

Stock code:5868

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

Consolidated Financial Statements

**December 31, 2013 and 2012
(With Independent Auditors' Report Thereon)**

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

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LETTER OF DECLARATION

The entities that are required to be included in the combined financial statements of Taiwan Financial Holding Co., Ltd. as of and for the year ended December 31, 2013, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Accounting Standards No.27 endorsed by the Financial Supervisory Commission. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Taiwan Financial Holding Co., Ltd. and its subsidiaries do not prepare a separate set of combined financial statements.

Truthfully yours,

TAIWAN FINANCIAL HOLDING CO., LTD.

By

Jih-Chu Lee
Chairperson

March 27, 2014



安侯建業聯合會計師事務所

KPMG

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Independent Auditors' Report

The Board of Directors

TAIWAN FINANCIAL HOLDING CO., LTD.:

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

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

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



In accordance with auditing regulations in Taiwan, the financial statements of Taiwan Financial Holdings are required to be audited by the National Audit Office, known as the Ministry of Audit. The statements for the years ended 2012 and 2011 have been audited and approved by the Ministry of Audit. The adjustments by that office are reflected in the financial statement amounts. For further information, please see note 55 (2).

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

A handwritten signature in black ink that reads 'KPMG'.

March 27, 2014

The accompanying financial statements are intended only to present the 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 financial statements are those generally accepted and applied in the Republic of China. The auditors' report and the accompanying 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 financial statements, the Chinese version shall prevail.

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

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

(expressed in thousands of New Taiwan dollars)

Assets	December 31, 2013		December 31, 2012		January 1, 2012		Liabilities and Stockholders' Equity	December 31, 2013		December 31, 2012		January 1, 2012			
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%		
11000	Cash and Cash Equivalents (note 6 and 50)	\$ 124,627,959	3	78,704,338	2	82,088,304	2	21000	Deposits of Central Bank and Other Banks (note 22 and 50)	\$ 252,738,244	6	213,374,465	5	208,926,475	5
11500	Placement with Central Bank and Call Loans to Banks (note 7, 12 and 50)	585,444,072	13	549,627,869	12	488,555,403	12	22000	Financial Liabilities Measured at Fair Value through Profit or Loss (note 23 and 50)	4,416,467	-	4,508,507	-	4,274,875	-
12000	Financial Assets Measured at Fair Value through Profit or Loss, Net (note 8 and 50)	167,496,351	4	147,511,604	3	111,746,985	3	22300	Hedging Financial Liabilities (note 9)	225,806	-	301,390	-	409,907	-
12100	Available-for-Sale Financial Assets, Net (note 13, 21 and 50)	815,602,042	17	777,192,341	18	802,058,331	19	22500	Bills and Bonds Sold under Repurchase Agreements (note 10)	20,898,486	1	13,341,805	-	15,638,050	-
12300	Hedging Financial Assets (note 9)	5,443	-	3,543	-	3,074	-	22600	Commercial Paper Payables, Net (note 24)	1,499,705	-	519,880	-	499,537	-
12500	Bills and Bonds Purchased under Resell Agreements (note 10)	13,671,033	-	23,106,943	1	12,402,850	-	23000	Payables (note 25)	70,973,042	2	71,052,142	2	73,526,689	2
13000	Receivables, Net (note 11, 12 and 50)	90,884,392	2	96,862,943	2	92,618,898	2	23200	Current Income Tax Liabilities	129,172	-	143,704	-	80,797	-
13200	Current Income Tax Assets	3,498,988	-	3,077,593	-	2,468,548	-	23500	Deposits and Remittances (note 26 and 50)	3,391,508,828	73	3,277,797,764	74	3,202,888,078	75
13500	Loans and Discounts, Net (note 12 and 50)	2,240,472,476	48	2,182,122,142	49	2,158,327,798	51	24000	Financial Bonds Payable (note 27 and 50)	15,998,240	-	-	-	-	-
13700	Reinsurance Assets	16,588	-	22,133	-	22,701	-	24600	Provision (note 30, 31, 32 and 33)	597,615,741	13	549,873,673	13	481,842,525	12
14500	Held-to-Maturity Financial Assets, Net (note 14 and 21)	270,703,495	6	243,956,477	6	227,693,425	5	25500	Other Financial Liabilities (note 29)	3,720,522	-	12,884,057	-	10,836,353	-
15000	Investments under Equity Method, Net (note 15)	40,325,633	1	40,078,249	1	37,066,001	1	29300	Deferred Tax Liabilities	18,394,308	-	18,664,067	-	18,427,976	-
15500	Other Financial Assets, Net (note 11, 12, 16 and 21)	166,509,627	4	157,226,398	4	127,117,426	3	29500	Other Liabilities (note 34)	8,003,288	-	11,200,444	-	8,295,174	-
18000	Investments property, Net (note 17)	5,512,559	-	4,280,761	-	3,561,457	-		Total liabilities	4,386,121,849	95	4,173,661,898	94	4,025,646,436	94
18500	Property and Equipment, Net (note 18, 21 and 51)	99,369,646	2	99,938,216	2	100,589,739	2		Equity attributable to shareholders of the parent (note 36):	90,000,000	2	90,000,000	2	90,000,000	2
19000	Intangible Assets (note 19)	1,062,179	-	1,177,207	-	830,360	-	31101	Capital Stock	111,434,739	2	111,385,217	3	111,385,217	3
19300	Deferred Tax Assets (note 30)	2,012,373	-	2,090,493	-	1,648,226	-	31500	Capital Surplus	3,493,367	-	2,758,570	-	2,352,676	-
19500	Other Assets (note 20 and 21)	11,551,422	-	13,238,039	-	15,411,635	-		Retained earnings:	23,848,847	1	5,719,853	-	5,023,197	-
								32001	Legal Reserve	6,796,220	-	23,440,480	1	22,214,808	1
								32003	Special Reserve	34,138,434	1	31,918,903	1	29,590,681	1
								32011	Unappropriated Earnings	17,071,256	-	13,271,271	-	7,388,827	-
								32500	Other Equity	252,644,429	5	246,575,391	6	238,564,725	6
									Total equity	\$ 4,638,766,278	100	4,420,237,289	100	4,264,211,161	100
	Total assets	\$ 4,638,766,278	100	4,420,237,289	100	4,264,211,161	100		Total liabilities and stockholders' equity	\$ 4,638,766,278	100	4,420,237,289	100	4,264,211,161	100

See accompanying notes to financial statements.

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the year ended December 31, 2013 and 2012

(expressed in thousands of New Taiwan dollars)

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

See accompanying notes to financial statements.

(expressed in thousands of New Taiwan dollars)

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

See accompanying notes to financial statements.

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the year ended December 31, 2013 and 2012

(expressed in thousands of New Taiwan dollars)

	2013	2012
Cash flows from (used in) operating activities :		
Profit before tax	\$ 8,250,720	7,823,245
Adjustments :		
Adjustments to reconcile profit (loss)		
Depreciation expense	918,859	953,998
Amortization expense	415,001	352,969
Provision for bad debt expense	2,699,865	3,108,276
Interest expense	33,482,173	32,112,251
Interest income	(68,852,758)	(65,224,974)
Provision for guarantee liabilities	24,352,885	51,075,644
Net change in other provisions	23,389,183	16,955,505
Gain of long-term equity investments under the equity method	(2,319,959)	(2,534,878)
Gain on disposal of property and equipment	(447,438)	(729,909)
Impairment loss on non-financial assets	19,063	84,328
Reversal of impairment loss on non-financial assets	(6,899)	(224,302)
Total adjustments to reconcile profit	<u>13,649,975</u>	<u>35,928,908</u>
Changes in operating assets and liabilities :		
Increase in due from the central bank and call loans to banks	(28,075,745)	(11,901,027)
Increase in financial assets at fair value through profit or loss	(16,400,308)	(13,232,171)
Increase in discounts and loans	(58,350,334)	(23,794,344)
Decrease (increase) in securities purchased under resell agreements	15,609,361	(10,704,093)
Decrease (increase) in receivables	5,978,551	(4,244,045)
Decrease (increase) in derivative financial assets for hedging	5,545	(469)
(Increase) decrease in available-for-sale financial assets	(112,915,396)	7,997,317
Increase in held to maturity financial assets	(50,019,896)	(13,340,736)
Increase in other financial assets	(9,596,152)	(30,121,261)
Decrease in other assets	<u>678,444</u>	<u>3,116,983</u>
Total changes in operating assets	<u>(253,085,930)</u>	<u>(96,223,846)</u>
Increase in deposits from the central bank and banks	39,363,779	4,447,990
(Decrease) increase in financial liabilities at fair value through profit or loss	(92,040)	233,632
Decrease in derivative financial liabilities for hedging	(75,584)	(108,517)
Increase (decrease) in notes and bonds issued under repurchase agreement	7,556,681	(2,296,245)
Decrease in payables	(79,100)	(2,474,547)
Increase in deposits and remittances	113,711,064	74,909,786
Decrease in other financial liabilities	(2,209,220)	(804,033)
(Decrease) increase in other liabilities	(2,654,171)	2,978,087
Total changes in operating liabilities	<u>155,521,409</u>	<u>76,886,153</u>
Total changes in operating assets and liabilities	<u>(97,564,521)</u>	<u>(19,337,693)</u>
Total adjustments	<u>(83,914,546)</u>	<u>16,591,215</u>
Cash (outflow) inflow generated from operations	(75,663,826)	24,414,460
Interest received	67,302,618	64,059,682
Dividends received	4,386,817	3,568,169
Interest paid	(34,741,651)	(31,787,056)
Income taxes paid	<u>(1,878,482)</u>	<u>(1,317,051)</u>
Net cash flows from (used in) operating activities	<u>(40,594,524)</u>	<u>58,938,204</u>
Cash flows (used in) from investing activities :		
Acquisition of real estate investments	(1,280,208)	(758,771)
Proceeds from disposal of property and equipment	-	29,182
Acquisition of property and equipment	(584,107)	(635,262)
Proceeds from disposal of property and equipment	598,311	981,879
Increase in refundable deposits	(128,659)	(758,900)
Acquisition of intangible assets	(298,877)	(828,797)
Decrease in other financial assets	<u>312,923</u>	<u>12,289</u>
Net cash flows used in investing activities	<u>(1,380,617)</u>	<u>(1,958,380)</u>
Cash flows from (used in) financing activities :		
Increase in commercial papers payable	979,825	203,433
(Decrease) increase in other financial liabilities	(6,954,315)	2,851,737
Proceeds from issuing bank notes payable	15,998,441	-
Decrease in guarantee deposits received	(542,985)	(72,817)
Cash dividends paid	<u>(3,395,499)</u>	<u>(4,587,871)</u>
Net cash flows from (used in) financing activities	<u>6,085,467</u>	<u>(1,605,518)</u>
Effect of exchange rate changes on cash and cash equivalents	5,919,887	2,567,427
Net (decrease) increase in cash and cash equivalents	(29,969,787)	57,941,733
Cash and cash equivalents at beginning of period	<u>909,553,472</u>	<u>851,611,739</u>
Cash and cash equivalents at end of period	<u>\$ 879,583,685</u>	<u>\$ 909,553,472</u>
Compose of cash and cash equivalents :		
Cash and cash equivalents reported in the statement of financial position	\$ 124,627,959	78,704,338
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	176,106,816	168,366,358
Investments qualifying for cash and cash equivalents under the definition of IAS 7	<u>578,848,910</u>	<u>662,482,776</u>
Cash and cash equivalents at end of period	<u>\$ 879,583,685</u>	<u>\$ 909,553,472</u>

See accompanying notes to financial statements.

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

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

(1) Organization and business scope

1) Taiwan Financial Holdings

On January 1, 2008, Taiwan Financial Holding Co., Ltd. (the Company) was incorporated in accordance with the Act of Taiwan Financial Holding Co., Ltd. and has three investee companies: "Bank of Taiwan" (BOT), "BankTaiwan Life Insurance Co., Ltd." (BTLI) and "BankTaiwan Securities Co., Ltd." (BTS). Taiwan Financial Holdings became a public company on November 17, 2009.

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

2) Taiwan Financial Holdings

Bank of Taiwan (BOT) was established on May 20, 1946. BOT became a legal entity in 1985 in accordance with the Banking Act of the Republic of China, and transformed into a corporate entity starting from July 1, 2003. BOT became a public company on September 16, 2004.

BOT merged with the Central Trust of China effective on July 1, 2007. The Central Trust of China was the dissolved company, and BOT was the surviving company. BOT is primarily involved in:

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

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

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

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

BTS became a public company on October 21, 2013. BTS's main businesses include the following: 1. Securities trading brokerage. 2. Providing margin purchases and short sales for securities transactions. 3. Securities dealing. 4. Operating as futures introducing brokers.

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

(2) Financial statements authorization date and authorization process

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

(3) New standards and interpretations not yet adopted

- 1) New standards and interpretations endorsed by the Financial Supervisory Commission R.O.C ("FSC") but not yet in effect

1. International Financial Reporting Standard 9 "Financial Instruments: Classification and Measurement" (IFRS 9)

The International Accounting Standards Board ("IASB") issued the International Financial Reporting Standard 9, "Financial Instruments" ("IFRS 9"), which is effective on January 1, 2013 (the IASB postponed the effective date to 1 January 2015 and removed the mandatory effective date in November 2013). This standard has been endorsed by the FSC; however, the effective date has not been announced. In accordance with FSC rules, early adoption is not permitted, and companies shall follow the guidance in the 2009 version of International Accounting Standard 39 Financial Instruments ("IAS 39"). Upon the adoption of this new standard, it is expected there will be significant impacts on the classification and measurement of financial instruments in the consolidated financial statements.

- 2) New and Amended Standards and Interpretations not endorsed by the FSC

New standards and amendments issued by the IASB that may have an impact on the consolidated financial statements, but not yet endorsed by the FSC and which effective date in Taiwan has not been announced:

Issue date	New standards and amendments	Description	Effective date per IASB
January 28, 2010	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards	The IASB amended IFRS 1 to exempt first-time adopters of IFRSs from providing the additional disclosures, such as fair value information and liquidity risk information noted in IFRS 7 "Financial Instruments: Disclosure". If this standard is adopted, the Company may change the fair value measurement of financial instruments and offer additional disclosures about the qualitative and quantitative information of liquidity risk.	July 1, 2010

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Issue date	New standards and amendments	Description	Effective date per IASB
May 28, 2010	<ul style="list-style-type: none"> • Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards • Amendments to IFRS 7 Financial Instruments : Disclosures • Amendments to IAS 1 Presentation of Financial Statements • Amendments to IAS 34 Interim Financial Reporting 	<p>The main contents of “Improvements to International Financial Reporting” are as follows.</p> <ul style="list-style-type: none"> • Delete disclosure requirements such as the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated and the fair value of the collaterals held for the financial assets that are neither past due nor impaired • Offer more definite disclosure requirements about the significant events and transactions in an interim period and more examples for the disclosures of the fair value and financial instruments. <p>If the above are adopted, the Company may adjust the disclosures about financial assets that would otherwise be past due or impaired whose terms have been renegotiated and significant events and transactions in an interim period.</p>	July 1, 2010 or January 1, 2011
May 12, 2011~ June 28, 2012	<ul style="list-style-type: none"> • IFRS 10 Consolidated Financial Statements • IFRS 11 Joint Arrangements • IFRS 12 Disclosure of Interests in Other Entities • Amendments to IAS 27 Separate Financial Statements • Amendments to IAS 28 Investments in Associates and Joint Ventures 	<ul style="list-style-type: none"> • On May 12, 2011, a series of new standards and revisions related to consolidation, associates, and joint ventures were issued. They provide a control model by which to judge and analyze whether an investor has control of the investee, including a special purpose entity, while the consolidation process remains unchanged. • On June 28, 2012, revisions were issued to elaborate on the transitional rules of those standards. 	January 1, 2013
May 12, 2011	IFRS 13 Fair Value Measurement	Other standards will be replaced by IFRS 13, to consolidate fair value measurement of financial and non-financial items in one standard.	January 1, 2013
June 16, 2011	Amendments to IAS 1 Presentation of Financial Statements	Other comprehensive income items that can and cannot be reclassified to profit and loss should be presented separately.	July 1, 2012
June 16, 2011	Amendments to IAS 19 Employee Benefits	Mainly to eliminate corridor method. Employers are no longer allowed to recognize all changes in defined benefits obligation and plan assets in profit and loss. Past service cost should not be amortized but recognized in profit and loss immediately.	January 1, 2013

(Continued)

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

Issue date	New standards and amendments	Description	Effective date per IASB
Nov 19, 2013	Amendments to IFRS 9 Financial Instrument	Hedge accounting adopts more basic laws to approach risk management, which included amending the rules of procuring, continuing, and stopping to use hedge accounting and allowing more types of exposure risk adopting the conditions of hedged items. If accepting the above rule, the transactions using hedge accounting of the Company have the possibility of increasing, and will change the measurement and disclosure of relative hedge instruments and hedging items.	To be announced (Early adoption is acceptable)
December 12, 2013	<ul style="list-style-type: none"> • Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards • IFRS 13 Fair Value Measurement 	<p>The main amendments of “Annual Improvements Cycle 2010-2012 and 2011-2013” are as follow.</p> <ul style="list-style-type: none"> • Clarify the scope for measuring the fair value of a group of financial assets and financial liabilities on a net basis. <p>If the above rule is accepted, the Company may adjust the disclosures of fair value measurements.</p>	July 1, 2014 (Early adoption is acceptable)
May 29, 2013	Amendments to IAS 36 Impairment of Assets	In present regulations, the recoverable amount of each cash-generating unit which had been allocated is required to be disclosed when the carrying amount of goodwill or other intangible assets with indefinite useful lives is significant. The amendments required the disclosure when impairment is recognized or reversed. Besides, the disclosure for fair value measurements at Level 2 or Level 3 of the fair value hierarchy and a description of the valuation technique when recoverable amount are based on fair value less cost of disposal.	January 1, 2014 (Early adoption is acceptable)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to the Consolidated Financial Statements****(4) Significant accounting policies**

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

1) Statement of compliance

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

The Company and its subsidiary are government-owned enterprises, so its accounting practices mainly follow the Budget Law, Account Settlement Law and Uniform Regulations on Accounting Systems for Banks Governed by the Ministry of Finance (the MoF). The annual financial statements are audited by the Ministry of Audit (the MoA) to ensure that the Bank complies with the budget approved by the Legislative Yuan, the parliament of ROC Taiwan. The financial statements become final only after such an endorsement by the MoA.

The financial statements of 2012 and 2011 were approved by the MoA, and the beginning balances of retained earnings of 2013 and 2012 are the same as the approved closing balances of 2012 and 2011.

2) Basis of preparation

The consolidated financial statements are composed of the consolidated balance sheet, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flow and the related notes.

Except for the financial assets and liabilities measured at fair value (including derivatives), the consolidated financial statements are prepared on a historical cost basis. Apart from those with additional notes, the consolidated financial statements are presented in New Taiwan Dollar and all financial information represented in New Taiwan Dollar has been rounded to the nearest thousand.

3) Basis of consolidation**1. Principle of preparation of the consolidated financial statements**

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

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

(Continued)

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

2. List of subsidiaries in the consolidated financial statements

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

4) Foreign currency

1. Foreign currency transactions

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

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

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

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

2. Foreign operations

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

5) Cash and cash equivalents

For consolidated balance sheets, Cash and cash equivalents include cash on hand, due from banks, demand deposits and highly liquid investments that are readily convertible into known amount of cash and which are subject to insignificant risk of change in value.

For consolidated statement of cash flows, cash and cash equivalents refer to cash and cash equivalents presented in consolidated statement of balance sheet, deposit in the central bank, call loans to banks, and investments of bonds and callable notes which are in accordance with the definition of cash and cash equivalents in the International Accounting Standards No.7 accepted by FSC.

6) Financial instrument

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

1. Financial asset

The Company and its subsidiaries classify financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets, held-to-maturity financial assets, financial assets at cost and debt investment without active market.

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

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

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

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

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

(b) Available-for-sale financial assets

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

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

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to the Consolidated Financial Statements****(c) Held to maturity financial assets**

If the Company and its subsidiaries have the positive intent and the ability to hold debt securities to maturity, such financial assets are classified as held-to-maturity. Held to maturity financial assets are recognized initially at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less, any impairment losses. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade date accounting.

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

(d) Loans and receivables

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

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

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

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

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

(e) Financial assets at cost

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

(f) Debts investment without active market

Debt investments without active market are the non-derivative instruments that have fixed or decidable price. Such assets are recognized initially at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, debts investment without active market are measured at amortized cost using the effective interest method

(g) Impairment of financial assets

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

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

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

Impairment losses recognized on an available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss of a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost before impairment was recognized at the reversal date.

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

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

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

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

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

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

(h) The derecognition of financial assets

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

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

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

2. Financial liability and equity instrument

(a) The classification of liabilities and equity

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

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

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

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

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

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

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

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

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

(c) Other financial liabilities

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(d) The derecognition of financial liabilities

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

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

(e) Offsetting the financial assets and financial liabilities

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

(f) Financial guarantee contract

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

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

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

3. Derivative financial instruments and hedge accounting

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

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

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

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

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

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

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

7) Pecuniary and securities financing and refinancing

Pecuniary finance represents loans to investors for the purchase of securities and is recorded as receivables from pecuniary finance. Such loans are secured by the securities purchased by the investors. These securities are not reflected in the financial statements of the subsidiary, BTS. The investors may redeem the collateral securities upon repayment of the loans.

Securities finance represents securities lent to investors and is affected by lending to securities investors securities in custody that are received from pecuniary finance or borrowed from securities finance companies when necessary. Such securities finance is not reflected in the financial statements of the subsidiary, BTS. The investors' deposits for borrowing securities are held by the subsidiary, BTS, as collateral and recorded under securities finance margin deposits received. In addition, investors are required to deposit the proceeds from sales of borrowed securities. Such deposits are accounted for as payables for securities financing.

Pecuniary refinancing represents loans from securities finance companies when the subsidiary, BTS, lacks sufficient funds to perform pecuniary financing. These loans are recorded as refinance borrowings.

Securities refinancing represents securities borrowed from securities finance companies when the subsidiary, BTS, does not have sufficient securities to perform securities financing. For securities refinancing, the subsidiary, BTS, pays margin deposits to securities finance companies. These margin deposits are recorded as refinance margin deposits. The subsidiary, BTS, also provides securities investors' proceeds from selling borrowed securities to securities finance companies as collateral and records them under receivables from securities refinance.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to the Consolidated Financial Statements****8) Repo and reverse repo transactions involving bill and bond investment or debt**

Repo and reverse repo bond transactions are the sale or purchase of a bond coupled with an agreement to repurchase or resell the same or substantially identical bond at a stated price. Such transactions are treated as collateral for financing transactions and not as the sale or purchase of trading securities. When conducting such transactions, the actual attained amount are recognized as "Bills and Bonds Sold under Repurchase Agreement", and the actual lend amount are recognized as "Bills and Bonds Purchased under Resell Agreement".

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

9) Investments in associates

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

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

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

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

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

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

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to the Consolidated Financial Statements****10) Investment property**

Investment property is the property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, for use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently. The depreciation is computed along with the depreciable amount. The method, the useful life and the residual amount are the same with those of property, plant and equipment. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

When the use of a property changes such that it is reclassified as property, plant and equipment, the carrying amount at the date of reclassification becomes its cost for subsequent accounting.

11) Property, plant and equipment**1. Recognition and measurement**

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

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

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

2. Reclassification to investment property

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

3. Subsequent cost

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

4. Depreciation

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

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

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

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

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

12) Reinsurance assets

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

The insurance subsidiaries have the following rights over reinsurer: reinsurance reserve assets, claims and benefits recoverable from reinsurers, reinsurance premiums receivable / payable. The insurance subsidiaries shall regularly perform tests to determine whether the rights are impaired or unrecoverable. The method used for estimating claims recoverable from reinsurers should be the same as the method used for estimating the claim reserve liabilities.

The Company should not offset reinsurance assets against the related insurance liabilities, or income or expense from reinsurance contracts against the expense or income from the related insurance contracts.

If there is evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the insurance subsidiary may not receive all amounts regulated under the terms of the contract, and that event has a measurable amounts in terms of the influence of the event, the insurance subsidiary shall recognize the difference between the recoverable amount and the carrying amount of the previously stated right as impairment loss.

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

13) Insurance contract

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

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

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

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

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

(Continued)

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

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

14) Lease**1. Operating Lease**

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

2. Financial Lease

(a) The Company and its subsidiaries are lessors. The assets under financial lease will be recognized as lease payment receivables by the net investment value. The original cost which is caused by the operating lease agreement is included in the net lease investment. Lease investment is recognized as financial lease because of it has a steady rate of return, apportioning into each lease period.

(b) The Company and its subsidiaries are lessees. They capitalize the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments made are allocated as a reduction of the obligation and interest expenses. Interest expenses are calculated by the opening balance of lease obligation using the interest rate implicit in the lease or the lessee's incremental borrowing rate of interest and recognized in the income statement. The attained property, plant and equipment are measured at cost.

15) Intangible assets**1. Computer Software**

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

2. Subsequent Expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

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

3. Amortization

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

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

Computer software	5 years
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The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each fiscal year-end. Any change shall be accounted for as changes in accounting estimates.

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

16) Impairment loss of non-financial assets

For non-financial assets except for the deferred tax asset and asset caused by the employee benefit, the Company and its subsidiaries shall assess at the end of each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Company and its subsidiaries shall estimate the recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the asset individually, they shall determine the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use. If the recoverable amount is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss which shall be recognized immediately in profit or loss.

The Company and its subsidiaries assess at the end of each reporting date whether there is any indication that an impairment loss recognized in prior years for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset.

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

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

If the carrying amount of the cash-generating units exceeds the recoverable amount of the unit, the entity shall recognize the impairment loss, and the impairment loss shall be allocated to reduce the carrying amount of each asset in the unit.

Reversal of an impairment loss for goodwill is prohibited.

17) Provision

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

18) Other reserves

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

19) Separate account – insurance instrument assets

The insurance subsidiary is engaged in selling investment-type insurance commodities. The payment of premiums (net of administrative expense) is recorded in a separate account which shall only be used in a way agreed by the proposer. The assets of separate accounts are valued at market price on the valuation date, and the Company and its subsidiaries follow the related rules and financial accounting standards in the IFRS to determine the net asset value.

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

20) Insurance liability

Reserves for insurance contracts are provided in accordance with the “Regulations Governing Insurance Enterprises for Setting Aside Various Reserves” and are also certified by an appointed actuary approved by the Financial Supervisory Commission, Executive Yuan, R.O.C. (FSC). If an insurance contract contains a discretionary participation feature as well as a guaranteed element, the Company shall set aside reserves in accordance with related insurance regulations and shall classify the whole contract as a liability. Except the reserves for short-term group insurance, the reserve basis shall be based on the greater amount of actual premium income or the premium income as calculated under the corresponding regulations and other reserve basis listed below:

1. Unearned premium reserve

The unearned premium reserve should be provided based on the unexpired risk for the in-force policies with an insurance term of less than one-year, the accident insurance with an insurance term of more than one-year, and the investment-linked insurance agreed to collecting fees periodically based on the calculation in accordance with one-year term insurance cost method.

2. Claims Reserve:

- (a) Claim reserves for businesses with less than one year insurance term and for accident insurance with more than one year insurance term shall be provided as follows:

Claim reserves provided for health and life insurance which became effective after January 1, 2010, and accident insurance are set aside using the loss development triangle method based on the previous claim experience. The reserves are respectively provided for Reported But Not Paid claims and Incurred But Not Paid claims. For Reported But Not Paid Claims, a reserve has been provided on a per-policy-claim-report basis for each type of insurance.

- (b) Claim reserves provided for Reported But Not Paid claims derived from investment-linked insurance, and life insurance, health insurance, and annuity insurance with insurance terms more than one year are determined in accordance with actual information on a per-policy-claim-report basis and are respectively set aside for each type of insurance.

3. Policy reserves

The provision for policy reserve is based on mortality tables and prescribed interest rates approved by the FSC and calculated based on the modified reserve method in accordance with the Article 12 of the “Regulations Governing Insurance Enterprises for Setting Aside Various Reserves” and other regulations and approved calculation instructions filed with the FSC.

Since 2003, if the dividends of in-force policies are calculated in accordance with Tai Tsai Pao No. 800484251, then the reduction in dividends resulting from the offsetting of mortality margin and interest loss should be provided as long-term policy reserve.

Starting from 2012, the Company should provide the provision of policy reserve for in-force policies to comply with Jin Guan Pao Tsai No. 10102500530 on January 19, 2012. Calculated based on the terms of the “Regulations Governing Insurance Enterprises for Setting Aside Various Reserves,” the recovery of the special catastrophe reserve should be provided as policy reserve of life insurance-reversed catastrophe reserve.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Starting from 2012, in accordance with the Gin Guan Bao Tsai No. 10102500530 letter and Article 11 of Value-added and Non-value-added Business Tax Act, a liability reserve based on 3% of sales is provided for purposes of writing off overdue loans or providing allowance for bad debts when the percentage of overdue loans is lower than 1%.

