24	1,160,100	(278)	"	(278)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010117 swap	2010.05.04~2013.02.19	894,780	(23,850)	"	(23,850)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010168 swap	2010.08.20~2013.01.30	1,954,615	(67,469)	"	(67,469)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010181 swap	2010.09.13~2013.05.20	580,540	(394)	"	(394)

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2012						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Bank Taiwan Life Insurance Co., Ltd.	CLSW010184 swap	2010.09.17~2013.06.24	870,075	(209)	Valuation adjustment of financial liabilities at fair value through profit or loss – held for trading – swap	(209)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010235 swap	2010.11.22~2013.02.27	1,192,040	(30,835)	"	(30,835)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010238 swap	2010.12.06~2013.03.11	1,487,300	(35,881)	"	(35,881)
Bank Taiwan Life Insurance Co., Ltd.	CLSW110005 swap	2011.01.10~2013.06.13	1,160,000	(32)	"	(32)
Bank Taiwan Life Insurance Co., Ltd.	CLSW110028 swap	2011.01.20~2013.01.30	1,804,260	(62,279)	"	(62,279)
Bank Taiwan Life Insurance Co., Ltd.	CLSW110068 swap	2011.02.22~2013.02.27	1,490,050	(38,543)	"	(38,543)
Bank Taiwan Life Insurance Co., Ltd.	CLSW110179 swap	2011.05.27~2013.03.29	19,872	(10,968)	Valuation adjustment of financial liabilities at fair value through profit or loss – held for trading – swap	(10,968)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810104 swap	2008.04.30~2013.02.25	596,500	(15,893)	"	(15,893)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810225 swap	2008.10.16~2013.02.25	2,684,250	(71,516)	"	(71,516)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810247 swap	2008.11.20~2013.04.24	1,169,440	(8,777)	"	(8,777)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810273 swap	2008.12.22~2013.04.24	146,180	(1,097)	"	(1,097)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910009 swap	2009.01.23~2013.07.31	291,658	(1,857)	"	(1,857)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910010 swap	2009.01.23~2013.07.31	291,658	(1,857)	"	(1,857)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910011 swap	2009.01.23~2013.07.31	291,658	(1,857)	"	(1,857)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910012 swap	2009.01.23~2013.07.31	291,658	(1,857)	"	(1,857)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910014 swap	2009.01.23~2013.07.31	583,316	(3,715)	"	(3,715)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2012						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Bank Taiwan Life Insurance Co., Ltd.	CLSW910017 swap	2009.02.04~2013.03.11	475,936	(11,482)	Valuation adjustment of financial liabilities at fair value through profit or loss – held for trading – swap	(11,482)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910033 swap	2009.03.18~2013.04.24	292,360	(2,194)	"	(2,194)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910117 swap	2009.05.14~2013.02.25	596,500	(15,893)	"	(15,893)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910155 swap	2009.06.08~2013.01.16	2,232,180	881	Valuation adjustment of financial assets at fair value through profit or loss – held for trading – swap	881
Bank Taiwan Life Insurance Co., Ltd.	CLSW910158 swap	2009.06.11~2013.05.20	1,741,620	(1,181)	Valuation adjustment of financial liabilities at fair value through profit or loss – held for trading – swap	(1,181)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910201 swap	2009.07.29~2013.07.31	174,995	(1,114)	Valuation adjustment of financial liabilities at fair value through profit or loss – held for trading – swap	(1,114)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910228 swap	2009.08.26~2013.09.30	1,447,550	(77)	"	(77)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910259 swap	2009.09.28~2013.09.30	1,158,040	(61)	"	(61)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910267 swap	2009.10.13~2013.05.20	290,270	(197)	"	(197)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910287 swap	2009.10.19~2013.06.24	290,025	(70)	"	(70)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910315 swap	2009.11.05~2013.05.13	583,190	(2,988)	"	(2,988)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	AEBH410927 forward	2004.11.30~2012.01.12	141,326	237	Valuation adjustment of financial assets at fair value through profit or loss – current – held-for-trading – forward	237
Taiwan Life Insurance Co., Ltd.	AEBH411027 forward	2004.12.31~2012.01.12	139,814	234	"	234
Taiwan Life Insurance Co., Ltd.	AEBH510877 forward	2005.11.25~2012.01.12	144,842	243	"	243
Taiwan Life Insurance Co., Ltd.	BHSW010121 swap	2010.05.07~2012.02.16	150,148	1,085	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	1,085
Taiwan Life Insurance Co., Ltd.	BHSW010122 swap	2010.05.07~2012.02.16	450,443	3,256	"	3,256
Taiwan Life Insurance Co., Ltd.	BHSW010141 swap	2010.06.25~2011.02.14	2,714,535	7,733	"	7,733
Taiwan Life Insurance Co., Ltd.	BHSW010205 swap	2010.10.15~2012.02.07	603,310	1,691	"	1,691
Taiwan Life Insurance Co., Ltd.	BHSW110252 swap	2011.09.22~2012.01.13	453,447	601	"	601
Taiwan Life Insurance Co., Ltd.	BHSW810239 swap	2008.11.06~2012.01.13	151,149	200	"	200
Taiwan Life Insurance Co., Ltd.	BHSW910020 swap	2009.02.09~2012.01.13	141,732	188	"	188
Taiwan Life Insurance Co., Ltd.	BHSW910022 swap	2009.02.18~2012.01.13	241,838	321	"	321
Taiwan Life Insurance Co., Ltd.	BHSW910064 swap	2009.04.09~2012.01.13	302,298	401	"	401
Taiwan Life Insurance Co., Ltd.	BHSW910339 swap	2009.12.17~2012.02.16	110,080	8,682	"	8,682
Bank Taiwan Life Insurance Co., Ltd.	CLSW010067 swap	2010.03.04~2012.03.08	603,060	1,668	"	1,668
Bank Taiwan Life Insurance Co., Ltd.	CLSW010081 swap	2010.03.11~2012.02.17	1,207,040	2,812	"	2,812

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Bank Taiwan Life Insurance Co., Ltd.	CLSW010111 swap	2010.04.19~2012.03.22	1,211,040	(2,226)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(2,226)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010117 swap	2010.05.04~2012.02.09	1,051,085	7,637	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	7,637
Bank Taiwan Life Insurance Co., Ltd.	CLSW010164 swap	2010.08.16~2012.01.18	1,440,325	72,943	"	72,943
Bank Taiwan Life Insurance Co., Ltd.	CLSW010168 swap	2010.08.20~2012.01.30	1,871,870	94,724	"	94,724
Bank Taiwan Life Insurance Co., Ltd.	CLSW010181 swap	2010.09.13~2012.02.17	603,520	1,406	"	1,406
Bank Taiwan Life Insurance Co., Ltd.	CLSW010184 swap	2010.09.17~2012.03.22	908,280	(1,669)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(1,669)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010196 swap	2010.09.28~2012.06.29	603,540	(1,210)	"	(1,210)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010223 swap	2010.11.10~2012.06.15	1,202,680	2,535	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	2,535
Bank Taiwan Life Insurance Co., Ltd.	CLSW010235 swap	2010.11.22~2012.02.29	1,204,960	4,709	"	4,709
Bank Taiwan Life Insurance Co., Ltd.	CLSW010238 swap	2010.12.06~2012.03.08	1,507,650	4,170	"	4,170
Bank Taiwan Life Insurance Co., Ltd.	CLSW110005 swap	2011.01.10~2012.01.12	1,149,920	60,895	"	60,895
Bank Taiwan Life Insurance Co., Ltd.	CLSW110028 swap	2011.01.20~2012.01.30	1,727,880	87,438	"	87,438

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Bank Taiwan Life Insurance Co., Ltd.	CLSW110068 swap	2011.02.22~2012.02.29	1,506,200	5,886	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	5,886
Bank Taiwan Life Insurance Co., Ltd.	CLSW110079 swap	2011.05.27~2012.03.30	1,848,056	(5,176)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(5,176)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810104 swap	2008.04.30~2012.02.23	603,500	1,381	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	1,381
Bank Taiwan Life Insurance Co., Ltd.	CLSW810225 swap	2008.10.16~2012.02.23	2,715,750	6,214	"	6,214
Bank Taiwan Life Insurance Co., Ltd.	CLSW810247 swap	2008.11.20~2012.04.24	1,198,480	8,871	"	8,871
Bank Taiwan Life Insurance Co., Ltd.	CLSW810273 swap	2008.12.22~2012.04.24	149,810	1,109	"	1,109
Bank Taiwan Life Insurance Co., Ltd.	CLSW910009 swap	2009.01.23~2012.01.31	287,260	15,284	"	15,284
Bank Taiwan Life Insurance Co., Ltd.	CLSW910010 swap	2009.01.23~2012.01.31	287,260	15,284	"	15,284
Bank Taiwan Life Insurance Co., Ltd.	CLSW910011 swap	2009.01.23~2012.01.31	287,260	15,284	"	15,284
Bank Taiwan Life Insurance Co., Ltd.	CLSW910012 swap	2009.01.23~2012.01.31	287,260	15,284	"	15,284
Bank Taiwan Life Insurance Co., Ltd.	CLSW910014 swap	2009.01.23~2012.01.31	574,520	30,568	"	30,568
Bank Taiwan Life Insurance Co., Ltd.	CLSW910017 swap	2009.02.04~2012.03.08	482,448	1,334	"	1,334
Bank Taiwan Life Insurance Co., Ltd.	CLSW910033 swap	2009.03.18~2012.04.24	299,620	2,218	"	2,218
Bank Taiwan Life Insurance Co., Ltd.	CLSW910101 swap	2009.05.04~2012.02.09	150,155	1,091	"	1,091

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Bank Taiwan Life Insurance Co., Ltd.	CLSW910117 swap	2009.05.14~2012.02.23	603,500	1,381	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	1,381
Bank Taiwan Life Insurance Co., Ltd.	CLSW910155 swap	2009.06.08~2012.02.13	2,438,440	(18,593)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(18,593)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910158 swap	2009.06.11~2012.02.17	1,810,560	4,218	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	4,218
Bank Taiwan Life Insurance Co., Ltd.	CLSW910201 swap	2009.07.29~2012.01.31	172,356	9,170	"	9,170
Bank Taiwan Life Insurance Co., Ltd.	CLSW910207 swap	2009.08.04~2012.02.09	300,310	2,182	"	2,182
Bank Taiwan Life Insurance Co., Ltd.	CLSW910228 swap	2009.08.26~2012.06.29	1,508,850	(3,025)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(3,025)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910259 swap	2009.09.28~2012.06.29	1,207,080	(2,420)	"	(2,420)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910267 swap	2009.10.13~2012.02.17	301,760	703	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	703
Bank Taiwan Life Insurance Co., Ltd.	CLSW910287 swap	2009.10.19~2012.03.22	302,760	(556)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(556)

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Bank Taiwan Life Insurance Co., Ltd.	CLSW910313 swap	2009.11.04~2012.02.09	300,310	2,182	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	2,182
Bank Taiwan Life Insurance Co., Ltd.	CLSW910315 swap	2009.11.05~2012.02.10	577,060	27,897	"	27,897

Note 1: The disclosure of the derivative instruments is by related party.

Note 2: Derivative financial instruments are assessed by the fair value method. Any relevant net present value created shall be recognized as current valuation adjustment.

Note 3: The ending balance of financial assets/liabilities at fair value through profit or loss and hedging derivative assets/liabilities are shown in the balance sheet item amount column.

- h) The expense of shared assets was allocated to BOT, BTLI, BTS, and the Company as follows:

	2012	2011
The Company	\$ 9,395	7,468
BTLI	42,929	45,341
BTS	42,222	53,394
Total	<u>\$ 94,546</u>	<u>106,203</u>

- (c) Total amount of the major management's salaries and bonus

The related information about the salaries and bonus for BOT's major management in 2012 and 2011 is as follows:

	2012	2011
Salaries	\$ 21,790	21,689
Bonus	11,621	11,471
Business expenses	2,375	2,455

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

2. BTLI

(a) Name of related party and relationship

Name of related-party	Relationship with BTLI
Taiwan Financial Holding Co., Ltd.(the Company)	Parent Company
BOT	100%-owned subsidiary of the Company under the equity method
BTS	100%-owned subsidiary of the Company under the equity method
Hua Nan Financial Holdings Co., Ltd.	Investee company of BOT and BTLI under the equity method
Taiwan Life Insurance Co., Ltd.	Investee company of BOT and BTLI under the equity method
Other	Directors, supervisors, managers, their spouses and relatives

(b) Significant related-party transactions

a) Non-derivative financial instrument

Name of related parties	Summary	Content	December 31, 2012	December 31, 2011
Hua Nan Financial Holdings Co., Ltd.	Financial bonds (recorded as Available-for-sale financial assets)	Cost revaluation adjustment	\$ 900,000	900,000
			(11)	(12)
			<u>\$ 899,989</u>	<u>899,988</u>
		Interest revenue	<u>\$ 14,850</u>	<u>14,850</u>

b) Commission expense

Name of related parties	Summary	December 31, 2012	December 31, 2011
BOT	Passage cost for bank	\$ 1,020,236	805,985
Hun Nan Financial Holdings Co., Ltd.	Agent Fee	5,500	8,815
		<u>\$ 1,025,736</u>	<u>814,800</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

c) Exchange less

Name of related parties	Summary	December 31, 2012	December 31, 2011
BOT	Forward and Swap	\$ <u>752,570</u>	<u>(926,796)</u>

(c) Total amount of the major management's salaries and bonuses

The related information about the salaries and bonuses for BTLI's major management in 2012 and 2011 is as follows:

	2012	2011
Salaries	\$ 10,298	9,405
Bonuses	6,812	5,324
Business expenses	1,296	570

3. BTS

(a) Name of related party and relationship

Name of related party	Relationship with TBS
Taiwan Financial Holding Co., Ltd.(the Company)	Parent Company
BOT	100%-owned subsidiary of the Company under the equity method
BTLI	100%-owned subsidiary of the Company under the equity method
Hua Nan Financial Holdings Co., Ltd.	Investee company of BOT and BTLI under the equity method
Others	Directors, supervisors, managers, their spouses and relatives

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Significant related-party transactions

a) Deposits of banks

List of BOT deposits on December 31, 2012 and 2011 is as follows:

	December 31, 2012	December 31, 2011
Cash and cash equivalents	\$ 38,446	35,237
Operating deposits-time deposit	280,000	265,000
Cash and cash equivalents-settlement price	<u>1,501</u>	<u>430</u>
	<u><u>\$ 319,947</u></u>	<u><u>300,667</u></u>

b) Financial Assets measured at fair value through profit or loss

Name of related parties	Summary	December 31, 2012	December 31, 2011
Hun Nan Financial Holdings Co., Ltd.	Securities underwriting	<u>\$ -</u>	<u>335,142</u>

c) Bonds purchased under resell agreements

2012

Name of related parties	Amount	Ending balance
Hun Nan Financial Holdings Co., Ltd.	<u>\$ 400,475</u>	<u>-</u>

d) Available-for-sale financial assets – Current

Name of related parties	Summary	December 31, 2012	December 31, 2011
Hun Nan Financial Holdings Co., Ltd.	Equity underwriting	<u>\$ 168,000</u>	<u>327,000</u>

(c) Total amount of the major management's salaries and bonuses

The related information about the salaries and bonuses for BTS's major management in 2012 and 2011 is as follows:

	2012	2011
Salaries	\$ 7,786	7,763
Bonuses	4,473	4,226
Business expenses	1,039	410

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

4) Total amount of the major management's salaries and bonuses

The related information about the salaries and bonuses for the Company and its subsidiaries' major management in 2012 and 2011 is as follows:

	2012	2011
Salaries	\$ 43,989	43,965
Bonuses	24,455	24,421
Business expenses	9,505	9,265

(38) Pledged Assets

Pledged assets	Purpose of pledge	Book value	
		The year ended December 31, 2012	The year ended December 31, 2011
Available-for-sale financial assets — bonds	Guarantee deposit for provisional attachments	\$ 225,000	224,000
Available-for-sale financial assets — bonds	Operating deposit for securities trading	150,000	150,000
Available-for-sale financial assets — bonds	Guarantee deposit for trust business compensation reserve	100,000	100,000
Placement with central bank and call loans to banks — deposit transferred to Central Bank	Payment and settlement systems of Central Bank	25,000,000	25,000,000
Held-to-maturity financial assets — Government bonds	Guarantee deposit for trust business compensation reserve	300,000	300,000
Held-to-maturity financial assets — bonds	Guarantee deposit for provisional attachments or taxation appeals	10,200	12,200
Other assets — refundable deposit	Operating guarantee deposit	2,464,392	1,701,112
Other assets — refundable	Lease and future guarantee deposit	53,385	52,491
Fix assets — Land	Short-term loans	210,727	210,727
Fix assets — Building	Short-term loans	42,860	44,500
Rented assets — Land	Short-term loans	168,582	168,582
Rented assets — Building deposits	Short-term loans	28,136	29,440
Total		<u>\$ 28,753,282</u>	<u>27,993,052</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Note: BTS's operating guarantee deposit pledged with time deposit of BOT amounting to \$280,000 has been offset due to related party transaction.

(39) Commitments and Contingencies

- 1) As of December 31, 2012 and 2011, the significant commitments of the Company and its subsidiaries were as follows:

	The year ended December 31, 2012	The year ended December 31, 2011
Contract guarantee on behalf of counter-parties	\$ 3,782,935	5,395,979
Traveler's checks held on consignment	1,173,028	1,087,707
Accrued securities held as custodian	1,552,906,874	1,613,920,171
Letters of credit	46,718,813	43,112,360
Goods held in custody	12,696,949	10,797,009
Issuance of New Taiwan Dollars	1,439,592,396	1,322,680,282
Guarantee notes payable	214,900	240,200
Registered government bonds for sale	400,317,500	331,884,300
Registered short-term bills for sale	220,823,700	265,095,673
Consigned sales of goods	2,316,501	1,947,495
Trust liabilities	512,856,940	505,848,030
Guarantees	<u>73,486,171</u>	<u>71,389,619</u>
Total	<u><u>\$ 4,266,886,707</u></u>	<u><u>4,173,398,825</u></u>

- 2) Construction in progress and significant purchase agreements:

The construction of Yi Lan Branch and Don Gang Branch was completed on June 9 and July 28, 2011, respectively.

- 3) Operating leases

All subsidiaries have entered into operating leases for their branches. As of December 31, 2012, the minimum payments on lease contract commitments for the next five years were as follows:

Period	Amount
2013.01.01~2013.12.31	\$ 365,493
2014.01.01~2014.12.31	209,386
2015.01.01~2015.12.31	113,737
2016.01.01~2016.12.31	77,462
2017.01.01~2017.12.31	<u>43,744</u>
	<u><u>\$ 809,822</u></u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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

(40) Significant Disaster Loss: None.**(41) Significant Subsequent Events**

BOT was authorized to establish BankTaiwan Insurance Broker, held completely by BOT on January 23, 2013.

(42) Others

- 1) A summary of personnel costs and depreciation, depletion, and amortization expenses, categorized by function, for the six-month periods ended December 31, 2012 and 2011, is as follows:

Function Nature	2012			2011		
	Cost of goods sold	Operating expenses	Total	Cost of goods sold	Operating expenses	Total
Personnel costs						
Salaries	-	10,912,909	10,912,909	-	10,825,711	10,825,711
Labor and health insurance	-	611,457	611,457	-	589,987	589,987
Pension	-	1,123,615	1,123,615	-	1,401,456	1,401,456
Other employment	-	218,885	218,885	-	196,563	196,563
Depreciation	39,917	981,529	1,021,446	32,941	1,008,895	1,041,836
Amortization	-	352,969	352,969	-	446,304	446,304

- 2) Cross-selling with subsidiaries

1. Cross-selling:

Please see Note (37) "Related Parties" for further descriptions.

2. Integrate business activities:

From June 2009, the Company established marketing plans consolidating subsidiaries' distribution of channels and products to allocate resources more efficiently. Moreover, to promote sales of insurance, securities and wealth management. By promoting sales cooperation aggressively, the Company is expecting to make it more effective and efficient.

3. Cross utilization of information:

In accordance to the amendment of "Financial Holding Company Act" on January 21, 2009 and Regulations governing mutual marketing in subsidiaries" on October 21, 2009, the Company and its subsidiaries concluded and signed "Agreement of Privacy Exchange" on December 16, 2009, to cope with the change of duties in the company and to enhance the protection of privacy. The Company and its subsidiaries also signed "Agreement of Customer Privacy" on February 25, 2010 to further protect and limit inappropriate use of private details.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

4. Locations and business utilities:

The company applied to government for "Location set up for operating other business" and had been approved. By December 2012, the company had 150 branches, providing securities services; 159 branches and 5 simple-functioned branches, providing insurance services. They provide securities and insurances services in banks.

5. Allocation on revenues, costs, expenses, profits and losses:

Allocation of Revenue, Cost and Expense is calculated based on the proportion of actual sales among subsidiaries.

3) Capital adequacy ratios

Unit: Thousand NTD, %

December 31, 2012			
Entity	Item	Ownership interest	Eligible capital
The Company		100.00	258,228,581
Bank of Taiwan		100.00	191,839,471
BankTaiwan Life Insurance		100.00	10,152,895
BankTaiwan Securities		100.00	2,010,497
Less: deductible item			(264,080,713)
Subtotal			198,150,731
Consolidated capital adequacy ratio			131.86

Unit: Thousand NTD, %

December 31, 2011			
Entity	Item	Ownership interest	Eligible capital
The Company		-	249,627,602
Bank of Taiwan		100.00	187,365,815
BankTaiwan Life Insurance		100.00	10,448,676
BankTaiwan Securities		100.00	1,846,923
Less: deductible item			(255,373,942)
Subtotal			193,915,074
Consolidated capital adequacy ratio			138.26

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

4) Eligible capital

Unit: Thousand NTD

December 31, 2012	
Item	Amount
Common stock	90,000,000
Additional paid-in capital	111,632,634
Legal reserve	2,758,570
Special reserve	5,924,552
Accumulated profit	8,449,361
Equity adjustments	39,567,513
Less: goodwill	-
Less: deferred assets	104,049
Less: treasury stock	-
Consolidated eligible capital	258,228,581

Unit: Thousand NTD

December 31, 2011	
Item	Amount
Common stock	90,000,000
Additional paid-in capital	112,095,429
Legal reserve	2,352,676
Special reserve	5,227,896
Accumulated profit	6,658,934
Equity adjustments	33,353,048
Less: goodwill	-
Less: deferred assets	82,038
Less: treasury stock	-
Consolidated eligible capital	249,605,945

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- 5) Disclosures of total amounts or ratios with respect to credit extensions, endorsements, or other transactions undertaken by a financial holding Company and its subsidiaries for the same individual, the same related individual, or the same affiliated enterprises in accordance with Article 46 of the "Financial Holding Company Act":

Unit: Million NT\$, %

December 31, 2012		
Name	Total amount of credit extensions, endorsements or other transactions	% of net asset value
The same individual		
Central Bank of the Republic of China (Taiwan)	607,722	235.15
National Treasury Agency, Ministry of Finance, R.O.C.	268,201	103.82
Taiwan Power Company	149,891	58.00
Taiwan High Speed Rail Corporation	74,925	29.00
CPC Corporation, Taiwan	40,181	15.55
New Taipei City Government	35,341	13.68
Hua Nan Financial Holdings Co., Ltd	33,388	12.92
Taiwan Railway Administration	29,778	11.52
Formosa Petrochemical Corporation	28,878	11.17
Yunlin county Government	20,634	7.99
Chi Mei Optoelectronics Corporation	19,596	7.59
Bureau of National Health Insurance	18,000	6.96
Tainan City Government	17,344	6.71
China Steel Corporation	17,241	6.67
AU Optronics Corp.	15,324	5.93
Yang Ming Marine Transport Corp	15,208	5.88
Taichung City Government	14,079	5.45
Miaoli County Government	14,048	5.44
Yilan County Government	13,633	5.28
The general political warfare bureau of Ministry of National Defense	13,400	5.19
Dragon Steel Corporation	12,973	5.02
Chiayi County Government	12,933	5.00
Hsinchu County Government	12,634	4.89
Formosa Chemicals & Fibre Corp.	11,769	4.56
First Financial Holding Co., Ltd.	11,694	4.53
Kaohsiung City Government	11,578	4.48

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2012		
Name	Total amount of credit extensions, endorsements or other transactions	% of net asset value
Nan Ya Plastics Corporation	11,233	4.35
EVA Airways Corporation	11,195	4.33
Taiwan Business Bank	10,474	4.05
R.S.E.A. Engineering Corporation	9,643	3.73
Changhua County Government	9,366	3.63
Foxconn Technology Group	9,209	3.56
China Airlines Ltd.	9,155	3.54
Cathay Financial Holding Co., Ltd.	8,348	3.23
Formos Plastics Corporation	7,921	3.06
Anz Banking Group Ltd.	7,302	2.83
Prince Housing and Development Corp.	7,098	2.75
Apple Inc.	7,103	2.75
Nantou County Government	6,781	2.62
Mega Financial Holding Company	6,485	2.51
Pingtung County Government	6,296	2.44
Hsinchu City Government	6,089	2.36
WESTPAC BANK ING CORP.	6,056	2.34
Taoyuan County Government	5,850	2.26
Taiwan Financial Holding Co., Ltd.	5,800	2.24
Hualien County government	5,740	2.22
China Development Bank	5,748	2.22
National Australia Bank	5,584	2.16
COMMONWEALTH BANK OF AUSTRALIA	5,546	2.15
Hiwin Technology Co., Ltd.	5,544	2.15
The Shang hai commercial and saving Bank Ltd.	5,448	2.11
Mega International Commercial Bank	5,421	2.10
International Bank for Reconstruction and Development	5,368	2.08
Taipei Fubon Commercial Bank Co., Ltd.	5,263	2.04
RABOBANK	5,207	2.02
Wan-bao development Co., Ltd.	5,082	1.97
ASE Group	4,989	1.93
ROYAL BANK OF CANADA	4,966	1.92

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2012		
Name	Total amount of credit extensions, endorsements or other transactions	% of net asset value
Fubon Financial Holding Co., Ltd.	4,966	1.92
Ginnie Mae	4,839	1.87
Evergreen Marine Corporation	4,777	1.85
Walsin Lihwa Corp.	4,794	1.85
Yuanta Financial Holding Co., Ltd.	4,651	1.80
Chi Nei Corp.	4,643	1.80
Land Bank	4,651	1.80
SAC PEI TAIWAN HOLDING	4,583	1.77
Nederlandse Waterschapsbank	4,410	1.71
First Commercial Bank	4,377	1.69
Export Processing Zone Administrant	4,348	1.68
China Network Systems	4,311	1.67
Chunghwa Picture Tubes Co., Ltd.	4,209	1.63
C.S. Aluminium Corp.	4,209	1.63
Linyuan Investment Co., Ltd.	4,151	1.61
Development Bank of Singapore	3,709	1.60
Taitung County Government	4,079	1.58
KFW Bankengruppe	3,979	1.54
Cathay Commercial Bank	3,815	1.48
Mega Bills Financial Holding Company	3,775	1.46
Visa	3,711	1.44
Run-Cheng Investment Co., Ltd.	3,679	1.42
Deutsche Bank	3,667	1.42
Quanta Computer Co., Ltd.	3,634	1.41
Keelung City Government	3,650	1.41
Chinatrust Commercial Bank	3,593	1.39
Kaohsiung Rapid Transit Corp.	3,561	1.38
Yuanta Securities Investment Trust Co., Ltd.	3,501	1.36
Far Eastern Departement Stores Co., Ltd.	3,508	1.36
Tatung Company	3,499	1.35
Taiwan Life Insurance Co., Ltd.	3,407	1.32
CITIGROUP INC	3,386	1.31

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2012		
Name	Total amount of credit extensions, endorsements or other transactions	% of net asset value
Ever Fortune Energy Co., Ltd.	3,373	1.31
Highwealth Construction Co., Ltd.	3,376	1.31
Chung Hung Steel Co., Ltd.	3,544	1.31
Nordic Investment Bank	3,244	1.30
Shin Kong Commercial Bank Co., Ltd.	3,370	1.30
Export Import Bank of Korea	3,360	1.30
Chailease Finance Co., Ltd.	3,321	1.29
Uni-President Enterprises Corp.	3,329	1.29
HSBC Holdings plc	3,303	1.28
E.SUN Commerical Bank	3,243	1.26
China Bills Finance Corp.	3,097	1.20
The Svensk Exportkredit AB	3,049	1.18
Far Easter New Centruy	3,031	1.17
The same related individual		
Mr./Ms. Kong and related individual	35,429	13.71
Mr./Ms. Wu and related individual	5,990	2.32
Mr./Ms. Cheng and related individual	5,453	2.11
Mr./Ms. Wu and related individual	4,716	1.83
Mr./Ms. Wang and related individual	4,293	1.66
Mr./Ms. Chen and related individual	3,723	1.44
Mr./Ms. Wu and related individual	3,346	1.30
Mr./Ms. Liao and related individual	3,006	1.16
The same affiliated enterprise		
Taiwan Power Company	152,961	59.19
Simosa Group and its affiliates	78,283	30.29
China Steel Corporation Group	43,925	17.00
China Petroleum Corporation Group	42,431	16.42
Huanan Financial Holding Co., Ltd. and its affiliates	34,604	13.39
BenQ-AID Group and its affiliates	23,251	9.00
Linyuan Investment Co., Ltd. and its affiliates	23,208	8.98
Chi Mei Technology and its affiliates	21,792	8.43
Ever green Group	21,323	8.25

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2012		
Name	Total amount of credit extensions, endorsements or other transactions	% of net asset value
Mega Financial Holding Company and its affiliates	17,696	6.85
Yang Ming Marine Transport Corp. and its affiliates	17,077	6.61
First Financial Holding Co., Ltd. and its affiliates	16,389	6.34
Far Eastern Group and its affiliates	13,937	5.39
Fubon Financial Holding Co., Ltd. and its affiliates	12,852	4.97
Tatung Company and its affiliates	11,510	4.46
Yuanta Financial Holding Co., Ltd. and its affiliates	10,292	3.98
Uni-President Enterprises Corp. and its affiliates	10,205	3.95
China Network System Group	9,715	3.76
Shin Kong Financial Holding Co., Ltd. and its affiliates	9,455	3.66
Foxconn Technology Group	9,405	3.64
China Airlines Group	9,155	3.54
Tainan Spinning Co., Ltd. and its affiliates	8,906	3.45
Chi Mei Corporation and its affiliates	8,796	3.40
YFY Group and its affiliates	8,643	3.34
Chinatrusta and its affiliates	8,315	3.22
Ruentex Group and its affiliates	8,136	3.15
High Wealth Construction and its affiliates	7,686	2.98
Walsin Lihwa Corp. and its affiliates	7,634	2.95
Baotai development Co., Ltd. and its affiliates	7,038	2.72
ASE Group and its affiliates	7,010	2.71
UMC and its affiliates	6,978	2.70
Hiwin Technology Group	6,251	2.42
E United Group and its affiliates	6,030	2.33
ASUS and its affiliates	5,975	2.31
Taishin Financial Holding Co., Ltd.	5,890	2.28
Chialease Group	5,731	2.22
Big Rich Media and its affiliates	5,353	2.07
Lealea Group	5,254	2.03
HSBC	5,083	1.97
CITI	4,731	1.83
Taiwan Cement Corporation and its affiliates	4,534	1.76

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2012		
Name	Total amount of credit extensions, endorsements or other transactions	% of net asset value
E.SUN Financial Holding Co., Ltd. and its affiliates	4,499	1.74
Chang Chung Group	4,330	1.68
Quanta Computer Co., Ltd. and its affiliates	4,178	1.62
Tang Eng Iron Works Co., Ltd. and its affiliates	4,043	1.56
Fong-Yi Group	3,971	1.54
De-Chan Motors Group	3,893	1.51
Long Bon International Co., Ltd.	3,487	1.35
Wintek Technology Group	3,446	1.33
Baofeng Group	3,296	1.28
Waterland Finance Co., Ltd. and its affiliates	3,283	1.27
Unitech Printed Circuit Board Corp.	3,260	1.26
China Development Financial Holding Corporation and its affiliates	3,113	1.21
Industrial Bank of Taiwan	3,105	1.20
Total	<u><u>2,751,715</u></u>	

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011		
Name	Total amount of credit extensions, endorsements or other transactions	% of net asset value
The same individual		
Central Bank of the Republic of China (Taiwan)	622,903	241.12
National Treasury Agency, Ministry of Finance, R.O.C.	292,407	113.19
Taiwan Power Company	163,802	63.41
Taiwan High Speed Rail Corporation	74,681	28.91
Taichung City Government	39,785	15.40
CPC Corporation, Taiwan	31,765	12.30
Hua Nan Financial Holding Co., Ltd	30,900	11.96
Taiwan Railway Administration	28,472	11.02
Bureau of National Health Insurance	28,100	10.88
Chi Mei Optoelectronics Corporation	20,811	8.06
Yunlin county Government	19,898	7.70
Formosa Petrochemical Corporation	19,574	7.58
China Steel Corporation	19,458	7.53
Tainan City Government	18,095	7.00
AU Optronics Corp.	17,236	6.67
New Taipei City Government	15,541	6.02
Miaoli County Government	15,184	5.88
Dragon Steel Corporation	15,144	5.86
Hsinchu County Government	13,272	5.14
Chiayi County Government	12,427	4.81
Yilan County Government	12,320	4.77
Ginnie Mae	12,252	4.74
High speed railway associated construction funds	11,636	4.50
Formos Plastics Corporation	11,285	4.37
First Financial Holding Co., Ltd.	11,067	4.28
Foxconn Technology Group	10,952	4.24
EVA Airways Corporation	10,896	4.22
Taiwan Business Bank	10,670	4.13
China Airlines Ltd.	10,211	3.95
Yang Ming Marine Transport Corp	10,198	3.95
R.S.E.A. Engineering Corporation	10,157	3.93