4. Special reserves

(a) For retained business with an insurance period of one year or less, the Company shall set aside the following special catastrophe reserve and special risk-volatility reserve in accordance with the following provisions:

a) Special catastrophe reserve:

- a. A special catastrophe reserve shall be set aside at the reserve ratio prescribed by the competent authority.
- b. Upon the occurrence of a catastrophic event, actual retained losses in excess of NT\$30 million may be withdrawn from special catastrophe reserve and shall be reported to the competent authority for recordation.
- c. A special catastrophe reserve that has been set aside for more than 15 years can be released based on the evaluation by actuary and calculation methodology approved by the competent authority.

b) Special risk-volatility reserve:

- a. For each type of insurance, when the balance of actual losses minus the amount reversed from a special catastrophe reserve is lower than expected losses, a special risk-volatility reserve shall be provided at 15 percent of the difference.
- b. When the balance of actual losses minus the amount reversed from a special catastrophe reserve is greater than expected losses, the amount in excess of expected losses may be reversed from the special risk-volatility reserve previously provided. If the reserve for special risk-volatility reserve for a particular type of insurance is insufficient to cover losses, the losses may be reversed from the special risk-volatility reserve previously provided for another type of insurance and shall be reported to the competent authority.
- c. When cumulative provisions for the special risk-volatility reserve exceed 30 percent of the amount of retained earned premiums for the current year, that portion in excess shall be released and treated as income.

Special reserves shall be set aside every year while the newly provided special reserves (net of taxes determined in accordance with IAS 12 – “Income Taxes”) shall be recognized as special surplus reserve under shareholders’ equity each year. Also, the withdrawal or the released amount of special reserve (net of taxes determined in accordance with IAS 12 – “Income Taxes”) based on the above-mentioned regulations shall offset with special reserves of Special surplus recorded under shareholders’ equity.

(Continued)

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

- (b) According to the Tai Cai Bao No.0910712459, BTLI should recognize the special reserves for the participating insurance policy and write off the reserves when the bonus are declared.

5. Premium deficiency reserve

For life insurance, health insurance, or annuities with an insurance term over one year, and policies issued after January 1, 2001, a deficiency reserve is provided when the actual premium written is less than the premium on the policy reserve prescribed by the competent authority.

In addition, the Company shall evaluate expected future claims and expenses for in-force contracts with contract term less than one year and for accident insurance contracts with terms over one year, and if the amount exceeds unearned premium reserve and expected future premium income, a premium deficiency reserve should be provided for the difference.

6. Liability adequacy reserve

The Company shall assess at the end of each reporting period whether its recognized insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. The Company's liability adequacy test is based on all insurance contracts that the Company issues and adheres to Actuarial Practice Guidance of IFRS 4 "Contracts Classification and Liability Adequacy Test" and its related regulations issued by The Actuarial Institute of the Republic of China. The test is conducted on each balance sheet date by comparing the net carrying amount of its insurance liabilities less related acquisition costs and intangible assets and current estimates of future cash flows under its insurance contracts. If the assessment shows that the net carrying amount is inadequate in the light of the estimated future cash flows, the entire deficiency shall be recognized in loss as liability adequacy reserve.

Policy reserve and premium deficiency reserve are discounted using the pre-decided rate, liability adequacy reserve are discounted using the best-estimate for the return on investment, based on current information. However, unearned premium reserve, claim reserve and special reserve are not discounted.

21) Foreign exchange volatility reserve

In accordance with "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises", starting on March 1, 2012, personal insurance industries should set up a foreign exchange volatility reserve under liabilities for their foreign investments. It should transfer some of the special reserve for significant incidents and special reserve for risk volatility of various insurance types recorded under the liabilities as the opening balance of foreign exchange volatility reserve. The maximum amount may not exceed half of the special reserve for significant incidents and the special reserve for risk volatility of various insurance types recorded under the liabilities as of December 31, 2013.

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

22) Revenue recognition

Subsidiary, BOT:

1. Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary operating activities of an entity when those inflows result in increases in equity, other than increase relating to contributions from equity participants.
2. The amount of revenue arising on a transaction is usually determined by agreement between the entity and the buyer or user of the asset. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity. Revenue shall be recognized when all of the following criteria have been satisfied:
 - (a) the seller has transferred to the buyer the significant risks and rewards of ownership.
 - (b) it is probable that the economic benefits associated with the transaction will flow to the seller

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (c) the costs incurred or to be incurred in respect of the transaction can be measured reliably,
 - (d) the seller retains neither continuing managerial involvement to degree usually associated with ownership nor effective control over the goods sold, and
 - (e) the amount of revenue can be measured reliably.
3. Except for the financial assets and liabilities at fair value through profit and loss, the interest revenue and interest expense caused by the interest-bearing financial assets or liabilities are calculated by effective interest method. For loans and receivables, the Company and its subsidiaries shall consider the materiality principle to decide to measure the interest by agreed interest rate or effective interest rate.
 4. Service fee
 - (a) The service fee arising from offering loan service or other services shall be recognized in the accounting period in which the services are rendered.
 - (b) The service fee or expense arising from the loan service shall be amortized in the service period or taken into account for calculating the effective interest of loans and receivables in accordance with the materiality principle.
 5. Dividend revenue: it shall be recognized if and only if the Company and its subsidiaries have right to receive the dividend revenue.
 6. According to the "Civil Servant and Teacher Insurance Act", if GESSI experiences a loss, the loss before May 31, 1999, would be covered by the Ministry of Finance; and the loss after that date would be covered by an adjustment of the insurance premium.
 7. Revenue and expense that relate to the same transaction or other event are recognized simultaneously; this process is commonly referred to as the matching of revenue and expense.

Subsidiary, BTLI:

1. Premium revenue recognition and policy acquisition costs

First-year and renewal premiums of insurance contract and financial instruments with discretionary participation features are respectively recognized as income when premiums are received and the policies are approved or due. Acquisition costs, including commissions and other costs related to acquiring new business, are recognized as expenses as incurred.

Premiums collected from the financial instruments without discretionary participation features under general account shall be recognized on the balance sheet as "reserve for insurance contract with financial feature." Acquisition costs related to acquiring new business are charged to "reserve for insurance contract with financial feature" as the insurance contracts become effective. Premiums collected from the financial instruments without discretionary participation features under separate account for unit-linked products shall be recognized as premium income to the extent of insurance component. The remaining, after being subtracted by other revenues, including up-front fee or investment management service fee income, shall be fully recognized as "separate account liabilities" on the balance sheet.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Investment management service fee income is recognized as revenue when received. However, under the circumstance that the Company is obligated to provide future services for the service fee received (such as up-front fee) the revenue recognition shall be deferred as “unearned revenue liability” until the services are provided and amortized using the straight-line method over the passage of service period as “fee income.” Furthermore, the incremental transaction cost paid due to investment management services provided for these insurance contracts (including commission fee and overriding) shall be deferred to match its corresponding unearned revenue liability as “deferred acquisition cost” and amortized using the straight-line method over the passage of service period as other operating costs.

In accordance with the recognition and calculation principles provided in the “Life Insurance Industry Accounting System Guidance,” the Company determines whether to recognize the unearned revenue liability and the deferred acquisition cost based on the design of the insurance products and the comparison of service revenue received and service cost incurred.

2. Interest revenue

The interest revenue derived from bank deposit, loans, and bonds investments are accounted on an accrual basis. For the over-due receivables, the interest will not be recognized as revenue until they are received.

3. Lease income

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

The Subsidiary, BTS

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

1. Brokerage commissions, profit or loss from the sale of securities, and the relevant charges are recognized on the trade date.
2. Interest income or expenses of margin loans, securities financing and refinancing and bonds purchased under agreement to resell and sold under agreement to repurchase are recognized during the transaction periods on an accrual basis.
3. Consulting revenue and underwriting business revenue and expense are recognized according to agreements on an accrual basis.
4. While offering future exchange supporting business, the future commission revenues received from futures commission merchants are recognized during transaction period on accrual basis.
5. The disposal profit and loss of equity investments measured through fair value are recognized on transaction date.
6. Profit or loss of future: The future margin is recognized at cost. Futures are measured through market price method every day. The valuation and disposal profit or loss shall be recognized in the income statement. The related brokerage fees shall be recognized at the trading date.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

7. The profit or loss of options: The margin is recorded at cost. Options are evaluated using market price method every month before they are exercised. The valuation profit or loss and the disposal profit or loss shall be recognized in the income statement.

8. Interest revenue is calculated using the effective interest rate method.

23) Employee benefit

1. Short-term employee benefit

The payroll, annual bonus, paid annual leave, interest expense arising from preferential interest rate and non-monetary benefit are recognized in the accounting year in which the services are rendered by employees.

2. Pension

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

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

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

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

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

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

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

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to the Consolidated Financial Statements****24) Income tax**

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

1. Current income tax

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

2. Deferred Tax

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

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

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

25) Earnings per share

the Company and its subsidiaries have a simple capital structured. The earnings per share is computed by dividing the net income or loss by the weighted average number of common stocks outstanding over the reporting term.

26) Operating segments

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

The preparation of the financial statements, in conformity with the International Financial Reporting Standards accepted by the FSC, requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

1) Impairment loss on loans

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

2) Fair value of financial instruments

Subsidiary, BOT:

The fair value of non-active market or non-quoted financial instruments is determined using valuation techniques. Such fair value is based on observable data of similar financial instruments or valuation model. If there are no observable market parameters, the fair value of financial instruments is evaluated based on appropriate assumptions. If fair value is determined by the valuation model, the model is calibrated to ensure that all output data and the results reflect the actual market price. This valuation model use only observable data as much as possible. But for credit risk (both our own and the contracting parties credit risk), the managements shall estimate the relation and the variation.

Subsidiary, BTLI:

1. Fair value

The Company holds certain financial instruments without active markets, including financial instruments lacking of active market quotes and financial instruments that turned out to be inactive due to market conditions (ex: low market liquidity). When a market is inactive, it is usually only a few or no observable market data available to measure the fair value of financial instruments. Determination of the existence of an active market for a financial instrument requires management's judgments.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

If the market of an investment held by the Company is not active, the fair value of the instrument is determined with valuation techniques. The Company applies quotes from independent third parties (such as brokers or valuation service providers) or valuation model internally developed to determine the fair value of those financial instruments. When the fair value may be publicly obtained from independent sources, it shall be adopted. Overall, the Company would decide a source and / or a valuation technique as a fair value determination method that can reflect the price achieved between market participants through regular trading as of the balance sheet date. Valuation techniques include adoption of recent arm's length transactions, reference to other instruments with substantially identical basis, application of discounted cash flow analysis, etc., which may also include a number of assumptions related to each variable (such as credit risk and interest rate). Adoption of different valuation techniques or assumptions may lead to significant discrepancies in fair value determination results.

Please refer to note 43 financial risk management relating to the fair value of financial instruments content description for the above the estimated fair value of financial instruments.

2. Impairment

(a) Available-for-sale securities

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

(b) Financial assets carried at amortized cost

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

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

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

(Continued)

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

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

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

3) Income tax

the Company and its subsidiaries need to pay income tax for various countries. When estimating the globe income tax, the Bank relies on significant accounting estimations. Determine the final amount need to go through numerous transactions and calculations. The additional recognition of income tax liability which is related to the tax issue is based on deliberate evaluation of the affection by the issue. The difference between the amount of original estimation and the final amount will affect current income tax and deferred tax.

4) Payments to defined contribution retirement benefit plans

The present value of retirement benefit obligation is based on several actuarial assumptions (including the decisions made by Financial Supervisory Commission, R.O.C.). Any changes on these assumptions will influence the fair value of the retirement benefit obligations. One of the assumptions used to determine net pension cost (income) is the discount rate. The Bank determined the appropriate discount rate at the end of each year, and used the rate to calculate the present value of future cash flows on estimated payment of retirement benefit obligation. To determine the appropriate discount rate, the Bank should consider the followings: (1) interest rate of high-quality corporate bonds or government bonds, (2) the currency used for the corporate bonds or government bonds should be inconsistent with the currency used for retirement benefit payments, (3) and the maturity period should be inconsistent with related pension liability periods. Other significant assumptions used on retirement benefit obligations are based on current market conditions.

5) Classification of insurance policy and significant risk transfer test

The Company is required to recognize insurance risks, other risks and other elements of the issued insurance policies, and determine whether the elements of these contracts can be split and separately calculated and whether the results will affect the classification of insurance contracts.

In addition, the Company shall determine whether the insurance transfer insurance risk exists and contains a nature of business, as well as whether the transfer of insurance risk is materially significant. The Company also makes a significant insurance risk transfer test and the judgments of the test results will affect the classification of insurance contracts.

Identification and separation of the insurance contracts elements and the classification of the insurance contracts will affect the Company's revenue recognition, liabilities measurements and presentation of the financial statements.

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

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

The Company measures insurance liabilities based on the “Regulations Governing Insurance Enterprises for Setting Aside Various Reserves.”

Reserves for life insurance are accrued using the lock-in interest rate assumptions at issue for reserves provision instead of the current market rate.

Unearned premium reserves are calculated from unexpired risks by each insurance. The methods of reserve provision are determined by actuaries on the characteristics of each insurance.

Claims reserve is estimated based on the loss of accrued triangle method. The major assumptions are loss development factors and expected claims rate; hence, it results in ultimate claims costs. The loss development factors and expected loss rates are based on the Company's historical claims experiences, and it also considers expense rates, claims management and other corporation's policy adjustments.

Liability Adequacy Test is estimated based on IFRS 4 “Contracts Classification and Liability Adequacy Test” announced by the Actuarial Institute of the Republic of China. The Company evaluates liability adequacy test using future insurance benefits, premiums, related fees and other reasonable estimates for the current estimates of future cash flows under its insurance contracts.

During the assessment process of liabilities, the use of professional judgment will affect the financial statements regarding the net change in claim liability, insurance contract reserves net change with the nature of financial, and the recognized amounts of the abovementioned.

7) Reinsurance reserves

Reinsurance reserve assets include ceded Unearned premium reserve, ceded Claims reserve, ceded Premium deficiency reserve and ceded Liability adequacy reserve. They shall be estimated according to the “Regulations Governing Insurance Enterprises for Setting Aside Various Reserves” and the “Directions Concerning Compliance with Application of Reinsurance Business” with Over One Year by Life Insurance Enterprises which Recognize Receded Liability Reserves at the Balance Sheet”.

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

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(6) Cash and Cash Equivalents

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

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

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

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

According to the Central Bank of the Republic of China Act and the Banking Act, the deposit reserves are determined monthly at prescribed rates based on the average balances of customers' New Taiwan Dollar denominated deposits. The account B deposit reserve is subject to withdrawal restrictions, but reserve for account A and foreign currency denominated deposit may be withdrawn anytime and are non interest earning.

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

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

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

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

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

(9) Net of Hedging of Financial Assets and Liabilities

The content of hedging assets is as follow:

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

The content of hedging liabilities is as follows:

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Fair value hedge

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

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

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

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

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(11) Receivables, Net

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(12) Loans and Discounts, Net

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

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

	December 31, 2013	December 31, 2012
Loan:		
Balance as at January 1, 2013	\$ 18,009,780	18,087,036
Provision for doubtful accounts	2,792,718	2,826,703
Write-off	(2,662,128)	(5,949,262)
Recovery of written-off	1,908,110	3,192,635
Effects of exchange rate changes and others	(202,892)	(147,332)
Balance as at December 31, 2013	<u>\$ 19,845,588</u>	<u>18,009,780</u>

(Continued)

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

	December 31, 2013	December 31, 2012
Receivables(including other financial assets):		
Balance as at January 1, 2013	\$ 988,275	275,573
Provision for (reversal of) doubtful accounts	(75,326)	247,113
Write-off	(15,116)	(12,064)
Recovery of written-off	20,085	25,438
Effects of exchange rate changes and others	14,416	452,215
Balance as at December 31, 2013	<u>\$ 932,334</u>	<u>988,275</u>
Total	<u>\$ 20,777,922</u>	<u>18,998,055</u>

The details of allowance for doubtful accounts were as follows:

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

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

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

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(14) Held to maturity Financial Assets, Net

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

(15) Investments under Equity Method, Net

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

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	December 31, 2013	December 31, 2012	January 1, 2012
Total assets:			
Hua Nan Financial Holdings Co., Ltd.	\$ 2,164,728,571	2,066,649,295	1,979,259,175
Taiwan Life Insurance Co., Ltd.	449,732,462	416,158,621	360,302,493
Tang-Eng Iron Works Co., Ltd.	27,712,833	24,570,091	23,488,955
Tai Yi Real-Estate Management Co., Ltd.	98,783	70,864	60,006
Kaohsiung Ammonium Sulfate Co., Ltd.	3,491,444	3,658,414	-
Total liabilities:			
Hua Nan Financial Holdings Co., Ltd.	\$ 2,029,067,792	1,937,036,793	1,855,976,586
Taiwan Life Insurance Co., Ltd.	436,864,370	399,276,118	350,642,536
Tang-Eng Iron Works Co., Ltd.	20,706,907	16,651,270	15,054,831
Tai Yi Real-Estate Management Co., Ltd.	41,487	11,915	9,265
Kaohsiung Ammonium Sulfate Co., Ltd.	956,465	1,052,835	-
		2013	2012
Revenue:			
Hua Nan Financial Holdings Co., Ltd.	\$	35,501,692	33,908,439
Taiwan Life Insurance Co., Ltd.		56,289,187	69,423,325
Tang-Eng Iron Works Co., Ltd.		18,535,991	18,762,955
Tai Yi Real-Estate Management Co., Ltd.		52,695	43,854
Kaohsiung Ammonium Sulfate Co., Ltd.		6,626	6,697
Net income (loss) for the period:			
Hua Nan Financial Holdings Co., Ltd.	\$	10,051,291	8,940,526
Taiwan Life Insurance Co., Ltd.		477,304	1,946,948
Tang-Eng Iron Works Co., Ltd.		(950,941)	(478,627)
Tai Yi Real-Estate Management Co., Ltd.		5,734	10,159
Kaohsiung Ammonium Sulfate Co., Ltd.		(70,600)	(29,842)
1. The investment gains from the investees audited by other auditors were \$2,521,721 and \$2,244,000 in 2013 and 2012, respectively.			
2. The investment loss from the investees amounting \$64,853 and \$27,413 in 2013 and 2012, respectively, were based on its unaudited financial statements.			
3. Since the process of liquidation of Kaohsiung Ammonium Sulfate Co., Ltd., the Bank has no power to control such investee. The liquidators and supervisors were appointed by the Ministry of Economic Affairs.			

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(16) Other Financial Assets, Net

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

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

(Continued)

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

(17) Investment property

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

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

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

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The fair value of investment property is based on a valuation performed by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued. The range of yields applied to the net annual rentals income to determine fair value of property for which current prices are not available in an active market are as follows:

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

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

(18) Property and Equipment, Net

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	Land and Land improvements	Buildings	Machinery and equipment	Transportation equipment	Miscellaneous equipment	Leasehold improvements	Construction in progress and prepayment for equipment	Total
Accumulated impairment:								
Balance at January 1, 2013	\$ 72,522	-	-	-	-	-	-	72,522
Impairment loss	19,013	-	-	-	-	-	-	19,013
Balance at December 31, 2013	<u>\$ 91,535</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>91,535</u>
Balance at December 31, 2012	\$ 482	-	-	-	-	-	-	482
Impairment loss	72,040	-	-	-	-	-	-	72,040
Balance at December 31, 2012	<u>\$ 72,522</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>72,522</u>
Net:								
December 31, 2013	<u>\$ 87,514,406</u>	<u>9,401,622</u>	<u>1,711,158</u>	<u>207,054</u>	<u>205,782</u>	<u>81,493</u>	<u>248,131</u>	<u>99,369,646</u>
December 31, 2012	<u>\$ 87,657,970</u>	<u>9,687,767</u>	<u>1,715,249</u>	<u>225,161</u>	<u>220,143</u>	<u>100,825</u>	<u>351,101</u>	<u>99,958,216</u>
Carrying amounts:								
December 31, 2013	<u>\$ 87,514,406</u>	<u>9,401,622</u>	<u>1,711,158</u>	<u>207,054</u>	<u>205,782</u>	<u>81,493</u>	<u>248,131</u>	<u>99,369,646</u>
December 31, 2012	<u>\$ 87,657,970</u>	<u>9,687,767</u>	<u>1,715,249</u>	<u>225,161</u>	<u>220,143</u>	<u>100,825</u>	<u>351,101</u>	<u>99,958,216</u>
January 1, 2012	<u>\$ 87,907,867</u>	<u>9,672,478</u>	<u>1,739,301</u>	<u>252,516</u>	<u>238,503</u>	<u>110,418</u>	<u>668,656</u>	<u>100,589,739</u>

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

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

(19) Intangible Assets

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

	Computer software
Costs:	
Balance at January 1, 2013	\$ 2,117,444
Additions	299,877
Reclassification	92
Balance at December 31, 2013	<u>\$ 2,417,413</u>
Balance at January 1, 2012	\$ 1,288,647
Additions	828,797
Balance at December 31, 2012	<u>\$ 2,117,444</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	Computer software
Amortization and Impairment loss:	
Balance at January 1, 2013	\$ 940,237
Amortization for the year	414,905
Reclassification	<u>92</u>
Balance at December 31, 2013	<u><u>\$ 1,355,234</u></u>
Balance at January 1, 2012	\$ 458,287
Amortization for the year	<u>481,950</u>
Balance at December 31, 2012	<u><u>\$ 940,237</u></u>
Carrying value:	
Balance at December 31, 2013	<u><u>\$ 1,062,179</u></u>
Balance at December 31, 2012	<u><u>\$ 1,177,207</u></u>
Balance at January 1, 2012	<u><u>\$ 830,360</u></u>

(20) Other Assets

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

1) Foreclosed collaterals and residuals taken over, net

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2) Advance payment

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

3) Inventories

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

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

	2013	2012
Cost of goods sold	\$ <u>(6,899)</u>	<u>(224,303)</u>

(21) Impairment

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(22) Deposits of Central Bank and other banks

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

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

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

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

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

(Continued)

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

3) Financial liabilities held for trading

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

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(24) Commercial paper payable, net

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

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

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(25) Payables

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(26) Deposits and Remittances

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

(27) Financial Bonds Payable

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(28) Borrowings

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

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(29) Other Financial Liabilities

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

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

(30) Provision

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(31) Insurance contract and financial products with discretionary participation feature

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

1) Details of provision for unearned premium:

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012			
	Insurance	Financial	
	Contract	products with	
		discretionary	
		participation	
		feature	Total
Personal life insurance	\$ 7,173	8,640	15,813
Personal injury insurance	83,272	-	83,272
Personal health insurance	117,590	-	117,590
Group insurance	146,862	-	146,862
Investment-linked insurance	37	-	37
Total	<u>354,934</u>	<u>8,640</u>	<u>363,574</u>
Deduction of provision for unearned premium outward:			
Personal life insurance	494	108	602
Personal injury insurance	9,237	-	9,237
Investment-linked insurance	6,308	-	6,308
Total	<u>16,039</u>	<u>108</u>	<u>16,147</u>
Net	<u>\$ 338,895</u>	<u>8,532</u>	<u>347,427</u>
January 1, 2012			
	Insurance	Financial	
	Contract	products with	
		discretionary	
		participation	
		feature	Total
Personal life insurance	\$ 4,860	8,398	13,258
Personal injury insurance	83,698	-	83,698
Personal health insurance	117,850	-	117,850
Group insurance	152,811	-	152,811
Investment-linked insurance	31	-	31
Total	<u>359,250</u>	<u>8,398</u>	<u>367,648</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	1	-	1
Total	<u>19,875</u>	<u>85</u>	<u>19,960</u>
Net	<u>\$ 339,375</u>	<u>8,313</u>	<u>347,688</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	Insurance Contract	2013 Financial products with discretionary participation feature	Total
January 1, 2013	\$ 354,934	8,640	363,574
Provision	416,252	5,735	421,987
Reclaim	(353,750)	(8,640)	(362,390)
Other	(4)	-	(4)
December 31, 2013	<u>417,432</u>	<u>5,735</u>	<u>423,167</u>
Deduction of provision for unearned premium outward			
January 1, 2013, net	16,039	108	16,147
Provision	11,621	109	11,730
Reclaim	<u>(16,039)</u>	<u>(108)</u>	<u>(16,147)</u>
December 31, 2013, net	<u>11,621</u>	<u>109</u>	<u>11,730</u>
Total	<u>\$ 405,811</u>	<u>5,626</u>	<u>411,437</u>
	Insurance Contract	2012 Financial products with discretionary participation feature	Total
January 1, 2012	\$ 359,250	8,398	367,648
Provision	354,930	8,640	363,570
Reclaim	(359,245)	(8,398)	(367,643)
Other	(1)	-	(1)
December 31, 2012	<u>354,934</u>	<u>8,640</u>	<u>363,574</u>
Deduction of provision for unearned premium outward			
January 1, 2012, net	19,875	85	19,960
Provision	16,039	108	16,147
Reclaim	<u>(19,875)</u>	<u>(85)</u>	<u>(19,960)</u>
December 31, 2012, net	<u>16,039</u>	<u>108</u>	<u>16,147</u>
Total	<u>\$ 338,895</u>	<u>8,532</u>	<u>347,427</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2) Details of provision for claims:

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	Insurance Contract	January 1, 2012 Financial products with discretionary participation feature	Total
Personal life Insurance			
Reported but not paid	\$ 4,888	518	5,406
Not reported and not paid	167	1,715	1,882
Personal injury insurance			
Reported but not paid	1,136	-	1,136
Not reported and not paid	6,911	-	6,911
Personal health insurance			
Reported but not paid	4,040	-	4,040
Not reported and not paid	13,535	-	13,535
Group insurance			
Reported but not paid	2,511	-	2,511
Not reported and not paid	30,725	-	30,725
Investment-linked insurance			
Reported but unpaid	<u>1,135</u>	<u>-</u>	<u>1,135</u>
Total	<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 SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

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

	2012		
	Insurance	Financial	
	Contract	products with	
		discretionary	
		participation	Total
		feature	
January 1, 2012	\$ 65,048	2,233	67,281
Provision	221,092	26,223	247,315
Recovery	<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, net	2,740	1	2,741
Provision	9,287	160	9,447
Recovery	<u>(9,646)</u>	<u>(104)</u>	<u>(9,750)</u>
December 31, 2012, net	<u>2,381</u>	<u>57</u>	<u>2,438</u>
Closing balance	<u>\$ 64,182</u>	<u>21,568</u>	<u>85,750</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

3) Details of liability reserve :

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

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

(Continued)

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

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

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

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

4) Details of special reserve for life insurance:

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

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

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The movements of special reserve are listed below:

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

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

5) Premium deficiency reserve:

	December 31, 2013		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	<u>\$ 702,608</u>	<u>-</u>	<u>702,608</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	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>

	January 1, 2012		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	\$ 1,399,586	-	1,399,586
Personal injury insurance	629	-	629
Group insurance	5,007	-	5,007
Total	<u>\$ 1,405,222</u>	<u>-</u>	<u>1,405,222</u>

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

	2013		
	Insurance Contract	Financial products with discretionary participation feature	Total
January 1, 2013	\$ 965,808	-	965,808
Provision	222,339	-	222,339
Reclaim	(485,600)	-	(485,600)
Exchange rate effect	61	-	61
Closing Balance	<u>\$ 702,608</u>	<u>-</u>	<u>702,608</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

6) Details of provision for liability adequacy:

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

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

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

(Continued)

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

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

	December 31, 2013	December 31, 2012	January 1, 2012
Test Method	Long term insurance : gross premium evaluation method:	Long term insurance : gross premium evaluation method:	Long term insurance : gross premium evaluation method:
	Short term insurance (reinsurance) : loss evaluation method	Short term insurance (reinsurance) : loss evaluation method	Short term insurance (reinsurance) : loss evaluation method
Group	Test long and short term insurance separately	Test long and short term insurance separately	Test long and short term insurance separately
Significant assumption	Based on the newest composed of asset on the time of evaluating and the level of risk-free interest rate, discount rates are calculated using the best estimated scenario investment return based on actuarial report of 2012, with unchanged assumption for discount rates after 30 year.	Discount rates are calculated using the best estimated scenario investment return based on actuarial report of 2011, with unchanged assumption for discount rates after 30 year.	Discount rates are calculated using the best estimated scenario investment return based on actuarial report of 2010, with unchanged assumption for discount rates after 30 year.

(32) Foreign exchange fluctuation reserve

- 1) Hedging strategy and risk exposure:

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

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

(Continued)

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

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

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

- 3) Effect of foreign exchange fluctuation reserve:

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

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

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(33) Provision for employee benefit

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

(34) Other Liabilities

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

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

(35) Income Tax Expenses

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

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

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

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

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

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2) Recognized Deferred Tax Assets and Liabilities

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

Deferred Tax Liabilities:

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

Deferred Tax Assets:

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

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

	December 31, 2013	December 31, 2012	January 1, 2012
Unappropriated earnings of 1998 and after	<u>\$ 6,796,220</u>	<u>23,440,480</u>	<u>22,214,808</u>
	December 31, 2013	December 31, 2012	January 1, 2012
Balance of deductible tax account	<u>\$ 1,072,860</u>	<u>2,119,219</u>	<u>2,950,557</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	2013(Projected)	2012(Actual)
Imputed tax creditable ratio for appropriating net income	<u>22.22</u> %	<u>20.48</u> %

The integrated income tax is calculated according to the Tai Cai Shui No.10204562810.

(36) Equity

1) Capital stock

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

2) Capital surplus

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

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

3) Legal reserve

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

4) Appropriation of earnings

The articles of incorporation of the Bank stipulate that net income should be distributed in the following order:

1. to settle all outstanding tax payable;
2. to offset prior years losses;
3. to appropriate 10% as legal reserve;

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

4. special reserve

to appropriate 40~60% as special reserve; In according with Ruling No.1010012865 issued by FSC on April 6, 2012, the Bank and subsidiaries choose to apply exemptions granted under IFRS 1 first time adoption of International Financial Reporting Standards shall be reclassified as a special earnings reserve during earnings distribution. When the relevant asset were used, disposed of, or reclassified, this special earnings reserve shall be reserved as distributable earnings proportionality.

5. dividends

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

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

5) Other equity

	Foreign currency translation adjustments	Unrealized gain on valuation of available-for- sale financial assets	Total
Balance as of January 1, 2013	\$ (369,751)	13,641,022	13,271,271
Available-for-sale financial assets — unrealized valuation adjustment	-	3,737,018	3,737,018
Foreign currency translation	62,967	-	62,967
Balance as of December 31, 2013	<u>\$ (306,784)</u>	<u>17,378,040</u>	<u>17,071,256</u>
	Foreign currency translation adjustments	Unrealized gain on valuation of available-for- sale financial assets	Total
Balance as of January 1, 2012	\$ (18,194)	7,607,021	7,588,827
Available-for-sale financial assets — unrealized adjustment valuation	-	6,034,001	6,034,001
Foreign currency translation	(351,557)	-	(351,557)
Balance as of December 31, 2012	<u>\$ (369,751)</u>	<u>13,641,022</u>	<u>13,271,271</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(37) Net interest income

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

(38) Service fees, net

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

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(40) Realized gain (loss) on available for sale financial assets

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

(41) Other non-interest income (expenses)

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

(42) Employee benefits expenses

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

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

(43) Depreciation and amortization expenses

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

(44) Other general and administrative expenses

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

(45) Earnings per Share

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

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

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(46) Insurance income, net

2013			
	BOT government employees' insurance department	BTLI	Total
Premium income	\$ 20,863,143	48,020,875	68,884,018
Amortized reinsurance claims payment	-	23,947	23,947
Income on insurance product-separated account	-	2,780,191	2,780,191
Insurance business income	<u>20,863,143</u>	<u>50,825,013</u>	<u>71,688,156</u>
Reinsurance expense	-	72,540	72,540
Direct business expenses	-	33,049	33,049
Insurance claims payment	26,426,619	31,976,752	58,403,371
Disbursement toward industry stability	-	48,019	48,019
Disbursement on insurance product separated account	-	2,780,191	2,780,191
Insurance business expenses	<u>26,426,619</u>	<u>34,910,551</u>	<u>61,337,170</u>
Net income from insurance business	<u>\$ (5,563,476)</u>	<u>15,914,462</u>	<u>10,350,986</u>
2012			
	BOT government employees' insurance department	BTLI	Total
Premium income	\$ 17,992,149	56,702,546	74,694,695
Amortized reinsurance claims payment	-	26,537	26,537
Income on insurance product-separated account	-	1,632,628	1,632,628
Insurance business income	<u>17,992,149</u>	<u>58,361,711</u>	<u>76,353,860</u>
Reinsurance expenses	-	78,105	78,105
Direct business expenses	-	24,076	24,076
Insurance claims payment	28,267,159	12,861,647	41,128,806
Disbursement toward industry stability	-	56,697	56,697
Disbursement on insurance product separated account	-	1,632,628	1,632,628
Insurance business expenses	<u>28,267,159</u>	<u>14,653,153</u>	<u>42,920,312</u>
Net income from insurance business	<u>\$ (10,275,010)</u>	<u>43,708,558</u>	<u>33,433,548</u>

(Continued)

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

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

1) Retained earned premiums

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2) Retained claims payment

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

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

(47) Capital management

1) The capital management objectives and processes

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

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

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2013

Unit: Thousands of New Taiwan Dollars; %

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

December 31, 2012

Unit: Thousands of New Taiwan Dollars; %

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

January 1, 2012

Unit: Thousands of New Taiwan Dollars; %

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

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

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

The transactions mentioned in the preceding paragraph include:

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

The certain amount, certain percentage, content and format of reporting and disclosure referred to in Paragraph 1 hereof, and other matters to be complied with shall be prescribed by the Competent Authority.

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

(Continued)

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

(48) Information of Financial Instruments

The subsidiary, BOT

1) Overview

The risks including credit risk, market risk, operational risk, interest rate risk, liquidity risk, national risk, legal risk and so forth resulted from the business no matter on/off the financial statements should be managed. The principle of risk management is as follow:

1. Monitor the BIS Capital Adequacy Ratio in response to operation scale, credit risk, market risk, operational risk and the operating trades in the future.
2. Establish a systematic risk measure and control mechanism to measure, monitor and control every risk.
3. Manage every business risk considering the risk capacity, capital reserve, nature of debts and performance.
4. Establish a valuation method for the quality and classification of assets, control the intensity of exposure and significant exposure, check periodically and recognize allowance for loss.
5. Establish information system protection mechanism and emergency plan for bank operation, transactions, and information. Build an independent and effective risk management mechanism and strengthen the risk management of business through appropriate policies, procedures, and systems.

2) Risk management committee

The risk management committee of the Company and its subsidiaries is composed by the Board of Directors, risk management committee, risk management department and every operational unit.

1. The Board of Director is the final decision maker for risk management and is responsible for the result of risk. The Board of Director should decide the entire risk management policies in view of operational strategies and business environment to monitor the risk management mechanism which understand the risk status and maintain the appropriate Capital Adequacy Ratio in response to all risk.
2. Risk management committee under the board of directors is responsible for executing risk management policies and coordinating interdepartmental management of risk.
3. Risk management department is responsible for monitoring, tracing the execution status of risk management policies and submitting reports to the board of directors or risk management committee. If a significant risk exposure is discovered, the risk management department has to make appropriate procedures and report them to the board of directors.
4. Every department should identify, evaluate, and control the risks of new products or business, set related risk management regulations as a guideline, and monitor the risk management to ensure the risk control of entire company.
5. All operational units shall comply with the regulations for risk management.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to the Consolidated Financial Statements****3) Credit Risk****1. Causes and definition of credit risk**

Credit risk refers to the default risk resulted from the borrowers, issuers and contracting parties not fails to meet its contractual obligations due to their credit deterioration or other factors (such as the argument between the borrower and their counter party). The credit risk is derived from the assets, liabilities or off-balance sheet items. The assets and liabilities indicate loans, placement with banks, call loans to banks, security investments and so on. Off-balance sheet items are guarantees, acceptances, L/C, loan committees and so on.

2. Identification and measurement of credit risk

Ensure the credit risk is in a tolerable range, the Company and its subsidiaries set the credit risk management policies which identified that the credit risk includes all the transactions and business related to the assets, liabilities and off-balance sheet items. Before executing present or new businesses, the Company and its subsidiaries shall identify the credit risk, understand the risk exposure through appropriate evaluation and assess the possibilities of default.

Except that the local financial supervisory institutions have their own regulations, the overseas business units of the Company and its subsidiaries shall conduct the credit ability of the loans and discounts and recognized of impairment in accordance with the “Operational Manual of Evaluating the Impairment of Loans and Receivables”. The followings are the content of the mechanism of credit assets categories and post-loan management and internal credit rating.

(a) Credit assets categories and post-loan management

The Company and its subsidiaries set “Operational Manual of Evaluating the Impairment of Loans and Receivables” and classify the credit assets into five categories. Except that the normal credit assets are classified at the first category, the other bad credit rating assets are classified as the second category- requiring attention, the third category- collectable, the forth category- hard to collect and the fifth category-impossible to collect by assessing the collaterals and overdue days. In order to reinforce the post-loan management, the Company and its subsidiary set the “Credit Review and Follow up Evaluations Provision”, the “Review of the Credit Conducted by Managers Provision” and “Warning Mechanism Provision” and evaluate and monitor the quality of credit assets regularly. Also, the Company and its subsidiary keep retrial according to rating of credit cases and check significant credit case periodically to enhance the management of abnormal credit for the intention of warning and interim monitor.

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

(b) Internal credit rating

When conducting credit review, the Company and its subsidiaries will obtain necessary collateral to mitigate risk arising from financial loss due to the environment, economic changes, risk factors of business development strategies and policies. In order to balance the credit risk and earnings target, they strengthen the market competitiveness of products, strive for customer identification and broaden the business. The following corporate finance and consumer finance.

a) Corporate Finance

The Bank has established a credit policy under which each new customer is analyzed individually for creditworthiness before the interest rate is offered. The Bank's review includes external rating, when available, and in some cases based on the information publicly available. The corporate credit rating score classifies companies into two types, the large-scale enterprise and the medium-scale enterprise. Then they measure their scale, financial and business status, business management and industry characteristic. There are eight credit ratings.

b) Consumer Finance

The Company and its subsidiaries use the credit application scorecard and behavior scorecard both of which have five grades to consider the credit risk evaluation and differential interest rate. Unsecured consumer loans are graded based on seven scoring items and classified into five ratings. The Company and its subsidiaries will reject those below the lowest scores; the others are reviewed in accordance with related provisions.

3. Management of maximum exposure to credit risk and excessive risk concentration

- (a) In accordance with the Banking Law, there is a credit limitation management for the Company and its subsidiaries' person in charge, employees, and any interested party. In respect to credit intensity, the Company and its subsidiaries provide credit and investment quota rules for the same enterprise, and industry. The Company and its subsidiaries also limit and manage the credit amount for enterprises, groups and every industry.
- (b) the Company and its subsidiaries' Treasury Department, OBU, and foreign branches provide different credit amount according to external credit evaluation and rankings when having a transaction in the currency market or capital market, foreign exchange, new financial instruments transactions and negotiable security transactions.
- (c) To diversify the risk for countries, the Company and its subsidiaries allocate different credit amount according to the ranking of the countries in Euromoney to the Financing Department, OBU, and foreign branches. The covered businesses are loan assets, transaction assets, and off balance sheet positions.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

4. Policies of credit risk deduction

Considering both credit control and business expansion, the Company and its subsidiaries shall request collaterals or guarantees to decrease the credit risk. The permitted collaterals and guarantees included mortgages on real estate or properties (i.e., land, building, machinery, car, ship, aircraft, etc.), pledges of securities or other rights (i.e., certificates of deposit; various bonds, stocks, or other securities), guarantees provided by the government agencies, banks, or credit guarantee institutions authorized by the government, and any other guarantees or collaterals approved by the Company and its subsidiary.

5. The maximum credit exposure to the credit risk of financial assets (without considering the allowance for bad debt, collaterals and guarantees)

(a) Assets in the Financial Statements

Item	December 31, 2013		December 31, 2012		January 1, 2012	
	Book Value	Maximum credit exposure (Note 3)	Book Value	Maximum credit exposure (Note 2)	Book Value	Maximum credit exposure (Note 1)
Cash and cash equivalents	86,974	62,903	51,439	22,260	51,515	26,281
Placement with Central Bank and call loans to banks	585,461	146,103	549,658	140,442	488,560	72,379
Financial assets measured at fair value through profit or loss	67,424	61,832	60,895	59,247	45,107	44,225
Available-for-sale financial assets	765,519	110,741	734,866	102,751	757,369	108,264
Hedging derivatives	5	5	4	4	3	3
Bonds and bills purchased under resell agreements	6,173	6,173	4,981	4,981	3,232	3,232
Receivables	86,203	58,437	86,352	55,378	73,682	71,850
Loans and discounts	2,260,469	2,141,316	2,194,999	1,953,661	2,171,539	1,884,797
Held to maturity financial assets	15,376	12,623	7,056	6,400	621	31
Other assets	70,418	23,183	69,802	22,865	72,242	58,692
Total	\$ 3,944,022	2,623,316	3,760,052	2,367,989	3,663,870	2,269,754

Note 1: January 1, 2012

- (1) The amount of non-performing loans which included the department of loan management was \$8,263 million).
- (2) Apart from cash, the maximum exposure to credit risk of other assets shall exclude the debts (including tax receivables, placement with central bank and deposits in central bank) from the government, the national health insurance administration and central bank. Explanations are as follow.
 - 1) Cash and cash equivalents exclude cash and notes and checks for clearing (\$25,234 million).
 - 2) Placement with central bank and call loans to banks exclude placement with central bank and deposits in central bank (\$416,181 million).
 - 3) Financial assets at fair value through profit or loss exclude government bonds (\$882 million).
 - 4) Available-for-sale financial assets exclude government bonds (\$26,495 million) and negotiable certificate of deposits (\$622,610 million).
 - 5) Held to maturity financial assets exclude government bonds (\$590 million).
 - 6) Receivables exclude tax receivable (\$1,832 million).

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 7) Discount and loan exclude loan to government (\$258,642 million) and loan to the national health insurance administration (\$28,100 million).
- 8) Other financial assets exclude short term advance to government (\$13,550 million).
- (3) The greatest impact of the credit exposure is the fair value at the balance sheet date; the book value of hedging derivatives is the principal of the hedging instruments (IRS); and the amount of greatest credit exposure is the adjusted amount of hedging derivatives at fair value.
- (4) The carrying amounts excluded the assets of the Department of Government Employees Insurance.

Note 2: December 31, 2012

- (1) The amount of non-performing loans which included the department of loan management was \$10,027 million).
- (2) Apart from cash, the maximum exposure to credit risk of other assets shall exclude the debts (including tax receivables, placement with central bank and deposits in central bank) from the government, the national health insurance administration and central bank. Explanations are as follow.
 - 1) Cash and cash equivalents excludes cash and notes and checks for clearing (\$29,179 million).
 - 2) Placement with central bank and call loans to banks excludes placement with central bank and deposits in central bank (\$409,216 million).
 - 3) Financial assets at fair value through profit or loss exclude government bonds (\$653 million) and treasury securities (\$995 million).
 - 4) Available-for-sale financial assets exclude government bonds (\$24,948 million) and negotiable certificate of deposits (\$607,167 million).
 - 5) Held to maturity financial assets exclude government bonds (\$656 million).
 - 6) Receivables exclude tax receivable (\$2,098 million) and paid for government premium savings interest expense, under long-term receivable (\$28,876 million).
 - 7) Discount and loan exclude loan to government (\$223,338 million) and loan to the national health insurance administration (\$18,000 million).
 - 8) Other financial assets exclude short term advance to government (\$46,937 million).
- (3) The greatest impact of the credit exposure is the fair value at the balance sheet date; the book value of hedging derivatives is the principal of the hedging instruments (IRS); and the amount of greatest credit exposure is the adjusted amount of hedging derivatives at fair value.
- (4) The carrying amounts excluded the assets of the Department of Government Employees Insurance.

Note 3: December 31, 2013

- (1) The amount of non-performing loans which included the department of loan management was \$8,743 million).
- (2) Apart from cash, the maximum exposure to credit risk of other assets shall exclude the debts (including tax receivables, placement with central bank and deposits in central bank) from the government, the national health insurance administration and central bank. Explanations are as follow.
 - 1) Cash and cash equivalents excludes cash and notes and checks for clearing (\$24,071 million).
 - 2) Placement with central bank and call loans to banks excludes placement with central bank and deposits in central bank (\$439,358 million).
 - 3) Financial assets at fair value through profit or loss exclude government bonds (\$4,989 million) and treasury securities (\$602 million).
 - 4) Available-for-sale financial assets exclude government bonds (\$29,508 million) and negotiable certificate of deposits (\$625,270 million).
 - 5) Held to maturity financial assets exclude government bonds (\$2,754 million).

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 6) Receivables exclude tax receivable (\$2,139 million).
 7) Discount and loan exclude loan to government (\$119,153 million).
 8) Other financial assets exclude short term advance to government (\$47,234 million).
 (3) The greatest impact of the credit exposure is the fair value at the balance sheet date; the book value of hedging derivatives is the principal of the hedging instruments (IRS); and the amount of greatest credit exposure is the adjusted amount of hedging derivatives at fair value.
 (4) The carrying amounts exclude the assets of the Department of Government Employees Insurance.

(b) Off-balance Sheet Items

Item	December 31, 2013		December 31, 2012		January 1, 2012	
	Book Value	Maximum credit exposure (Note 3)	Book Value	Maximum credit exposure (Note 2)	Book Value	Maximum credit exposure (Note 1)
Irrevocable loan commitment (with credit agreement)	483,971	93,801	523,383	292,576	390,357	390,357
Letter of credit receivables	32,738	32,362	46,719	46,378	43,112	43,112
Deposits receivables	<u>83,280</u>	<u>83,276</u>	<u>73,486</u>	<u>73,470</u>	<u>71,390</u>	<u>71,390</u>
Total	<u>\$ 599,989</u>	<u>209,439</u>	<u>643,588</u>	<u>412,424</u>	<u>504,859</u>	<u>504,859</u>

Note 1: January 1, 2012

While measuring the maximum exposure to credit risk, the Company and its subsidiary only consider the items that are positive at reporting date and the off-balance commitments and guarantee contracts. We don't take the type of counterparty into account.

Note 2: December 31, 2012

While measuring the maximum exposure to credit risk, the Company and its subsidiary only consider the items that are positive at reporting date and the off-balance commitments and guarantee contracts and exclude the position to the government.

- (1) Irrevocable loan commitment with credit agreement excludes \$230,807 million.
 (2) Letter of credit receivables exclude \$341 million.
 (3) Acceptance receivable excludes \$16 million.

Note 3: December 31, 2013

While measuring the maximum exposure to credit risk, the Company and its subsidiary only consider the items that are positive at reporting date and the off-balance commitments and guarantee contracts and exclude the position to the government.

- (1) Irrevocable loan commitment with credit agreement excludes \$390,170 million.
 (2) Letter of credit receivables exclude \$376 million.
 (3) Acceptance receivable excludes \$4 million.

6. Concentration of credit risk

When the transaction of financial instruments is concentrated in a single industry or region, the ability to oblige the contract would be impacted by similar factors, thereby causing concentration of credit risk.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The credit risk of the Company and its subsidiaries is derived from credit, placement with banks, call loans to banks, security investments and so on. Disclosures of concentration of credit risk by industries, regions and collaterals are as follows:

(a) Industry

Industry type	December 31, 2013		December 31, 2012		January 1, 2012	
	Book Value (Note 3)	%	Book Value (Note 2)	%	Book Value (Note 1)	%
Finance and insurance	1,058,076	31.48 %	959,120	29.92 %	906,963	29.16 %
Individuals	785,104	23.36 %	722,698	22.54 %	684,213	22.00 %
Government Agencies	367,730	10.94 %	455,359	14.21 %	491,268	15.80 %
Manufacturing	426,103	12.68 %	430,949	13.44 %	414,625	13.33 %
Electricity and gas supply	144,634	4.30 %	125,647	3.92 %	134,589	4.33 %
Shipping, warehousing and communications	124,170	3.69 %	134,026	4.18 %	132,623	4.26 %
Others	455,340	13.55 %	377,999	11.79 %	345,863	11.12 %
Total	\$ 3,361,157	100.00 %	3,205,798	100.00 %	3,110,144	100.00 %

Note 1: January 1, 2012

- (1) The carrying amounts include loans (\$2,171,539 million), call loans to banks, overdraft of banks and placement with banks (\$98,661 million), security investments (\$839,944 million) and so on. Loans refer to discounts, overdrafts, government overdrafts, secured overdrafts, short-term loans, short-term secured loans, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, import bill advance and nonperforming loans (\$8,263 million). Security investments include bonds and stocks. Bonds are measured at fair value. However the bonds classified as held-to-maturity financial assets or bond investments in non-active market are carried at cost. Equity investments are measure at fair value but those classified as cost of long-term equity investments under the equity method and financial assets carried at cost are measured at cost.

- (2) The carrying amounts exclude the assets of the Department of Government Employees Insurance.

Note 2: December 31, 2012

- (1) The carrying amounts include loans (\$2,194,999 million), call loans to banks, overdraft of banks and placement with banks (\$162,702 million), security investments (\$848,097 million) and so on. Loans refer to discounts, overdrafts, government overdrafts, secured overdrafts, short-term loans, short-term secured loans, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, import bill advance and nonperforming loans (\$10,027 million). Security investments include bonds and stocks. Bonds are measured at fair value. However the bonds classified as held-to-maturity financial assets or bond investments in non-active market are carried at cost. Equity investments are measure at fair value but those classified as cost of long-term equity investments under the equity method and financial assets carried at cost are measured at cost.

- (2) The carrying amounts exclude the assets of the Department of Government Employees Insurance.

Note 3: December 31, 2013

- (1) The carrying amounts include loans (\$2,260,468 million), call loans to banks, overdraft of banks and placement with banks (\$209,006 million), security investments (\$891,683 million) and so on. Loans refer to discounts, overdrafts, government overdrafts, secured overdrafts, short-term loans, short-term secured loans, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, import bill advance and nonperforming loans (\$8,743 million). Security investments include bonds and stocks. Bonds are measured at fair value. However the bonds classified as held-to-maturity financial assets or bond investments in non-active market are carried at cost. Equity investments are measure at fair value but those classified as cost of long-term equity investments under the equity method and financial assets carried at cost are measured at cost.

(Continued)

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

(2) The carrying amounts exclude the assets of the Department of Government Employees Insurance.

(b) Region

Areas type	December 31, 2013		December 31, 2012		January 1, 2012	
	Book Value (Note 3)	%	Book Value (Note 2)	%	Book Value (Note 1)	%
Domestic	\$ 3,007,242	89.47 %	2,866,905	89.43 %	2,822,780	90.76 %
Foreign	353,915	10.53 %	338,893	10.57 %	287,364	9.24 %
Total	\$ 3,361,157	100.00 %	3,205,798	100.00 %	3,110,144	100.00 %

Note 1: January 1, 2012

(1) The carrying amounts include loans (\$2,171,539 million), call loans to banks, overdraft of banks and placement with banks (\$98,661 million), security investments (\$839,944 million) and so on. Loans refer to discounts, overdrafts, government overdrafts, secured overdrafts, short-term loans, short-term secured loans, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, import bill advance and nonperforming loans (\$8,263 million). Security investments include bonds and stocks. Bonds are measured at fair value. However the bonds classified as held-to-maturity financial assets or bond investments in non-active market are carried at cost. Equity investments are measure at fair value but those classified as cost of long-term equity investments under the equity method and financial assets carried at cost are measured at cost.

(2) The carrying amounts exclude the assets of the Department of Government Employees Insurance.

Note 2: December 31, 2012

(1) The carrying amounts include loans (\$2,194,999 million), call loans to banks, overdraft of banks and placement with banks (\$162,702 million), security investments (\$848,097 million) and so on. Loans refer to discounts, overdrafts, government overdrafts, secured overdrafts, short-term loans, short-term secured loans, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, import bill advance and nonperforming loans (\$10,027 million). Security investments include bonds and stocks. Bonds are measured at fair value. However the bonds classified as held-to-maturity financial assets or bond investments in non-active market are carried at cost. Equity investments are measure at fair value but those classified as cost of long-term equity investments under the equity method and financial assets carried at cost are measured at cost.

(2) The carrying amounts exclude the assets of the Department of Government Employees Insurance.

Note 3: December 31, 2013

(1) The carrying amounts include loans (\$2,260,468 million), call loans to banks, overdraft of banks and placement with banks (\$209,006 million), security investments (\$891,683 million) and so on. Loans refer to discounts, overdrafts, government overdrafts, secured overdrafts, short-term loans, short-term secured loans, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, import bill advance and nonperforming loans (\$8,743 million). Security investments include bonds and stocks. Bonds are measured at fair value. However the bonds classified as held-to-maturity financial assets or bond investments in non-active market are carried at cost. Equity investments are measure at fair value but those classified as cost of long-term equity investments under the equity method and financial assets carried at cost are measured at cost.

(2) The carrying amounts exclude the assets of the Department of Government Employees Insurance.

(Continued)

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

(c) Collateral

Name of collateral	December 31, 2013		December 31, 2012		January 1, 2012	
	Book Value (Note 1)	%	Book Value (Note 1)	%	Book Value (Note 1)	%
Non-secured bonds	\$ 1,002,278	44.34 %	1,040,433	47.40 %	1,059,025	48.77 %
Secured bonds	1,258,191	55.66 %	1,154,566	52.60 %	1,112,514	51.23 %
Guarantee	164,998	7.30 %	155,857	7.10 %	147,695	6.80 %
Securities	104,249	4.61 %	106,286	4.84 %	107,041	4.93 %
Real estate	911,999	40.35 %	800,139	36.45 %	760,788	35.04 %
Chattel	76,615	3.39 %	91,709	4.18 %	96,513	4.44 %
Valuables	330	0.01 %	575	0.03 %	477	0.02 %
Total	\$ 2,260,469	100.00 %	2,194,999	100.00 %	2,171,539	100.00 %

Note 1: The carrying amounts only contain loans which refer to discounts, overdrafts, government overdrafts, secured overdrafts, short-term loans, short-term secured loans, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, import bill advance and non-performing loans (\$8,743 million at December 31, 2013; \$10,027 million at December 31, 2012; \$8,263 million at January 1, 2012).

Note 2: The carrying amounts exclude the assets of the Department of Government Employees Insurance.

i) Credit Quality Analysis for Discounts and Loans and Receivables

2013/12/31	Performing loans						NPL but not impair amount(B)	Impairment Amount(C)	Total (A)+(B)+(C)	Impairment loss(D)		Net (A)+(B)+(C)-(D)
	Very good	Good	Medium	Weak	Non-evaluate	Subtotal(A)				With objective	No objective	
Account receivable												
Credit card business	136,076	82,960	104,677	538,468	638	852,819	27,169	6,751	896,739	3,595	832	892,312
Others	824,418	4,250,300	1,644,828	1,318,754	557,091	8,595,391		284,199	8,879,590	111,212	161,494	8,606,884
Loans and Discount	213,073,655	1,098,504,465	425,111,425	340,836,311	143,981,970	2,221,507,826		38,960,718	2,260,468,544	8,294,687	11,521,399	2,240,652,458

2012/12/31	Performing loans						NPL but not impair amount(B)	Impairment Amount(C)	Total (A)+(B)+(C)	Impairment loss(D)		Net (A)+(B)+(C)-(D)
	Very good	Good	Medium	Weak	Non-evaluate	Subtotal(A)				With objective	No objective	
Account receivable												
Credit card business	86,020	88,926	119,848	601,264	735	896,793	21,670	13,382	931,845	8,951	1,652	921,242
Others	1,304,158	3,810,403	1,751,463	785,558	441,482	8,093,064		170,834	8,263,898	91,221	175,699	7,996,978
Loans and Discount	345,913,083	1,010,666,568	464,555,799	208,360,522	117,098,188	2,146,594,160		48,405,082	2,194,999,242	8,974,427	8,891,555	2,177,133,260

2012/1/1	Performing loans						NPL but not impair amount(B)	Impairment Amount(C)	Total (A)+(B)+(C)	Impairment loss(D)		Net (A)+(B)+(C)-(D)
	Very good	Good	Medium	Weak	Non-evaluate	Subtotal(A)				With objective	No objective	
Account receivable												
Credit card business	94,840	98,044	132,136	662,913	811	988,744	17,806	15,360	1,021,910	8,658	3,095	1,010,157
Others	1,285,439	3,044,670	1,334,888	554,571	381,295	6,600,863		214,297	6,815,160	105,188	102,394	6,607,578
Loans and Discount	415,871,690	985,026,839	431,869,772	179,417,648	123,358,436	2,135,544,385		35,995,085	2,171,539,470	10,268,911	7,679,440	2,153,591,119

ii) Credit Quality Analysis for Non-overdue and Performing Discounts and Loans by sector

2013/12/31	Performing loans					Total
	Very good	Good	Medium	Weak	Non-evaluate	
Government agencies	119,152,825	205,285,759	-	-	-	324,438,584
Financial, investment, and insurance	11,740,000	9,125,920	25,096,598	5,356,268	337,394	51,656,180
Corporate and business	79,084,248	121,692,224	345,635,947	311,516,989	21,198,461	879,127,869
Individual	-	739,591,313	6,795,765	-	29,997,043	776,384,121
Other	3,096,582	22,809,249	47,583,115	23,963,054	92,449,072	189,901,072
Total	213,073,655	1,098,504,465	425,111,425	340,836,311	143,981,970	2,221,507,826

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2012/12/31	Performing loans					Total
	Very good	Good	Medium	Weak	Non-evaluate	
Government agencies	241,338,164	200,025,576	-	-	-	441,363,740
Financial, investment, and insurance	5,800,000	5,533,000	17,446,980	5,991,406	90,651	34,862,037
Corporate and business	95,803,461	106,244,334	395,514,175	185,398,024	19,911,060	802,871,054
Individual	-	675,321,122	7,452,332	-	29,732,906	712,506,360
Other	2,971,458	23,542,536	44,142,312	16,971,092	67,363,571	154,990,969
Total	345,913,083	1,010,666,568	464,555,799	208,360,522	117,098,188	2,146,594,160

2012/1/1	Performing loans					Total
	Very good	Good	Medium	Weak	Non-evaluate	
Government agencies	286,741,686	199,645,749	-	-	-	486,387,435
Financial, investment, and insurance	75,000	5,873,550	4,321,298	23,855,839	6,723,017	40,848,704
Corporate and business	124,067,976	124,206,526	376,490,139	140,076,348	29,929,986	794,770,975
Individual	-	639,779,595	8,683,476	-	29,064,910	677,527,981
Other	4,987,028	15,521,419	42,374,859	15,485,461	57,640,523	136,009,290
Total	415,871,690	985,026,839	431,869,772	179,417,648	123,358,436	2,135,544,385

iii) Credit Quality Analysis for Security Investments

December 31, 2013

Unit: Thousand NTD											
Item	Performing loans					NPL but not impair amount(B)	Impairment Amount(C)	Total (A)+(B)+(C)	(D)	Net	
	Very good	Good	Medium	Weak	Non-evaluate				Subtotal(A)	With objective evidence	(A)+(B)+(C)-(D)
Available-for-sale Financial Assets											
Bond investment	59,378,225	22,473,020	9,519,261	-	1,253,127	92,623,633	-	1,144,651	93,768,284	1,144,651	92,623,633
Stock investment	8,541,478	22,921,179	11,697,098	-	706,882	43,866,637	-	-	43,866,637	-	43,866,637
Others	626,244,894	1,187,099	740,928	-	858,142	629,031,063	-	-	629,031,063	-	629,031,063
Held-to-maturity Financial Assets											
Bond investment	39,234,936	1,986,672	5,511,650	1,180,295	98,260	48,011,813	-	-	48,011,813	-	48,011,813
Others	24,288,415	297,800	446,700	-	-	25,032,915	-	-	25,032,915	-	25,032,915
Other financial assets											
Stock investment	-	-	-	-	10,751,626	10,751,626	27,687	-	10,779,313	12,426	10,766,887
Bond investment	1,238,329	-	-	-	297,800	1,536,129	-	-	1,536,129	-	1,536,129