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011		
Name	Total amount of credit extensions, endorsements or other transactions	% of net asset value
Nan Ya Plastics Corporation	9,986	3.87
Formosa Chemicals & Fibre Corp.	9,539	3.69
Pingtung County Government	8,641	3.34
Changhua County Government	7,864	3.04
Promos Technologies Inc.	7,780	3.01
Nantou County Government	7,726	2.99
Cathay Financial Holding Co., Ltd.	7,608	2.95
Taiwan Area National Freeway Bureau, MOTC	7,100	2.75
Evergreen Marine Corporation	6,901	2.67
Prince Housing and Development Corp.	6,883	2.66
Hsinchu City Government	6,707	2.60
Mega Bills Financial Holding Company	6,498	2.52
Shin Kong Financial Holding Co., Ltd.	5,800	2.25
Mega Financial Holding Company	5,711	2.21
Kommunalbanken	5,684	2.20
Fubon Financial Holding Co., Ltd.	5,678	2.20
Wan-bao development Co., Ltd.	5,400	2.09
Export Import Bank of Korea	5,383	2.08
International Bank for Reconstruction and Development	5,318	2.06
Anz Banking Group Ltd.	5,295	2.05
Taipei Fubon Commercial Bank Co., Ltd.	5,216	2.02
Deutsche Bank	5,171	2.00
Apple Inc.	5,028	1.95
COMMONWEALTH BANK OF AUSTRALIA	4,840	1.87
Far Eastern Departement Stores Co., Ltd.	4,808	1.86
Hualien County government	4,755	1.84
SAC PEI TAIWAN HOLDINGS	4,725	1.83
Export Processing Zone Administration, MOEA	4,638	1.80
Staatsbank fur Baden Wurttemberg	4,636	1.79
Yuanta Financial Holding Co., Ltd.	4,566	1.77
Linyuan Investment Co., Ltd.	4,500	1.74
Ever Fortune Fnergy Co., Ltd.	4,293	1.66

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011		
Name	Total amount of credit extensions, endorsements or other transactions	% of net asset value
European Investment Bank	4,260	1.65
Taishin Financial Holding Co., Ltd.	4,173	1.62
CITIGROUP INC	4,162	1.61
ASE Group	4,091	1.58
Uni-President Enterprises Corp.	4,078	1.58
Run-Cheng Investment Co., Ltd.	4,000	1.55
Development Bank of Singapore	3,988	1.54
Kaohsiung Rapid Transit Corp.	3,961	1.53
Taoyuan County Government	3,950	1.53
Cathay Commercial Bank	3,927	1.52
China Development Bank	3,910	1.51
Freddie Mac	3,883	1.50
International Financial Corporation	3,861	1.49
KFW Bankengruppe	3,772	1.46
Pegatron	3,724	1.44
Tatung Company	3,715	1.44
Quanta Computer Co., Ltd.	3,671	1.42
North Rhine-Westphalian Bank	3,632	1.41
Nanya Technology Corporation	3,595	1.39
BNP PARIBAS	3,592	1.39
Inotera Memories, Inc.	3,567	1.38
ROYAL BANK OF CANADA	3,511	1.36
Land Bank	3,487	1.35
HSBC Holdings plc	3,433	1.33
Fannie mae	3,386	1.31
Kaohsiung City Government	3,319	1.28
Inter-American Development Bank	3,312	1.28
Science Park Administration	3,262	1.26
Nordic Investment Bank	3,255	1.26
Keelung City Government	3,217	1.25
Hiwin Technology Co., Ltd.	3,188	1.23
Export Development Canada	3,148	1.22

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011		
Name	Total amount of credit extensions, endorsements or other transactions	% of net asset value
Inventec Co., Ltd.	3,117	1.21
Shin Kong Commercial Bank Co., Ltd.	3,117	1.21
Taipei 101 Mall	3,114	1.21
International Bills finance Corporation	3,114	1.21
Rich Development Construction Co., Ltd.	3,056	1.18
E.SUN Commerical Bank	3,055	1.18
The same related individual		
Mr./Ms. Lin and related individual	8,218	3.18
Mr./Ms. Cheng and related individual	4,442	1.72
Mr./Ms. Kuo and related individual	4,208	1.63
Mr./Ms. Chen and related individual	3,723	1.44
Mr./Ms. Wu and related individual	3,646	1.41
The same affiliated enterprise		
Taiwan Power Company	167,082	64.68
Simosa Group and its affiliates	73,329	28.39
China Steel Corporation Group	42,108	16.30
China Petroleum Corporation Group	35,521	13.75
Huanan Financial Holding Co., Ltd. and its affiliates	31,810	12.31
AU Optronics Corp. and its affiliates	23,992	9.29
Linyuan Investment Co., Ltd. and its affiliates	23,911	9.26
Ever green Group	23,412	9.06
Chi Mei Technology and its affiliates	21,794	8.44
Mega Financial Holding Company and its affiliates	16,246	6.29
First Financial Holding Co., Ltd. and its affiliates	14,003	5.42
Shin Kong Financial Holding Co., Ltd. and its affiliates	13,976	5.41
Fubon Financial Holding Co., Ltd. and its affiliates	13,606	5.27
Far Eastern Group and its affiliates	13,150	5.09
Foxconn Technology Group	12,840	4.97
Yang Ming Marine Transport Corp. and its affiliates	10,347	4.01
China Airlines Group	10,215	3.95
Uni-President Enterprises Corp. and its affiliates	9,676	3.75
Tatung Company and its affiliates	9,462	3.66

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011		
Name	Total amount of credit extensions, endorsements or other transactions	% of net asset value
Chi Mei Corporation and its affiliates	9,115	3.53
Tainan Spinning Co., Ltd. and its affiliates	8,556	3.31
Ruentex Group and its affiliates	8,300	3.21
Promos Technologies Inc.	7,780	3.01
UMC and its affiliates	7,266	2.81
YFY Group and its affiliates	7,024	2.72
ASUS and its affiliates	6,932	2.68
Chinatrusta and its affiliates	6,926	2.68
Lealea Group	6,269	2.43
Taishin Financial Holding Co., Ltd.	5,860	2.27
E United Group and its affiliates	5,689	2.20
ASE Group and its affiliates	5,659	2.19
Big Rich Media and its affiliates	5,558	2.15
HSBC	5,262	2.04
Yuanta Financial Holding Co., Ltd. and its affiliates	5,027	1.95
High Wealth Construction and its affiliates	4,595	1.78
Baotai development Co., Ltd. and its affiliates	4,558	1.76
Tang Eng Iron Works Co., Ltd. and its affiliates	4,529	1.75
Wells Fargo	4,510	1.75
E.SUN Financial Holding Co., Ltd. and its affiliates	4,385	1.70
Chailease Group	4,309	1.67
De-Chan Motors Group	4,293	1.66
CITI	4,254	1.65
Quanta Computer Co., Ltd. and its affiliates	4,239	1.64
China Development Financial Holding Corporation and its affiliates	3,836	1.48
Waterland Finance Co., Ltd. and its affiliates	3,709	1.44
Wintek Technology Group	3,611	1.40
Taiwan Cement Corporation and its affiliates	3,409	1.32

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011		
Name	Total amount of credit extensions, endorsements or other transactions	% of net asset value
Hiwin Technology Group	3,383	1.31
Inventec Corporation and its affiliates	3,250	1.26
Barclays	3,069	1.19
Total	<u>2,708,259</u>	

Note 1: Taiwan High Speed Rail Corporation is included.

2. This form discloses total amounts which reach the lower of 5% of net worth or \$3 billion with respect to credit extensions, endorsements, or other transactions undertaken by a financial holding Company and its subsidiaries for the same individual, the same related individual, or the same affiliated enterprises.
3. Credit extensions mean loans, discounts, overdrafts, acceptances, guarantees, and other business items designated by the central competent authority-in-charge.
4. Endorsements mean endorsements and guarantees of bills corporations.
5. Other transactions mean the following transactions with the same individual, the same related individual, or the same affiliated enterprises:
 - (1) Invest or purchase securities whose issuers are these related parties.
 - (2) Purchase these related parties' real estate or other assets.
 - (3) Sell securities, real estate, or other assets to these related parties.
 - (4) Sign contracts to give money or supply labor.
 - (5) Act as an agent or broker of the financial holding company or its subsidiaries, or supply services on a commission or expenses basis.
 - (6) Conducting the above transactions with third parties that are stakeholders in these related parties, or transactions in which these related parties participate with third parties.
 - (7) The amounts of negotiable certificates issued by a bank subsidiary are not included in the calculation.
 - (8) The amounts of financial institutions' repurchase agreements are not included in the calculation.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

6) The disclosures according to Statement of Financial Accounting Standards No 28:

1. Loan quality, concentration of credit risk, and policies on allowance for bad debts arising from loans and advances to customers

(a) Loan quality

Type / Item			December 31, 2012				
			Amount of overdue loans	Total amount of loans	Ratio	Allowance for bad debt	Coverage ratio
Enterprise	Secured		5,290,816	530,827,381	1.00 %	6,278,407	118.67 %
	Non-secured		2,076,615	994,440,253	0.21 %	6,537,303	314.81 %
Consumer finance	House mortgage		2,393,503	436,301,977	0.55 %	2,742,327	114.57 %
	Cash card		-	-	-	-	-
	Micro credit		83,822	6,576,139	1.27 %	122,993	146.73 %
	Others	Secured	417,130	72,704,772	0.57 %	443,303	106.27 %
		Non-secured	1,229,017	154,148,720	0.80 %	1,741,649	141.71 %
Total			11,490,903	2,194,999,242	0.52 %	17,865,982	155.48 %
			Overdue receivables	Account receivable	Ratio	Allowance bad debt	Cover ratio
Credit card business			4,222	969,820	0.44 %	12,447	294.81 %
Factoring receivables – non-recourse			-	17,657,859	- %	152,286	-

Type / Item			December 31, 2011				
			Amount of overdue loans	Total amount of loans	Ratio	Allowance for bad debt	Coverage ratio
Enterprise	Secured		3,063,664	529,151,229	0.58 %	9,553,203	311.82 %
	Non-secured		1,792,161	1,006,480,293	0.18 %	4,104,641	229.03 %
Consumer finance	Household mortgage		2,883,236	408,856,119	0.71 %	2,385,189	82.73 %
	Cash card		-	-	-	-	-
	Micro credit		114,067	8,860,282	1.29 %	87,705	76.89 %
	Others	Secured	491,008	68,705,528	0.71 %	305,373	62.19 %
		Non-secured	1,316,419	149,486,023	0.88 %	1,458,131	110.76 %
Total			9,660,555	2,171,539,474	0.44 %	17,894,242	185.23 %
			Overdue receivables	Account receivable	Ratio	Allowance bad debt	Cover ratio
Credit card business			4,273	1,039,246	0.41 %	12,012	281.11 %
Factoring receivables – non-recourse			-	10,054,670	- %	86,714	-

Note 1: For loan business: Overdue loans represent the amounts of reported overdue loans pursuant to the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" issued by the FSC. For credit card business: Overdue receivables are regulated by the Banking Bureau letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: For loan business: NPL Ratio = NPL/Total Loans. For credit card business: Delinquency Ratio = Overdue receivables/Accounts receivable.

Note 3: For loan business: Coverage Ratio = LLR/NPL. For credit card business: Coverage Ratio = Allowance for credit losses/Overdue receivables.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 4: Household mortgage means the purpose of financing is to purchase, build, or fix up a dwelling, and the dwelling owned by the borrower, spouse, or children fully secures the loan.

Note 5: Micro credit is regulated by the Banking Bureau letter dated December 19, 2005 (Ref. No. 09440010950)

Note 6: Others in consumer finance refer to secured or non-secured loans excluding mortgage, cash card, micro credit, and credit card.

Note 7: Account receivables—factoring without recourse: As required by the Banking Bureau letter dated July 19, 2005 (Ref. No. 094000494), provision for bad debt is recognized once no compensation is received from the factoring or insurance company.

Note 8: Account receivable of credit card business in including overdue receivable, account receivable and other receivable.

(b) The amounts of excluded NPL and excluded overdue receivables

(Expressed in thousands of New Taiwan Dollars)

	December 31, 2012		December 31, 2011	
	Excluded NPL	Excluded overdue receivables	Excluded NPL	Excluded overdue receivables
As a result of debt negotiation and loans agreement	3,065	-	5,309	-
As a result of debt solvency and restart plan	101,433	20,232	121,013	18,902
Total	104,498	20,232	126,322	18,902

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Concentration of credit extensions

Unit: Million, %

December 31, 2012			
Rank (Note 1)	Group Name (Note 2)	Credit Extensions Balance (Note 3)	% of Net Asset Value
1	A Company — electricity and gas supply	136,693	52.91
2	B Company — transportation and storage	72,425	28.04
3	C Company — plastic products manufacturing	60,425	23.39
4	D Company — basic metal manufacturing	34,270	13.27
5	E Company — optoelectronic materials and components manufacturing	22,246	8.61
6	F Company — optoelectronic materials and components manufacturing	21,571	8.35
7	G Company — transportation and storage	19,694	7.62
8	H Company — transportation and storage	15,786	6.11 %
9	I Company — financial holdings and insurance	11,570	4.58
10	J Company — textiles mills	9,733	3.85

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011			
Rank (Note 1)	Group Name (Note 2)	Credit Extensions Balance (Note 3)	% of Net Asset Value
1	A Company – transportation and storage	72,181	28.91 %
2	B Company – plastic products manufacturing	49,320	19.75 %
3	C Company – basic metal manufacturing	37,224	14.91 %
4	D Company – optoelectronic materials and components manufacturing	23,166	9.28 %
5	E Company – optoelectronic materials and components manufacturing	22,704	9.09 %
6	F Company – transportation and storage	21,353	8.55 %
7	G Company – optoelectronic materials and components manufacturing	10,400	4.16 %
8	H Company – other financial intermediation	9,848	3.94 %
9	I Company – monitor and terminal manufacturing	9,461	3.79 %
10	J Company – financial holdings	9,060	3.63 %

Note 1: Top ten borrowers (excluding government or state-owned utilities) according to total credit extensions. Arrange according to the total amount of credit extensions, please list the name of top ten corporations, and not belong to government or public ones. If the creditor belongs to a group corporation, show the subtotaled amount of the group corporation, and disclose by using "Code" plus "Industry category"; if the creditor is a group corporation, disclose the category that expose most. The rule of disclosing industry category should follow Directorate-General of Budget, Accounting and Statistics' standard.

Note 2: Groups are regulated in the Supplementary Provisions to the Taiwan Stock Exchange Corporation Criteria for Review of Securities Listings, Article 6.

Note 3: Total credit extensions comprise loans (including import bills negotiated, export bills negotiated, overdrafts, short-term loans, short-term secured loans, receivables from pecuniary finance, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, and overdue receivables), exchange bills negotiated, factoring receivable without recourse, acceptances receivable, and guarantees issued.

- Information on concentration of credit risk of assets, liabilities, and off-balance-sheet items: Please see note (35).

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

3. The average amount of assets and liabilities, as well as the current rate, is disclosed as follows:

Subsidiary – BOT

	December 31, 2012 (Bank of Taiwan)		December 31, 2011	
	Average	Average interest rate (%)	Average	Average interest rate (%)
Interest-earnings assets:				
Call loans and placement with banks	\$ 136,317,368	0.84	79,446,442	0.89
Placement with Central Bank	440,315,997	0.93	427,424,964	0.88
Financial assets	707,049,105	1.26	760,840,638	1.23
Negotiation, discounts and total loans	2,188,000,987	1.87	2,104,126,925	1.77
Interest-bearing liabilities:				
Deposit of Central Bank	13,892,548	-	14,907,629	-
Deposits and call loans from banks	199,105,438	0.62	169,216,584	0.66
Demand deposit	267,612,590	0.14	249,427,075	0.12
Demand savings	644,720,774	0.74	619,970,857	0.72
Time savings	1,604,141,748	1.86	1,577,427,974	1.78
Time deposits	456,604,102	1.12	459,641,375	1.02
Government deposits	213,139,982	0.35	216,911,936	0.32
Structured products	7,084,433	0.90	13,159,542	0.62

Note 1: Average is calculated by daily average of interest-earning assets and interest-bearing liabilities from January to current month.

Note 2: The calculation disclosed is from the banking department.

Note 3: Excess interest is included in the saving interest rate for demand and timed deposit.