December 31, 2012

Unit: Thousand NTD											
Item	Performing loans						NPL, but not impair amount(B)	Impairment Amount(C)	Total (A)+(B)+(C)	(D)	Net (A)+(B)+(C)-(D)
	Very good	Good	Medium	Weak	Non-evaluate	Subtotal(A)				With objective evidence	
Available-for-sale Financial Assets											
Bond investment	56,067,106	20,874,493	7,371,472	236,830	-	84,549,901	-	1,140,920	85,690,821	1,140,920	84,549,901
Stock investment	8,226,302	19,439,224	10,481,335	-	843,909	38,990,770	-	-	38,990,770	-	38,990,770
Others	608,167,472	580,700	435,525	-	2,146,383	611,330,080	-	-	611,330,080	-	611,330,080
Held-to-maturity Financial Assets											
Bond investment	32,336,097	580,701	3,589,567	562,181	93,159	37,161,705	-	-	37,161,705	-	37,161,705
Others	23,272,878	-	1,144,622	429,880	-	24,847,380	-	-	24,847,380	-	24,847,380
Other financial assets											
Stock investment	-	-	-	-	11,064,639	11,064,639	27,687	-	11,092,326	12,426	11,079,900
Bond investment	2,114,517	-	-	-	290,350	2,404,867	-	-	2,404,867	-	2,404,867

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

January 1, 2012

Item	Performing loans						NPL, but not impair amount(B)	Impairment Amount(C)	Total (A)+(B)+(C)	Unit: Thousand NTD	
	Very good	Good	Medium	Weak	Non-evaluate	Subtotal(A)				(D) With objective evidence	Net (A)+(B)+(C)-(D)
Available-for-sale Financial Assets											
Bond investment	54,907,949	24,567,179	8,575,227	2,214,115	186,718	90,451,188	-	1,296,432	91,747,620	1,296,432	90,451,188
Stock investment	9,555,611	25,717,477	4,976,491	-	810,139	41,059,718	-	-	41,059,718	-	41,059,718
Others	623,546,684	151,375	454,125	-	1,710,375	625,862,559	-	-	625,862,559	-	625,862,559
Held-to-maturity Financial Assets											
Bond investment	30,607,223	-	-	-	-	30,607,223	-	-	30,607,223	-	30,607,223
Others	20,350,562	-	-	-	-	20,350,562	-	-	20,350,562	-	20,350,562
Other financial assets											
Stock investment	-	-	-	-	11,092,189	11,092,189	-	137	11,092,326	137	11,092,189
Bond investment	3,494,852	-	-	-	454,125	3,948,977	-	317,888	4,266,865	317,888	3,948,977

7. Aging Analysis of Overdue but Not Impaired Financial Assets

Unit: Thousand NTD

Loans

December 31, 2013

Item	Overdue less than 1 month	Overdue 1 to 3 months	Total
Accounts Receivable			
— Credit Card Business	\$ 4,031	3,083	7,114

Unit: Thousand NTD

December 31, 2012

Item	Overdue less than 1 month	Overdue 1 to 3 months	Total
Accounts Receivable			
— Credit Card Business	\$ 3,323	2,691	6,014

Unit: Thousand NTD

January 1, 2012

Item	Overdue less than 1 month	Overdue 1 to 3 months	Total
Accounts Receivable			
— Credit Card Business	\$ 2,940	1,475	4,415

(Continued)

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

Allowance for Loans and Receivables

Loans

December 31, 2013			
Item		Total Loans	Allowance for doubtful accounts
There is objective evidence of impairment on individual asset	Individual impairment	26,226,653	3,746,466
	Collective impairment	12,734,065	4,548,221
There is no objective evidence of impairment on individual asset	Collective impairment	2,221,507,826	11,521,399
Net total		2,260,468,544	19,816,086

Receivables (including other financial assets)

December 31, 2013			
Item		Total Loans	Allowance for doubtful accounts
There is objective evidence of impairment on individual asset	Individual impairment	765,591	622,364
	Collective impairment	189,985	109,609
There is no objective evidence of impairment on individual asset	Collective impairment	286,335,954	199,766
Net total		287,291,530	931,739
Total			20,747,825

Loans

December 31, 2012			
Item		Total Loans	Allowance for doubtful accounts
There is objective evidence of impairment on individual asset	Individual impairment	34,275,894	4,492,298
	Collective impairment	14,129,188	4,482,129
There is no objective evidence of impairment on individual asset	Collective impairment	2,146,594,160	8,891,555
Net total		2,194,999,242	17,865,982

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Receivables (including other financial assets)

December 31, 2012			
Item		Total Loans	Allowance for doubtful accounts
There is objective evidence of impairment on individual asset	Individual impairment	1,033,607	613,279
	Collective impairment	251,665	151,225
There is no objective evidence of impairment on individual asset	Collective impairment	287,541,835	223,021
Net total		288,827,107	987,525
Total			18,853,507

Loans

January 1, 2012			
Item		Total Loans	Allowance for doubtful accounts
There is objective evidence of impairment on individual asset	Individual impairment	20,824,187	6,805,533
	Collective impairment	15,170,898	3,463,378
There is no objective evidence of impairment on individual asset	Collective impairment	2,135,544,385	7,679,440
Net total		2,171,539,470	17,948,351

Receivables (including other financial assets)

January 1, 2012			
Item		Total Loans	Allowance for doubtful accounts
There is objective evidence of impairment on individual asset	Individual impairment	134,421	65,584
	Collective impairment	289,281	89,366
There is no objective evidence of impairment on individual asset	Collective impairment	215,799,441	120,356
Net total		216,223,143	275,306
Total			18,223,657

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

8. Disclosures Requested by the Regulations Governing the Preparation of Financial Reports by Public Banks

(a) Asset Quality of Overdue Loans and Receivables

December 31, 2013						
Type / Item		Amount of overdue loans (Note 1)	Total amount of loans	Ratio (%) (Note 2)	Allowance for doubtful debt	Coverage ratio (%) (Note 3)
Enterprise	Secured	5,602,450	585,195,174	0.96 %	7,555,467	134.86 %
	Non secured	875,316	952,598,065	0.09 %	6,483,815	740.74 %
Consumer finance	House mortgage (Note 4)	2,003,414	482,187,068	0.42 %	3,383,529	168.89 %
	Cash card	-	-	- %	-	- %
	Micro credit (Note 5)	39,137	6,170,904	0.63 %	83,635	213.70 %
	Others Secured	296,751	79,246,853	0.37 %	501,866	169.12 %
	(Note 6) Non secured	1,190,284	155,070,480	0.77 %	1,807,774	151.88 %
Total		10,007,352	2,260,468,544	0.44 %	19,816,086	198.02 %
		Overdue receivables	Account receivable	Ratio (%)	Allowance for bad debt	Cover ratio
Credit card business		4,859	1,037,065	0.47 %	14,679	302.10 %
Factoring receivables -- non-recourse (Note 7)		-	13,194,113	- %	133,796	- %

December 31, 2012						
Type / Item		Amount of overdue loans (Note 1)	Total amount of loans	Ratio (%) (Note 2)	Allowance for doubtful debt	Coverage ratio (%) (Note 3)
Enterprise	Secured	5,290,816	530,827,381	1.00 %	6,278,408	118.67 %
	Non secured	2,076,615	994,440,253	0.21 %	6,537,303	314.81 %
Consumer	House mortgage (Note 4)	2,393,503	436,301,977	0.55 %	2,742,327	114.57 %
	Cash card	-	-	- %	-	- %
	Micro credit (Note 5)	83,822	6,576,139	1.27 %	122,993	146.73 %
	Others Secured	417,130	72,704,772	0.57 %	443,303	106.27 %
	(Note 6) Non secured	1,229,017	154,148,720	0.80 %	1,741,648	141.71 %
Total		11,490,903	2,194,999,242	0.52 %	17,865,982	155.48 %
		Overdue receivables	Account receivable	Ratio (%)	Allowance for doubtful debt	Cover ratio
Credit card business		4,222	969,820	0.45 %	12,447	294.81 %
Factoring receivables -- non-recourse (Note 7)		-	17,657,859	- %	152,286	- %

(Continued)

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

January 1, 2012						
Type / Item		Amount of overdue loans (Note 1)	Total amount of loans	Ratio (%) (Note 2)	Allowance for doubtful debt	Coverage ratio (%) (Note 3)
Enterprise	Secured	3,063,664	529,151,229	0.58 %	9,567,587	312.29 %
	Non secured	1,792,161	1,006,480,293	0.18 %	4,144,366	231.25 %
Consumer	House mortgage (Note 4)	2,883,236	408,856,119	0.71 %	2,385,189	82.73 %
	Cash card	-	-	- %	-	- %
	Micro credit (Note 5)	114,067	8,860,282	1.29 %	87,705	76.89 %
	Others Secured	491,008	68,705,528	0.71 %	305,373	62.19 %
	(Note 6) 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 %	17,948,351	185.79 %
		Overdue receivables	Account receivable	Ratio (%)	Allowance for doubtful debt	Cover ratio
Credit card business		4,273	1,039,246	0.41 %	12,012	281.11 %
Factoring receivables — non-recourse (Note 7)		-	10,054,670	- %	86,714	- %

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

Note 2: Ratio of nonperforming loans: Nonperforming loans ÷ Outstanding loan balance. Ratio of nonperforming credit card receivables: Nonperforming credit card receivables ÷ Outstanding credit card receivables balance.

Note 3: Coverage ratio of loans: Allowance for possible losses for loans ÷ Nonperforming loans. Coverage ratio of credit card receivables: Allowance for possible losses for credit card receivables ÷ Nonperforming credit card receivables.

Note 4: The mortgage loan is for house purchase or renovation and is fully secured by housing that is purchased (owned) by the borrower, the spouse or the minor children of the borrowers.

Note 5: Based on the Banking Bureau's letter dated December 19, 2005 (Ref. No. 09440010950), small-scale credit loans are unsecured, involve small amounts, and exclude credit cards and cash cards.

Note 6: Other consumer banking loans refer to secured or unsecured loans that exclude housing mortgages, cash cards, credit cards and small-scale credit loans.

Note 7: As required by the Banking Bureau in its letter dated July 19, 2005 (Ref. No. 0945000494), factored accounts receivable without recourse are reported as nonperforming receivables within three months after the factors or insurance companies refuse to indemnify banks for any liabilities on these accounts.

(b) Exemption from Reporting the Nonperforming Loans and Overdue Receivables

Unit: Thousand NTD

	December 31, 2013		December 31, 2012		January 1, 2012	
	Excluded NPL	Excluded overdue receivables	Excluded NPL	Excluded overdue receivables	Excluded NPL	Excluded overdue receivables
As a result of debt consultation and loans agreement	2,272	-	3,065	-	5,309	-
As a result of debt solvency and restart plan	79,898	21,374	101,433	20,232	121,013	18,902
Total	82,170	21,374	104,498	20,232	126,322	18,902

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(c) Concentration of Credit Risk

Unit: Million NTD, %

December 31, 2013			
Rank	Group Name	Credit Extensions Balance	% of Net Asset Value
1	A Company – electricity supply	152,202	61.38 %
2	B Company – railway transportation	72,358	29.18 %
3	C Company – petroleum and coal products manufacturing	51,503	20.77 %
4	D Company – iron smelting industry	34,076	13.74 %
5	E Company – air transportation	23,187	9.35 %
6	F Company – LCD and its component manufacturing industry	18,118	7.31 %
7	G Company – LCD and its component manufacturing industry	16,964	6.84 %
8	H Company – real estate development	16,570	6.68 %
9	I Company – petroleum and coal products manufacturing	15,949	6.43 %
10	J Company – overseas transportation	13,885	5.60 %

December 31, 2012			
Rank	Group Name	Credit Extensions Balance	% of Net Asset Value
1	A Company – electricity supply	136,693	55.44 %
2	B Company – railway transportation	72,425	29.37 %
3	C Company – petroleum and coal products manufacturing	60,425	24.51 %
4	D Company – iron smelting industry	34,270	13.90 %
5	E Company – LCD and its component manufacturing industry	22,246	9.02 %
6	F Company – LCD and its component manufacturing industry	21,571	8.75 %
7	G Company – air transportation	19,694	7.99 %
8	H Company – overseas transportation	15,786	6.40 %
9	I Company – computer peripheral devices manufacturing	11,570	4.69 %
10	J Company – unclassified other financial Intermediation	9,733	3.95 %

(Continued)

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

January 1, 2012			
Rank	Group Name	Credit Extensions Balance	% of Net Asset Value
1	A Company – railway transportation	72,181	29.85 %
2	B Company – petroleum and coal products manufacturing	49,320	20.40 %
3	C Company – iron smelting industry	37,224	15.39 %
4	D Company – LCD and its component manufacturing industry	23,166	9.58 %
5	E Company – LCD and its component manufacturing industry	22,704	9.39 %
6	F Company – air transportation	21,353	8.83 %
7	G Company – financial holdings and insurance	10,400	4.30 %
8	H Company – real estate development	9,848	4.07 %
9	I Company – computer peripheral devices manufacturing	9,461	3.91 %
10	J Company – overseas transportation	9,060	3.75 %

(d) Average Amounts and Current Average Interest Rates on Interest-bearing Assets and Liabilities

		December 31, 2013		December 31, 2012		Unit: Thousand NTD • % January 1, 2012	
		Average	Average interest rate (%)	Average	Average interest rate (%)	Average	Average interest rate (%)
Interest earnings assets							
Call loans and placement with banks	\$	205,198,715	1.12	136,317,368	0.84	79,446,442	0.89
Placement with Central Bank		368,493,457	1.14	440,315,997	0.93	427,424,964	0.88
Financial assets		778,442,778	1.14	707,049,105	1.26	760,840,638	1.23
Negotiation, discounts and total loans		2,219,992,364	1.89	2,188,000,987	1.87	2,104,126,925	1.77
Interest bearing liabilities							
Deposit of Central Bank		12,892,812	-	13,892,548	-	14,907,629	-
Deposits and call loans from banks		222,818,213	0.62	199,105,438	0.62	169,216,584	0.66
Demand deposit		312,632,355	0.14	267,612,590	0.14	249,427,075	0.12
Demand savings		714,168,872	0.76	644,720,774	0.74	619,970,857	0.72
Time savings		1,642,580,790	1.86	1,604,141,748	1.86	1,577,427,974	1.78
Time deposits		492,891,652	1.12	456,604,102	1.12	459,641,375	1.02
Government deposits		201,493,112	0.34	213,139,982	0.35	216,911,936	0.32
Structured products		8,150,051	0.79	7,084,433	0.90	13,159,542	0.62

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

4) Liquidity Risk

1. Causes and definition of liquidity risk

The Bank's definition for liquidity risk is the risk the Bank encounter difficulty in meeting the obligations with its financial liabilities and cause the losses, for example, a saving account cancels its saving ahead of time, the ways or conditions to call loans to banks drop, creditors' credit become worsen and cause an exceptional condition, financial instruments cannot be financed and etc. The situation mentioned above may reduce the money for lending, trading, and investing activities. In some extreme situation, the lack of liquidity may decrease the level of balance sheet, sale assets, or the possibility of couldn't fulfill the promise of loan. Liquidity risk is containing in the inherent risk of bank operating, and could be affect by every industry individual or whole market's incident, which are included but not only as: credit event, consolidation or merger and acquisition, system shock, and natural disaster.

2. Management policies of liquidity risk

- (a) To optimize the structure of assets and liabilities, the bank set up an Assets and Liabilities Management Committee of which the chairperson is the general manager and the vice chairpersons are the vice general managers to decide the direction of assets and liabilities management, to manage, the liquidity portion, interest rate risk, and review structure of deposits and loan and so on.
- (b) To enforce the management of liquidity and interest rate risk and maintain suitable liquidity for higher effectiveness of capital and good operations, the Bank sets up policies for liquidity and interest rate risk. Assets and Liabilities Management Committee discusses the liquid position and risk management every month and reports to the board of directors periodically.
- (c) Management of liquidity risk
 - a) Maintain liquid reserve ratio: According to "Liquidity Guidelines for Financial Institutions" published by the Center Bank, the Bank has to maintain the liquidity reserve ratio of deposit balances greater than 15%.
 - b) Management of loan and deposit ration: Set the loan and deposit ratio of NTD between 65% and 87% as a risk indicator.
 - c) Short term gap analysis: Calculate 1~10 day and 11~30 day gaps which should be greater than zero.
 - d) Foreign currency gap management: Make sure the ratio of accumulated capital liquidity gap to each currency assets of the major foreign currencies of the Bank measured for every month and every term under one year between $\pm 50\%$ and $\pm 40\%$.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- e) Fund management: Utilize the assets and Liabilities Management Information System to analyze the gaps of assets and liabilities and the change of the structure. Allocate appropriate fund and adjust the fund structure according to financial status. For NTD fund management, the bank maintains appropriate cash and cashable securities on hand, draw up notice about NTD fund management and request every unit to notify significant cash transactions, analyze the gaps for maturity amount of purchased bills, bonds and call loans to control the fund trend and decrease the liquidity risk. For foreign currencies, manage the financial gap of actual amount received on due date and payment in a year by using the maturity method.
- f) Establish "Bank of Taiwan operational crisis management plan" to prevent and response quickly to the crisis.

3. Maturity date analysis of non-derivative financial liabilities

These tables represent the cash outflow analysis of non-derivative financial liabilities according to the unexpired term of the contracts. The disclosed amounts are presented on the basis of contract cash flows, so some disclosed items are not correspond to the accounts in the financial statements.

December 31, 2013	0~30days	31~90 days	91days~1year	Over one year	Total
Cash and cash equivalents	24,071,397	-	-	-	24,071,397
Placement with Central Bank and call loans to banks	46,303,400	256,834,452	176,593,750	105,712,470	585,444,072
Financial assets measured at fair value through profit or loss, net	29,103,324	11,889,240	1,891,283	123,830,371	166,714,218
Bonds and bills purchased under resell agreements	6,173,451	-	-	-	6,173,451
Available-for-sale financial assets, net	538,863,357	72,151,111	43,016,951	111,487,914	765,519,333
Held-to-maturity financial assets, net	3,028,658	4,458,451	1,772,046	63,785,573	73,044,728
Hedging derivative assets	5,443	-	-	-	5,443
Financial assets carried at cost	-	-	297,800	10,469,087	10,766,887
Debt investments without quoted price in active markets	-	-	-	1,536,129	1,536,129
Investments under equity method, net	-	-	-	34,792,041	34,792,041
Receivables, net	18,590,736	1,099,258	542,290	37,235,453	57,467,737
Loans and discounts, net	163,301,678	204,827,328	401,781,358	1,475,001,443	2,244,911,807
Non-performing loans	89,280	-	-	8,723,517	8,812,797
Total assets	829,530,724	551,259,840	625,895,478	1,972,573,998	3,979,260,040
Deposits of Central Bank and other banks	129,004,745	69,604,499	23,205,716	30,923,284	252,738,244
Payables	2,308,073	22,032	191,522	42,291,757	44,813,384
Financial liabilities measured at fair value through profit or loss	298,138	12,436	-	3,688,922	3,999,496
Bonds and bills sold under repurchase agreements	7,559,338	10,139,305	1,338,060	-	19,036,703
Hedging derivative liabilities	225,806	-	-	-	225,806
Other financial liabilities	844,480	5,820	-	393,398	1,243,698
Deposits and remittances	278,132,901	360,538,416	1,092,957,454	1,677,983,268	3,409,612,039
Total liabilities	418,373,481	440,322,508	1,117,692,752	1,755,280,629	3,731,669,370

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012	0~30days	31~90days	91days~1year	Over one year	Total
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	88,946,593	549,627,869
Financial assets measured at fair value through profit or loss, net	29,794,283	7,991,169	4,383,704	104,364,882	146,534,038
Bonds and bills purchased under resell agreements	4,980,621	-	-	-	4,980,621
Available-for-sale financial assets, net	456,696,476	111,463,724	70,127,883	96,582,668	734,870,751
Held-to-maturity financial assets, net	1,500,506	3,140,753	1,829,860	55,537,966	62,009,085
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	2,114,517	2,404,867
Investments under equity method, net	-	-	-	34,652,109	34,652,109
Receivables, net	17,711,068	1,145,081	382,798	21,387,480	40,626,427
Loans and discounts, net	140,232,617	171,976,142	519,326,707	1,339,871,876	2,171,407,342
Non-performing loans	669,591	-	-	5,170,410	5,840,001
Total assets	753,956,478	558,823,533	720,727,451	1,759,708,401	3,793,215,863
Deposits of Central Bank and other banks	111,935,915	60,531,563	20,718,369	20,188,618	213,374,465
Payables	14,975,258	14,612	144,130	26,854,683	41,988,683
Financial liabilities measured at fair value through profit or loss	523,416	4,108	-	4,312,430	4,839,954
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	7,821,748	-	-	376,265	8,198,013
Deposits and remittances	261,389,678	358,340,428	1,108,256,327	1,566,917,286	3,294,903,719
Total liabilities	403,847,867	423,549,985	1,129,557,488	1,618,649,282	3,575,604,622

4. Maturity analysis of derivatives

Unit: Thousand NTD

December 31, 2013	1. Overdue less than 1 month	2. Overdue 1 to 3 months	3. Overdue 3 to 6 months	4. Overdue 6 months to 1 year	5. Overdue 1 to 5 years	6. Overdue more than 5 years	Total
Derivative financial instruments							
Financial assets and liabilities measured at fair value through profit or loss, Derivative instruments (Foreign exchange)							
Foreign exchange outflow	15,677,870	22,562,838	17,503,414	7,367,359	934,200	-	64,045,681
Foreign exchange inflow	15,674,033	22,562,826	17,503,414	7,367,359	934,200	-	64,041,832
Financial assets and liabilities measured at fair value through profit or loss, Derivative instruments (Interest)							
Interest outflow	464,112,648	237,100,965	70,001,818	34,905,452	2,418,302	-	808,539,185
Interest inflow	487,129,464	251,354,922	73,466,910	40,557,600	2,324,255	-	854,833,151

Unit: Thousand NTD

December 31, 2012	1. Overdue less than 1 month	2. Overdue 1 to 3 months	3. Overdue 3 to 6 months	4. Overdue 6 months to 1 year	5. Overdue 1 to 5 years	6. Overdue more than 5 years	Total
Derivative financial instruments							
Financial assets and liabilities measured at fair value through profit or loss, Derivative instruments (Foreign exchange)							
Foreign exchange outflow	28,081,777	27,286,067	7,360,588	5,878,795	1,041,495	-	69,648,722
Foreign exchange inflow	28,064,720	27,276,815	7,360,590	5,878,795	1,041,495	-	69,622,415
Financial assets and liabilities measured at fair value through profit or loss, Derivative instruments (Interest)							
Interest outflow	435,166,837	265,559,170	104,478,871	31,538,626	1,781,888	-	838,525,392
Interest inflow	435,156,066	265,508,317	104,334,352	31,432,650	1,248,099	-	837,679,484

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

5. Discounts and Loans and Receivables

If the Bank's off-balance credit items are classified as "Under One Year", "One to Five Years" and "Above Five Years", the maturity analysis of both off-balance items and lease agreements and capital expenditures can be disclosed together.

Unit: Thousand NTD

December 31, 2013	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year	Total
Irrevocable loan commitment	30,758,896	4,118,989	5,517,038	222,411,089	220,983,396	483,789,408
Letter of credit receivables	12,101,424	1,883,702	4,756,040	11,070,019	2,926,396	32,737,581
Deposits receivables	59,546,656	2,682,266	4,270,037	6,726,054	10,054,518	83,279,531
Total	102,406,976	8,684,957	14,543,115	240,207,162	233,964,310	599,806,520

Unit: Thousand NTD

December 31, 2012	0-30 days	31-90 days	91 days-180 days	181 days-1 year	Over 1 year	Total
Irrevocable loan commitment	22,395,381	21,001,511	12,330,616	320,763,194	146,731,005	523,221,707
Letter of credit receivables	16,246,601	11,879,162	3,752,627	9,081,047	5,759,376	46,718,813
Deposits receivables	53,556,379	2,328,310	2,669,396	4,621,580	10,310,506	73,486,171
Total	92,198,361	35,208,983	18,752,639	334,465,821	162,800,887	643,426,691

Unit: Thousand NTD

January 1, 2012	0-30 days	31-90 days	91 days-180 days	181 days-1 year	Over 1 year	Total
Irrevocable loan commitment	11,556,252	3,576,622	15,593,299	196,778,320	162,674,849	390,179,342
Letter of credit receivables	7,586,653	5,517,856	15,313,778	7,836,022	6,858,051	43,112,360
Deposits receivables	38,266,795	11,633,697	2,867,529	6,267,174	12,354,423	71,389,618
Total	57,409,700	20,728,175	33,774,606	210,881,516	181,887,323	504,681,320

6. Maturity Analysis of Lease Agreements and Capital Expenditures

The Bank's lease agreements refer to operational lease.

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

December 31, 2013	Less than 1 year	1-5 year	Over 5 year	Total
Lease commitments				
Operating lease payments (Lessee)	(339,419)	(601,210)	(2,218)	(942,847)
Operating lease income(Lessor)	134,562	122,410	-	256,972
Total	(204,857)	(478,800)	(2,218)	(685,875)

December 31, 2012	Less than 1 year	1-5 year	Over 5 year	Total
Lease commitments				
Operating lease payments (Lessee)	(329,210)	(363,142)	-	(692,352)
Operating lease income(Lessor)	96,534	63,546	-	160,080
Total	(232,676)	(299,596)	-	(532,272)

7. Disclosures requested by the "Regulations Governing the Preparation of Financial Reports by Publicly Banks"

Maturity Analysis of Assets and Liabilities (New Taiwan Dollars)

December 31, 2013

Unit: Thousand NTD

	Total	Amount for each remaining period to maturity					
		Less than 10 days	11-30 days	31-90 days	91-180 days	181-365 days	Over 1 year
Major matured capital inflow	\$ 4,117,733,506	562,463,838	493,559,719	466,852,869	320,938,660	415,868,601	1,858,049,819
Major matured capital outflow	4,415,453,288	249,116,920	340,534,164	470,392,572	443,306,072	911,257,389	2,000,846,171
Capital gap	(297,719,782)	313,346,918	153,025,555	(3,539,703)	(122,367,412)	(495,388,788)	(142,796,352)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012

Unit: Thousand NTD

	Total	Amount for each remaining period to maturity					
		Less than 10 days	11~30 days	31~90 days	91~180 days	181~365 days	Over 1 year
Major matured capital inflow	\$ 3,998,398,279	534,102,023	501,599,165	519,430,197	425,992,939	439,593,611	1,577,680,344
Major matured capital outflow	4,362,009,529	171,865,343	294,652,261	587,441,948	511,283,536	1,013,987,589	1,782,778,852
Capital gap	(363,611,250)	362,236,680	206,946,904	(68,011,751)	(85,290,597)	(574,393,978)	(205,098,508)

Maturity Analysis of Assets and Liabilities (U. S. Dollars)

December 31, 2013

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
Major matured capital inflow	\$ 39,266,625	16,050,485	10,035,536	3,997,457	1,794,465	7,388,682
Major matured capital outflow	39,266,625	20,234,639	10,487,811	2,500,952	1,815,095	4,228,128
Capital gap	-	(4,184,154)	(452,275)	1,496,505	(20,630)	3,160,554

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
Major matured capital inflow	\$ 38,339,065	14,832,056	11,528,207	4,234,264	2,037,211	5,707,327
Major matured capital outflow	38,339,065	21,736,423	9,401,345	2,900,456	1,590,935	2,709,906
Capital gap	-	(6,904,367)	2,126,862	1,333,808	446,276	2,997,421

8. Profitability

(a) The Company

Unit: %

Item		December 31, 2013	December 31, 2012
Return on Assets (note 6)	pre-tax	5.71	5.99
	after-tax	5.75	6.03
Return on Shareholder's Equity (Note 8)	pre-tax	6.01	6.25
	after-tax	6.06	6.29
Profit Margin		99.47	99.23

(b) The Company and its subsidiaries

Unit: %

Item		December 31, 2013	December 31, 2012
Return on Assets (note 7)	pre-tax	0.39	0.39
	after-tax	0.36	0.37
Return on Shareholder's Equity (note 8)	pre-tax	6.56	6.52
	after-tax	6.06	6.29
Profit Margin		9.10	7.45

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(c) The subsidiary, BOT

Unit: %

Item		December 31, 2013	December 31, 2012
Return on Assets (note 7)	pre-tax	0.44	0.43
	after-tax	0.40	0.41
Return on Shareholder's Equity (note 8)	pre-tax	6.90	6.71
	after-tax	6.31	6.35
Profit Margin		24.84	24.87

(d) The subsidiary, BTLI

Unit: %

Item		December 31, 2013	December 31, 2012
Return on Assets	pre-tax	(0.10)	(0.01)
	after-tax	(0.08)	0.05
Return on Shareholder's Equity	pre-tax	(4.05)	(0.45)
	after-tax	(3.22)	2.80
Profit Margin		(1.30)	0.34

(e) The subsidiary, BTS

Unit: %

Item		December 31, 2013	December 31, 2012
Return on Assets	pre-tax	1.51	0.33
	after-tax	1.39	0.28
Return on Shareholder's Equity	pre-tax	3.98	0.80
	after-tax	3.65	0.70
Profit Margin		24.07	5.60

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

Note 2: Return on Shareholder's Equity=Income before (after) income tax/Average equity.