4. Ratios of interest rate-sensitive assets to liabilities and of interest-rate-sensitive spread to net equity

Interest rate-sensitive balance sheet – for NTD

Subsidiary – BOT

December 31, 2012

Unit: Thousand NTD, %

	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest rate-sensitive assets	\$ 1,584,552,712	1,323,790,947	57,238,684	117,818,450	3,083,400,793
Interest rate-sensitive liabilities	648,671,866	2,054,125,689	279,726,015	90,375,107	3,072,898,677
Interest rate-sensitive gap	935,880,846	(730,334,742)	(222,487,331)	27,443,343	10,502,116
Net worth					249,708,732
Ratio of interest rate-sensitive assets to liabilities					100.34
Ratio of interest rate-sensitive gap to net worth					4.21

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011

	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest rate-sensitive assets	\$ 1,485,212,568	1,282,755,366	180,120,032	109,927,282	3,058,015,248
Interest rate-sensitive liabilities	192,636,073	2,433,759,573	244,811,305	180,838,799	3,052,045,750
Interest rate-sensitive gap	1,292,576,495	(1,151,004,207)	(64,691,273)	(70,911,517)	5,969,498
Net worth					246,679,631
Ratio of interest rate-sensitive assets to liabilities					100.20
Ratio of interest rate-sensitive gap to net worth					2.42

Note 1: The above amounts include only New Taiwan Dollar amounts held by the Bank subsidiary's onshore branches (i.e., excluding foreign currency).

Note 2: Interest rate-sensitive assets and liabilities refer to the revenues or costs of interest-earning assets and interest-bearing liabilities which are affected by interest rate changes.

Note 3: Interest rate-sensitive gap = Interest rate-sensitive assets — Interest rate-sensitive liabilities.

Note 4: Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets/Interest rate-sensitive liabilities (only interest-rate-sensitive assets and liabilities within one year, in New Taiwan Dollars).

Note 5: Ratio of interest rate-sensitive gap to net value = Interest rate-sensitive gap / net value.

Interest rate-sensitive balance sheet — for USD

Subsidiary — BOT

December 31, 2012

Unit: Thousand USD, %

	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest rate-sensitive assets	\$ 22,111,962	4,156,013	1,880,869	1,272,292	29,421,136
Interest rate-sensitive liabilities	22,510,858	5,229,725	1,495,166	143,912	29,379,661
Interest rate-sensitive gap	(398,896)	(1,073,712)	385,703	1,128,380	41,475
Net worth					(58,931)
Ratio of interest rate-sensitive assets to liabilities					100.14
Ratio of interest rate-sensitive gap to net worth					(70.38)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011

	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest rate-sensitive assets	\$ 20,320,716	4,229,999	1,778,879	1,116,053	27,445,647
Interest rate-sensitive liabilities	21,722,210	3,934,428	1,364,888	206,973	27,228,499
Interest rate-sensitive gap	(1,401,494)	295,571	413,991	909,080	217,148
Net worth					(41,843)
Ratio of interest rate-sensitive assets to liabilities					100.80
Ratio of interest rate-sensitive gap to net worth					(518.96)

Note 1: The above amounts include only U.S. Dollar amounts held by the onshore branches, OBU, and offshore branches of the Bank and exclude contingent assets and contingent liabilities.

Note 2: Interest rate-sensitive assets and liabilities refer to the revenues or costs of interest-earning assets and interest-bearing liabilities which are affected by interest rate changes.

Note 3: Interest rate-sensitive gap = Interest rate-sensitive assets — Interest rate-sensitive liabilities.

Note 4: Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets/Interest rate-sensitive liabilities (only interest rate-sensitive assets and liabilities within 180 days, in U.S. Dollars).

Note 5: Ratio of interest rate-sensitive gap to net value = interest rate-sensitive gap / net value.

5. Profitability

(a) The Company

Unit: %

Item		December 31, 2012	December 31, 2011
Return on total assets (%) (Note 6)	Before income tax	5.74	4.44
	After income tax	5.76	4.50
Return on net worth (%) (Note 8)	Before income tax	6.00	4.63
	After income tax	6.02	4.69
Profit margin (%)		98.52	100.47

(b) The company and subsidiaries

Unit: %

Item		December 31, 2012	December 31, 2011
Return on total assets (%) (Note 7)	Before income tax	0.39	0.31
	After income tax	0.37	0.30
Return on net worth (%) (Note 8)	Before income tax	6.26	4.92
	After income tax	6.02	4.69
Profit margin (%)		7.45	5.09

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Subsidiary—BOT

Unit: %

Item		December 31, 2012	December 31, 2011
Return on total assets (%) (Note 7)	Before income tax	0.43	0.33
	After income tax	0.40	0.31
Return on net worth (%) (Note 8)	Before income tax	6.45	4.96
	After income tax	6.10	4.65
Profit margin (%)		24.77	18.94

(d) Subsidiary—BTLI

Unit: %

Item		December 31, 2012	December 31, 2011
Return on total assets (%)	Before income tax	-	0.09
	After income tax	0.06	0.11
Return on net worth (%)	Before income tax	0.26	3.46
	After income tax	3.09	4.28
Profit margin (%)		0.41	0.73

(e) Subsidiary—BTS

Unit: %

Item		December 31, 2012	December 31, 2011
Return on total assets (%)	Before income tax	0.48	2.03
	After income tax	0.44	1.52
Return on net worth (%)	Before income tax	0.77	2.99
	After income tax	0.70	2.23
Profit margin (%)		5.68	15.32

Note 1: Return on total assets = Income before (after) income tax/Average total assets.

Note 2: Return on net worth = Income before (after) income tax/Average net worth.

Note 3: Profit margin = Income after income tax/Total operating revenues.

Note 4: Income before (after) income tax is the income in the first months accumulated to the current quarter.

Note 5: Return on total assets and net worth has been annualized.

Note 6: Return on total assets is calculated by the before or after tax earnings plus excess favorable interest expense.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 7: The return on total assets of the Company and subsidiaries is calculated by the assets which are deducted the temporary advances and public servants and teachers department's asset and the before or after tax earnings plus the excess favorable interest expense.

Note 8: Return on net worth is calculated by before or after tax earnings plus excess favorable interest expense.

6. Major foreign currency position, net

Subsidiary – BOT

(Expressed in thousands of New Taiwan Dollars)

December 31, 2012			December 31, 2011		
Currency	Amount in functional currency	Amount in New Taiwan Dollars	Currency	Amount in functional currency	Amount in New Taiwan Dollars
USD	86,291	2,505,459	USD	28,276	1,319,924
GBP	29,834	1,395,635	JPY	9,406	284,767
SGD	12,143	288,275	GBP	11,289	263,034
CNY	31,093	144,831	CNY	35,211	168,907
HKD	10,313	38,632	SGD	6,270	23,262

Note 1: The major foreign currencies are the top five amounts after all functional currencies are converted to New Taiwan Dollars.

Note 2: The major foreign currency net position is the absolute value of each foreign currency net position.

7. Duration analysis of assets and liabilities

Term Structure Analysis of NTD-denominated Assets and Liabilities

Subsidiary – BOT

December 31, 2012

Unit: Thousand NTD

	Total	Amount for each remaining period to maturity				
		Less than 30 days	31~90 days	91~180 days	181~365 days	Over 1 year
Main capital inflow on maturity	\$ 3,998,398,279	1,035,701,188	519,430,197	425,992,939	439,593,611	1,577,680,344
Main capital outflow on maturity	4,362,009,529	466,517,604	587,441,948	511,283,536	1,013,987,589	1,782,778,852
Interval gap	(363,611,250)	569,183,584	(68,011,751)	(85,290,597)	(574,393,978)	(205,098,508)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011

	Total	Amount for each remaining period to maturity				
		Less than 30 days	31~90 days	91~180 days	181~365 days	Over 1 year
Main capital inflow on maturity	\$ 3,822,254,738	802,311,389	678,469,732	385,900,252	373,328,997	1,582,244,368
Main capital outflow on maturity	4,176,475,777	478,582,783	556,460,135	508,071,726	915,866,757	1,717,494,376
Interval gap	(354,221,039)	323,728,606	122,009,597	(122,171,474)	(542,537,760)	(135,250,008)

Note: The table includes only assets and liabilities denominated in NTD held in head office and domestic and overseas branches; assets and liabilities denominated in foreign currencies are excluded.

Term Structure Analysis of USD-denominated Assets and Liabilities

Subsidiary – BOT

December 31, 2012

Unit: Thousand USD

	Total	Amount for each remaining period to maturity				
		Less than 30 days	31~90 days	91~180 days	181~365 days	Over 1 year
Main capital inflow on maturity	\$ 25,739,974	8,960,164	9,730,974	3,798,624	1,551,565	1,698,647
Main capital outflow on maturity	25,075,322	13,179,430	7,096,890	2,636,286	1,421,480	741,236
Interval gap	664,652	(4,219,266)	2,634,084	1,162,338	130,085	957,411

December 31, 2011

	Total	Amount for each remaining period to maturity				
		Less than 30 days	31~90 days	91~180 days	181~365 days	Over 1 year
Main capital inflow on maturity	\$ 23,314,824	6,889,263	9,450,063	3,625,532	1,574,075	1,775,891
Main capital outflow on maturity	22,818,079	11,880,343	6,980,792	2,006,354	1,343,291	607,299
Interval gap	496,745	(4,991,080)	2,469,271	1,619,178	230,784	1,168,592

Note 1: The above amounts are book values of the assets and liabilities of the onshore branches and offshore banking unit of the subsidiary BOT in U.S. dollars, without off-balance-sheet amounts (for example, the issuance of negotiable certificates of deposits, bonds or stocks).

Note 2: If the overseas assets are at least 10% of the total assets, there should be additional disclosures.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

8. The trade information about stakeholders who are borrowers, guarantors or collateral providers

(a) Name and relationship of the related party: Please see note 5. The credit part shows the stakeholders in accordance with "The Banking Act of the Republic of China", Article 33-1.

(b) Significant transactions with related party:

a) Loans: Please see note (37).

b) Guarantee payment: none.

c) Transactions involving derivative financial instruments: Please see note (37).

d) Transactions involving selling non-performing loans: none.

7) Financial information classified by business type

For the year ended December 31, 2012

Unit: thousand NTD

Businesses Items	Banking business	Insurance business	Securities business	Government Insurance	Other operations	Total
Net interest income	23,246,298	8,862,295	87,678	1,444,841	-	33,641,112
Net non-interest income	4,360,467	44,306,190	326,558	15,323,853	(4,142)	64,312,926
Net revenues	27,606,765	53,168,485	414,236	16,768,694	(4,142)	97,954,038
Loan loss	3,107,865	(464)	504	-	-	3,107,905
Provision for insurance reserves	-	51,071,712	-	16,637,602	-	67,709,314
Operating expense	17,824,863	796,630	335,591	131,092	131,654	19,219,830
Net income before cumulative effect of changes in accounting principle and income tax	6,674,037	1,300,607	78,141	-	(135,796)	7,916,989
Income tax expense	861,112	(194,389)	2,338	-	(48,433)	620,628
Cumulative effect of changes in accounting principle	-	-	-	-	-	-
Net income	5,812,925	1,494,996	75,803	-	(87,363)	7,296,361

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

For the year ended December 31, 2011

Unit: thousand NTD

Businesses Items	Banking business	Insurance business	Securities business	Government Insurance	Other operations	Total
Net interest income	22,197,716	8,047,261	108,848	1,033,254	-	31,387,079
Net non-interest income	11,510,225	38,288,675	367,672	(1,772,167)	(57,126)	48,337,279
Net revenues	33,707,941	46,335,936	476,520	(738,913)	(57,126)	79,724,358
Loan loss	5,044,908	8,285	252	566	5	5,054,016
Provision for insurance reserves	4,363,935	47,224,441	-	(837,055)	-	50,751,321
Operating expense	17,977,928	824,807	313,176	97,576	63,633	19,277,120
Net income before cumulative effect of changes in accounting principle and income tax	6,321,170	(1,721,597)	163,092	-	(120,764)	4,641,901
Income tax expense	785,160	(67,076)	24,720	-	(159,837)	582,967
Cumulative effect of changes in accounting principle	-	-	-	-	-	-
Net income	5,536,010	(1,654,521)	138,372	-	39,073	4,058,934

- 8) The balance sheets and statements of income of government employee's insurance department of BOT

1. Balance sheets

	Government employees insurance department	
	December 31, 2012	December 31, 2011
Cash and cash equivalents	\$ 21,373,048	24,911,164
Financial assets at fair value through profit or loss	85,703,614	65,802,579
Receivables, net	22,497,581	23,330,050
Held-to-maturity financial assets, net	54,942,943	50,321,722
Fixed assets, net	13,902	6,832
Intangible assets, net	4,791	442
Other assets, net	10,162,144	13,690,111
Total assets	\$ 194,698,023	178,062,900
Financial liabilities at fair value through profit or loss	\$ 43	5,254
Payables	35,883	33,146
Other liabilities	194,662,097	178,024,500
Total liabilities	194,698,023	178,062,900
Total Liabilities and Shareholders' Equity	\$ 194,698,023	178,062,900

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Statements of income

	Government employees insurance department	
	2012	2011
Net interest income	\$ 1,444,841	1,396,332
Non-interest income, net		
Service fee expenses	88,678	114,692
Gain (loss) on financial assets and liabilities at fair value through profit or loss	8,636,730	(8,021,468)
Foreign exchange gain (loss)	(1,651,528)	838,664
Other non-interest income		
Premium income	17,992,149	17,695,580
Government grant income (Note)	18,525,118	18,619,038
Insurance payments	(28,267,159)	(26,971,342)
Provision for insurance premium reserve	(16,637,602)	(3,526,880)
Miscellaneous expense	(597,034)	(7,221)
Miscellaneous revenue	<u>596,899</u>	<u>-</u>
Net revenue	<u>131,092</u>	<u>137,395</u>
Bad debt expense	<u>-</u>	<u>566</u>
Operating expense		
Personnel expense	114,866	120,411
Depreciation and amortization expense	2,340	3,295
Other business and administrative expense	<u>13,886</u>	<u>13,123</u>
	<u>131,092</u>	<u>136,829</u>
Net income	<u>\$ -</u>	<u>-</u>

Note: Government subsidy means that losses incurred by Government employee's insurance department prior to May 30, 1999 are audited and subsidized by the ministry of finance in accordance with "Civil Servant and Teacher Insurance Act" 5. Losses incurred after May 31, 1999 shall be covered by adjusting insurance rate. According to the same Act, the related expense will be paid by Ministry of Civil service.

(Continued)

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

TAIWAN FINANCIAL HOLDING CO., LTD.**Balance Sheet****December 31, 2012 and**
(expressed in thousands of New Taiwan Dollars)

	December 31, 2012	December 31, 2011	Percentage change (%)
Assets			
Cash and cash equivalents	\$ 309,775	171,358	81
Receivables, net	2,590,262	73,774	3,411
Investments under equity method, net	264,080,731	255,285,059	3
Fixed assets, net	7,026	7,644	(8)
Intangible assets, net	125	31	303
Other assets, net	<u>4,511,342</u>	<u>4,305,803</u>	5
Total Assets	\$ <u>271,499,261</u>	<u>259,843,669</u>	4
Liabilities and Stockholders' Equity			
Short term loans	\$ 5,800,000	5,700,000	2
Payables	2,511,577	19,616	12,704
Accrued pension liabilities	71,364	56,288	27
Other liabilities	<u>4,783,690</u>	<u>4,379,782</u>	9
Total liabilities	<u>13,166,631</u>	<u>10,155,686</u>	30
Stockholders' equity			
Common stock	<u>90,000,000</u>	<u>90,000,000</u>	-
Additional paid-in capital	<u>111,632,634</u>	<u>112,095,429</u>	-
Retained earnings:			
Legal reserve	2,758,570	2,352,676	17
Special reserve	5,924,552	5,227,896	13
Unappropriated earnings	<u>8,449,361</u>	<u>6,658,934</u>	27
	<u>17,132,483</u>	<u>14,239,506</u>	20
Equity adjustments:			
Unrealized gains on revaluation increments	28,112,517	27,175,554	3
Cumulative translation adjustments	(810,653)	(370,052)	119
Unrealized gains on financial instruments	13,523,945	7,418,299	82
Net loss not recognized as pension cost	<u>(1,258,296)</u>	<u>(870,753)</u>	45
	<u>39,567,513</u>	<u>33,353,048</u>	19
Total stockholders' equity	<u>258,332,630</u>	<u>249,687,983</u>	3
Total Liabilities and Stockholders' Equity	\$ <u>271,499,261</u>	<u>259,843,669</u>	4

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD.

Statement of Income

For the years December 31, 2012 and
(expressed in thousands of New Taiwan Dollars)

	2012	2011	Percentage change (%)
Revenues:			
Income from equity investments under equity method	\$ 7,467,092	4,089,157	83
Other gains	<u>2,626</u>	<u>2,821</u>	(7)
	<u>7,469,718</u>	<u>4,091,978</u>	83
Expenses:			
Operating expenses	158,209	140,732	12
Other expenses and losses	<u>63,581</u>	<u>52,148</u>	22
	<u>221,790</u>	<u>192,880</u>	15
Income before income tax	7,247,928	3,899,098	86
Income tax benefits	<u>(48,433)</u>	<u>(159,836)</u>	70
Net income	<u><u>\$ 7,296,361</u></u>	<u><u>4,058,934</u></u>	80

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD.

Statement of Changes in Stockholders' Equity

For the years December 31, 2012 and
(expressed in thousands of New Taiwan Dollars)

	Common stock	Additional paid-in capital	Legal reserve	Special reserve	Unappropriated retained earnings	Cumulative translation adjustments	Net loss not recognized as pension cost	Unrealized gain on financial instruments	Unrealized gains on revaluation increments	Total
Balance as of January 1,	\$ 90,000,000	111,516,202	1,610,266	4,653,557	9,729,678	(465,473)	(2,183)	28,019,454	15,116,171	260,177,672
Net income for the year December 31, 2011	-	-	-	-	4,058,934	-	-	-	-	4,058,934
Appropriation of retained earnings:										
Legal reserve	-	-	742,410	-	(742,410)	-	-	-	-	-
Special reserve	-	-	-	2,969,640	(2,969,640)	-	-	-	-	-
Cash dividends for government	-	-	-	-	(6,017,628)	-	-	-	-	(6,017,628)
Special reserve reversal	-	-	-	(2,600,000)	2,600,000	-	-	-	-	-
Additional paid-in capital from investee company	-	579,227	-	-	-	-	-	-	-	579,227
Change in unrealized increments on revaluation	-	-	-	-	-	-	-	-	12,059,383	12,059,383
Change in unrealized gain (loss) on available-for-sale financial assets	-	-	-	-	-	-	-	(20,601,155)	-	(20,601,155)
Change in cumulative translation adjustments	-	-	-	-	-	95,421	-	-	-	95,421
Special reserve recognized under equity method	-	-	-	204,699	-	-	-	-	-	204,699
Net loss not recognized as pension cost	-	-	-	-	-	-	(868,570)	-	-	(868,570)
Balance as of December 31,	90,000,000	112,095,429	2,352,676	5,227,896	6,658,934	(370,052)	(870,753)	7,418,299	27,175,554	249,687,983
Net income for the year December 31, 2012	-	-	-	-	7,296,361	-	-	-	-	7,296,361
Appropriation of retained earnings:										
Legal reserve	-	-	405,894	-	(405,894)	-	-	-	-	-
Special reserve	-	-	-	1,849,656	(1,849,656)	-	-	-	-	-
Cash dividends for government	-	-	-	-	(4,403,384)	-	-	-	-	(4,403,384)
Special reserve reversal	-	-	-	(1,153,000)	1,153,000	-	-	-	-	-
Additional paid-in capital from investee company	-	(462,795)	-	-	-	-	-	-	-	(462,795)
Change in unrealized increments on revaluation	-	-	-	-	-	-	-	-	936,963	936,963
Change in unrealized gain (loss) on available-for-sale financial assets	-	-	-	-	-	-	-	6,105,646	-	6,105,646
Change in cumulative translation adjustments	-	-	-	-	-	(440,601)	-	-	-	(440,601)
Net loss not recognized as pension cost	-	-	-	-	-	-	(387,543)	-	-	(387,543)
Balance as of December 31, 2012	\$ 90,000,000	111,632,634	2,758,570	5,924,552	8,449,361	(810,653)	(1,258,296)	13,523,945	28,112,517	258,332,630

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TAIWAN FINANCIAL HOLDING CO., LTD.

Statement of Cash Flows

For the years December 31, 2012 and
(expressed in thousands of New Taiwan Dollars)

	2012	2011
Cash flows from operating activities:		
Net income	\$ 7,296,361	4,058,934
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	1,979	2,011
Cash dividends received in excess of gains on equity investments recognized under the equity method	(3,044,002)	538,679
Increase in receivables	(2,516,488)	(48,152)
Increase in deferred tax assets	(23,292)	(32,310)
Increase in other assets	2,404	(6)
Increase (decrease) in payables	2,491,961	3,743
Decrease in accrued pension liabilities	15,076	6,470
Increase in other liabilities	403,890	-
Net cash provided by operating activities	<u>4,627,889</u>	<u>4,529,369</u>
Cash flows from investing activities:		
Purchase of fixed assets	(1,330)	(1,787)
Increase in refundable deposits	(164)	-
Increase in intangible assets	(125)	-
Net cash used in investing activities	<u>(1,619)</u>	<u>(1,787)</u>
Cash flows from financing activities:		
Increase in short-term loans	100,000	100,000
Increase in guarantee deposits received	18	32
Cash dividends	(4,587,871)	(4,493,370)
Net cash used in financing activities	<u>(4,487,853)</u>	<u>(4,393,338)</u>
Net increase (decrease) in cash and cash equivalents	138,417	134,244
Cash and cash equivalents at beginning of year	171,358	37,114
Cash and cash equivalents at end of year	<u>\$ 309,775</u>	<u>171,358</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 59,550</u>	<u>50,951</u>
Financial and investing activities not affecting cash:		
Unrealized increments on revaluation	<u>\$ 936,963</u>	<u>12,059,383</u>
Cumulative foreign currency translation adjustments	<u>\$ (440,601)</u>	<u>95,421</u>
Unrealized loss on financial instruments	<u>\$ 6,105,646</u>	<u>(20,601,154)</u>
Net loss not recognized as pension cost	<u>\$ (387,543)</u>	<u>(868,570)</u>
Additional paid-in capital from investee company	<u>\$ (412,795)</u>	<u>579,227</u>
Special reserve	<u>\$ -</u>	<u>204,699</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

10) Subsidiaries' condensed consolidated balance sheets and statements of income

1. Condensed balance sheets

	BOT	
	The year ended December 31, 2012	The year ended December 31, 2011
Cash and cash equivalents	\$ 72,812,404	76,426,176
Placement with Central Bank and call loans to banks	549,627,869	488,555,403
Financial assets at fair value through profit or loss	146,534,038	110,886,008
Bonds and bills purchased under resell agreements	4,980,621	3,231,949
Receivables, net	91,268,044	86,439,780
Discounts and loans, net	2,177,133,260	2,153,591,118
Available-for-sale financial assets, net	734,870,751	757,373,465
Held-to-maturity financial assets, net	61,999,046	50,942,589
Investments under equity method, net	35,393,882	32,479,598
Other financial assets, net	69,672,866	72,207,332
Fixed assets, net	97,253,348	97,864,904
Intangible assets, net	1,164,105	821,057
Other assets, net	11,951,655	15,119,109
Total assets	\$ 4,054,661,889	3,945,938,488
Deposits of Central Bank and other banks	\$ 213,374,465	208,926,475
Financial liabilities at fair value through profit or loss	4,876,954	3,902,885
Bonds and bills sold under repurchase agreements	11,998,398	14,906,165
Payables	42,156,062	39,471,580
Deposits and remittances	3,294,903,719	3,218,010,687
Accrued pension liability	4,959,970	4,566,752
Other financial liabilities	8,499,403	5,756,183
Other liabilities	221,158,900	204,028,632
Total liabilities	3,801,927,871	3,699,569,359
Common stock	70,000,000	70,000,000
Additional paid-in capital	105,682,871	106,077,872
Retained earnings	33,701,906	30,901,653
Other shareholder's equity	43,349,241	39,389,604
Total shareholders' equity	252,734,018	246,369,129
Total Liabilities and Shareholders' Equity	\$ 4,054,661,889	3,945,938,488

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	BTLI	
	The year ended December 31, 2012	The year ended December 31, 2011
Current assets	\$ 137,652,352	39,081,370
Loans	10,788,882	10,436,679
Funds and investments	224,085,062	272,198,966
Fixed assets, net	893,222	891,852
Intangible assets, net	11,674	236,786
Other assets, net	<u>9,288,471</u>	<u>8,875,541</u>
Total assets	\$ <u>382,719,663</u>	<u>331,721,194</u>
Current liabilities	\$ 27,079,292	30,533,072
Long-term liabilities	397,351	359,877
Reserve for operations and other liabilities	339,012,687	288,493,364
Other liabilities	<u>8,202,032</u>	<u>6,657,642</u>
Total liabilities	<u>374,691,362</u>	<u>326,043,955</u>
Common stock	11,000,000	11,000,000
Additional paid-in capital	377,580	445,373
Retained earnings	485,497	273,573
Other shareholders' equity	<u>(3,834,776)</u>	<u>(6,040,707)</u>
Total shareholders' equity	<u>8,028,301</u>	<u>5,678,239</u>
Total Liabilities and Shareholders' Equity	\$ <u>382,719,663</u>	<u>331,722,194</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	BTS	
	The year ended December 31, 2012	The year ended December 31, 2011
Current assets	\$ 4,773,019	4,023,383
Fixed assets, net	282,510	285,281
Intangible assets, net	1,303	1,522
Other assets, net	577,408	548,454
Net brokering accounts — debit	9,447	38,738
Total assets	\$ 5,643,687	4,897,378
Current liabilities	\$ 2,152,743	1,453,604
Other liabilities	172,533	155,175
Total liabilities	2,325,276	1,608,779
Common stock	3,000,000	3,000,000
Non-appropriated surplus	256,553	284,449
Unrealized incremental value from revaluation	145,232	145,232
Unrealized net loss not recognized as pension cost	(76,562)	(61,314)
Unrealized gains on financial instruments	(6,812)	(79,768)
Total shareholders' equity	3,318,411	3,288,599
Total Liabilities and Shareholders' Equity	\$ 5,643,687	4,897,378

2. Condensed income statements

	BOT	
	The year ended December 31, 2012	The year ended December 31, 2011
Net interest income	\$ 24,675,639	23,186,559
Non-interest income, net	4,519,424	4,422,055
Net revenue	29,195,063	27,608,614
Bad debt expenses	3,107,865	5,045,474
Operating expenses	17,993,929	18,114,175
Income before tax	8,093,269	4,448,965
Income after tax	7,232,157	3,663,805
EPS — before tax (NTD)	1.16	0.64
EPS — after tax (NTD)	1.03	0.52

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	BTLI	
	The year ended December 31, 2012	The year ended December 31, 2011
Operating revenues	\$ 68,642,099	62,771,485
Operating costs	67,820,712	61,619,108
Gross Profit	821,387	1,152,377
Operating expenses	840,423	871,158
Operating income	(19,036)	281,219
Non-operating revenue	57,781	24,879
Non-operating expenses	21,208	20,546
Income before tax	17,535	285,552
Income after tax	211,924	352,628
EPS — before tax (dollars)	0.02	0.26
EPS — after tax (dollars)	0.19	0.32

	BTS	
	The year ended December 31, 2012	The year ended December 31, 2011
Revenue	\$ 482,009	568,072
Expenses	456,660	470,628
Income before tax	25,349	97,444
Income after tax	23,011	72,724
EPS — before tax (dollars)	0.08	0.32
EPS — after tax (dollars)	0.08	0.24

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

11) Government audit adjustments for fiscal years ended December 31, 2011 and 2010

The Company and its subsidiaries' accounting records as of and for the years ended 2011 and 2010, has been audited by the MOA, and the resulting adjustments are summarized are as follows:

December 31, 2011

Balance sheet	As audited by auditors December 31, 2011	Adjustments — Increase (decrease)	As audited by the MOA, December 31, 2011
Assets			
Receivable, net	\$ 91,051,049	33,167	91,084,216
Loans and Discounts, net	2,158,381,911	(54,117)	2,158,327,794
Liabilities			
Payable	69,230,298	707	69,231,005
Stockholders' equity			
Unappropriated retained earnings	6,680,591	(21,657)	6,658,934
	As audited by auditors, 2011	Adjustments — Increase (decrease)	As audited by the MOA, 2011
Income statement			
Net revenue of service charges and commissions	\$ 3,778,928	(48,595)	3,730,333
Other non-interest income, net	10,462,563	4,661	10,467,224
Bad debt expense	4,999,902	54,114	5,054,016
Operating expense	19,333,759	(56,639)	19,277,120
Income before income taxes	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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010

Balance sheet	As audited by auditors December 31, 2010	Adjustments — Increase (decrease)	As audited by the MOA, December 31, 2010
Assets			
Cash and cash equivalents	\$ 60,551,598	1,152	60,552,750
Receivables, net	90,593,396	440	90,593,836
Liabilities			
Payables	70,926,682	(329)	70,926,353
Other liabilities	28,288,062	1,624	28,289,686
Stockholders' equity			
Unappropriated retained earnings	9,729,697	(19)	9,729,678
Income statement	As audited by auditors, 2010	Adjustments — Increase (decrease)	As audited by the MOA, 2010
Interest revenue	\$ 53,578,753	637	53,579,390
Net revenue of service charges and commissions	3,805,135	1,244	3,806,379
Realized gains or losses on available- for-sale financial assets	5,076,259	(1,776)	5,074,483
Foreign exchange gains (losses)	(3,600,578)	(23)	(3,600,601)
Other non-interest income	9,684,862	41	9,684,903
Income before taxes	7,882,998	121	7,883,119
Income tax benefits	458,878	141	459,019
Net income	7,424,120	(20)	7,424,100

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

12) Significant effect of foreign currency assets and liabilities is summarized as follows:

1. BOT

	December 31, 2012			December 31, 2011		
	Currency (thousand)	Exchange rate	NT (thousand)	Currency (thousand)	Exchange rate	NT (thousand)
Financial assets:						
Monetary items						
USD	9,601,837	29.0350	278,789,337	9,019,870	30.2750	273,076,564
HKD	13,339,674	3.7460	49,970,419	12,422,465	3.8970	48,410,346
MYR	4,311	9.4850	40,890	3,989	9.5360	38,039
GBP	483,945	46.7800	22,638,947	429,575	46.6800	20,052,561
AUD	736,859	30.1250	22,197,877	580,397	30.7450	17,844,306
CAD	34,933	29.1900	1,019,694	42,915	29.6700	1,273,288
SGD	1,499,681	23.7400	35,602,427	1,569,290	23.3000	36,564,457
CHF	4,090	31.8050	130,082	5,017	32.1850	161,472
JPY	149,668,877	0.3360	50,288,743	111,121,496	0.3897	43,304,047
ZAR	2,102,973	3.4300	7,213,197	1,617,914	3.7100	6,002,461
SEK	4,629	4.4700	20,692	6,255	4.3900	27,459
NZD	7,176	23.8100	170,861	6,725	23.4100	157,432
THB	222,762	0.9526	212,203	218,376	0.9583	209,270
PHP	29,701	0.7063	20,978	32,161	0.6906	22,210
IDR	3,449,610	0.0030	10,349	3,491,497	0.0034	11,871
EUR	342,287	38.4500	13,160,935	364,612	39.2200	14,300,083
KRW	6,697,963	0.0271	181,515	7,128,657	0.0262	186,771
CNY	791,922	4.6580	3,688,773	366,597	4.7970	1,758,566
VND	7,999,070	0.0014	11,199	8,005,820	0.0015	12,009
Non-monetary items						
USD	783,178	29.0350	22,739,573	486,948	30.2750	14,742,351
GBP	14,682	46.7800	686,824	11,870	46.6800	554,092
JPY	10,546	0.3360	3,543	7,889	0.3897	3,074
EUR	115,615	38.4500	4,445,397	116,978	39.2200	4,587,877
Financial liabilities:						
Monetary items						
USD	12,492,792	29.0350	362,728,216	11,446,050	30.2750	346,529,164
HKD	12,918,450	3.7460	48,392,514	12,187,584	3.8970	47,495,015
MYR	5	9.4850	47	6	9.5360	57
GBP	521,897	46.7800	24,414,342	492,548	46.6800	22,992,141
AUD	711,520	30.1250	21,434,540	654,621	30.7450	20,126,323
CAD	120,814	29.1900	3,526,561	123,792	29.6700	3,672,909
SGD	1,406,782	23.7400	33,397,005	1,334,091	23.3000	31,084,320
CHF	15,584	31.8050	495,649	19,240	32.1850	619,239
JPY	54,186,395	0.3360	18,206,629	87,527,135	0.3897	34,109,325
ZAR	11,359,551	3.4300	38,963,260	9,577,014	3.7100	35,530,722

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2012			December 31, 2011		
	Currency (thousand)	Exchange rate	NT (thousand)	Currency (thousand)	Exchange rate	NT (thousand)
SEK	19,825	4.4700	88,618	34,305	4.3900	150,599
NZD	273,340	23.8100	6,508,225	364,478	23.4100	8,532,430
THB	3,013	0.9526	2,870	254	0.9583	243
EUR	301,366	38.4500	11,587,523	320,918	39.2200	12,586,404
CNY	578,023	4.6580	2,692,431	145,223	4.7970	696,635
Non-monetary items						
USD	13,578	29.0350	394,237	11,193	30.2750	338,868
HKD	55,395	3.7460	207,510	54,490	3.8970	212,348
GBP	1,737	46.7800	81,257	2,397	46.6800	111,892
SGD	11,072	23.7400	262,849	13,041	23.3000	303,855
JPY	946,097	0.3360	31,889	962,268	0.3897	374,996
ZAR	1,315	3.4300	4,510	15,892	3.7100	58,959