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

Note 4: Income before (after) income tax is the income for the whole year of 2013 and 2012.

Note 5: The above profitability ratios are at annual rates.

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

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

Note 8: Profit margin is calculated by pre-tax or after-tax earnings plus excess favorable interest expense.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

5) Market risk

1. Causes and definition of market risk

Market risk means that changes in market price lead to the fair value and future cash flow volatility risk of the held financial instruments no matter contained in financial statements or not. The risk factors usually refer to interest rate, exchange rate, equity investment and price. When the factors change, the Company and its subsidiary's net operating income and the value of investment portfolio will have volatility risk.

The main market risks of the Company and its subsidiary are interest rate risk, exchange rate risk and equity investment risk. The main position of interest rate risk includes transactions with conditions, bonds, securities investments, interest rate swaps and so on. The main position of exchange risks includes forward exchange, foreign exchange swaps, FX options and so on. The main position of equity investment risk includes stocks, funds, stock market index futures and so on.

2. Management policies of market risk

The Company and its subsidiary set up market risk management regulations and policies according to the risk management strategies approved by the board of directors, the Basel Accord and government regulations. In order to identify, assess, measure and monitor various risks of investments, they also decide the quota of investments and stop-loss point for financial instruments by types and characteristics in accordance with whole management target and offer reports to the board of directors, risk management committee and high-level managers.

3. Procedure of market risk management

(a) Identification

The identification procedures are as follows. First, use the business analysis or product analysis to identify the market risk factors of financial instruments. Second, measure the market risk of all financial instruments according to the risk factors changes of the important exposure. Finally, identify the market risk factors of every constitution of structured products and use the factors as the measurement basis. The above risk factors include interest rate, exchange rate and price of equity security.

(b) Measurement

The Company and its subsidiary's market risk exposure can be classified into trading book and banking book. The financial instruments belong to trading book are measured at market value every day. That belong to banking book are measured at market value at least once a month. Use the quoted price, if any, from external market as the valuation basis. If not, use the prices offered by counterparties. The Company and its subsidiary use a consistent measurement standard and adopt quoted price in active market first. If the quoted price comes from non active market, the Company and its subsidiary should indicate the source of the price and pay attention to the reasonability.

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

(c) Monitor and Report

The Company and its subsidiary conduct various risks monitoring for ordinary trading activities. The monitor includes the control of market risk position and profit and loss, the control of exposure and quota of investments, the control of concentration, the sensitivity analysis and the stress testing. They report to the risk management committee or the board of directors to let the directors understand the market risk control status. The Company and its subsidiary also have communication mechanism. Each operating units put forward transaction information to management departments periodically in order to ensure the accuracy and effectiveness. And communicate the events that trading amount exceeds the quota, important events and abnormal conditions.

4. Management policies of trading book risk

The trading book refers to the financial instruments held for trading or hedging. The positions held for trading mean the positions that are held to earn profit from the buy-sell spread. The positions not belong to trading book are banking book.

(a) Policy and Procedure

The Bank formulates "Taiwan Bank Trading Book Management Provision" as important guideline for all trading units.

(b) Valuation Policy

The financial instruments belong to trading book are measured at market value every day. That belong to banking book are measured at market value at least once a month. There are two valuation methods, market price valuation and modular valuation. While adopting market price valuation method, the Company and its subsidiary use quoted price in active market as the valuation basis. If the financial instrument doesn't have quoted price in active market, the Company and its subsidiary will measure it using the quoted price from counterparties. While adopting modular valuation method, all parameters need to be evaluated every day. The Company and its subsidiary use a consistent measurement standard and adopt quoted price in active market first. If the quoted price comes from non active market, the Company and its subsidiary should indicate the source of the price and pay attention to the reasonability.

(c) Measurement Method

- a) The Company and its subsidiary conduct stress testing to calculate the influence of every risk factor. The simulated situations are $\pm 15\%$ changes of equity security price, ± 100 bps changes of market interest rate and $\pm 3\%$ changes of foreign exchange.
- b) Check the market price every month.
- c) Prepare the risk monitor report to chief director and put on the Bank's website.

5. Interest rate risk management for trading book

(a) Definition of Interest Rate Risk

The interest rate risk means that the changes of interest rate lead to the fair value changes or loss. The main products include securities related to interest rate and derivatives.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(b) Procedures of Interest Rate Risk Management

The Company and its subsidiary set quota and stop-loss points for short-term securities, bonds and derivatives related to interest rate. Each trading units measure the market price for the position of trading book every day and submit monthly reports to risk management department and quarterly reports to the risk management committee and the board of directors.

(c) Measurement Method

Besides, the Company and its subsidiary also use the PV01 and Duration to monitor the influence of interest risk.

6. Interest rate risk management for banking book

The main management purpose is to strengthen the interest rate risk management, increase the effectiveness of capital usage and improve the business.

(a) Strategy

The interest rate risk management increases the Company and its subsidiary's flexibility in order to measure, manage and hedge the interest rate risk. The Company and its subsidiary formulate "Liquidity and Interest Rate Management Strategies" to reinforce the management and maintain proper liquidity and adjust the interest rate sensitivity gap for the steady long-term profitability and business growth.

(b) Management Procedure

In order to adapt the economic financial environment changes and to fulfill the capital requirement, the Company and its subsidiary conduct different pricing management strategies, such as adopting variable or fixed interest rate, and use financial futures, foreign exchange swaps, interest rate swaps to manage the interest rate sensitivity gap. To adjust the interest rate sensitivity gap properly, the risk management department monitors the ratio of interest rate sensitivity assets to interest rate sensitivity liabilities, the ratio of NTD capital gap to equity and the interest rate sensitivity gap of foreign exchange and report monthly to the risk management committee and board of directors.

(c) Measurement Method

The Company and its subsidiary use the "Assets and Liabilities Management Information System" to identify interest rate sensitivity assets and liabilities and analysis the maturity gap and changes of maturity structure as the basis of interest rate risk management and pricing strategies. They also make proper financial transfer and adjust the capital structure to lower the liquidity risk and increase the profit.

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

7. Exchange rate risk management

(a) Definition of Exchange Rate Risk

The exchange rate risk refers to the profit or loss resulted from two different currencies transferred at different times. The Company and its subsidiary's exchange rate risk is derived from exchange, forward exchange, FX swaps, cross currency swaps, and foreign exchange options. Because the Bank squares customer's position every day, the exchange rate risk is not matter.

(b) Management Procedures and Measurement Method of Exchange Rate Risk

To control the exchange rate risk, the Company and its subsidiary set different quotas and stop-loss point for employees with different levels and have annual total loss quota to control the loss in a tolerable range.

The Bank conduct stress testing. The simulated situations are $\pm 3\%$ changes of exchange rate for every currency. The relevant statements are disclosed at sensitivity analysis.

8. Equity security risk management

(a) Definition of Equity Security Risk

The market risk of holding equity securities includes the respective risk arising from the market price changes of respective equity security and general market risk resulted from the whole market price changes.

(b) The Intention of Equity Security Price Risk Management

The intention is to avoid loss and worse financial status due to violent fluctuations of equity security price and increase the effectiveness of capital usage and improve the business.

(c) Procedure of Equity Security Price Risk Management

The Company and its subsidiary set different investment quotas by industries, enterprises and groups. They use the β value to measure the influence of systematic risk monthly and monitor the risk value of equity securities and unrealized profit/loss ratio every day. The stop-loss point mechanism is approved by the security investment committee and executed by the risk management department.

9. Market risk valuation technique

(a) Interest Rate Risk Sensitivity

The Company and its subsidiary assume that other factors are unchanged and the yield curve of the whole world moves upward by 100 bps at December 31, 2013 and 2012. Under this assumption, the income after tax will increase \$251 million and \$488 million, respectively and the other comprehensive income will decrease \$3,030 million and \$2,929 million, respectively. If the yield curve moves downward by 100 bps, the income after tax will decrease \$73 million and \$162 million, respectively and the other comprehensive income will increase \$3,288 million and \$3,183 million, respectively.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(b) Exchange Rate Risk Sensitivity

The Company and its subsidiary assume that other factors are unchanged and the foreign currency to New Taiwan Dollars exchange rate appreciates by 3% at December 31, 2013 and 2012. Under this assumption, the income after tax will increase \$1,806 million and \$1,565 million, respectively and the other comprehensive income will increase \$1,628 million and \$1,618 million, respectively.

If the exchange rate depreciates by 3%, the income after tax will decrease \$1,806 million and \$1,567 million, respectively and the other comprehensive income will decrease \$1,628 million and \$1,618 million, respectively.

(c) Equity Security Price Risk Sensitivity

The Company and its subsidiary assume that other factors are unchanged and the market prices of the equity securities increase by 15% at December 31, 2013 and 2012. Under this assumption, the income after tax will increase \$8,068 million and \$7,736 million, respectively and the other comprehensive income will increase \$6,708 million and \$6,170 million, respectively.

If the market prices decrease by 15 %, the income after tax will decrease \$8,068 million and \$7,736 million, respectively and the other comprehensive income will decrease \$6,708 million and \$6,170 million, respectively.

(d) Sensitivity Analysis is as Follows.

Unit: Million NTD

December 31, 2013			
Main risk	Range	Amount Influence	
		Equity	Gain or loss
Interest rate risk	Interest rate curve rise 100BPS	(3,030)	251
Interest rate risk	Interest rate curve fall 100BPS	3,288	73
Exchange rate risk	Other foreign currency/ NTD rise3%	1,628	1,806
Exchange rate risk	Other foreign currency / NTD fall 3%	(1,628)	(1,806)
Price of equity stock risk	Price of equity stock rise 15%	6,708	8,068
Price of equity stock risk	Price of equity stock fall 15%	(6,708)	(8,068)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Unit: Million NTD

December 31, 2012			
Main risk	Range	Amount Influence	
		Equity	Gain or loss
Interest rate risk	Interest rate curve rise 100BPS	(2,929)	488
Interest rate risk	Interest rate curve fall 100BPS	3,183	(162)
Exchange rate risk	Other foreign currency/NTD rise 3%	1,618	1,567
Exchange rate risk	Other foreign currency / NTD fall 3%	(1,618)	(1,565)
Price of equity stock risk	Price of equity stock rise 15%	6,170	7,736
Price of equity stock risk	Price of equity stock fall 15%	(6,170)	(7,736)

Unit: Million NTD

January 1, 2012			
Main risk	Range	Amount Influence	
		Equity	Gain or loss
Interest rate risk	Interest rate curve rise 100BPS	(2,999)	597
Interest rate risk	Interest rate curve fall 100BPS	3,183	(483)
Exchange rate risk	Other foreign currency/NTD rise 3%	1,716	1,374
Exchange rate risk	Other foreign currency / NTD fall 3%	(1,716)	(1,374)
Price of equity stock risk	Price of equity stock rise 15%	6,415	7,176
Price of equity stock risk	Price of equity stock fall 15%	(6,415)	(7,176)

10. Interest rate sensitivity assets and liabilities analysis (NTD)

Unit: Thousand NTD

December 31, 2013					
Item	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest rate sensitive assets	\$ 1,720,985,490	1,274,789,722	85,152,756	144,984,927	3,225,912,895
Interest rate sensitive liabilities	294,861,239	2,528,756,573	268,908,052	80,452,128	3,172,977,992
Interest rate sensitive gap	1,426,124,251	(1,253,966,851)	(183,755,296)	64,532,799	52,934,903
Net worth					245,780,410
Ratio of interest rate sensitive assets to liabilities (%)					101.67
Ratio of interest rate sensitive gap to net worth (%)					21.54

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Unit: Thousand NTD

December 31, 2012					
Item	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	90,395,107	3,072,918,677
Interest rate sensitive gap	935,880,846	(730,334,742)	(222,487,331)	27,423,343	10,482,116
Net worth					249,708,732
Ratio of interest rate sensitive assets to liabilities (%)					100.34
Ratio of interest rate sensitive gap to net worth (%)					4.20

Unit: Thousand NTD

January 1, 2012					
Item	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 amount included only new Taiwan dollar amounts held by the Bank, and excluded contingent assets and contingent liabilities.

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

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

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

Assets and liabilities interest rate sensitivity analysis (USD)

Unit: Thousand USD

December 31, 2013					
Item	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest rate sensitive assets	\$ 22,206,078	3,734,942	2,091,701	1,942,820	29,975,541
Interest rate sensitive liabilities	22,323,037	4,958,929	1,805,861	565,034	29,652,861
Interest rate sensitive gap	(116,959)	(1,223,987)	285,840	1,377,786	322,680
Net worth					52,754
Ratio of interest rate sensitive assets to liabilities (%)					101.09
Ratio of interest rate sensitive gap to net worth (%)					611.67

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Unit: Thousand USD

December 31, 2012					
Item	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)

Unit: Thousand USD

January 1, 2012					
Item	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 amount included only U.S. dollar amounts held by the Bank, and excluded contingent assets and contingent liabilities.

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

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

Note 4: Ratio of interest-rate-sensitivity assets to liabilities=Interest-rate-sensitivity assets/Interest-rate-sensitivity liabilities (in U.S. dollars).

Net Position of Main Foreign Currencies

Units: Thousands of stated currencies

December 31, 2013		
Amount in functional currency	Amount in New Taiwan Dollars	
USD	128,352	3,822,322
GBP	30,428	1,495,232
SGD	11,862	278,994
HKD	4,391	16,861
MYR	1,729	15,661

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Units: Thousands of stated currencies

December 31, 2012		
Amount in functional currency		Amount in New Taiwan Dollars
USD	86,291	2,505,459
GBP	29,834	1,395,635
SGD	12,143	288,275
CNY	31,093	144,831
HKD	10,313	38,632

Units: Thousands of stated currencies

January 1, 2012		
Amount in functional currency		Amount in New Taiwan Dollars
GBP	28,276	1,319,924
USD	9,406	284,767
SGD	11,289	263,034
CNY	35,211	168,907
ZAR	6,270	23,262

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

11. Exchange rate risk concentration information

All held foreign financial assets and liabilities are classified by currencies and represented using the carrying amounts. The following tables are the information of December 31, 2013 and December 31, and January 1, 2012, respectively.

Unit: Thousand USD

Assets	December 31, 2013		Total NTD
	USD to NTD	Other currency to NTD	
Cash and cash equivalents	\$ 13,881,090	63,008,457	76,889,547
Placement with Central Bank and call loans to banks	105,659,440	18,885,639	124,545,079
Financial assets measured at fair value through profit or loss, net	37,866,138	23,321,512	61,187,650
Available-for-sale financial assets, net	9,895,037	38,556,948	48,451,985
Derivative financial assets hedging	-	5,443	5,443
Receivables, net	17,061,423	4,998,330	22,059,753
Current income tax assets	94,709	134,885	229,594
Loans and Discounts, net	141,926,698	87,777,670	229,704,368
Held-to-maturity financial assets, net	7,591,407	21,311,241	28,902,648
Other financial assets, net	1,550,425	21,784	1,572,209
Property and equipment, net	26,672	19,365	46,037
Intangible assets	1,111	664	1,775
Deferred income tax assets, net	162,124	92,943	255,067
Other assets, net	147,056	4,359,176	4,506,232
Total assets	<u>\$ 335,863,330</u>	<u>262,494,057</u>	<u>598,357,387</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Liabilities	USD to NTD	Other currency to NTD	Total NTD
Deposits of Central Bank and other banks	\$ 98,759,061	77,516,849	176,275,910
Financial liabilities measured at fair value through profit or loss	286,782	310,574	597,356
Derivative financial liabilities hedging	-	225,806	225,806
Payables	3,026,641	3,107,635	6,134,276
Current income tax liabilities	-	5,894	5,894
Deposits and remittances	284,070,269	163,891,898	447,962,167
Other financial liabilities	102,515	928,785	1,031,300
Provisions	6,435	9,207	15,642
Deferred income tax liabilities	-	110,927	110,927
Other liabilities	58,538,458	36,093,134	94,631,592
Total liabilities	<u>\$ 444,790,161</u>	<u>282,200,709</u>	<u>726,990,870</u>

Unit: Thousand USD

December 31, 2012

Assets	USD to NTD	Other currency to NTD	Total NTD
Cash and cash equivalents	\$ 18,182,707	12,321,000	30,503,707
Placement with Central Bank and call loans to banks	112,751,616	13,376,230	126,127,846
Financial assets measured at fair value through profit or loss, net	40,117,241	18,335,792	58,453,033
Available-for-sale financial assets, net	15,548,485	31,251,635	46,800,120
Derivative financial assets hedging	-	3,543	3,543
Receivables, net	27,255,650	5,168,338	32,423,988
Current income tax assets	-	72,922	72,922
Loans and Discounts, net	127,263,194	78,140,676	205,403,870
Held-to-maturity financial assets, net	6,982,390	12,768,044	19,750,434
Other financial assets, net	2,422,743	27,643	2,450,386
Property and equipment, net	30,924	24,460	55,384
Intangible assets	1,272	1,090	2,362
Deferred income tax assets, net	165,157	112,915	278,072
Other assets, net	9,653	197,737	207,390
Total assets	<u>\$ 350,731,032</u>	<u>171,802,025</u>	<u>522,533,057</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Liabilities	USD to NTD	Other currency to NTD	Total NTD
Deposits of Central Bank and other banks	\$ 110,872,050	42,135,394	153,007,444
Financial liabilities measured at fair value through profit or loss	384,059	564,523	948,582
Derivative financial liabilities hedging	-	301,390	301,390
Payables	10,095,240	3,175,052	13,270,292
Current income tax liabilities	-	21,366	21,366
Deposits and remittances	239,269,367	126,574,561	365,843,928
Other financial liabilities	5,840,355	1,981,392	7,821,747
Provisions	8,548	15,043	23,591
Deferred income tax liabilities	-	137,957	137,957
Other liabilities	52,847,954	23,112,246	75,960,200
Total liabilities	<u>\$ 419,317,573</u>	<u>198,018,924</u>	<u>617,336,497</u>

Unit: Thousand USD

January 1, 2012			
Assets	USD to NTD	Other currency to NTD	Total NTD
Cash and cash equivalents	\$ 7,799,036	19,827,506	27,626,542
Placement with Central Bank and call loans to banks	22,131,025	28,378,532	50,509,557
Financial assets measured at fair value through profit or loss, net	27,277,562	18,188,265	45,465,827
Available-for-sale financial assets, net	17,352,627	34,136,702	51,489,329
Derivative financial assets hedging	-	9,223	9,223
Receivables, net	16,190,595	2,517,402	18,707,997
Current income tax assets	-	110,068	110,068
Loans and Discounts, net	117,666,996	77,318,609	194,985,605
Held-to-maturity financial assets, net	7,133,413	4,688,101	11,821,514
Other financial assets, net	3,972,701	30,074	4,002,775
Property and equipment, net	1,542	26,875	28,417
Intangible assets	-	2,856	2,856
Deferred income tax assets, net	596,724	306,022	902,746
Other assets, net	23,416	13,499	36,915
Total assets	<u>\$ 220,145,637</u>	<u>185,553,734</u>	<u>405,699,371</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Liabilities	USD to NTD	Other currency to NTD	Total NTD
Deposits of Central Bank and other banks	\$ 57,242,872	91,585,526	148,828,398
Financial liabilities measured at fair value through profit or loss	319,468	641,941	961,409
Derivative financial liabilities hedging	-	1,229,722	1,229,722
Payables	6,958,043	2,856,494	9,814,537
Current income tax liabilities	40,871	14,998	55,869
Deposits and remittances	247,707,382	120,637,101	368,344,483
Provisions	17,694	18,288	35,982
Deferred income tax liabilities	-	51,737	51,737
Other liabilities	360,140	377,921	738,061
Total liabilities	<u>\$ 312,646,470</u>	<u>217,413,728</u>	<u>530,060,198</u>

12. The fair value information of financial instruments

December 31, 2013

Item	Book value	Unit: Thousand NTD
		Fair value
Financial Assets :		
Cash and cash equivalents	\$ 119,265,293	119,265,293
Placement with Central Bank and call loans to banks	585,444,072	585,444,072
Financial assets measured at fair value through profit or loss	166,714,218	166,714,218
Available-for-sale financial assets	765,521,333	765,521,333
Derivative financial assets hedging	5,443	5,443
Bonds and bills purchased under resell agreements	6,173,451	6,173,451
Receivables	82,279,036	82,279,036
Loans and discounts	2,240,652,458	2,240,652,458
Held-to-maturity financial assets	73,044,728	73,675,942
Other Financial Assets — net	70,317,917	70,317,917

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Item	Book value	Fair value
Financial Liabilities :		
Deposits of Central Bank and other banks	\$ 252,738,244	252,738,244
Financial liabilities measured at fair value through profit or loss	3,999,496	3,999,496
Derivative financial liabilities hedging	225,806	225,806
Bills and bonds sold under repurchase agreements	19,036,703	19,036,703
Payables	44,813,384	44,813,384
Deposits and remittances	3,409,612,039	3,409,612,039
Financial Bonds Payable	15,998,240	15,998,240
Other financial liabilities	1,243,698	1,243,698

December 31, 2012

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

January 1, 2012

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

6) The financial instruments not measured at fair value

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

1. Some financial instruments that have short term to maturity or of which the agreed prices are close to carrying amounts are recognized using their carrying amounts at reporting date. These financial instruments include cash and cash equivalents, placement with central bank and call loans to banks, bills and bonds purchased under resell agreements, receivables, limited assets, deposits of central bank and other banks, loans to the central bank and banks, bills and bonds sold under repurchase agreements, payables and deposits received.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2. The discounts and loans (including nonperforming loans): The Company and its subsidiary use the floating interest rate to be the interest rate of loans. The floating interest rate can also reflect the market interest rate. So it's reasonable to use the carrying amount and the recoverability to estimate the fair value. The mid-term and long-term loans using with fixed interest rate should use the discounted present value of expected future cash flow to estimate their fair value. However, if the loans with fixed interest rate are minor, it is reasonable to use the carrying amount and their recoverability to estimate their fair value.
 3. Held-to-maturity financial assets: If there is quoted price in active market, use it as the fair value. If not, use valuation methods to estimate their fair value or use the quoted price of counterparty.
 - (a) New Taiwan Dollar Government Bonds: Use the "Government Bonds Fair Value" offered by GreTai Securities Market to evaluate the bonds.
 - (b) New Taiwan Dollar Corporate Bonds and Financial Bonds: The present value is decided by the present value discounted at the yield offered by the GreTai Securities Market or the fair value offered by the GreTai Securities Market.
 4. Deposits and Remittances: The Company and its subsidiary consider the bank industries characteristic to decide the fair value. The deposits with market interest rate are almost those due within one year and their carrying amount are reasonable basis for estimating the fair value. The long-term deposits with fixed interest rate are measured using the discounted present value of expected future cash flow. Because the term to maturity is less than three years, it's reasonable using the carrying amount to estimate the fair value.
 5. Financial Bonds Payable: It refers to the convertible corporate bonds and financial bonds issued by the Company and its subsidiary. Their coupon rates are almost equal to the market interest rate, so it is reasonable to using the discounted present values of expected future cash flow to estimate their fair values. The present values are almost equal to the carrying amounts.
 6. Other Financial Assets-Bonds Investments with Non-active Market: If there are related transactions or quoted price from market makers, then using the latest strike price or quoted price to measure the fair value. If not, use the valuation methods to estimate the discounted present value of cash flow.
 7. Other Financial Assets-Financial Assets Carried at Cost: Because there is no quoted price in active market and the interval of estimated fair values is significant or it is not reasonable to evaluate the probability of each estimated fair value within the interval, the fair value can't be measured reliably. Hence, the Company and its subsidiaries do not disclose the fair value.
- 7) Financial instruments measured at fair value

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

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

8) The level information of financial instruments measured at fair value

1. The Three-level Definition

(a) Level 1

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

(b) Level 2

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(c) Level 3

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

The Fair Value Level-Information of the Financial Instruments

Financial instrument item measured at fair value	December 31, 2013			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss	160,979,498	100,830,044	59,852,398	297,056
Financial assets held for trading				
Investment in stocks	54,301,549	54,301,549	-	-
Investment in bonds	3,319,365	2,699,988	619,377	-
Others	83,090,159	41,988,723	41,101,436	-
Financial assets designated at fair value measured through profit or loss	20,268,425	1,839,784	18,131,585	297,056
Available-for-sale financial assets	765,521,333	49,180,396	716,340,937	
Investments in stocks	43,866,637	43,866,637	-	-
Investment in bonds	92,623,633	4,455,616	88,168,017	-
Others	629,031,063	858,143	628,172,920	-
<u>Derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss	5,734,720	-	5,734,720	-
Other financial assets				
Hedging derivative financial assets	5,443	-	5,443	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	3,999,496	34,966	3,964,530	-
Other financial liabilities				
Hedging derivative financial liabilities	225,806	-	225,806	-

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Financial instrument item measured at fair value	December 31, 2012			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss	135,008,288	81,778,388	52,083,511	1,146,389
Financial assets held for trading				
Investment in stocks	45,546,940	45,546,940	-	-
Investment in bonds	3,313,095	2,635,651	677,444	-
Others	64,848,141	31,743,156	33,104,985	-
Financial assets designated at fair value measured through profit or loss	21,300,112	1,852,641	18,301,082	1,146,389
Available-for-sale financial assets	734,870,751	43,696,864	690,970,987	202,900
Investment in stocks	38,990,770	38,990,770	-	-
Investment in bonds	84,549,901	2,559,711	81,990,190	-
Others	611,330,080	2,146,383	608,980,797	202,900
<u>Derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss	11,525,750	-	11,525,750	-
Other financial assets				
Hedging derivative financial assets	3,543	-	3,543	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	4,876,954	81,247	4,795,707	-
Other financial liabilities				
Hedging derivative financial liabilities	301,390	-	301,390	-

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	January 1, 2012			
Financial instrument item measured at fair value	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss	99,918,593	71,818,290	28,100,303	-
Financial assets held for trading				
Investment in stocks	42,161,922	42,161,922	-	-
Investment in bonds	3,562,402	3,549,713	12,689	-
Others	30,486,077	23,009,269	7,476,808	-
Financial assets designated at fair value measured through profit or loss	23,708,192	3,097,386	20,610,806	-
Available-for-sale financial assets	757,373,465	68,905,467	688,467,998	
Investment in stocks	41,059,718	41,059,718	-	-
Investment in bonds	90,451,188	26,135,374	64,315,814	-
Others	625,862,559	1,710,375	624,152,184	-
Other financial assets				
Debt securities investment in non active market	3,948,977	-	3,948,977	-
<u>Derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss	10,967,414	-	10,967,414	-
Other financial assets				
Hedging derivative financial assets	3,074	-	3,074	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	3,902,885	-	3,902,885	-
Other financial liabilities				
Hedging derivative financial liabilities	409,907	-	409,907	-

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

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

Unit: Thousand NTD

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

10) Capital management

1. The Target and Procedure of capital management

The Target of capital management is to achieve the authority's requirements for the BIS Capital Adequacy Ratio and to improve the efficiency of capital usage through capital management procedures.

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

2. The definition and regulations of capital

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

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

3. Regulatory Capital

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

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

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- b) The range of additional Tier 1 capital shall mean the total amount of the following items reduces the total amount of the deductible items in accordance with the rules for calculation methods.
 - a. Non-cumulative perpetual preferred stock and its capital stock premium.
 - b. Non-cumulative perpetual subordinated debts.
 - c. The non-cumulative perpetual preferred stock and its capital stock premium, and the non-cumulative perpetual subordinated debts which are issued by banks' subsidiaries, and are not directly or indirectly held by banks.
- (b) The range of Tier 2 capital shall mean the total amount of the following items reduces the total amount of the deductible items in accordance with the rules for calculation methods.
 - a) Cumulative perpetual preferred stock and its capital stock premium.
 - b) Cumulative perpetual subordinated debts.
 - c) Convertible subordinated debts
 - d) Long-term subordinated debts
 - e) Non-perpetual preferred stock and its capital stock premium
 - f) When the real estate was adopted by International Financial Reporting Standards for the first time and used the fair value or the re-estimated value as the deemed cost. The difference in amount between the deemed cost and the book value was recognized in retained earnings, the 45% of unrealized gain on available-for-sale financial assets, as well as operational reserves and loan-loss provisions.
 - g) The cumulative perpetual preferred stock and its capital stock premium, cumulative perpetual subordinated debts, convertible subordinated debts, long-term subordinated debts, and the non-perpetual preferred stock and its capital stock premiums, which are issued by banks' subsidiaries, and are not directly or indirectly held by banks.

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

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

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

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**Notes to the Consolidated Financial Statements****(a) The First Pillar**

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

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

(b) The Second Pillar

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

(c) The Third Pillar

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(d) The capital adequacy ratio

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

Note 1: The calculation of eligible capital, risk-weighted assets, and the total amount of risk exposure shall follow the Regulations Governing the Capital Adequacy and Capital Category of Banks, and Calculation of Equity Capital and Risk Assets.