2. BTLI

	December 31, 2012			December 31, 2011		
	Currency (thousand)	Exchange rate	NT	Currency (thousand)	Exchange rate	NT
Financial assets:						
Monetary items						
AUD	319,249	30.1250	9,617,380	259,694	30.7450	7,984,304
CAD	77,573	29.1900	2,264,350	42,044	29.6700	1,247,436
EUR	0.107	38.4500	4.12	59,439	39.2200	2,331,204
HKD	283,673	3.7460	1,062,640	182,302	3.8970	710,430
JPY	0.056	0.3360	0.019	300	0.3897	117
NZD	206	23.8100	4,895	298	23.4100	6,966
USD	3,584,098	29.0350	104,064,282	3,557,058	30.2750	107,689,929
CNY	2,727,777	4.6580	12,705,987	462,041	4.7970	2,216,409
Financial liabilities:						
Monetary items						
USD	509,172	29.0350	14,783,823	282,089	30.2750	8,540,243

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

13) Disclosure on adopting IFRSs for the year ended 2011:

1. Under the order No. 10000073410 issued by the Financial Supervisory Commission on April 7, 2011, starting from 2013, financial holding company is required to disclose the financial report in conformity with the International Financial Reporting Standard (IFRSs), interpreted and issued by Accounting Research and Development Foundation. To assist the adjustment. The Company and its subsidiaries has formed a special task force and established an IFRSs adoption plan. General Manager (or vice general manager) is responsible for the conversion plan. Significant plan contents, expected schedules and completion status are summarized as follows:

(a) The Company

Plan Content	Responsible Department (or Responsible Person)	Status
Phase 1 - Evaluation: (2009.10.01 ~ 2010.06.30):		
◎Form a special task force for IFRS conversion	Accounting Department	Completed
◎Initial understanding towards IFRS	Accounting Department	Completed
◎Establish a conversion plan and timeline and report to the Board of Directors	Accounting Department	Completed
◎Evaluate the need for assistance from external expert	Accounting Department	Completed
◎Establish task team for IFRS conversion	All Departments	Completed
◎Establish IFRS site in the Company's intranet	I.T, legal and accounting departments	Completed
◎Establish IFRS studying group	Accounting Department	Completed
◎Compare and analyze the differences between the current Accounting Policies and IFRS	Accounting Department	Completed
◎Evaluate all unit's daily potential operational influence	All Departments	Completed
◎Evaluate the adoption of IFRS 1 - "First-time Adoption of IFRS"	Accounting Department	Completed
◎Perform internal training for employees	Human Resources (the support of all units)	Completed

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Plan Content	Responsible Department (or Responsible Person)	Status
Phase 2 - Preparation: (2010.07.01 ~ 2011.12.31):		
◎Devise a complete conversion plan	Accounting Department	Completed
◎Complete the comparison and evaluation between the ROC GAAP and IFRS	Accounting Department	Completed
◎Determine relevant IFRS policies	Accounting Department	Completed
◎Determine how to revise the current Accounting Policies to comply with IFRS	All Departments	Completed
◎Adjust and review the standard operational procedure, information technology and financial reporting of all units	All Departments	Completed
◎Continue internal training for employees	Human Resources (support from all units)	Completed
Phase 3 - Implementation: (2012.01.01 ~ 2012.03.31):		
◎Prepare balance sheet on IFRS conversion date in accordance with IFRS 1 in parallel with the ROC GAAP	Accounting Department	Completed
◎Prepare the first financial statements accordance in with IFRS	Accounting Department	Completed
◎Identify and prepare process analysis for areas of improvement regarding the preparation of first IFRS financial report	All Departments	Completed
◎Establishment for performance evaluation standard	Financial Department	In Progress
◎Measure and Adjust relative internal control system	All Departments	Completed
◎Awareness towards the continuous impact of IFRS on preparation of financial statements	Accounting Department	Completed
◎Prepare 2012 Compared Financial information accordance with IFRS	Accounting Department	Completed
◎Continue internal training for employees	Human Resources	Completed

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Plan Content	Responsible Department (or Responsible Person)	Status
Phase 4 - Implementation and adjustment: (2013.04.01 ~ 2013.12.31)		
◎Integrate management information	All Departments	In Progress
◎Process analysis and improvement procedures for IFRS conversion	All Departments	In Progress
◎Ensure the disclosure and preparation of financial statements in compliance with the requirements of IFRS and formulate necessary response to changes	Accounting Department	In Progress
(b) BOT		
Plan Content	Responsible Department (or Responsible Person)	Status
Phase 1 - Evaluation: (2009.09.30 ~ 2010.06.30):		
◎Form a special task force for IFRS conversion	All operational units and accounting Department	Completed
◎Initial understanding towards IFRS	Accounting Department	Completed
◎Establish a conversion plan and timeline and report to the Board of Directors	Accounting Department	Completed
◎Evaluate the need for assistance from external expert	Accounting Department	Completed
◎Establish task team for IFRS conversion	All operational units and accounting Department	Completed
◎Establish IFRS site in the Company's intranet	I.T, legal and accounting department	Completed
◎Compare and analyze the differences between the current Accounting Policies and IFRS	All operational units, I.T and accounting Department	Completed

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Plan Content	Responsible Department (or Responsible Person)	Status
◎Evaluate all units' daily potential operational influence	All operational units, I.T and accounting Department	Completed
◎Evaluate the adoption of IFRS 1 - "First-time Adoption of IFRS"	All operational units, I.T and accounting Department	Completed
◎Perform internal training for employees	Human Resources (the support of all units)	Completed
◎Establish studying group	All operational units and accounting Department	Completed
Phase 2 - Preparation: (2010.09.30 ~ 2011.12.31):		
◎Devise a complete conversion plan	All operational units and accounting Department	Completed
◎Complete the comparison and evaluation between the ROC GAAP and IFRS	All operational units and accounting Department	Completed
◎Determine relevant IFRS policies	All operational units and accounting Department	Completed
◎Determine how to revise the current Accounting Policies to comply with IFRS	All operational units and accounting Department	Completed
◎Studying group	All operational units, IT and accounting Department	In Progress

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Plan Content	Responsible Department (or Responsible Person)	Status
◎Adjust and review the standard operational procedure , information technology and financial reporting of all units	All operational units, IT and accounting Department	Completed
◎Perform simulated system test, identify the area requiring revised SOP and system	All operational units, IT and accounting Department	Completed
◎Complete paperwork and relevant controls for IFRS	All operational units, IT and accounting Department	Completed
◎Continue internal training for employees	Human Resources (support from all units)	Completed
◎Prepare balance sheet on IFRS conversion date (2012.01.01) in accordance with IFRS 1	All operational units, IT and accounting Department	Completed
Phase 3 - Implementation: (2012.01.01 ~ 2012.12.31):		
◎Prepare balance sheet on IFRS conversion date in accordance with IFRS 1 in parallel with the ROC GAAP	All operational units, IT and accounting Department	Completed
◎Internal controls adjustment	All operational units	Completed
◎Prepare the first IFRS financial statement for the the three-month periods ended March 31, 2012	All operational units, IT and accounting Department	Completed
◎Identify and prepare process analysis for areas of improvement regarding the preparation of first IFRS financial report	All operational units, IT and accounting Department	Completed

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Plan Content	Responsible Department (or Responsible Person)	Status
◎Establishment for performance evaluation standard	International, domestic operations and planning Department	In Progress
◎Awareness towards the continuous impact of IFRS on preparation of financial statements	All operational units and accounting Department	Completed
◎Continue internal training for employees	Human Resources (support from all units)	Completed
Phase 4 - Implementation and adjustment: (2013.01.01 ~ 2013.12.31)		
◎Consolidate management information	All operational units, IT and accounting Department	In Progress
◎Process analysis and improvement procedures for IFRS conversion	All operational units, IT and accounting Department	In Progress
◎Ensure the disclosure and preparation of financial statements in compliance with the requirements of IFRS and formulate necessary response to changes	All operational units, IT and accounting Department	In Progress

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) BTLI

Plan Content	Responsible Department (or Responsible Person)	Status
Phase 1 - Evaluation: (2009.09.30 ~ 2010.06.30):		
◎Form a special task force for IFRS conversion	Accounting Department	Completed
◎Establish a conversion plan and timeline and report to the Board of Directors	Accounting Department	Completed
◎Perform internal training for employees	Management and relative Department	Completed
◎Establish task team for IFRS conversion	Accounting and relative Department	Completed
◎Access the needs of outside experts	Accounting Department	Completed
◎Establish IFRS site in the Company's intranet	Accounting and I.T. Department	Completed
◎Establish IFRS studying group	Accounting and relative Department	Completed
◎Compare and analyze the differences between the current Accounting Policies and IFRS	Accounting and relative Department	Completed
◎Evaluate all units' daily potential operational influence	Accounting and relative Department	Completed
◎Evaluate the adoption of IFRS 1 - "First-time Adoption of IFRS"	Accounting and relative Department	Completed
Phase 2 - Preparation: (2010.09.30 ~ 2011.12.31):		
◎Devise a complete conversion plan	Accounting Department	Completed
◎Complete the comparison and evaluation between ROC GAAP and IFRS	Accounting and relative Department	Completed

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Plan Content	Responsible Department (or Responsible Person)	Status
◎Determine relevant IFRS policies	Accounting and relative Department	Completed
◎Complete solutions to operational impact due to IFRS conversion	Accounting and relative Department	Completed
◎Adjust and review the standard operational procedure, information technology and financial reporting of all units	IT and relative Department	Completed
◎Perform simulated system test, identify the area requiring revised SOP and system	IT and relative Department	Completed
◎Continue internal training for employees	Management and relative Department	Completed
Phase 3 - Implementation: (2012.01.01 ~ 2016.06.30):		
◎Prepare balance sheet on IFRS conversion date in accordance with IFRS 1 in parallel with ROC GAAP	Accounting and relative Department	Completed
◎Complete Guidelines of accounting and other operations	Accounting and relative Department	Completed
◎Prepare the first IFRS financial statement for the March 31, 2012 three-month periods	Accounting and relative Department	Completed
◎Complete internal controls evaluation and adjustment	Accounting and relative Department	Completed
◎Identify and prepare process analysis for areas of improvement regarding the preparation of first IFRS financial report	Accounting and relative Department	Completed
◎Establishment for performance evaluation standard	Planning Department	Completed
◎Awareness towards the continuous impact of IFRS on preparation of financial statements	Accounting and relative Department	Completed

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Plan Content	Responsible Department (or Responsible Person)	Status
◎Continue internal training for employees	Management and relative Department	Completed
◎Complete 2012 and 2011 compared financial information according to IFRS	Accounting and relative department	Completed
Phase 4 - Implementation and adjustment: (2013.01.01 ~ 2013.12.31)		
◎Consolidate management information	Planning Department	In Progress
◎Process analysis and improvement procedures for IFRS conversion	Accounting and relative Department	In Progress
◎Ensure the disclosure and preparation of financial statements in compliance with the requirements of IFRS and formulate necessary response to changes	Accounting Department	In Progress

(d) BTS

Plan Content	Responsible Department (or Responsible Person)	Status
Phase 1 - Evaluation: (2009.06.30 ~ 2010.06.30):		
◎Form a special task force for IFRS conversion	Accounting Department	Completed
◎Initial understanding toward IFRS accounting department	Accounting Department	Completed
◎Establish a conversion plan and timeline and report to the Board of Directors	Accounting Department	Completed
◎Perform internal training for employees	Management and relative Department	Completed
◎Establish task team for IFRS conversion	Accounting and relative Department	Completed

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Plan Content	Responsible Department (or Responsible Person)	Status
◎Access the needs of outside experts	Accounting Department	Completed
◎Establish IFRS site in the Company's intranet	Accounting and I.T. Department	Completed
◎Establish IFRS studying group	Accounting and relative Department	Completed
◎Compare and analyze the differences between the current Accounting Policies and IFRS	Accounting and relative Department	Completed
◎Evaluate all units' daily potential operational influence	Accounting and relative Department	Completed
◎Evaluate the adoption of IFRS 1 - "First-time Adoption of IFRS"	Accounting and relative Department	Completed
Phase 2 - Preparation: (2010.06.30 ~ 2011.06.30):		
◎Devise a complete conversion plan	Accounting Department	Completed
◎Complete the comparison and evaluation between ROC GAAP and IFRS	Accounting Department	Completed
◎Determine relevant IFRS policies	Accounting Department	Completed
◎Complete solutions to operational impact due to IFRS conversion	Accounting Department	Completed
◎Adjust and review the standard operational procedure, information technology and financial reporting of all units	Relative Department	Completed
◎Perform simulated system test, identify the area requiring revised SOP and system	Relative Department	Completed
◎Continue internal training for employees	Management and relative Department	Completed
◎Complete Guidelines of accounting operations	All Relative department	Completed

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Plan Content	Responsible Department (or Responsible Person)	Status
Phase 3 - Implementation: (2012.01.01 ~ 2012.12.31):		
◎Prepare balance sheet on IFRS conversion date in accordance with IFRS 1 in parallel with ROC GAAP	Accounting Department	Completed
◎Prepare the first IFRS financial statement for the March 31, 2012 three-month periods	Accounting Department	Completed
◎Complete internal controls evaluation and adjustment	Relative department	Completed
◎Identify and prepare process analysis for areas of improvement regarding the preparation of first IFRS financial report	Accounting and relative Department	Completed
◎Establishment for performance evaluation standard	Management Department	In Progress
◎Awareness towards the continuous impact of IFRS on preparation of financial statements	Accounting Department	Completed
◎Continue internal training for employees	Management Department	Completed
◎Complete 2012 and 2011 compared financial information according to IFRS	Accounting Department	Completed
Phase 4 - Implementation and adjustment: (2013.01.01 ~ 2013.12.31)		
◎Integrate management information	Relative Department	In Progress
◎Process analysis and improvement procedures for IFRS conversion	Relative Department	In Progress
◎Ensure the disclosure and preparation of financial statements comply with the requirements of IFRS and formulate necessary response to changes	Accounting Department	In Progress

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

2. The significant differences of preparing financial statements which the Company and subsidiaries evaluated between current GAAP and IFRSs are listed below:

(a) Reconciliation of statements of Financial Position January 1, 2012

Unit: In Thousand of New Taiwan Dollars

GAAP			IFRS Conversion Impact	IFRS		Note
Item	Amount	IFRSs Amount		Item		
Assets			Assets			
Cash and cash equivalents	\$ 97,988,304	(15,900,000)	82,088,304	Cash and cash equivalents	N	
Placement with Central Bank and call loans to banks	488,555,403	-	488,555,403	Placement with Central Bank and call loans to banks		
Financial assets measured at fair value through profit or loss, net	111,746,984	-	111,746,984	Financial assets measured at fair value through profit or loss, net		
Available-for-sale financial assets, net	802,058,331	-	802,058,331	Available-for-sale financial assets, net	A	
	-	3,074	3,074	Derivative financial assets-hedging	N	
Bills and bonds purchased under resell agreements	12,402,851	-	12,402,851	Bills and bonds purchased under resell agreements		
Receivables, net	91,084,216	1,534,682	92,618,898	Receivables, net	A, B, E, N	
	-	2,468,548	2,468,548	Current income tax assets	E	
Discounts and loans, net	2,158,327,794	-	2,158,327,794	Discounts and loans, net		
Held-to-maturity financial assets, net	-	22,701	22,701	Reinsurance assets, net	N	
Investments under equity method, net	227,724,845	(31,419)	227,693,426	Held-to-maturity financial assets, net	A	
Other financial assets, net	37,544,129	(182,089)	37,362,040	Investments under equity method, net	J	
Real estate investment, net	110,755,243	16,362,183	127,117,426	Other financial assets, net	A, B, N	
Fix assets, net	4,057,036	(495,579)	3,561,457	Investment property, net	I	
Intangible assets	99,049,681	1,540,055	100,589,736	Fix assets, net	G, I	
Other assets, net	830,361	-	830,361	Intangible assets		
	-	1,648,226	1,648,226	Deferred income tax assets, net	A, E, L	
	19,082,920	(3,671,281)	15,411,639	Other assets, net	A, C, E, G, N	
Total assets	\$ 4,261,208,098	3,299,101	4,264,507,199	Total assets		

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

GAAP			IFRS		
Item	Amount	IFRS Conversion Impact	IFRSs Amount	Item	Note
Liabilities			Liabilities		
Deposits of Central Bank and other banks	\$ 208,926,475	-	208,926,475	Deposits of Central Bank and other banks	
Financial liabilities measured at fair value through profit or loss	4,274,874	-	4,274,874	Financial liabilities measured at fair value through profit or loss	
	-	409,907	409,907	Derivative financial liabilities-hedging	N
Bills and bonds sold under repurchase agreements	15,638,050	-	15,638,050	Bills and bonds sold under repurchase agreements	
Commercial paper payables, net	499,537	-	499,537	Commercial paper payables, net	
Payables	69,231,005	4,295,684	73,526,689	Payables	B, E, M, N
	-	80,797	80,797	Current income tax liabilities	E
Deposits and remittances	3,202,888,078	-	3,202,888,078	Deposits and remittances	
Provisions	467,108,298	14,734,226	481,842,524	Provisions	A, C, D, M
Other financial liabilities	11,246,261	(409,907)	10,836,354	Other financial liabilities	N
	-	18,427,976	18,427,976	Deferred income tax liabilities	A, E, F, H, M
Other liabilities	31,707,537	(23,412,364)	8,295,173	Other liabilities	C, E, M
Total liabilities	\$ 4,011,520,115	14,126,319	4,025,646,434	Total liabilities	
Stock holder's Equity			Total Stock holder's Equity		
Equity	\$ 90,000,000	-	90,000,000	Equity	
Common stock	90,000,000	-	90,000,000	Common stock	
Additional paid-in capital	112,095,429	(710,212)	111,385,217	Additional paid-in capital	J
Retained earning	14,239,506	15,647,215	29,886,721	Retained earning	
Legal reserve	2,352,676	-	2,352,676	Legal reserve	
Special reserve	5,227,896	(204,699)	5,023,197	Special reserve	J, M
Undistributed earnings	6,658,934	15,851,914	22,510,848	Undistributed earnings	A, C, D, E, F, H, J, L
Other equities	33,353,048	(25,764,221)	7,588,827	Other equities	A, C, F, H, J, L
Total Stock holder's Equity	249,687,983	(10,827,218)	238,860,765	Total Stock holder's Equity	
Total liabilities and shareholders' equity	\$ 4,261,208,098	3,299,101	4,264,507,199	Total liabilities and shareholders' equity	

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Reconciliation of statements of Financial Position December 31, 2012

Unit: In Thousand of New Taiwan Dollars

GAAP			IFRS		
Item	Amount	IFRS Conversion Impact	IFRSs Amount	Item	Note
Assets			Assets		
Cash and cash equivalents	\$ 120,604,340	(41,900,000)	78,704,340	Cash and cash equivalents	N
Placement with Central Bank and call loans to banks	549,627,869	-	549,627,869	Placement with Central Bank and call loans to banks	
Financial assets measured at fair value through profit or loss, net	147,512,761	(1,157)	147,511,604	Financial assets measured at fair value through profit or loss, net	K
Available-for-sale financial assets, net	777,192,341	-	777,192,341	Available-for-sale financial assets, net	A
	-	3,543	3,543	Derivative financial assets-hedging	N
Bills and bonds purchased under resell agreements	23,106,942	-	23,106,942	Bills and bonds purchased under resell agreements	
Receivables, net	98,341,071	(1,216,934)	97,124,137	Receivables, net	A, B, E, N
	-	2,786,825	2,786,825	Current income tax assets	E
Discounts and loans, net	2,182,122,142	-	2,182,122,142	Discounts and loans, net	
	-	22,133	22,133	Reinsurance assets, net	N
Held-to-maturity financial assets, net	244,048,117	(91,639)	243,956,478	Held-to-maturity financial assets, net	A
Investments under equity method, net	40,936,053	(826,576)	40,109,477	Investments under equity method, net	J
Other financial assets, net	114,965,947	42,260,453	157,226,400	Other financial assets, net	A, B, N
Real estate investment, net	4,773,134	(492,372)	4,280,762	Investment property, net	I
Fix assets, net	98,436,106	1,522,153	99,958,259	Fix assets, net	G, I
Intangible assets	1,177,207	-	1,177,207	Intangible assets	
	-	2,184,449	2,184,449	Deferred income tax assets, net	A, E, L
Other assets, net	16,919,776	(3,694,074)	13,225,702	Other assets, net	A, C, E, G, N
Total assets	\$ 4,419,763,806	556,804	4,420,320,610	Total assets	

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

GAAP			IFRS		
Item	Amount	IFRS Conversion Impact	IFRSs Amount	Item	Note
Liabilities			Liabilities		
Deposits of Central Bank and other banks	\$ 213,374,465	-	213,374,465	Deposits of Central Bank and other banks	
Financial liabilities measured at fair value through profit or loss	4,508,508	-	4,508,508	Financial liabilities measured at fair value through profit or loss	
	-	301,390	301,390	Derivative financial liabilities-hedging	N
Bills and bonds sold under repurchase agreements	13,341,805	-	13,341,805	Bills and bonds sold under repurchase agreements	
Commercial paper payables, net	519,880	-	519,880	Commercial paper payables, net	
Payables	69,404,869	1,663,337	71,068,206	Payables	A, B, D, E, H, M, N
	-	136,126	136,126	Current income tax liabilities	E
Deposits and remittances	3,277,797,765	-	3,277,797,765	Deposits and remittances	
Provisions	534,299,189	15,574,485	549,873,674	Provisions	A, C, D, M
Other financial liabilities	13,185,447	(301,390)	12,884,057	Other financial liabilities	N
	-	18,802,039	18,802,039	Deferred income tax liabilities	A, E, F, H, M
Other liabilities	34,999,248	(23,832,650)	11,166,598	Other liabilities	C, E, M
Total liabilities	\$ 4,161,431,176	12,343,337	4,173,774,513	Total liabilities	
Stock holder's Equity			Total Stock holder's Equity		
Equity			Equity		
Common stock	\$ 90,000,000	-	90,000,000	Common stock	
Additional paid-in capital	111,632,634	(247,417)	111,385,217	Additional paid-in capital	J
Retained earning	17,132,483	15,094,749	32,227,232	Retained earning	
Legal reserve	2,758,570	-	2,758,570	Legal reserve	
Special reserve	5,924,552	(204,699)	5,719,853	Special reserve	J, M
Undistributed earnings	8,449,361	15,299,448	23,748,809	Undistributed earnings	A, C, D, E, F, H, J, K, L, M
Other equities	39,567,513	(26,633,865)	12,933,648	Other equities	A, C, F, H, J, L
Total Stock holder's Equity	\$ 258,332,630	(11,786,533)	246,546,097	Total Stock holder's Equity	
Total liabilities and shareholders' equity	\$ 4,419,763,806	556,804	4,420,320,610	Total liabilities and shareholders' equity	

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Reconciliation of statements of Comprehensive Income in 2012

Unit: In Thousand of New Taiwan Dollars

GAAP		IFRS			
Item	Amount	IFRS Conversion Impact	IFRSs Amount	Account Item	Note
Interest income	\$ 66,827,124	(1,602,325)	65,224,799	Interest income	A, N
Less: interent expenses	33,186,012	(1,073,761)	32,112,251	Less: interent expenses	N
Net interest inoome	33,641,112	(528,564)	33,112,548	Net interest inoome	
Non-interest income, net	-	-	-	Non-interest income, net	
Fee and commission income, net	3,172,020	8,770	3,180,790	Fee and commission income, net	C, D
Revenue from insurance business, net	33,433,548	-	33,433,548	Revenue from insurance business, net	
Gains (losses) on financial assets and liabilities measured at fair value through profit or loss	14,029,859	732,880	14,762,739	Gains (losses) on financial assets and liabilities measured at fair value through profit or loss	A, K, N
Gains or losses on real estate investment	87,898	6,621	94,519	Gains and losses on investment property	H, I
Realized gains on available-for-sale financial assets	2,933,880	440	2,934,320	Realized gains on available-for-sale financial assets	A
Realized gains on held-to-maturity financial assets	60,083	(72,163)	(12,080)	Realized gains on held-to-maturity financial assets	A
Foreign exchange gains and lossess, net	(1,799,868)	(12,039)	(1,811,907)	Foreign exchange gains and lossess, net	A
Reversal gains (losses) on asset impairment	(72,267)	(12,061)	(84,328)	Reversal gains (losses) on asset impairment	F
Income on investments under equity method	2,304,262	226,335	2,530,597	Share of profits or losses from associates and joint ventures	J
Other non-interest income	10,089,751	(700,722)	9,389,029	Other non-interest income	A, D, F, G, I, N
Net revenues	97,880,278	(350,503)	97,529,775	Net revenues	
Bad debt expenses	3,107,905	-	3,107,905	Bad debt expenses and reserve for guarantees	
Insurance reserves	67,635,554	(962)	67,634,592	Insurance reserves, net	A, M
Operating costs	19,219,830	(258,911)	18,960,919	Operating costs	C, D, F, G, H, I
Continuing operating income before income tax	7,916,989	(90,630)	7,826,359	Continuing operating income before income tax	
Income tax expenses	620,628	3,367	623,995	Income tax expense	F, H
Continuing operating income after inoome tax	7,296,361	(93,997)	7,202,364	Continuing operating income after inoome tax	
Net income	\$ 7,296,361	(93,997)	7,202,364	Net inoome	

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

3. Notes to the above reconciliation reports

(a) Effective interest rate method

According to IAS No. 39 accepted by FSC, the amortization of financial assets will be calculated by using the effective interest rate method rather than straight-line method. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for available-for-sale financial assets, a decrease of \$6,646 and \$2,527, respectively; 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 \$1,739, respectively; for other assets, an increase of \$110,877 and \$97,563, respectively; for provision, an increase of \$15,220 and \$10,327, respectively; for accounts receivable, a decrease of \$2,196 and \$1,311, respectively; for available-for-sale financial assets adjustment valuation, 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 \$61,502 and \$5,219, respectively; for other assets, an increase of \$0 and a decrease of \$39, respectively; for accounts payable, an increase of \$0 and a decrease of \$39, 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.

(b) Regular way purchase or sale

In accordance with the International Accounting Standards No. 39 accepted by FSC, the adjustment on January 1 and December 31, 2012 increases other financial assets by \$453,079 and \$362,257, respectively, receivables by \$1,413 and \$908, respectively; and payables by \$545,492 and \$363,165, respectively.

(c) 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 Bank applied the retroactive application of IAS19, and adjusted the related balances of net unrecognized transitional benefit obligation and pension liability under the R.O.C. GAAP.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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 \$540,663, 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 \$1,241,010, 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.

(d) 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 Publicly Held Banks, 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 increases a non-interest income by \$408,447 reduces 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.

(e) Income tax

Following IAS 12, the Company should revalue 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 \$18,290,592, respectively; and for deferred income tax liabilities, an increase of \$18,367,918 and \$18,290,592, respectively.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

In accordance with IAS 1, current tax assets, current tax liabilities and deferred tax assets should be recorded separately in 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 \$2,713,903, respectively; for retained earnings, a decrease of \$0 and \$4,818, respectively; for receivables, a decrease of \$2,433,730 and \$2,718,721, respectively; for current income tax assets, an increase of \$34,818 and \$72,922, respectively; for other assets, a decrease of \$34,818 and \$72,922, respectively; for deferred tax assets, an increase of 2,827,015 and \$4,585,676, respectively; for other assets, a decrease of \$2,018,959 and \$2,121,702, respectively; for current income tax liabilities, an increase of \$80,797 and \$136,126, respectively; for payable, a decrease of \$80,797 and \$136,127, respectively; for deferred tax liabilities, an increase of \$0 and \$37,363, respectively; and for other liabilities, a decrease of \$0 and \$37,363.

Following IAS 12, the Bank 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 dollars. 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 \$3,367.

(f) 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.

(g) Reclassification of property and equipment

The Company 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 operating expense by \$32,906 and increases a non-interest income by \$32,906.

(h) 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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

(i) Reclassification of Investment Property

On January 1 and December 31, 2012, the Company reclassified the property and equipment to investment property by \$66,548 and \$66,545, respectively.

Following IFRS 40, the Company 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. 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.

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.

(j) Investments under equity method, net

The Bank retrospectively applies 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 \$182,089 and \$826,576, 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 \$2,614,652 and \$3,948,268, respectively; and for retained earnings, an increase of \$3,489,171 and \$3,715,505. 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 \$226,335.

According to IAS 28, when the Company 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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(k) Financial instruments are altered to measure at fair value

The Company 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 or 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.

(l) Translation of financial statements of the foreign operation

The Company 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 \$32, respectively.

(m) 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 \$28,610, respectively; and for retained earnings, a decrease of \$0 and \$3,518, respectively. Also, for the consolidated comprehensive income statement for the year 2012, this adjustment increases the insurance liabilities reserve by \$3,931.

(n) Others

- a) According to IAS 7, the timed deposit over three months can't be regarded as cash and cash equivalents. Therefore the Company 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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- 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 records 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 records 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.
- e) According to the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, effective 2013, the Company reclassifies 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 \$ 730,049 and decrease a non-interest income by \$177,035.

(o) Special reserve

In accordance with Permit No. 1010012865 (see note 2) issued by FSC on April 6, 2012, when adopting IFRS at the first time, 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 IFRS adoption. The special reserves should be reversed in proportion to using, disposing or reclassifying the related accounts subsequently. Because the balance of unrealized gains on revaluation and cumulative translation differences is \$0 on December 31, 2011, the special reserve is \$0.

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The instructions of adopted optional exemptions are as follow:

- (a) Do not apply IFRS3 for enterprise mergers conducted before the adoption date of IFRS. Therefore, we didn't take any retroactive application for related accounts.
- (b) Use the revaluated amount of fixed asset according to the ROC GAAP to be deemed at cost on adoption date.
- (c) Transfer all cumulative actuarial gains and losses to retained earnings on adoption date.
- (d) Infer the cumulative translation differences as zero and not to take any retroactive application to past years.
- (e) The Company and its subsidiaries apply the exemption of IFRS 4 Insurance Contract, and they don't have to disclose the compensation information for past five years before the end of the first IFRS adoption year.

(43) Notes to Disclosure Items

1) Information on significant transactions:

- 1. Information regarding long-term equity investment for which the purchase or sale amount for the period exceeded \$300 million or 10% of the Company and its subsidiaries' capital: none.
- 2. Information on the acquisition of real estate for which the purchase amount exceeded \$300 million or 10% of the Company and its subsidiaries' capital: none.
- 3. Information on the disposal of real estate for which the sale amount exceeded \$300 million or 10% of the Company and its subsidiaries' capital: none.
- 4. Information regarding discounted processing fees on transactions with related parties for which the amount exceeded \$5 million: none.
- 5. Information regarding receivables from related parties for which the amount exceeded \$300 million or 10% of the Company and its subsidiaries' capital: none.
- 6. Information regarding selling non-performing loans: none.
- 7. Approved securitization instrument types and related information according to "asset-backed securitization" or "mortgage-backed securitization": none.
- 8. Other material transaction items which were significant to people who use the information in the financial statements: none.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

2) Information on long term investments:

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

Name	Location	Main operations	Percentage of shares	Invested amount	Gain (loss) on investment	Consolidated Information				Remarks
						Number of shares	Pro-forma shares	Total		
								Number of shares	Percentage of shares	
Bank of Taiwan Co., Ltd.	No.120, Section 1, Chongching South Road, Taipei City	Operation of banks	100.00 %	252,734,018	7,232,157	7,000,000	-	7,000,000	100.00 %	Note 4
BankTaiwan Life Insurance Co. Ltd.	6th floor, No.69, Section 2, Dunhua South Road, Taipei City	Life insurance	100.00 %	8,028,301	211,924	1,100,000	-	1,100,000	100.00 %	Note 4
BankTaiwan Securities Co. Ltd.	No.58, Section 1, Chongching South Road, Taipei City	Securities	100.00 %	3,318,411	23,011	300,000	-	300,000	100.00 %	Note 4
Hua Nan Financial Holdings Co. Ltd.	No. 38, Sec.1, Chongching S. Rd. Taipei City	Investment according to Financial Holding Company Act	25.07 %	33,287,676	1,992,954	2,162,627,690	-	2,162,627,690	25.07 %	-
Taiwan Life Insurance Co. Ltd.	No.17 and 18, Syuchang St., Taipei City	Life insurance	21.59 %	3,601,128	437,561	185,040,012	-	185,040,012	21.59 %	-
Kaohsiung Ammonium Sulfate Co., Ltd.	8F., No.53, Tonghua 4th Rd., Kaohsiung	Liquidating	91.86 %	2,393,485	(27,413)	303,131,576	-	303,131,576	91.86 %	-
Tang Eng Iron Works Co., Ltd.	5F., No. 53, Tonghua 4th Rd., Kaohsiung	Iron industry	21.37 %	1,636,179	(101,303)	74,802,414	-	74,802,414	21.37 %	-
Tai Yi Real-Estate Management Co., Ltd.	3F., No.56, Dunhua N. Rd., Taipei City	Real-estate appraisal	30.00 %	17,686	2,463	1,500,000	-	1,500,000	30.00 %	-

Note 1: The investees' shares or pro-forma shares held by the Company's board of directors, supervisor, CEO, vice CEO and affiliates conforming to the Company Act should be included.

Note 2: (1) Pro-forma shares are the "securities having equity property" or "derivative instrument contracts (have not been converted into stock)" that can be converted into shares of the investee company under Article 74 of the "Company Act" for investment purposes.

(2) The above "securities having equity property" means the securities that conform to the regulation in Article 11, Paragraph 1 of the Securities and Exchange Act Enforcement Rules, for example, convertible bonds and stock warrants.

(3) The abovementioned "derivative instrument contracts" conformed to the definition of derivative instrument in SFAS No. 34 "Financial Instruments: Recognition and Measurement", for example, stock options.

Note 3: The statement can be omitted in the 1st and 3rd quarters.

Note 4: The above transactions had been eliminated in preparing consolidated financial statements.