Note 2: The annual report shall disclosed the current and preceding period BIS ratio. For the semi-annual report, beside the current and preceding period, shall disclosed the information one year before.

Note 3: The table shall disclosed the calculation formula as follows:

1. Equity Capital = shareholders' equity + other tier 1 capital + tier 2 capital
2. Risk-weighted assets = credit risk-weighted assets + (capital requirement for operational risk + capital requirement for market risk) × 12.5
3. Capital adequacy ratio = equity capital / internal models approach
4. Common stock - based capital ratio = shareholders' equity / total risk weighted assets
5. Tier 1 risk based capital ratio = (shareholders' equity + Other tier 1 capital) / weighted risk
6. Leverage ratio = tier 1 capital / total risk exposure

(Continued)

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

Note 4: The table may choose not to disclose in Q1 and Q3 financial report.

The subsidiary, BTLI

1) Risk management system

1. Risk management structure

The risk management structure of the subsidiary, BTLI, is composed of Board of Directors, risk management committee, internal audit department and authorities in charge of all business units.

2. Credit risk management

The subsidiary, BTLI, performs several control procedures including limits management and credit risk management for investment securities. Purchase limits are established for each customer, which represent the maximum open amount without requiring approval from the Risk Management Committee. The risk management department prepares limits reports periodically.

Strict credit analysis is performed before the acceptance of a mortgage or a policy loan. The subsidiary, BTLI, sets the LTV and the loan requirements. Furthermore, the amounts of policy loans shall be lower than the related reserve.

3. Liquidity risk management

BTLI manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows.

4. Market risk management

BTLI performs evaluations before any financial instruments investment. Furthermore, BTLI use VaR model, scenario analysis, stress test, back test, position limit, risk limit, and stop-loss system to manage market risk derived from financial investments.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2) Credit risk

1. The Credit Risk Exposure

After deducting the government bonds and treasury bills, the significant exposure of the credit risk are as follows:

Unit: Thousands of New Taiwan Dollars

December 31, 2013			
Item	Carrying amount	Maximum credit exposure	
<u>Financial assets</u>			
Cash and cash equivalents	\$ 22,859,656	22,859,656	
Receivables	3,282,052	3,282,052	
Financial assets measured at fair value through profit or loss	195,292	195,292	
Available-for-sale financial assets	48,136,850	45,466,523	
Debt investments without quoted price in active market	55,509,059	55,018,141	
Held-to-maturity financial assets	197,658,767	154,529,669	
Other financial assets-net	44,585,700	44,585,700	
Loans	11,620,809	11,620,809	
Refundable deposits	2,730,192	13,842	
Total	<u>\$ 386,578,377</u>	<u>337,571,684</u>	

December 31, 2012			
Item	Carrying amount	Maximum credit exposure	
<u>Financial assets</u>			
Cash and cash equivalents	\$ 40,147,289	40,147,289	
Receivables	4,139,681	4,139,681	
Financial assets measured at fair value through profit or loss	834,218	834,218	
Available-for-sale financial assets	40,809,899	40,016,615	
Debt investments without quoted price in active market	40,972,005	40,506,587	
Held-to-maturity financial assets	181,947,391	144,228,172	
Other financial assets-net	41,900,000	41,900,000	
Loans	10,788,881	10,788,881	
Refundable deposits	2,615,341	53,385	
Total	<u>\$ 364,154,705</u>	<u>322,614,828</u>	

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Item	January 1, 2012	
	Carrying amount	Maximum credit exposure
<u>Financial assets</u>		
Cash and cash equivalents	\$ 24,868,033	24,868,033
Receivables	2,334,985	2,334,985
Financial assets measured at fair value through profit or loss	979,164	979,164
Available-for-sale financial assets	43,264,835	41,719,888
Debt investments without quoted price in active market	33,525,229	33,525,229
Held-to-maturity financial assets	176,735,640	145,244,395
Other financial assets-net	20,326,000	20,326,000
Loans	10,436,679	10,436,679
Refundable deposits	1,864,481	52,491
Total	<u>\$ 314,335,046</u>	<u>279,486,864</u>

2. Concentration of Credit Risk

When the transaction of financial instruments is concentrated in a single industry or region, the ability to oblige the contract would be impacted by similar factors, thereby causing concentration of credit risk.

The subsidiary, BTLI, maintains a diversified portfolio, limits its exposure to any one geographic region, country or individual creditor and monitors the exposure on a continuous basis. The subsidiary, BTLI's most significant concentrations of credit risk are summarized as follows:

(a) Industry

Item	Finance	Government	Petrochemical Industry	Manufacturing	Electricity	Other
December 31, 2013						
<u>Financial assets</u>						
Cash and cash equivalents	\$ 22,859,656	-	-	-	-	-
Financial assets measured at fair value through profit or loss	195,292	-	-	-	-	-
Available-for-sale financial assets	12,102,203	2,670,328	175,316	300,821	503,272	2,191,945
Debt investments without quoted price in active market	30,277,752	23,806,537	-	-	-	1,424,770
Held-to-maturity financial assets	106,340,560	65,510,829	399,667	11,087,424	2,596,317	11,723,970
Other financial assets-net	44,585,700	-	-	-	-	-
Refundable deposits	10,202	2,716,350	-	-	-	3,640

(Continued)

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

Item	Finance	Government	Petrochemical Industry	Manufacturing	Electricity	Other
December 31, 2012						
<u>Financial assets</u>						
Cash and cash equivalents	\$ 40,147,289	-	-	-	-	-
Financial assets measured at fair value through profit or loss	834,218	-	-	-	-	-
Available-for-sale financial assets	11,784,247	793,284	-	402,237	1,045,941	1,167,512
Debt investments without quoted price in active market	32,490,004	7,596,981	-	-	465,800	419,220
Held-to-maturity financial assets	105,237,257	52,840,079	9,693,580	1,701,574	2,176,297	10,298,604
Other financial assets-net	41,900,000	-	-	-	-	-
Refundable deposits	50,166	2,561,956	-	-	-	3,219

Item	Finance	Government	Petrochemical Industry	Manufacturing	Electricity	Other
January 1, 2012						
<u>Financial assets</u>						
Cash and cash equivalents	\$ 24,868,033	-	-	-	-	-
Financial assets measured at fair value through profit or loss	220,534	-	213,764	-	-	-
Available-for-sale financial assets	14,157,835	1,544,947	-	403,098	500,507	1,172,149
Debt investments without quoted price in active market	26,455,478	6,828,712	-	-	-	241,039
Held-to-maturity financial assets	104,754,635	44,994,584	11,236,817	2,077,742	1,882,889	11,497,884
Other financial assets-net	20,326,000	-	-	-	-	-
Refundable deposits	50,071	1,811,990	-	-	-	2,420

(b) Region

Item	Taiwan	America	Europe	Asia	Oceania	Other
December 31, 2013						
<u>Financial assets</u>						
Cash and cash equivalents	\$ 22,803,470	-	-	56,186	-	-
Financial assets measured at fair value through profit or loss	165,249	26,797	3,246	-	-	-
Available-for-sale financial assets	13,110,182	2,067,360	48,795	2,126,810	590,737	-
Debt investments without quoted price in active market	-	22,897,898	13,477,633	12,842,971	6,290,558	-
Held-to-maturity financial assets	122,880,292	20,181,220	39,066,112	6,690,608	8,840,534	-
Other financial assets-net	44,094,400	-	-	4,421,700	-	-
Refundable deposits	2,730,192	-	-	-	-	-

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Item	Taiwan	America	Europe	Asia	Oceania	Other
December 31, 2012						
<u>Financial assets</u>						
Cash and cash equivalents	\$ 39,797,461	-	-	349,827	-	-
Financial assets measured at fair value through profit or loss	699,675	2,913	126,394	-	5,236	-
Available-for-sale financial assets	12,287,666	1,481,088	55,719	802,613	568,013	-
Debt investments without quoted price in active market	-	5,391,988	11,909,021	13,474,936	7,330,918	2,865,142
Held-to-maturity financial assets	112,862,836	16,803,619	34,881,292	6,168,582	8,727,738	2,503,324
Other financial assets-net	41,900,000	-	-	-	-	-
Refundable deposits	2,615,341	-	-	-	-	-
Item	Taiwan	America	Europe	Asia	Oceania	Other
December 31, 2012						
<u>Financial assets</u>						
Cash and cash equivalents	\$ 24,868,033	-	-	-	-	-
Financial assets measured at fair value through profit or loss	356,292	4,639	59,476	12,387	1,504	-
Available-for-sale financial assets	13,701,629	1,452,070	305,041	1,763,533	556,264	-
Debt investments without quoted price in active market	441,039	7,980,674	12,310,983	7,416,709	1,736,015	3,639,809
Held-to-maturity financial assets	102,396,939	22,440,046	37,461,992	4,701,068	3,905,110	5,539,395
Other financial assets-net	20,326,000	-	-	-	-	-
Refundable deposits	1,864,481	-	-	-	-	-

3. Credit Quality Analysis of the subsidiary, BTLI:

(a) Credit Quality Analysis for Investment Securities

December 31, 2013	Non-overdue not non-impaired amount						NPL but not impair amount (B)	Impairment Amount (C)	Total (A)+(B)+(C)	Recognized Impairment Amount (D)	Net (A)+(B)+(C)-(D)
	Very Good	Good	Medium	Weak	Non-evaluate	Subtotal (A)					
Available-for-sale financial assets											
Debt investments	2,866,130	11,460,414	3,617,341	-	-	17,943,885	-	-	17,943,885	-	17,943,885
Held-to-maturity financial assets											
Debt investments	45,771,408	22,597,575	25,245,372	2,952,086	-	196,566,441	-	1,097,800	197,664,241	5,474	197,658,767
Debt Investments without a Quoted Price in Active Market											
Debt investments	26,941,809	18,191,675	10,375,575	-	-	55,509,059	-	-	55,509,059	-	55,509,059
Refundable deposits	-	2,716,350	-	-	-	2,716,350	-	-	2,716,350	-	2,716,350

December 31, 2012	Non-overdue not non-impaired amount						NPL but not impair amount (B)	Impairment Amount (C)	Total (A)+(B)+(C)	Recognized Impairment Amount (D)	Net (A)+(B)+(C)-(D)
	Very Good	Good	Medium	Weak	Non-evaluate	Subtotal (A)					
Available-for-sale financial assets											
Debt investments	2,264,160	11,032,756	1,898,183	-	-	15,195,099	-	-	15,195,099	-	15,195,099
Held-to-maturity financial assets											
Debt investments	87,270,193	79,934,981	13,018,372	949,730	-	181,173,276	-	845,090	182,018,366	70,975	181,947,391
Debt Investments without a Quoted Price in Active Market											
Debt investments	13,496,465	20,095,074	7,380,466	-	-	40,972,005	-	-	40,972,005	-	40,972,005
Refundable deposits	2,561,956	-	-	-	-	2,561,956	-	-	2,561,956	-	2,561,956

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

January 1, 2012	Non-overdue not non-impaired amount						NPL but not impair amount (B)	Impairment Amount (C)	Total (A)+(B)+(C)	Recognized Impairment Amount (D)	Net (A)+(B)+(C)-(D)
	Very Good	Good	Medium	Weak	Non-evaluate	Subtotal (A)					
Available-for-sale financial assets											
Debt investments	3,591,430	9,347,597	4,839,510	-	-	17,778,537	-	-	17,778,537	-	17,778,537
Held-to-maturity financial assets											
Debt investments	63,338,585	96,642,176	13,443,160	1,534,317	-	174,958,238	-	1,692,547	176,650,785	206,235	176,444,550
Debt investments without a Quoted Price in Active Market											
Debt investments	17,077,050	13,480,800	2,526,340	-	-	33,084,190	-	-	33,084,190	-	33,084,190
Others	241,039	-	200,000	-	-	441,039	-	-	441,039	-	441,039
Refundable deposits	1,811,990	-	-	-	-	1,811,990	-	-	1,811,990	-	1,811,990

Internal Credit Risk Grades of The Subsidiary, BTLI

Very Good

Good

Medium

Weak

Non-evaluate

Credit Rating of Taiwan Ratings

twAAA~twAA+

twAA~twA+

twA~BBB+

twBBB以下

(b) Credit Quality Analysis for Discounts and Loans and Receivables

Non-overdue not non-impaired amount										Unit: Thousands of New Taiwan Dollars		
										Recognized Impairment Amount		
December 31, 2013	Very Good	Good	Medium	Weak	Non-evaluate	Subtotal (A)	NPL but not impair amount (B)	Impairment Amount (C)	Total (A)+(B)+(C)	With objective	No objective	Net (A)+(B)+(C)-(D)
Receivables	\$				3,282,066	3,282,066	17	1	3,282,084	2	38	3,282,052
Loans	\$				5,505,147	5,505,147	24,526	1,450	5,531,123	1,976	27,526	5,501,621
Non-overdue not non-impaired amount										Recognized Impairment Amount		
										Recognized Impairment Amount		
December 31, 2012	Very Good	Good	Medium	Weak	Non-evaluate	Subtotal (A)	NPL but not impair amount (B)	Impairment Amount (C)	Total (A)+(B)+(C)	With objective	No objective	Net (A)+(B)+(C)-(D)
Receivables	\$				4,139,661	4,139,661	46		4,139,707	2	24	4,139,681
Loans	\$				4,931,228	4,931,228	30,359	1,355	4,962,942	2,388	141,498	4,819,144
Non-overdue not non-impaired amount										Recognized Impairment Amount		
										Recognized Impairment Amount		
January 1, 2012	Very Good	Good	Medium	Weak	Non-evaluate	Subtotal (A)	NPL but not impair amount (B)	Impairment Amount (C)	Total (A)+(B)+(C)	With objective	No objective	Net (A)+(B)+(C)-(D)
Receivables	\$				2,334,946	2,334,946	66		2,335,012	4	23	2,334,985
Loans	\$				4,501,290	4,501,290	36,116		4,537,406	1,801	136,884	4,398,721

(c) Aging Analysis of Overdue but Not Impaired Financial Assets

	December 31, 2013	December 31, 2012	January 1, 2012
Overdue 1 to 3 months	\$ 21,731	22,929	18,709
Overdue more than 3 months	2,812	7,476	17,473
	<u>\$ 24,543</u>	<u>30,405</u>	<u>36,182</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

3) Liquidity Risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

Derivatives settled in net

	December 31, 2013							
	0~30 days	31~90 days	91~181 days	181 days ~1 year	1~2 years	2~5 years	Over 5 years	Total
Financial liabilities measured at fair value through profit or loss								
Foreign exchange derivatives	\$ (8,436)	(26,855)	24,255	-	-	-	-	(11,036)

Derivatives settled in total

	December 31, 2013							
	0~30 days	31~90 days	91~181 days	181 days ~1 year	1~2 years	2~5 years	Over 5 years	Total
Financial liabilities measured at fair value through profit or loss								
Foreign exchange derivatives								
– Foreign exchange outflow	\$ (24,113,950)	(22,699,750)	(7,980,100)	-	-	-	-	(54,793,800)
– Foreign exchange inflow	24,067,531	22,605,513	7,927,020	-	-	-	-	54,600,064
Foreign exchange derivatives								
– Foreign exchange outflow	-	(2,693,139)	(301,556)	(895,910)	-	-	-	(3,890,605)
– Foreign exchange inflow	-	2,668,270	295,000	878,920	-	-	-	3,842,190
Subtotal of outflows	\$ (24,113,950)	(25,392,889)	(8,281,656)	(895,910)	-	-	-	(58,684,405)
Subtotal of inflows	\$ 24,067,531	25,273,783	8,222,020	878,920	-	-	-	58,442,254
Net cash flows	\$ (46,419)	(119,106)	(59,636)	(16,990)	-	-	-	(242,151)

Derivatives settled in net

	December 31, 2012							
	0~30 days	31~90 days	91~181 days	181 days ~1 year	1~2 years	2~5 years	Over 5 years	Total
Financial liabilities measured at fair value through profit or loss								
Foreign exchange derivatives	\$ (21,164)	(12,530)	-	-	-	-	-	(33,694)

Derivatives settled in total

	December 31, 2012							
	0~30 days	31~90 days	91~181 days	181 days ~1 year	1~2 years	2~5 years	Over 5 years	Total
Financial liabilities measured at fair value through profit or loss								
Foreign exchange derivatives								
– Foreign exchange outflow	\$ (2,322,400)	-	(2,784,000)	(2,614,500)	-	-	-	(7,720,900)
– Foreign exchange inflow	2,321,800	-	2,779,488	2,605,590	-	-	-	7,706,878
Foreign exchange derivatives								
– Foreign exchange outflow	-	(582,590)	-	-	-	-	-	(582,590)
– Foreign exchange inflow	-	579,700	-	-	-	-	-	579,700
Subtotal of outflows	\$ (2,322,400)	(582,590)	(2,784,000)	(2,614,500)	-	-	-	(8,303,490)
Subtotal of inflows	\$ 2,321,800	579,700	2,779,488	2,605,590	-	-	-	8,286,578
Net cash flows	\$ (600)	(2,890)	(4,512)	(8,910)	-	-	-	(16,912)

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Derivatives settled in net

	January 1, 2012							Total
	0~30 days	31~90 days	91~181 days	181 days ~1 year	1~2 years	2~5 years	Over 5 years	
Financial liabilities measured at fair value through profit or loss								
Foreign exchange derivatives	\$ (18,027)	(3,807)	-	-	-	-	-	(21,834)

Derivatives settled in total

	January 1, 2012							Total
	0~30 days	31~90 days	91~181 days	181 days ~1 year	1~2 years	2~5 years	Over 5 years	
Financial liabilities measured at fair value through profit or loss								
Foreign exchange derivatives								
- Foreign exchange outflow	\$ (14,485,790)	(32,432,210)	(15,248,660)	-	-	-	-	(62,166,660)
- Foreign exchange inflow	14,427,241	32,322,621	15,171,530	-	-	-	-	61,921,392
Foreign exchange derivatives								
- Foreign exchange outflow	-	(3,080)	-	(3,014)	(585,778)	-	-	(591,872)
- Foreign exchange inflow	-	-	-	-	579,700	-	-	579,700
Subtotal of outflows	\$ (14,485,790)	(32,435,290)	(15,248,660)	(3,014)	(585,778)	-	-	(62,758,532)
Subtotal of inflows	\$ 14,427,241	32,322,621	15,171,530	-	579,700	-	-	62,501,092
Net cash flows	\$ (58,549)	(112,669)	(77,130)	(3,014)	(6,078)	-	-	(257,440)

Maturity analysis of non-derivative:

Assets	December 31, 2013							Total
	0~30 days	31~90 days	91~181 days	181 days ~1 year	1~2 years	2~5 years	Over 5 years	
Cash and cash equivalents	\$ 22,859,656	-	-	-	-	-	-	22,859,656
Available-for-sale financial assets	10,731	28,184	174,936	399,867	2,314,921	9,407,411	19,238,667	31,574,717
Held-to-maturity financial assets	1,002,235	532,365	2,473,242	4,278,054	27,500,320	44,253,134	349,132,214	429,171,564
Debt investments without quoted price in active market	132,473	249,694	603,720	1,765,113	4,793,477	8,514,246	127,099,944	143,158,667
Other financial assets-net	13,166,041	9,770,650	18,416,777	10,116,231	-	-	-	51,469,699
Refundable deposits	-	24,750	-	46,625	71,375	639,125	2,767,375	3,549,250
Total	\$ 37,171,136	10,605,643	21,668,675	16,605,890	34,680,093	62,813,916	498,238,200	681,783,553

Assets	December 31, 2012							Total
	0~30 days	31~90 days	91~181 days	181 days ~1 year	1~2 years	2~5 years	Over 5 years	
Cash and cash equivalents	\$ 40,147,289	-	-	-	-	-	-	40,147,289
Available-for-sale financial assets	30,128,066	11,785	34,901	237,572	568,919	9,544,936	8,079,314	48,605,493
Held-to-maturity financial assets	844,428	7,954,186	2,314,726	6,862,801	10,587,511	63,207,324	254,930,199	346,701,175
Debt investments without quoted price in active market	38,120	78,195	2,201,577	1,217,186	805,429	19,052,368	89,110,279	112,503,154
Other financial assets-net	17,796,840	7,832,405	15,740,332	10,908,237	-	-	-	52,277,814
Refundable deposits	63,666	109,750	-	98,063	68,000	204,000	3,105,438	3,648,917
Total	\$ 89,018,409	15,986,321	20,291,536	19,323,859	12,029,859	92,008,628	355,225,230	603,883,842

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Assets	January 1, 2012							Total
	0~30 days	31~90 days	91~181 days	181 days ~1 year	1~2 years	2~5 years	Over 5 years	
Cash and cash equivalents	\$ 1,817,916	-	-	-	-	-	-	1,817,916
Available-for-sale financial assets	31,817,684	46,597	58,837	437,214	411,477	5,280,855	15,277,198	53,329,862
Held-to-maturity financial assets	642,694	2,311,501	4,107,095	5,477,873	16,995,793	68,344,066	244,215,541	342,094,563
Debt investments without quoted price in active market	1,198,255	185,477	272,441	2,064,553	869,070	6,589,229	79,146,473	90,325,498
Other financial assets-net	8,996,784	5,756,533	13,396,817	2,603,141	-	-	-	30,753,275
Refundable deposits	63,571	9,750	-	32,125	205,375	156,188	1,972,938	2,439,947
Total	<u>\$ 44,536,904</u>	<u>8,309,858</u>	<u>17,835,190</u>	<u>10,614,906</u>	<u>18,481,715</u>	<u>80,370,338</u>	<u>340,612,150</u>	<u>520,761,061</u>

4) Market Risk

1. Exchange rate risk

- (a) The significant exchange rate risk exposure of the financial assets and liabilities are as follows:

	December 31, 2013			December 31, 2012			January 1, 2012		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
Financial assets									
Monetary items									
AUD	\$ 429,697	26.585	11,423,503	319,249	30.125	9,617,380	259,694	30.745	7,984,304
CAD	110,773	27.98	3,099,428	77,573	29.19	2,264,350	42,044	29.67	1,247,436
EUR	-	41.12	-	0.107	38.45	4,120	59,439	39.22	2,331,204
HKD	322,595	3.840	1,238,764	283,673	3.746	1,062,640	182,302	3.897	710,430
JPY	242,345	0.2840	68,826	0.056	0.3360	0.019	300	0.3897	117
NZD	-	24.50	-	206	23.81	4,895	298	23.41	6,966
USD	3,481,814	29.78	121,184,789	3,149,290	29.035	91,439,619	3,293,884	30.275	99,722,350
CNY	3,349,338	4.913	16,455,300	2,727,777	4.6580	12,705,987	462,041	4.797	2,216,409

- (b) The concentration of the exchange rate risk is as follows:

	December 31, 2013								
	USD	ADU	HKD	EUR	CAD	NZD	CNY	JPY	Total
Foreign financial assets									
Cash and cash equivalents	\$ 4,609,225	203,054	488,876	-	23,784	-	58,646	68,824	5,452,409
Financial assets measured at fair value through profit or loss	146,161	49,131	-	-	-	-	-	-	195,292
Available fo -sale financial assets	6,214,939	48,795	747,930	-	-	-	283,410	-	7,295,074
Held-to-maturity financial assets	62,314,062	7,914,121	-	-	1,312,227	-	2,348,953	-	73,889,363
Debt investments without quoted price in active market	30,483,567	3,147,001	-	-	1,743,447	-	8,940,331	-	44,314,346
Other financial assets-net	-	-	-	-	-	-	4,421,700	-	4,421,700
Total	<u>\$103,767,954</u>	<u>11,362,102</u>	<u>1,236,806</u>	<u>-</u>	<u>3,079,458</u>	<u>-</u>	<u>16,053,040</u>	<u>68,824</u>	<u>135,568,184</u>
Foreign financial liabilities									
Financial liabilities measured at fair value through profit or loss	<u>\$ 556,211</u>	<u>10,491</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>566,702</u>

Note: December 31, 2013: 1USD = 29.78 TWD; 1 AUD = 26.585 TWD; 1 HKD = 3.840 TWD; 1 EUR = 41.12 TWD; 1 CAD = 27.98 TWD; 1 NZD = 24.50 TWE; 1 CNY = 4.9130 TWD; 1JPY = 0.2840 TWD

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	December 31, 2012								
	USD	AUD	HKD	EUR	CAD	NZD	CNY	JPY	Total
Foreign financial assets									
Cash and cash equivalents	\$ 9,857,226	764,151	78,771	4	67,141	-	349,827	-	11,117,120
Financial assets measured at fair value through profit or loss	799,776	34,442	-	-	-	-	-	-	834,218
Available-for-sale financial assets	3,348,892	54,691	1,107,581	-	-	-	-	-	4,511,164
Held-to-maturity financial assets	57,404,464	6,814,199	1,902	-	622,429	4,895	3,422,075	-	68,269,964
Debt investments without quoted price in active market	21,147,330	1,867,750	-	-	1,559,025	-	8,822,805	-	33,396,910
Total	\$ 92,557,688	9,535,233	1,188,254	4	2,248,595	4,895	12,594,707	-	118,129,376
Foreign financial liabilities									
Financial liabilities measured at fair value through profit or loss	\$ 20,237	15,030	-	-	-	-	-	-	35,267

Note: December 31, 2012: 1USD = 29.035 TWD; 1 AUD = 30.125 TWD; 1 HKD = 3.746 TWD; 1 EUR = 38.45 TWD; 1 CAD = 29.19 TWD; 1 NZD = 23.81 TWE; 1 CNY = 4.658 TWD; 1JPY = 0.336 TWD

	January 1, 2012								
	USD	AUD	HKD	EUR	CAD	NZD	CNY	JPY	Total
Foreign financial assets									
Cash and cash equivalents	\$ 7,914,733	145,139	10,014	54,784	24,435	-	157,237	117	8,306,459
Financial assets measured at fair value through profit or loss	144,094	20,068	-	48,182	-	-	-	-	212,344
Available-for-sale financial assets	2,272,937	606,775	900,560	-	-	-	-	-	3,780,272
Held-to-maturity financial assets	65,550,070	5,198,609	1,979	2,276,416	608,069	6,966	118,159	-	73,760,268
Debt investments without quoted price in active market	<u>24,643,135</u>	<u>1,906,190</u>	<u>-</u>	<u>-</u>	<u>608,816</u>	<u>-</u>	<u>1,936,483</u>	<u>-</u>	<u>29,094,624</u>
Total	<u>\$108,418,264</u>	<u>7,876,780</u>	<u>912,552</u>	<u>2,379,382</u>	<u>1,241,320</u>	<u>6,966</u>	<u>2,211,879</u>	<u>117</u>	<u>123,047,260</u>
Foreign financial liabilities									
Financial liabilities measured at fair value through profit or loss	\$ 884,401	30,731	-	-	-	-	-	-	915,132
Total	<u>\$ 884,401</u>	<u>30,731</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>915,132</u>

Note: January 1, 2012: 1USD = 30.275 TWD; 1 AUD = 30.745 TWD; 1 HKD = 3.897 TWD; 1 EUR = 39.22 TWD; 1 CAD = 29.67 TWD; 1 NZD = 23.41 TWE; 1 CNY = 4.797 TWD; 1JPY = 0.3897 TWD

2. Interest rate risk

The liquid risk management of the subsidiary, BTLI, has already been noted on the changes in the interest rate of its financial assets and liabilities.

The sensitivity analysis represents the interest rate risk exposure of the derivatives and non-derivatives at the reporting date. For variable-rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. 50 basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

3. Sensitivity analysis

The subsidiary, BTLI, uses risk value analysis and sensitivity analysis to manage the market risk. The sensitivity analysis is used to measure the effects of each risk factor.

Units: ten millions of New Taiwan Dollars

December 31, 2013			
Main risk	Range	Amount Influence	
		Equity	Gain or loss
Exchange rate risk	USD/NTD and CNY/NTD rise 5%	5.84	23.25
Exchange rate risk	USD/NTD and CNY/NTD fall 5%	(5.84)	(23.25)
Interest rate risk	Interest rate curve rises 50BPS	(5.23)	-
Interest rate risk	Interest rate curve falls 50BPS	5.52	-
Price of equity stock risk	Price of equity stock rises 10%	30.19	-
Price of equity stock risk	Price of equity stock falls 10%	(30.19)	-

December 31, 2012			
Main risk	Range	Amount Influence	
		Equity	Gain or loss
Exchange rate risk	USD/NTD and CNY/NTD rise 5%	4.04	18.84
Exchange rate risk	USD/NTD and CNY/NTD fall 5%	(4.04)	(18.84)
Interest rate risk	Interest rate curve rises 50BPS	(5.00)	-
Interest rate risk	Interest rate curve falls 50BPS	5.32	-
Price of equity stock risk	Price of equity stock rises 10%	25.55	-
Price of equity stock risk	Price of equity stock falls 10%	(25.69)	-

January 1, 2012			
Main risk	Range	Amount Influence	
		Equity	Gain or loss
Exchange rate risk	USD/NTD and AUD/NTD rise 5%	3.22	0.49
Exchange rate risk	USD/NTD and AUD/NTD falls 5%	(3.22)	(0.49)
Interest rate risk	Interest rate curve rises 50BPS	(5.94)	-
Interest rate risk	Interest rate curve falls 50BPS	6.25	-
Price of equity stock risk	Price of equity stock rises 10%	25.53	0.56
Price of equity stock risk	Price of equity stock falls 10%	(25.57)	(0.56)

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

5) Operational Risk

Operational risk is the risk of loss arising from fraud, unauthorized authorities, error, omission, inefficiency system failure or external events. The subsidiary, BTLI, manages the risk through a control-based environment in which processes are documented, authorization is independent and transactions are reviewed and monitored.

The subsidiary, BTLI, sets up operation regulations and internal control system for each product and operating activity. The subsidiary, BTLI, also sets emergency management and recovery plan (Business Continuity Plan) with respect to some events caused by nature or human, such as the regional disasters, significant infectious diseases, employee's strikes, system interruptions and so on. In doing so, the subsidiary, BTLI, can ensure operations can continue even if a material incident occurs.

The risk management department monitors the operation risk exposure periodically and offers suggestions on topics regarding operational risk management. If a significant operation risk event happens, the risk management department should immediately prepare a risk management report.

6) The fair value of the Financial Instruments

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

7) The valuation techniques used by the Subsidiary, BTLI, to calculate fair value

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

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

8) The Level Information of the Fair Value – the Subsidiary, BTLI

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

1. Level One:

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

2. Level Two:

The Valuation technique using inputs other than the quoted prices included within level 1 that are observable for asset or liability, either directly or indirectly. For instance:

- (a) The quoted prices of similar financial instruments in an active market, such as the fair value of financial instruments owned by BTLI is inferred from the recent trading price of similar financial instruments. The similar financial instrument is judged according to its characteristic and trading conditions. The fair value of financial instruments should be priced using the 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 for identical or similar assets or liabilities in markets that are inactive.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(c) Fair value price using valuation models, such as the input parameters of the valuation models (i.e., interest rates, yield curve, volatility), that are based on the available data in the market; for example, 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 the market participants.

(d) Inputs that are derived principally from or corroborated by observable market data by correlation or other means ('market-corroborated inputs').

3. Level Three:

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

December 31, 2013				
Financial instruments measured at fair value	Total	Level One	Level Two	Level Three
<u>Non-derivative financial instruments</u>				
Assets:				
Available-for-sale financial assets	\$ 48,136,850	44,388,947	3,747,903	
Domestic equity investments	23,350,210	23,350,210	-	-
Debt investments	17,943,885	14,195,982	3,747,903	-
Foreign equity investments	6,842,755	6,842,755	-	-
<u>Derivative financial instruments</u>				
Assets :				
Financial measured at fair value through profit or loss	195,292	-	195,292	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	566,702	-	566,702	-
December 31, 2012				
Financial instruments measured at fair value	Total	Level One	Level Two	Level Three
<u>Non-derivative financial instruments</u>				
Assets:				
Available-for-sale financial assets	\$ 40,809,899	26,408,084	14,401,815	
Equity investments	12,684,388	12,684,388	-	-
Debt investments	15,195,099	793,284	14,401,815	-
Others	12,930,412	12,930,412	-	-
<u>Derivative financial instruments</u>				
Assets:				
Financial assets measured at fair value through profit or loss	834,218	-	834,218	-
Liabilities :				
Financial liabilities measured at fair value through profit or loss	35,267	-	35,267	-

(Continued)

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

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

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

The Subsidiary, BTS

1) Risk Management Strategies and Organization Structure

The risk management strategies are the highest principles for BTS's risk management system. The risk management strategies include the risk management principles, the scope, the authority, the procedures and so on.

The risk management strategies are designed to measure various risks including market risks, credit risks, liquidity risk, operational risks, legal risks, strategy risks, reputation risks and so on. The business units are required to identify the potential risks and offer a risk management plan to the management in the course of conducting business.

BTS sets a risk management department which is directly responsible to the general manager to ensure that the risks are well-controlled. The risk management organization of BTS is composed of the Board of Directors, the risk management committee, the risk management department and business units. Through a proper division of authority and responsibility, BTS establishes a risk management culture to make sure that the risk management system operates effectively.

The subsidiary use derivatives to hedge certain risks that will cause the changes in the fair value of financial instruments.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2) Credit Risk

1. Credit risk exposure

The carrying amounts of the financial assets represent the maximum exposure amount. The maximum exposure to credit risk at reporting date is as follows:

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

The maximum exposure amounts by regions are as follows:

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

The maximum exposure amounts by counterparties are as follows:

	Government	Finance	Other companies	Individuals	Total
December 31, 2013					
Cash and cash equivalents	\$ -	183,610	-	-	183,610
Financial assets measured at fair value through profit or loss — current	-	69,245	511,456	-	580,701
Available-for-sale financial assets — current	101,324	801,545	702,257	-	1,605,126
Loans and receivables	<u>359,129</u>	<u>-</u>	<u>-</u>	<u>5,165,085</u>	<u>5,524,214</u>
	<u><u>\$ 460,453</u></u>	<u><u>1,054,400</u></u>	<u><u>1,213,713</u></u>	<u><u>5,165,085</u></u>	<u><u>7,893,651</u></u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	Government	Finance	Other companies	Individuals	Total
December 31, 2012					
Cash and cash equivalents	\$ -	48,371	-	-	48,371
Financial assets measured at fair value through profit or loss—current	-	179,643	223,568	-	403,211
Available-for-sale financial assets—current	152,563	426,883	653,568	-	1,233,014
Loans and receivables	-	-	1,782	3,718,405	3,720,187
	<u>\$ 152,563</u>	<u>654,897</u>	<u>878,918</u>	<u>3,718,405</u>	<u>5,404,783</u>
January 1, 2012					
Cash and cash equivalents	\$ -	47,687	-	-	47,687
Financial assets measured at fair value through profit or loss—current	-	30,989	42,570	-	73,559
Available-for-sale financial assets—current	103,349	342,067	528,790	-	974,206
Loans and receivables	-	-	1,624	5,778,119	5,779,743
	<u>\$ 103,349</u>	<u>420,743</u>	<u>572,984</u>	<u>5,778,119</u>	<u>6,875,195</u>

2. The concentration of credit risk

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

3. The credit quality information

Units: Thousands of New Taiwan Dollars

	December 31, 2013		
	Normal	Abnormal	Subtotal(A)
Cash and cash equivalents	\$ 183,610	-	183,610
Financial assets measured at fair value through profit or loss	580,701	-	580,701
Available-for-sale financial assets	1,605,126	-	1,605,126
Loans and receivables	5,524,214	-	5,524,214
Total	<u>\$ 7,893,651</u>	<u>-</u>	<u>7,893,651</u>
	December 31, 2012		
	Normal	Abnormal	Subtotal(A)
Cash and cash equivalents	\$ 48,371	-	48,371
Financial assets measured at fair value through profit or loss	403,211	-	403,211
Available-for-sale financial assets	1,233,014	-	1,233,014
Loans and receivables	3,720,187	-	3,720,187
Total	<u>\$ 5,404,783</u>	<u>-</u>	<u>5,404,783</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

3) Liquidity Risk

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	1~30 days	31~90 days	91days ~ 1 year	Over 1 year	Total
December 31, 2012					
Non-derivative financial liabilities					
Commercial paper payable	\$ 519,880	-	-	-	519,880
Financial liabilities measured at fair value through profit or loss—current	12,376	-	-	-	12,376
Bonds sold under repurchase agreements	1,343,407	-	-	-	1,343,407
Deposits received from securities borrowers	14,092	14,092	28,186	-	56,370
Guaranteed price deposits received from securities borrowers	15,480	15,480	30,959	-	61,919
Payables	1,546,220	-	-	-	1,546,220
Advance receipts	1,811	-	-	-	1,811
Collections	5,848	-	-	-	5,848
Other payables	56,419	-	-	-	56,419
Other payables-related-party	46,110	-	-	-	46,110
Non-current liabilities	-	-	-	3,707	3,707
\$	-	-	-	-	-
	1~30 days	31~90 days	91days ~ 1 year	Over 1 year	Total
January 1, 2012					
Non-derivative financial liabilities					
Commercial paper payable	\$ 499,537	-	-	-	499,537
Financial liabilities measured at fair value through profit or loss—current	212	-	-	-	212
Bonds sold under repurchase agreements	731,885	-	-	-	731,885
Deposits received from securities borrowers	12,725	12,725	25,450	-	50,900
Guaranteed price deposits received from securities borrowers	13,992	13,991	27,982	-	55,965
Payables	3,936,800	-	-	-	3,936,800
Advance receipts	1,626	-	-	-	1,626
Collections	4,779	-	-	-	4,779
Other payable	55,882	-	-	-	55,882
Other payable-related-party	45,610	-	-	-	45,610
Non-current liabilities	-	-	-	4,351	4,351
\$	<u>5,303,048</u>	<u>26,716</u>	<u>53,432</u>	<u>4,351</u>	<u>5,387,547</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

4) Price Risk

1. Price risk

Sensitivity analysis

Units: Millions of New Taiwan Dollars
Equity **Gain or loss**

December 31, 2013

Price rises 10%	95.84	26.61
Price falls 10%	(32.33)	(12.03)

Equity **Gain or loss**

December 31, 2012

Price rises 10%	41.38	24.58
Price falls 10%	(57.91)	(6.44)

Equity **Gain or loss**

January 1, 2012

Price rises 10%	1.04	28.58
Price falls 10%	(156.54)	(41.74)

2. Interest rate risk

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

Units: Thousands of New Taiwan Dollars

December 31, 2013 **December 31, 2012** **January 1, 2012**

Financial instruments with fixed rate :

Convertible bonds	\$ 576,562	402,525	99,997
Government bonds	101,324	152,563	103,349
Copporate bonds	898,229	653,567	501,662
Financial bonds	303,469	208,779	-
	<u>\$ 1,879,584</u>	<u>1,417,434</u>	<u>705,008</u>

(Continued)

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

5) Currency Risk

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

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

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

6) Fair value

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

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

(Continued)

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

2. The methods and hypothesis that the subsidiary, BTS, uses to evaluate the fair value of financial instruments are as follows.
- (a) Fair value of short term financial instruments is estimated by their carrying amount on the balance sheet date. As these instruments have short term maturities, the book value is adopted as a reasonable basis in estimating the fair value. This method is applied to cash and cash equivalents, accounts related to securities financing and refinancing, reverse repo, notes receivable, accounts receivable, other receivables, security margin, refundable deposit, short-term loan, commercial papers payable, repo, accounts payable, other payables, deposits received and so on.
 - (b) For the financial assets with quoted prices in an active market, their fair values are assessed by the market prices. If the market prices are unavailable, the valuation technique which is commonly used by the market participants shall be adopted. The main parameters used in valuation techniques include discount rates, terms, volatilities, counterparty credit spreads and others, which are all observable and obtainable from the open market.
 - (c) If the quoted prices of the derivatives are unavailable, the applicable valuation technique shall be used. The Black Scholes Model, Black 76 model or Merton will be used to measure the future options; the DCF method will be used to value the interest rate swap contracts; the binary tree method will be used to assess the bond options.
 - (d) The market prices shall be regarded as the fair values of the received collaterals. If they are unavailable, it is assumed that the carrying amounts are approximated to their fair values.
 - (e) The fair values of other long-term liabilities are measured through DCF method, and the discount rate used shall be the borrowing rate on long-term debts.

3. Fair Value Level

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		December 31, 2013			
		Total	Level One	Level Two	Level Three
Non-derivative financial instruments:					
Assets					
Financial assets measured at fair value through profit or loss	\$	770,717	450,402	320,315	-
Equity investments		194,154	179,002	15,152	-
Debt investments		576,563	271,400	305,163	-
Available-for-sale financial assets		1,943,859	640,838	1,303,021	-
Equity investments		338,733	338,733	-	-
Debt investments		1,303,021	-	1,303,021	-
Others		302,105	302,105	-	-
Liabilities					
Financial liabilities measured at fair value through profit or loss		976	976	-	-
Derivative financial instruments:					
Assets					
Financial assets measured at fair value through profit or loss		4,138	-	4,138	-
Liabilities					
Financial liabilities measured at fair value through profit or loss		37,307	-	37,307	-
		December 31, 2012			
		Total	Level One	Level Two	Level Three
Non-derivative financial instruments:					
Assets					
Financial assets measured at fair value through profit or loss	\$	558,752	314,120	244,632	-
Equity investments		156,227	128,077	28,150	-
Debt investments		402,525	186,043	216,482	-
Available-for-sale financial assets		1,511,691	496,782	1,014,909	-
Equity investments		278,677	278,677	-	-
Debt investments		1,014,909	-	1,014,909	-
Others		218,105	218,105	-	-
Liabilities					
Financial liabilities measured at fair value through profit or loss		1,133	1,133	-	-

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		December 31, 2012			
		Total	Level One	Level Two	Level Three
Derivative financial assets					
Assets					
Financial assets measured at fair value through profit or loss	\$	686	-	686	-
Liabilities					
Financial liabilities measured at fair value through profit or loss		11,243	-	11,243	-
		January 1, 2012			
		Total	Level One	Level Two	Level Three
Non-derivative financial assets					
Assets					
Financial assets measured at fair value through profit or loss	\$	424,479	387,865	36,614	-
Equity investments		351,610	344,596	7,014	-
Debt investments		72,869	43,269	29,600	-
Available-for-sale financial assets		1,420,031	815,020	605,011	-
Equity investments		445,825	445,825	-	-
Debt investments		632,139	27,128	605,011	-
Others		342,067	342,067	-	-
Derivative financial assets :					
Assets					
Financial assets measured at fair value through profit or loss		689	-	689	-
Liabilities					
Financial liabilities measured at fair value through profit or loss		212	-	212	-

7) Financial Risk Management

1. Market risk

Market risk is the risk that the subsidiary, BTS, will suffer losses due to the changes in market interest rate, exchange rate or the security price fluctuation.

The subsidiary, BTS, manages its market risk through the following risk management mechanism:

- (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 risk appetite of the subsidiary, BTS.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

2. Credit risk

The causes of credit risk are derived from both balance sheet and off balance sheet items. The major credit risks arise from discounts and loans, investments, over-due receivables, risk mitigation instruments (such as collaterals, guarantees and hedge instruments), securities financing, and derivatives.

The subsidiary, BTS, uses the following mechanism to manage credit risks:

- (a) Formulate the acceptable business and transactions and the division of the authority and responsibility.
- (b) Identify, measure, monitor and control the risks in the course of business.
- (c) Establish the credit risk indicators, the credit rating management, the alarm system, the communication mechanism to improve and prevent the risk supervision.
- (d) Establish a complete credit risk information system and define the access rights to ensure that the credit risk monitoring operates independently.
- (e) Build a quantification model of credit risk to assess the exposures.
- (f) Assess credit risk and prepare paper work before creating financial instrument, changing operating process, or developing information system and new financial services and products.
- (g) Enforce the professional knowledge and training, and harness risk sensitivity within the corporation culture.

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 maturity due to inability to sell assets or obtain sufficient capital.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The subsidiary, BTS, have different policies in accordance with capital demands for different kinds of business aiming to effectively monitor market liquidity risk. The risk management department is in charge of the overview of capital and conducts a daily review to respond to system risk and capital demand in abnormal conditions.

In order to enhance the fund liquidity, the subsidiary, BTS, requests all business units to report the cash flow status every day. In addition, the subsidiary, BTS, also maintains sufficient cash and convertible securities consistently.

BTS's approach to managing liquidity is to ensure, as far as possible, that it always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. If BTS is unavailable to meet its obligations, the following emergency plans should be used::

- (a) Ask for a loan from the financial institutions.
- (b) Sell the short-term securities, government bonds or corporate bonds.
- (c) Adjust the financing rate and the LTV ratio.
- (d) Sell the stocks of listed company and funds.

4. Operational risk

Operational risk is the risk of loss arising from fraud, unofficial authorities, error, omission, inefficiency system failure or external events. BTS manages the risk through a control-based environment in which processes are documented, authorization is independent and transactions are reviewed and monitored.

If any risk loss is defined, the business unit shall report it to the risk management department before the end of the month. The risk management department shall build an operational risk loss database to summarize, analyze and offer suggestions to the risk management committee or the Board of Directors.

5. Risk management structure and policies

The subsidiary, BTS, was the securities department of BOT and separated from BOT on January 2, 2008. To manage the risk, implement policies efficiently, maintain a stable growth and achieve the operation goal, BTS is required to build a risk management mechanism. Hence, the risk management department is set to assist the risk management committee. The risk management structure is composed of the Board of Directors, the risk management committee, the management department and business units. The risk management department shall follow the risk management strategies approved by the Board of Directors and coordinate with other departments.

The risks including market risk, credit risk, operational risk, liquidity risk and other risks (such as legal risk, strategy risk, reputation risk and so forth) shall be managed.

The risk management mechanism is as follows:

- (a) Measure, monitor and control every risk under an affordable level in order to achieve the goal of the risk management.
- (b) Build risk indicators and precaution system to conduct proper risk monitor.

(Continued)

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

- (c) Establish a communication mechanism to report the complete risk information to the management periodically or properly, to announce to the subordinate units and to communicate between different departments; and to disclose to the public according to the regulations.
- (d) Assessing risk and preparing paper work before creating new business or products, changing operating process, or developing information system.
- (e) Enforcing the professional knowledge and training, and harness risk sensitivity within the corporation culture.

(49) The nature and scope of the Insurance Contract Risk

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

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

The risk management structure of the subsidiary, BTLI, is composed of the Board of Directors, the risk management committee, the internal audit department, the risk management department and the business units. Their responsibilities are described as follows:

- (a) Board of Directors

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

- (b) Risk management committee

- a) Implement the risk management strategies and coordinate with the risk management events with different departments.
- b) Formulate risk management policies, qualified and quantified management standards, structure, and organization functions; Regularly report the performance and offer suggestions to the Board of Director.

- (c) Risk management department

- a) In charge of the overall risk management of the subsidiary, BTLI.
- b) Implement, monitor and follow up the resolutions made by the Board of Directors and risk management committee. If there is any significant exposure that will endanger the company's operation or will violate the law, the risk management department shall immediately take measures and report the incident to the Board of Directors.
- c) Assist the Board of Directors to set and implement the risk management policies.
- d) Establish BTLI's primary risk management standards and procedures, and send them to the Parent Company for future reference.

(Continued)

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

- e) Promptly report the current progress of risk management decisions to the Board of Directors and risk management committee, and send the risk management report to the Parent Company on a monthly basis.
 - (d) All operational units

Each department shall identify, evaluate, and control the risks resulting from the new products or new business, and establish the risk management regulations accordingly.
 - (e) Audit department

The audit department shall audit the risk management performance of each department in accordance with the applicable regulations and legislations.
2. Risk management procedures and protocols
- (a) Risk management procedures include risk identification, measurement and response to risk, monitoring and data communication. Moreover, to integrate risk management procedures to an operational level, in order to reflect the impact of risk from various operations.
 - (b) Establish relevant risk indicators for all risks for operations concerning the procedures, period and frequency of identification, measurement and evaluation of risk as means of decision making. It also includes evaluating performances and allocating resources.
 - (c) After the evaluation and compilation of risk, the appropriate responding procedure from BTLI shall include the following:
 - a) Risk averse: to exclude any participation or terminate the operations and activities.
 - b) Risk transfer: to reinsure or transfer all or partial risks to a third party.
 - c) Risk control: to adopt risk controlling procedures in order to minimize any impact.
 - d) Risk tolerance: to tolerate any possible impact of risk by not initiating procedures as means of changing the probabilities of outcome.
 - (d) Establish a risk monitoring system, timely scrutinize and monitor all risks. If risks are in excess, it should report and respond accordingly.
 - (e) The aforementioned risk monitoring and reporting system shall change with the adjustment of operating objectives, risk exposure and external conditions of the subsidiary, including the effectiveness of the risk management system and the appropriateness of risk elements.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2) Information of insurance risk

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

		December 31, 2013	
	Assumed change	Changes in profit or loss before tax	Changes in shareholder's equity
Death rate	X1.1	(13,698)	(11,328)
Morbidity	X1.1	(18,906)	(15,692)
Contract Default Rate	X0.9	(34,438)	(28,584)
Expense	X1.1	(288,985)	(239,857)
Ratio of Return on Investment	(0.25)%	(852,674)	(707,720)

		December 31, 2012	
	Assumed changes	Changes in profit or loss before tax	Changes in shareholder's equity
Death rate	X1.1	(13,812)	(11,464)
Morbidity	X1.1	(17,531)	(14,550)
Contract Default Rate	X0.9	(28,149)	(23,363)
Expense	X1.1	(280,597)	(232,896)
Ratio of Return on Investment	(0.25)%	(759,940)	(630,750)

		January 1, 2012	
	Assumed change	Changes in profit or loss before tax	Changes in shareholder's equity
Death rate	X1.1	(12,744)	(10,577)
Morbidity	X1.1	(21,089)	(17,504)
Contract Default Rate	X0.9	(14,764)	(12,254)
Expense	X1.1	(259,194)	(215,131)
Ratio of Return on Investment	(0.25)%	(639,071)	(530,429)

2. The interpretation for the concentration of insurance risk

BTLI does not target its insurance product at any group, age or gender. Insurance service area includes the whole Taiwan. In order to increase subsidiary's management in insurance risk, BTLI established "BTLI reinsurance management plan" to further implement all sorts of risk managing strategies. As a result, the concentration risks are minimal.

(Continued)

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

3. Claim development trend

(a) Development trend of direct business loss

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

December 31, 2013

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

Provision for unreported and within 1 year unpaid claims

67,871

Add: over 1 year reported but unpaid claims

9,159

Unreported provision claims

77,030

December 31, 2012

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

Provision for unreported and within 1 year unpaid claims

61,172

Add: over 1 year reported but unpaid claims

27,016

Unreported provision claims

88,188

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

January 1, 2012

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

Provision for unreported and within 1 year unpaid claims

57,827

Add: over 1 year reported but unpaid claims

9,454

Unreported provision claims

67,281

(b) Development trend of retained business loss

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

December 31, 2013

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

December 31, 2012

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

(Continued)

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

January 1, 2012

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

The subsidiary, BTLI, provides claim reserve based on the expected future payments and relevant compensation process cost of reported and unreported claims. Such provision operation involves vast uncertainty, estimates and judgments, and is highly complicated. Any changes of estimation and judgment are regarded as changes in accounting estimates and the amount of changes is recognized as current gains and losses. Some customers may be delayed to inform the claims to the subsidiary, BTLI. In addition, when estimating the potential compensation of unreported claims, it involves vast past experience and subjective judgment; therefore, it is not able to confirm that the estimated reserve for claims on the balance sheet date will be the same as the actual compensation. The estimate of reserve for claims is based on the information currently available; however, the final result may be different from the original estimation due to the subsequent development.

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

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

1. Credit risk

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

2. Liquidity risk

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

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

Units: Millions of New Taiwan Dollars

Undiscounted expected cash outflow (inflow) on December 31, 2013

	< 12 months	1~5 years	>5 years		total
\$	39,256	184,081	530,352	\$	753,689

Undiscounted expected cash outflow (inflow) on December 31, 2012

	< 12 months	1~5 years	> 5 years		total
\$	14,025	207,617	484,999	\$	706,641

Undiscounted expected cash outflow (inflow) on January 1, 2012

	< 12 months	1~5 years	>5 years		total
\$	78	192,829	348,822	\$	541,729

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

3. Market risk

Market risk in insurance contracts refers to the adverse changes in the market resulting in the returns on investment lower than the forecasted interest rate. As a result, insurers are subjected to financial losses. Considering the subsidiary, BTLI's forecasted interest rate with the return on investment for the year ended December 31, 2013, the undertaken risk is within the acceptable level.

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

(50) Related-party transactions

1) Name of related party and relationship

Name	Relationship
Hua Nan Financial Holdings Co., Ltd. and its subsidiaries	Investee company of BOT and BTLI under the equity method
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
Tai Yi Real Estate Management Co., Ltd.	Investee company of BOT under the equity method
Taiwan business bank Co., Ltd	Related- Party
Others	Directors, supervisors, general manager and vice general manger

2) Key Management Personnel Compensation

The related information about the salaries and bonus for the Company's key management personnel in 2013 and 2012 are as follows:

	December 31, 2013	December 31, 2012
Short-term employee benefits	\$ <u>40,483</u>	<u>42,875</u>

3) Other related party transactions

1. Placement with banks

Name	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	Percentage of account balance	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	\$ <u>6,745</u>	<u>-</u>	<u>30,217</u>	<u>0.06</u>	<u>23,301</u>	<u>0.05</u>

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

2. Bank deposits

Name	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	Percentage of account balance	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	\$ 39,765	0.71	35,755	0.57	105,445	1.84
Total	<u>\$ 39,765</u>	<u>0.71</u>	<u>35,755</u>	<u>0.57</u>	<u>105,445</u>	<u>1.84</u>

3. Account receivables

Name	Summary	December 31, 2013	December 31, 2012	January 1, 2012
Hua Nan Financial Holdings Co., Ltd.	Underwriting amount receivable	\$ -	-	700
	Interest income	<u>67</u>	<u>1,587</u>	<u>1,589</u>
Total		<u>\$ 67</u>	<u>1,587</u>	<u>2,289</u>

4. Deposits of banks

Name	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	Percentage of account balance	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	\$ 388,945	1.27	268,592	0.98	728,860	2.88

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

5. Call loans to banks

December 31, 2013				
	Highest balance	Ending balance	Annual interest rate (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$ 21,751,792	<u>2,229,060</u>	0.05~1.30	<u>24,919</u>

December 31, 2012				
	Highest balance	Ending balance	Annual interest rate (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$ 1,863,955	<u>871,050</u>	0.10~1.28	<u>13,739</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

6. Call loans from banks

December 31, 2013				
	Highest balance	Ending balance	Annual interest rate (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$ 11,453,725	<u>-</u>	0.26~2.70	<u>505</u>

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

7. Deposits

Name	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	Percentage of account balance	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	\$ 26,698	-	38,672	-	47,659	-
Taiwan Life Insurance Co., Ltd.	32,022	-	5,221	-	11,168	-
Kaohsiung Ammonium Sulfate Co., Ltd.	46,216	-	112,152	-	101,734	0.01
Tang Eng Iron Works Co., Ltd.	3,891	-	314	-	357	-
Tai Yi Real Estate Management Co., Ltd.	14,165	-	-	-	-	-
Total	<u>\$ 122,992</u>	<u>-</u>	<u>156,359</u>	<u>-</u>	<u>160,918</u>	<u>0.01</u>

The deposits rates for the above related parties are calculated using the board rates and the conditions are not different with the others.

8. Financial assets measured at fair value through profit or loss — current

Name	Summary	December 31, 2013	December 31, 2012	January 1, 2012
Hua Nan Financial Holdings Co., Ltd.	Operating securities— underwriting	<u>\$ -</u>	<u>-</u>	<u>355,142</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

9. Available-for-sale financial assets — current

Name	Summary	December 31, 2013	December 31, 2012	January 1, 2012
Hua Nan Financial Holdings Co., Ltd.	Operating securities — underwriting — stocks	\$ 157,250	168,000	327,000
Hua Nan Financial Holdings Co., Ltd.	Financial bonds	<u>899,988</u>	<u>899,989</u>	<u>899,989</u>
		<u>\$ 1,057,238</u>	<u>1,067,989</u>	<u>1,226,989</u>

10. Bonds Purchased under Resell Agreements

Name	December 31, 2012	
	Transaction volume	Ending Balance
Hua Nan Financial Holdings Co., Ltd.	\$ <u>400,475</u>	<u>-</u>

The Company and its subsidiaries did not buy any bonds purchased under resell agreements from the Hua Nan Financial Holdings Co., Ltd. On December 31, 2013 and January 1, 2012.

The interest revenue from the bonds purchased under resell agreements in 2012 are \$178 thousand dollars.

The interest receivable derived from the aforementioned transaction is \$0 thousand dollars on December 31, 2012.

(Continued)

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

11. Loans

December 31, 2013							
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	48	25,955	16,355	16,355	-	None	None
House mortgages	117	642,566	549,285	549,285	-	Land and buildings	None
Call loans to banks	Hua Nan Financial Holding Co., Ltd.	11,500,000	-	-	-	None	None
Call loans to banks	Taiwan business bank Co., Ltd.	5,000,000	-	-	-	None	None
Long-term secured loans	Tai Yi Real-Estate	30,000	29,129	29,129	-	Land and buildings	None
Secured overdrafts loans	Tang-Eng Iron Works Co., Ltd.	52,236	52,236	52,236	-	Land and factory	None
Short-term secured loans	Tang-Eng Iron Works Co., Ltd.	50,000	50,000	50,000	-	Land and factory	None
Short-term secured loans	Tang-Eng Iron Works Co., Ltd.	1,250,000	950,000	950,000	-	Land and factory	None
Short-term secured loans	Tang-Eng Iron Works Co., Ltd.	190,880	-	-	-	Land and factory	None
Medium-term secured loans	Tang-Eng Iron Works Co., Ltd.	500,000	500,000	500,000	-	Land and factory	None
Long-term secured loans	Tang-Eng Iron Works Co., Ltd.	741,000	582,000	582,000	-	Land and factory	None

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	412,317	412,317	-	Land and buildings	None
Call loans to banks	Hua Nan Financial Holding Co., Ltd.	5,500,000	-	-	-	None	None
Call loans to banks	Taiwan business bank Co., Ltd.	6,000,000	-	-	-	None	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	-	Land and factory	None
Long-term secured loans	Tang-Eng Iron Works Co., Ltd.	900,000	741,000	741,000	-	Land and factory	None

January 1, 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	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
Other loans	Tang-Eng Iron Works Co., Ltd.	266,141	266,141	266,141	-	Land and building	None
Other loans	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. The disclosure of other loans is sorted by interested parties.

(Continued)

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

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

12. Short-term loans

		December 31, 2013		
	Highest balance	Ending balance	Annual interest rate (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$ 550,000	<u>-</u>	0.300~1.300	<u>-</u>

		December 31, 2012		
	Highest balance	Ending balance	Annual interest rate (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$ 700,000	<u>-</u>	0.200~1.200	<u>-</u>

The Company and its subsidiaries did not get a short-term loan from the Taiwan Financial Holdings and Hua Nan Financial Holdings on January 1, 2012.