(Continued)

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

2. Lending to other parties: none.
 3. Guarantees and endorsements for other parties: none.
 4. Information regarding securities held as of December 31, 2012: none.
 5. Information regarding securities for which the purchase or sale amount for the period exceeded \$300 million or 10% of the Company and its subsidiaries' capital: none.
 6. Information on the acquisition of real estate for which the purchase amount exceeded NT\$300 million or 10% of the Company and its subsidiaries' capital: none.
 7. Information on the disposal of real estate for which the sale amount exceeded NT\$300 million or 10% of the Company and its subsidiaries' capital: none.
 8. Information regarding discounted processing fees on transactions with related parties for which the amount exceeded \$5 million: none.
 9. Information on regarding receivables from related parties for which the amount exceeded NT\$300 million or 10% of the Company and its subsidiaries' capital: none.
 10. Information regarding trading in derivative financial instruments: please see note 4(32).
 11. Information regarding selling non-performing loans: none.
 12. The type of and related information on securitized instruments which were authorized to be engaged in according to the "Financial Asset Securitization Act" or the "Real Estate Securitization Act": none.
 13. Other material transaction items which were significant to people who use the information in the financial statements: none.
- 3) Information on subsidiaries' investment in China:

In order to accelerate the investment speed in China approved by the Board of Directors, BOT has agreed to upgrade the representative office in Shang-hai as branch approved by the Financial Supervisory Commission and Ministry of Economy on February 10, 2011 and March 31, 2011, respectively. Obtain branch registration certificate on July 2, 2012 and operate on July 10, 2012.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(44) Operational Department:

1) Segment Information

December 31, 2012

Assets	Bank department	Government employees insurance department	Procurement department	Trade department	Life insurance department	Securities department	Other department	Offset amount	Total
Cash and cash equivalents	\$ 50,331,493	21,373,048	562,759	545,104	64,259,744	48,371	309,775	(16,825,954)	120,604,340
Placement with Central Bank and call loans to banks	549,627,869	-	-	-	-	-	-	-	549,627,869
Financial assets at fair value through profit or loss	60,830,424	85,703,614	-	-	834,218	560,594	-	(416,089)	147,512,761
Bills and bonds purchased under resell agreements	4,980,621	-	-	-	17,787,544	338,777	-	-	23,106,942
Receivables, net	68,680,333	22,497,581	5,557	84,573	4,830,354	2,214,519	2,590,262	(2,562,108)	98,341,071
Discounts and loans, net	2,177,133,260	-	-	-	10,788,882	-	-	(5,800,000)	2,182,122,142
Available-for-sale financial assets, net	734,870,751	-	-	-	40,809,899	1,511,691	-	-	777,192,341
Held-to-maturity financial assets, net	7,056,103	54,942,943	-	-	182,049,071	-	-	-	244,048,117
Long-term investment under equity method, net	35,393,882	-	-	-	5,542,170	-	264,080,731	(264,080,730)	40,936,053
Other financial assets, net	69,672,866	-	-	-	45,293,081	-	-	-	114,965,947
Real estate investments, net	-	-	-	-	4,773,134	-	-	-	4,773,134
Fixed assets, net	97,227,369	13,902	8,261	3,816	893,222	282,510	7,026	-	98,436,106
Intangible assets, net	1,153,781	4,791	5,372	161	11,674	1,303	125	-	1,177,207
Other assets, net	10,051,630	10,162,144	3,208,240	1,836,731	4,846,670	685,922	4,511,342	(18,382,903)	16,919,776
Total assets	\$ 3,867,010,382	194,698,023	3,790,189	2,470,385	382,719,663	5,643,687	271,499,261	(308,067,784)	4,419,763,806

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2012

Liabilities	Bank department	Government employees insurance department	Procurement department	Trade department	Life insurance department	Securities department	Other department	Offset amount	Total
Deposit of Central Bank and other banks	\$ 213,374,465	-	-	-	-	-	-	-	213,374,465
Financial liabilities measured at fair value through profit or loss	4,876,911	43	-	-	35,267	12,376	-	(416,089)	4,508,508
Bills and bonds sold under repurchase agreements	11,998,398	-	-	-	-	1,343,407	-	-	13,341,805
Payables	41,334,550	35,883	69,238	716,391	27,024,069	275,269	2,511,577	(2,562,108)	69,404,869
Deposits and remittances	3,294,903,719	-	-	-	-	-	-	(17,105,954)	3,277,797,765
Other loans	-	-	-	-	-	-	5,800,000	(5,800,000)	-
Other financial liabilities	8,499,403	-	-	-	4,686,044	-	-	-	13,185,447
Reserve for operations and liabilities	624,406	194,662,097	-	-	339,012,687	-	-	(1)	534,299,189
Other liabilities	39,588,153	-	3,346,772	1,204,532	3,933,295	694,224	4,855,054	(18,102,902)	35,519,128
Total liabilities	<u>3,615,200,005</u>	<u>194,698,023</u>	<u>3,416,010</u>	<u>1,920,923</u>	<u>374,691,362</u>	<u>2,325,276</u>	<u>13,166,631</u>	<u>(43,987,054)</u>	<u>4,161,431,176</u>
Stockholders' equity									
Common stock	70,000,000	-	-	-	11,000,000	3,000,000	90,000,000	(84,000,000)	90,000,000
Capital surplus	105,682,871	-	-	-	377,580	-	111,632,634	(106,060,451)	111,632,634
Legal reserve	25,218,428	-	-	-	-	28,758	2,758,570	(25,247,186)	2,758,570
Special reserve	98,322	-	-	-	-	204,784	5,924,552	(303,106)	5,924,552
Unappropriated retained earnings	7,461,515	-	374,179	549,462	485,497	23,011	8,449,361	(8,893,664)	8,449,361
Unrealized increment on revaluation	27,383,086	-	-	-	584,199	145,232	28,112,517	(28,112,517)	28,112,517
Cumulative foreign currency translation	(800,300)	-	-	-	(10,353)	-	(810,653)	810,653	(810,653)
Net loss not recognized as pension	(1,163,205)	-	-	-	(9,718)	(76,562)	(1,258,296)	1,249,485	(1,258,296)
Unrealized gain (loss) on financial instruments	17,929,660	-	-	-	(4,398,904)	(6,812)	13,523,945	(13,523,944)	13,523,945
cost									
Total stockholders' equity	<u>251,810,377</u>	<u>-</u>	<u>374,179</u>	<u>549,462</u>	<u>8,028,301</u>	<u>3,318,411</u>	<u>258,332,630</u>	<u>(264,080,730)</u>	<u>258,332,630</u>
Total liabilities and stockholders' equity	<u>\$ 3,867,010,382</u>	<u>194,698,023</u>	<u>3,790,189</u>	<u>2,470,385</u>	<u>382,719,663</u>	<u>5,643,687</u>	<u>271,499,261</u>	<u>(308,067,784)</u>	<u>4,419,763,806</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

2012

	Bank department	Government employees insurance department	Procurement department	Trade department	Life insurance department	Securities department	Other department	Offset amount	Total
Interest revenue	\$ 56,218,164	1,444,841	67	9	9,189,774	108,383	210	(134,324)	66,827,124
Less: interest expense	(32,987,442)	-	-	-	(256,652)	(16,830)	(59,412)	134,324	(33,186,012)
Interest income, net	23,230,722	1,444,841	67	9	8,933,122	91,553	(59,202)	-	33,641,112
Non-interest income, net									
Service fee income, net	4,080,372	88,678	503,921	27,040	(1,819,418)	280,425	-	11,002	3,172,020
Net insurance business income, net	-	-	-	-	43,708,558	-	-	(10,275,010)	33,433,548
Gain (loss) on financial assets and liabilities measured at fair value through profit or loss	3,471,105	8,636,730	-	-	2,646,457	28,037	-	(752,470)	14,029,859
Realized gain on available-for-sale financial assets	929,157	-	-	-	1,997,647	7,076	-	-	2,933,880
Realized gain on hold-to-maturity financial assets	-	-	-	-	60,083	-	-	-	60,083
Gain on long-term investment under equity method	1,948,134	-	-	-	356,128	-	-	-	2,304,262
Gain on real estate investment	-	-	-	-	116,443	-	-	(28,545)	87,898
Foreign exchange gain (loss)	3,332,492	(1,651,528)	-	(1,210)	(4,158,332)	-	-	752,470	(1,726,108)
Gain on asset revaluation (impairment loss)	(72,267)	-	-	-	-	-	-	-	(72,267)
Other non-interest income	(8,985,723)	(8,387,629)	(6,751)	606,903	88,518	(2,271)	(1,753)	26,778,457	10,089,751
Net revenue	27,933,992	131,092	497,237	632,742	51,929,206	404,820	(60,955)	16,485,904	97,954,038
Bad debt expense	3,107,865	-	-	-	(464)	504	-	-	3,107,905
Provisions for insurance policy reserves	-	-	-	-	51,071,712	-	-	16,637,602	67,709,314
Operating expense	17,656,501	131,092	123,057	83,279	840,423	378,967	158,209	(151,698)	19,219,830
Net income before tax	7,169,626	-	374,180	549,463	17,535	25,349	(219,164)	-	7,916,989
Income tax expense	861,112	-	-	-	(194,389)	2,338	(48,433)	-	620,628
Net income	\$ 6,308,514	-	374,180	549,463	211,924	23,011	(170,731)	-	7,296,361

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011

Assets	Bank department	Government employees insurance department	Procurement department	Trade department	Life insurance department	Securities department	Other department	Offset amount	Total
Cash and cash equivalents	\$ 50,489,558	24,911,164	624,645	400,809	36,200,692	47,687	171,358	(14,857,609)	97,988,304
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	45,083,429	65,802,579	-	-	979,164	425,168	-	(543,355)	111,746,985
Bills and bonds purchased under resell agreements	3,231,949	-	-	-	8,993,341	177,561	-	-	12,402,851
Receivables, net	62,899,885	23,330,050	9,076	200,769	2,857,977	1,811,155	73,774	(98,473)	91,084,213
Discounts and loans, net	2,153,591,118	-	-	-	10,436,679	-	-	(5,700,000)	2,158,327,797
Available-for-sale financial assets, net	757,373,465	-	-	-	43,264,835	1,420,031	-	-	802,058,331
Held-to-maturity financial assets, net	620,867	50,321,722	-	-	176,782,256	-	-	-	227,724,845
Long-term investment under equity method, net	32,479,598	-	-	-	5,064,531	-	255,285,059	(255,285,059)	37,544,129
Other financial assets, net	72,207,332	-	-	-	38,547,881	-	-	30	110,755,243
Real estate investments, net	-	-	-	-	4,057,036	-	-	-	4,057,036
Fixed assets, net	97,845,861	6,832	7,875	4,336	891,852	285,281	7,644	-	99,049,681
Intangible assets, net	815,019	442	3,375	2,221	7,751	1,522	31	-	830,361
Other assets, net	9,020,337	13,690,111	3,384,358	6,020,484	3,637,199	728,973	4,305,803	(21,704,346)	19,082,919
Total assets	\$ 3,774,213,821	178,062,900	4,029,329	6,628,619	331,721,194	4,897,378	259,843,669	(298,188,812)	4,261,208,098

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011

Liabilities	Bank department	Government employees insurance department	Procurement department	Trade department	Life insurance department	Securities department	Other department	Offset amount	Total
Deposit of Central Bank and other banks	\$ 208,926,475	-	-	-	-	-	-	-	208,926,475
Payable commercial paper, net	-	-	-	-	-	499,537	-	-	499,537
Financial liabilities at fair value through profit or loss	3,897,631	5,254	-	-	915,132	212	-	(543,355)	4,274,874
Bills and bonds sold under repurchase agreements	14,906,165	-	-	-	-	731,885	-	-	15,638,050
Payables	37,312,050	33,146	121,551	2,004,832	29,617,940	220,344	75,904	(154,760)	69,231,007
Deposits and remittances	3,218,010,687	-	-	-	-	-	-	(15,122,609)	3,202,888,078
Other loans	-	-	-	-	-	-	5,700,000	(5,700,000)	-
Other financial liabilities	5,756,183	-	-	-	5,490,078	-	-	-	11,246,261
Reserve for operations and liabilities	591,434	178,024,500	-	-	288,492,364	-	-	-	467,108,298
Other liabilities	39,235,445	-	3,488,963	4,251,224	1,527,441	156,801	4,379,782	(21,332,121)	31,707,535
Total liabilities	<u>3,528,636,070</u>	<u>178,062,900</u>	<u>3,610,514</u>	<u>6,256,056</u>	<u>326,042,955</u>	<u>1,608,779</u>	<u>10,155,686</u>	<u>(42,852,845)</u>	<u>4,011,520,115</u>
Stockholders' equity									
Common stock	70,000,000	-	-	-	11,000,000	3,000,000	90,000,000	(84,000,000)	90,000,000
Capital surplus	106,077,872	-	-	-	445,373	-	112,095,429	(106,523,245)	112,095,429
Legal reserve	24,119,287	-	-	-	-	21,486	2,352,676	(24,140,773)	2,352,676
Special reserve	518,561	-	-	-	-	190,239	5,227,896	(708,800)	5,227,896
Unappropriated retained earnings	5,472,427	-	418,815	372,563	273,573	72,724	6,658,934	(6,610,102)	6,658,934
Unrealized increment on revaluation	26,581,673	-	-	-	448,649	145,232	27,175,554	(27,175,554)	27,175,554
Cumulative foreign currency translation	(366,046)	-	-	-	(4,006)	-	(370,052)	370,052	(370,052)
Unrealized gain (loss) on financial instruments	13,983,157	-	-	-	(6,485,091)	(79,768)	7,418,299	(7,418,298)	7,418,299
Net loss not recognized as pension cost	(809,180)	-	-	-	(259)	(61,314)	(870,753)	870,753	(870,753)
Total stockholders' equity	<u>245,577,751</u>	<u>-</u>	<u>418,815</u>	<u>372,563</u>	<u>5,678,239</u>	<u>3,288,599</u>	<u>249,687,983</u>	<u>(255,335,967)</u>	<u>249,687,983</u>
Total liabilities and stockholders' equity	<u>\$ 3,774,213,821</u>	<u>178,062,900</u>	<u>4,029,329</u>	<u>6,628,619</u>	<u>331,721,194</u>	<u>4,897,378</u>	<u>259,843,669</u>	<u>(298,188,812)</u>	<u>4,261,208,098</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

2011

	Bank department	Government employees insurance department	Procurement department	Trade department	Life insurance department	Securities department	Other department	Offset amount	Total
Interest revenue	\$ 52,367,793	1,396,332	63	1	8,339,231	125,951	190	(141,055)	62,088,506
Less: interest expense	(30,577,630)	-	-	-	(203,516)	(13,109)	(48,227)	141,055	(30,701,427)
Interest income, net	21,790,163	1,396,332	63	1	8,135,715	112,842	(48,037)	-	31,387,079
Non-interest income, net									
Service fee income, net	4,330,980	114,692	535,869	(21,245)	(1,551,492)	371,128	-	(49,599)	3,730,333
Net insurance business income, net	-	-	-	-	40,600,835	-	-	(9,275,762)	31,325,073
Gain (loss) on financial assets and liabilities at measured fair value through profit or loss	3,892,395	(8,021,468)	-	-	(4,233,289)	(17,546)	-	927,800	(7,452,108)
Realized gain on available-for-sale financial assets	1,363,849	-	-	-	1,283,560	4,056	-	-	2,651,465
Realized gain on held-to-maturity financial assets	-	-	-	-	64,704	-	-	-	64,704
Gain on long-term investment under equity method	2,255,273	-	-	-	391,451	-	-	-	2,646,724
Gain on real estate investment	-	-	-	-	72,399	-	-	(29,170)	43,229
Foreign exchange gain (loss)	1,757,424	838,664	-	293	3,154,023	-	-	(926,796)	4,823,608
Gain on asset revaluation (impairment loss)	37,027	-	-	-	-	-	-	-	37,027
Other non-interest income	(8,996,515)	5,803,211	6,856	471,610	471,530	4,314	(1,290)	12,707,508	10,467,224
Net revenue	26,430,596	131,431	542,788	450,659	48,389,436	474,794	(49,327)	3,353,981	79,724,358
Bad debt expense	5,044,978	566	-	-	8,285	252	-	(65)	5,054,016
Provisions for insurance policy reserves	-	-	-	-	47,224,441	-	-	3,526,880	50,751,321
Operating expense	17,778,708	136,829	123,973	78,095	871,158	377,098	84,093	(172,834)	19,277,120
Net income before tax	3,606,910	(5,964)	418,815	372,564	285,552	97,444	(133,420)	-	4,641,901
Income tax expense	785,160	-	-	-	(67,076)	24,719	(159,836)	-	582,967
Net income	\$ 2,821,750	(5,964)	418,815	372,564	352,628	72,725	26,416	-	4,058,934

2) Geographical information:

The Company and its subsidiaries categorizes oversea operational department in accordance to their location. As the income and non-current assets do not meet the substantial material amount, the Bank will not disclose the information.

3) Information of important clients

As the company and its subsidiaries do not contain any client of more than 10% of income, the information will not be disclosed.