13. Commission fee payable (recorded in payables)

Name	Summary	December 31, 2013	December 31, 2012	January 1, 2012
Hua Nan Financial Holdings Co., Ltd.	Agent fee	\$ <u>102</u>	<u>47</u>	<u>448</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

14. Derivative instruments

December 31, 2013						
Name of relative party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Balance sheet	
					Account name	Amount
Taiwan Life Insurance Co., Ltd.	Forward agreement	2004.11.30~2014.01.17	414,691	4,939	Valuation adjustment of financial assets measured at fair value through profit or loss - forward	4,939
Taiwan Life Insurance Co., Ltd.	Swap agreement	2008.11.06~2014.02.25	11,849,481	106,843	Valuation adjustment of financial assets measured at fair value through profit or loss - swap	106,843
Taiwan Life Insurance Co., Ltd.	Swap agreement	2013.04.01~2014.02.27	29,918,100	(18,040)	Valuation adjustment of financial liabilities measured at fair value through profit or loss - swap	(18,040)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2012						
Name of relative party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Balance sheet	
					Account name	Amount
Taiwan Life Insurance Co., Ltd.	Forward agreement	2004.11.30~2013.01.18	412,845	(3,599)	Valuation adjustment of financial liabilities measured at fair value through profit or loss - forward	(3,599)
Taiwan Life Insurance Co., Ltd.	Swap agreement	2010.05.07~2013.01.16	2,320,926	1,681	Valuation adjustment of financial assets measured at fair value through profit or loss - swap	1,681
Taiwan Life Insurance Co., Ltd.	Swap agreement	2008.11.06~2013.03.20	6,776,525	(21,812)	Valuation adjustment of financial liabilities measured at fair value through profit or loss - swap	(21,812)

15. Broker service fees

Broker service fee revenues which are derived from engaging in consignment trading of securities for related-parties are as follows:

	2013	2012
Hua Nan Financial Holding Co., Ltd.	\$ <u>40</u>	<u>36</u>

16. Commission expenses

Name	Nature	2013	2012
Hua Nan Financial Holding Co., Ltd.	Agent fee	\$ <u>2,413</u>	<u>5,500</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

17. Service charges

Name	Nature	2013	2012
Hua Nan Financial Holding Co., Ltd.	Remittance fee and insurance agent fee	\$ <u>28</u>	<u>-</u>

18. Other operating expenses

Name	Nature	2013	2012
Hua Nan Financial Holding Co., Ltd.	Service charge and business expense	\$ <u>2,413</u>	<u>5,500</u>

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

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

1. The subsidiary, BOT

(a) Name of related party and relationship

Name	Relationship
Taiwan Financial Holding Co., Ltd.	Parent company of BOT
BankTaiwan Life Insurance Co., Ltd.	Wholly-owned subsidiary
BankTaiwan Securities Co., Ltd.	Wholly-owned subsidiary
Hua Nan Financial Holdings Co., Ltd. and its subsidiaries	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
Tai Yi Real Estate Management Co., Ltd.	Investee company of BOT under the equity method
Taiwan business bank Co., Ltd	Related- Party
Others	Directors, supervisors, general manager and vice general manger

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(b) Key Management Personnel Compensation

The related information about the salaries and bonus for BOT's key management personnel in 2013 and 2012 are as follows:

	December 31, 2013	December 31, 2012
Short-term employee benefits	\$ <u>10,400</u>	<u>11,604</u>

(c) Other related party transactions

a) Call loans to banks

December 31, 2013				
	Highest balance	Ending balance	Annual interest rate (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$ 21,751,792	<u>2,229,060</u>	0.05~1.30	<u>24,919</u>

December 31, 2012				
	Highest balance	Ending balance	Annual interest rate (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$ 10,863,955	<u>871,050</u>	0.10~1.28	<u>13,739</u>

b) Loans and discounts

Name	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	Percentage of account balance	Amount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holdings	\$ 11,600,000	0.52	5,800,000	0.27	5,800,000	0.27
BankTaiwan Securities	<u>200,791</u>	<u>0.01</u>	-	-	-	-
Total	<u>\$ 11,800,791</u>	<u>0.53</u>	<u>5,800,000</u>	<u>0.27</u>	<u>5,800,000</u>	<u>0.27</u>

c) Other assets

Name	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	Percentage of account balance	Amount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holdings	\$ 3,598,815	39.30	4,594,012	43.26	4,371,752	31.88
BankTaiwan Life Insurance	6,251	0.07	7,492	0.07	8,373	0.06
BankTaiwan Securities	<u>14</u>	<u>-</u>	<u>14</u>	<u>-</u>	<u>14</u>	<u>-</u>
Total	<u>\$ 3,605,080</u>	<u>39.37</u>	<u>4,601,518</u>	<u>43.33</u>	<u>4,380,139</u>	<u>31.94</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

d) Deposits of banks

Name	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	Percentage of account balance	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	\$ 388,945	-	268,592	0.98	728,860	2.88

e) Call loans from banks

December 31, 2013				
	Highest balance	Ending balance	Annual interest rate (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$ 11,453,725	-	0.26~2.70	505

December 31, 2012				
	Highest balance	Ending balance	Annual interest rate (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$ 6,574,565	391,973	0.15~0.75	739

January 1, 2012				
	Highest balance	Ending balance	Annual interest rate (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$ 8,571,450	-	0.2~0.8	2,035

f) Deposits

Name	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	Percentage of account balance	Amount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holdings	\$ 260,594	0.01	309,735	0.01	171,328	0.01
Bank Taiwan Life Insurance	12,922,188	0.38	16,504,966	0.50	14,707,240	0.46
Bank Taiwan Securities	458,997	0.01	319,947	0.01	300,697	0.01
Hua Nan Financial Holdings Co., Ltd.	26,698	-	38,672	-	47,659	-
Taiwan Life Insurance Co., Ltd.	32,022	-	5,221	-	11,168	-
Kaohsiung Ammonium Sulfate Co., Ltd.	46,216	-	112,152	-	101,734	0.01
Tang Eng Iron Works Co., Ltd.	3,891	-	314	-	357	-
Tai Yi Real Estate Management Co., Ltd.	14,165	-	-	-	-	-
Total	\$ 13,764,771	0.40	17,291,007	0.52	15,340,183	0.49

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

g) Transaction fee income

Name	Amount	2013	2012
		Percentage of account balance	Percentage of account balance
Bank Taiwan Life Insurance	\$ 384,027	6.80	1,054,299 20.65
Bank Taiwan Securities	2,271	0.04	2,284 0.03
Total	<u>\$ 386,298</u>	<u>6.84</u>	<u>1,056,583</u> <u>20.68</u>

h) Other non interest gain or losses, net

Name	Amount	2013	2012
		Percentage of account balance	Percentage of account balance
Taiwan Financial Holdings	\$ 26,453	0.12	26,555 0.14
Bank Taiwan Life Insurance	32,055	0.15	42,929 0.23
Bank Taiwan Securities	42,539	0.20	23,723 0.29
Total	<u>\$ 101,047</u>	<u>0.47</u>	<u>93,207</u> <u>0.66</u>

i) Loans

December 31, 2013							
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	48	25,955	16,355	-	-	None	None
House mortgages	117	642,566	549,285	-	-	Land and buildings	None
Call loans to banks	Hua Nan Financial Holding Co., Ltd.	11,500,000	-	-	-	None	None
Call loans to banks	Taiwan business bank Co., Ltd.	5,000,000	-	-	-	None	None
Long-term secured loans	Tai Yi Real-Estate	30,000	29,129	29,129	-	Land and buildings	None
Short-term secured loans	Taiwan financial Holding Co., Ltd.	11,600,000	11,600,000	11,600,000	-	Government (or financial institutions) guarantee	None
Secured overdrafts loans	Tang-Eng Iron Works Co., Ltd.	52,236	52,236	52,236	-	Land and factory	None
Short-term secured loans	Tang-Eng Iron Works Co., Ltd.	50,000	50,000	50,000	-	Land and factory	None
Short-term secured loans	Tang-Eng Iron Works Co., Ltd.	1,250,000	950,000	950,000	-	Land and factory	None
Short-term secured loans	Tang-Eng Iron Works Co., Ltd.	190,880	-	-	-	Land and factory	None
Medium-term secured loans	Tang-Eng Iron Works Co., Ltd.	500,000	500,000	500,000	-	Land and factory	None
Long-term secured loans	Tang-Eng Iron Works Co., Ltd.	741,000	582,000	582,000	-	Land and factory	None
Short-term secured loans	Bank Taiwan Securities Co., Ltd.	730,791	200,791	200,791	-	Real estate and government (or financial institutions) guarantee	None

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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	412,317	412,317	-	Land and buildings	None
Call loans to banks	Hua Nan Financial Holding Co., Ltd.	5,500,000	-	-	-	None	None
Call loans to banks	Taiwan business bank Co., Ltd.	6,000,000	-	-	-	None	None
Short-term secured loans	Taiwan financial Holding Co., Ltd.	5,800,000	5,800,000	5,800,000	-	Government (or financial institutions) guarantee	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	-	Land and factory	None
Long-term secured loans	Tang-Eng Iron Works Co., Ltd.	900,000	741,000	741,000	-	Land and factory	None
Short-term secured loans	Bank Taiwan Securities Co., Ltd.	2,441,000	-	-	-	None	None
Short-term secured loans	Bank Taiwan Securities Co., Ltd.	930,000	-	-	-	Government (or financial institutions) guarantee	None

January 1, 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	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
Other loans	Tang-Eng Iron Works Co., Ltd.	266,141	266,141	266,141	-	Land and building	None
Other loans	Tang-Eng Iron Works Co., Ltd.	1,500,000	900,000	900,000	-	Land and building	None
Other loans	Bank Taiwan Securities Co., Ltd.	83,899	-	-	-	Government (or financial institutions) guarantee	None
Other loans	Bank Taiwan Securities Co., Ltd.	521,000	-	-	-	Government (or financial institutions) guarantee	None
Other loans	Bank Taiwan Securities Co., Ltd.	3,869,756	-	-	-	Government (or financial institutions) guarantee	None
Other loans	Taiwan Financial Holding Co., Ltd.	5,700,000	5,700,000	5,700,000	-	Government (or financial institutions) guarantee	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 loans is sorted by interested parties.

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

j) Derivative instruments

December 31, 2013						
Name of relative party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Balance sheet	
					Account name	Amount
Taiwan Life Insurance Co., Ltd.	Forward agreement	2004.11.30~2014.01.17	414,691	4,939	Valuation adjustment of financial assets measured at fair value through profit or loss - forward	4,939
Taiwan Life Insurance Co., Ltd.	Swap agreement	2008.11.06~2014.02.25	11,849,481	106,843	Valuation adjustment of financial assets measured at fair value through profit or loss - swap	106,843
Taiwan Life Insurance Co., Ltd.	Swap agreement	2013.04.01~2014.02.27	2,991,810	(18,040)	Valuation adjustment of financial liabilities measured at fair value through profit or loss - swap	(18,040)
BankTaiwan Life Insurance Co., Ltd.	Swap agreement	2008.11.20~2013.04.14	13,920,533	119,910	Valuation adjustment of financial assets measured at fair value through profit or loss - swap	119,910
BankTaiwan Life Insurance Co., Ltd.	Swap agreement	2008.04.30~2014.04.25	14,654,226	(68,103)	Valuation adjustment of financial liabilities measured at fair value through profit or loss - swap	(68,103)

December 31, 2012						
Name of relative party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Balance sheet	
					Account name	Amount
Taiwan Life Insurance Co., Ltd.	Forward agreement	2004.11.30~2013.01.28	412,845	(3,599)	Valuation adjustment of financial liabilities measured at fair value through profit or loss - forward	(3,599)
Taiwan Life Insurance Co., Ltd.	Swap agreement	2010.05.07~2013.01.16	2,320,926	1,681	Valuation adjustment of financial assets measured at fair value through profit or loss - swap	1,681
Taiwan Life Insurance Co., Ltd.	Swap agreement	2008.11.06~2013.03.20	6,776,525	(21,812)	Valuation adjustment of financial liabilities measured at fair value through profit or loss - swap	(21,812)
BankTaiwan Life Insurance Co., Ltd.	Swap agreement	2009.06.08~2013.01.16	2,321,800	881	Valuation adjustment of financial assets measured at fair value through profit or loss - swap	881
BankTaiwan Life Insurance Co., Ltd.	Swap agreement	2008.04.30~2014.09.30	28,352,616	(415,208)	Valuation adjustment of financial liabilities measured at fair value through profit or loss - swap	(415,208)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2. The subsidiary, BTLI

(a) Name of related party and relationship

Name	Relationship
Taiwan Financial Holding Co., Ltd.	Holding company of BTLI
Bank of Taiwan Co., Ltd.	Wholly-owned subsidiary
BankTaiwan Securities Co., Ltd.	Wholly-owned subsidiary
BankTaiwan Insurance Brokers Co., Ltd	Wholly-owned subsidiary of BOT
Hua Nan Financial Holdings Co., Ltd. and its subsidiaries	Investee company of BOT and BTLI under the equity method
Taiwan Life Insurance Co., Ltd.	Investee company of BOT and BTLI under the equity method
Taiwan business bank Co., Ltd	Related- Party
Others	Directors, supervisors, general manager and vice general manger

(b) Key Management Personnel Compensation

The related information about the salaries and bonus for BTLI's key management personnel in 2013 and 2012 are as follows:

	December 31, 2013	December 31, 2012
Short-term employee benefits	\$ <u>15,627</u>	<u>18,406</u>

(c) Other related party transactions

a) Bank deposits

The bank deposits in the related banks and the relevant interest revenues on December 31, 2013 and 2012, and January 1, 2012 are as follows:

Name	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	Percentage of account balance	Amount	Percentage of account balance	Amount	Percentage of account balance
Bank of Taiwan	\$ 17,874,920	76.04	16,476,252	40.22	14,650,614	58.91
Hua Nan Financial Holding Co., Ltd	<u>37,805</u>	<u>0.17</u>	<u>33,765</u>	<u>0.08</u>	<u>104,428</u>	<u>0.42</u>
Total	\$ <u>17,912,725</u>	<u>76.21</u>	<u>16,510,017</u>	<u>40.30</u>	<u>14,755,042</u>	<u>59.33</u>

The relevant interest revenues of the subsidiary, BTLI, in 2013 and 2012 are \$91,560 thousand dollars and \$70,827 thousand dollars, respectively.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

b) Receivables

Name	Summary	December 31, 2013	December 31, 2012	January 1, 2012
Bank of Taiwan	Interest revenue	\$ 13,267	3,172	2,668
Hua Nan Financial Holdings Co., Ltd.	Interest revenue	67	1,587	1,589
Taiwan Financial Holdings	Other receivables reclassified from repaid dividends	107,653	101,725	-
	Refundable tax	-	587,892	330,622
Total		<u>\$ 120,987</u>	<u>694,376</u>	<u>334,879</u>

c) Current tax assets

Name	Summary	December 31, 2013	December 31, 2012	January 1, 2012
Taiwan Financial Holdings	Refundable tax	<u>\$ 908,441</u>	<u>587,892</u>	<u>330,622</u>

d) Secured loans

The real estate secured loans to the directors, supervisors, general manager, vice general manager, employees with credit amounts, their spouses and their first or second degree relatives on December 31, 2013 and 2012, and January 1, 2012 are as follows:

Name	December 31, 2013	December 31, 2012	January 1, 2012
Real estate secured loans	<u>\$ 381,735</u>	<u>297,710</u>	<u>308,067</u>
Interest receivables	<u>\$ 395</u>	<u>263</u>	<u>213</u>

All interest rate collars on December 31, 2013 and 2012, and January 1, 2012 are 0.95%~1.57%.

e) Available-for-sale financial assets

Name	Summary		December 31, 2013	December 31, 2012	January 1, 2012
Hua Nan Financial Holdings Co., Ltd.	Financial bonds (recorded in the available-for-sale financial assets account)	Cost	\$ 900,000	900,000	900,000
Taiwan Financial Holdings	Other receivables reclassified from repaid dividends	Valuation adjustment	(12)	(11)	(11)
		Carrying amount	\$ 899,988	899,989	899,989
		Interest receivable	\$ 1,587	1,587	1,587

Both of the interest revenues from the aforementioned financial bonds in 2013 and 2012 are \$14,850 thousand dollars.

(Continued)

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

f) Derivatives

December 31, 2013						
Name of relative party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Balance sheet	
					Account name	Amount
Bank of Taiwan Co., Ltd	Swap agreement	2008.04.30~ 2014.04.25	USD491,000	68,103	Valuation adjustment of financial assets measured at fair value through profit or loss - current-held for trading- swap	68,103
Bank of Taiwan Co., Ltd	Swap agreement	2008.11.20~ 2013.04.14	USD472,000	(119,910)	Valuation adjustment of financial liabilities measured at fair value through profit or loss - current- held for trading-swap	(119,910)

December 31, 2012						
Name of relative party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Balance sheet	
					Account name	Amount
Bank of Taiwan Co., Ltd.	Swap agreement	2008.04.30~ 2014.3.27	USD963,000	415,208	Valuation adjustment of financial liabilities measured at fair value through profit or loss	415,208
Bank of Taiwan Co., Ltd	Swap agreement	2009.08.26~ 2013.11.22	USD80,000	(881)	Valuation adjustment of financial liabilities measured at fair value through profit or loss	(881)

January 1, 2012						
Name of relative party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Balance sheet	
					Account name	Amount
Bank of Taiwan Co., Ltd.	Swap agreement	2011.10.07~ 2012.06.27	USD331,000	34,877	Valuation adjustment of financial liabilities measured at fair value through profit or loss	34,877
Bank of Taiwan Co., Ltd	Swap agreement	2011.04.27~ 2012.06.13	USD892,000	(508,478)	Valuation adjustment of financial liabilities measured at fair value through profit or loss	(508,478)

g) Gain (loss) on disposal of investments

Name	Summary	2013	2012
Bank of Taiwan	Gain (loss) on disposal of investment	\$ <u>(440,572)</u>	<u>459,640</u>

(Continued)

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

h) Commission fees

Name	Summary	2013	2012
Bank of Taiwan Co., Ltd	Sales charge	\$ 347,910	1,020,236
BankTaiwan Insurance Brokers Co., Ltd	Agent fee	438,213	-
Hua Nan Financial Holding Co., Ltd.	Agent fee	2,413	5,500
Total		<u>\$ 788,536</u>	<u>1,025,736</u>

i) Derivative instruments

Name	Summary	2013	2012
Bank of Taiwan Co., Ltd		\$ (218,733)	752,570
BankTaiwan Insurance Brokers Co., Ltd.	Commission	38	-
Total		<u>\$ (218,695)</u>	<u>752,570</u>

3. The subsidiary, BTS

(a) Name of related party and relationship

Name	Relationship
Taiwan Financial Holding Co., Ltd.	Holding company of BTS
Bank of Taiwan Co., Ltd.	Wholly-owned subsidiary
BankTaiwan Life Insurance Co., Ltd.	Wholly-owned subsidiary
Hua Nan Financial Holdings Co., Ltd. and its subsidiaries	Investee company of BOT and BTLI under the equity method
Directors, Supervisors, general manager and vice general manager	Management level

(b) Key Management Personnel Compensation

The related information about the salaries and bonus for BTS's key management personnel in 2013 and 2012 are as follows:

	December 31, 2013	December 31, 2012
Short-term employee benefits	\$ 11,036	13,378
Post-employment benefits	<u>1,781</u>	<u>1,003</u>
	<u>\$ 12,817</u>	<u>14,381</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(c) Other related party transactions

a) Bank deposits

The bank deposits in the Bank of Taiwan on December 31, 2013 and 2012, and January 1, 2012 are as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Cash and cash equivalents	\$ 40,937	38,446	35,237
Operation guarantee deposits (recorded in other assets)	280,000	280,000	265,000
Amounts awaiting delivery (recorded in other assets)	548	1,501	430
Collections for underwriting stock value (recorded in other assets)	137,512	-	-
	<u>\$ 458,997</u>	<u>319,947</u>	<u>300,667</u>

The bank deposits in the Hua Nan Financial Holdings on December 31, 2013 and 2012, and January 1, 2012 are as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Cash and cash equivalents	\$ <u>1,960</u>	<u>1,990</u>	<u>1,017</u>

The interest revenues from the deposits in the Bank of Taiwan on December 31, 2013 and 2012, and January 1, 2012 are \$3,896, \$3,875 and \$4,089 thousand dollars, respectively.

b) Financial assets measured at fair value through profit or loss—current

Name	Summary	December 31, 2013	December 31, 2012	January 1, 2012
Hua Nan Financial Holdings Co., Ltd.	Operating securities— underwriting	\$ <u>-</u>	<u>-</u>	<u>355,142</u>

c) Available-for-sale financial assets—current

Name	Summary	December 31, 2013	December 31, 2012	January 1, 2012
Hua Nan Financial Holdings Co., Ltd.	Operating securities— underwriting—stocks	\$ <u>157,250</u>	<u>168,000</u>	<u>327,000</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

d) Bonds Purchased under Resell Agreements

Name	December 31, 2012	
	Transaction volume	Ending Balance
Hua Nan Financial Holdings Co., Ltd.	\$ <u>400,475</u>	<u>-</u>

The subsidiary, BTS, did not buy any bonds purchased under resell agreements from the Hua Nan Financial Holdings Co., Ltd. On December 31, 2013 and January 1, 2012.

The interest revenue from the bonds purchased under resell agreements in 2012 are \$178 thousand dollars.

The interest receivable derived from the aforementioned transaction is \$0 thousand dollars on December 31, 2012.

e) Shore-term loans (January 1, 2012: None)

December 31, 2013				
	Highest balance	Ending balance	Annual interest rate (%)	Interest expense
Bank of Taiwan	\$ 770,791	<u>200,792</u>	1.595~2.395	<u>741</u>
Hua Nan Financial Holding Co., Ltd	550,000	<u>-</u>	0.300~1.300	<u>-</u>

December 31, 2012				
	Highest balance	Ending balance	Annual interest rate (%)	Interest expense
Bank of Taiwan	\$ 2,441,000	<u>-</u>	1.895~2.395	<u>-</u>
Hua Nan Financial Holding Co., Ltd	700,000	<u>-</u>	0.200~1.200	<u>-</u>

The subsidiary, BTS, did not get a short-term loan from the Taiwan Financial Holdings and Hua Nan Financial Holdings on January 1, 2012.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(51) Pledged assets

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

The subsidiary, BOT

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

The subsidiary, BTLI

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

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

The subsidiary, BTS

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(52) Commitments and contingencies

1) Commitments and contingencies

1. Commitments and contingencies of the subsidiary, BOT

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

2. Commitments and contingencies of the subsidiary, BTLI

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

3. Commitments and contingencies of the subsidiary, BTS

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Trust assets	December 31, 2013	December 31, 2012	January 1, 2012
Deposits			
Deposits in BOT	\$ 31,238,139	31,552,700	26,596,608
Deposits in other banks	4,401,991	3,197,294	3,029,334
Short term investment			
Investment in funds	174,442,560	176,166,500	163,596,031
Investment in bonds	201,695,311	181,509,311	196,046,874
Common stock investment--marketable securities	46,403,259	49,740,466	51,158,626
Receivables			
Interest receivable	1,408,992	1,244,485	1,434,094
Cash dividend receivable	1,538	1,190	1,604
Receivables from trading securities	740,029	368,435	402,087
Receivables from forward contracts	8,002,289	6,340,990	9,558,813
Prepaid expense	970	1,785	677
Real estate			
Land	12,419,874	8,667,018	1,992,865
Buildings	143,500	147,154	151,797
Construction in progress	6,099,891	3,809,955	621,565
Marketable securities under custody	<u>48,652,533</u>	<u>50,109,657</u>	<u>51,257,055</u>
Total of trust assets	<u>\$ 535,650,876</u>	<u>512,856,940</u>	<u>505,848,030</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Trust liabilities	December 31, 2013	December 31, 2012	January 1, 2012
Payables			
Payables from trading securities	\$ 301,829	138,736	271,267
Payables from forward contracts	7,975,500	6,326,250	9,535,900
Payables from management fee	4,046	1,998	1,964
Payables from supervision fee	325	323	100
Other payables	285	227	168
Tax payable	208	285	280
Securities held in custody payable	48,652,533	50,109,657	51,257,055
Trust capital			
Money trust	386,836,981	380,068,690	372,183,932
Marketable securities trust	2,497,474	6,589,900	8,280,795
Real estate investment trust	27,195,633	23,172,998	4,763,696
Other reserve and accumulated income			
Accumulated loss	33,383,769	28,412,668	31,085,015
Foreign currency translation	(1,095,677)	(6,161,908)	1,410,786
Deferred unrealized income	9,193,039	9,200,613	10,002,421
Current income	20,704,931	14,996,503	17,054,651
Total of trust liabilities	<u>\$ 535,650,876</u>	<u>512,856,940</u>	<u>505,848,030</u>

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Details of trust	December 31, 2013	December 31, 2012	January 1, 2012
Deposits			
Deposits in the Bank	\$ 31,238,139	31,552,700	26,596,608
Deposits in other banks	4,401,991	3,197,294	3,029,334
Short term investment			
Investment in funds	174,442,560	176,166,500	163,596,031
Investment in bonds	201,695,311	181,509,311	196,046,874
Common stock investment– marketable securities	46,403,259	49,740,466	51,158,626
Real estate			
Land	12,419,874	8,667,018	1,992,865
Buildings	143,500	147,154	151,797
Construction in progress	6,099,891	3,809,955	621,565
Marketable securities under custody	<u>48,652,533</u>	<u>50,109,657</u>	<u>51,257,055</u>
Trust capital	<u>\$ 525,497,058</u>	<u>504,900,055</u>	<u>494,450,755</u>
Income statement for assets under trust			
		December 31, 2013	December 31, 2012
Trust revenue			
Capital interest revenue	\$	9,433,617	9,345,735
Cash dividend revenue		2,318,628	2,833,571
Realized capital gain shares		4,083,806	895,543
Realized capital gain fund		1,734,464	328,887
Realized exchange gain – bond		1,799,725	2,894,220
Realized foreign exchange gain		746,848	-
Realized gain on property exchange		823,399	86,051
Income from beneficiary certificates		<u>274,682</u>	<u>-</u>
Total trust revenue		<u>21,215,169</u>	<u>16,384,007</u>
Trust expense			
Capital management fee		473,886	339,453
Realized foreign exchange loss		-	432,610
Realized loss on property exchange		-	457,324
Tax expense		5,497	113,691
Supervisory fee		338	459
Storage fee		7,859	11,155
Commission fee		16	13
Other expense		<u>22,642</u>	<u>32,799</u>
		<u>510,238</u>	<u>1,387,504</u>
Net income	\$	<u>20,704,931</u>	<u>14,996,503</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

3) Supplementary information for government employees' insurance department

1. Balance sheets

	Government employees insurance department		
	December 31, 2013	December 31, 2012	January 1, 2012
Cash and cash equivalents	\$ 32,288,292	21,373,048	24,911,164
Financial assets at fair value through profit or loss	99,412,781	85,703,614	65,802,579
Receivables, net	19,220,747	22,494,214	23,330,050
Current income tax assets	631	3,367	-
Held-to-maturity financial assets	57,668,646	54,953,270	50,321,722
Property and equipment, net	11,935	13,902	6,832
Intangible assets, net	3,992	4,791	442
Other assets, net	<u>9,585,446</u>	<u>10,162,145</u>	<u>13,690,111</u>
Total assets	<u>\$ 218,192,470</u>	<u>194,708,351</u>	<u>178,062,900</u>
Financial liabilities measured at fair value through profit or loss	\$ 6,182	43	5,254
Payables	1,591,709	35,883	33,146
Provisions	216,594,551	194,672,423	178,024,500
Other liabilities	<u>28</u>	<u>2</u>	<u>-</u>
Total liabilities	<u>\$ 218,192,470</u>	<u>194,708,351</u>	<u>178,062,900</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2. Income statement

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

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

(53) Losses due to major disasters: None.

(54) Subsequent events: None.

(Continued)

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

(55) Other

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

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

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

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

The Company

1. December 31, 2012

Balance Sheet	As Previously Reported December 31, 2012	Adjustments — Increase (Decrease)	As Audited by the MoA, December 31, 2012
Assets			
Receivables, net	\$ 98,341,073	71,137	98,412,210
Fixed assets, net	98,436,106	(44)	98,436,062
Other assets	16,919,777	(27,968)	16,891,809
Liabilities			
Payables	69,404,868	(8,484)	69,396,384
Stockholders' equity			
Unappropriated retained earnings	8,449,361	51,609	8,500,970

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Income statement	As Previously Reported 2012	Adjustments — Increase (Decrease)	As Audited by the MoA, 2012
Net interest income	\$ 33,641,113	174	33,641,287
Net revenues of service charges and commissions	3,172,020	(61,668)	3,110,352
Gain (loss) on financial assets and liabilities measured at fair value through profit or loss	14,029,860	(141,888)	13,887,972
Foreign exchange gain (loss)	(1,799,868)	(76)	(1,799,944)
Other non interest gain (loss)	10,089,751	126,389	10,216,140
Net revenue	97,880,278	(77,069)	97,803,209
Bad debt expenses	3,107,905	465	3,108,370
Operating expenses	19,219,830	(70,140)	19,149,690
Income before tax expenses	7,916,989	(7,394)	7,909,595
Income tax expense	620,629	(59,003)	561,626
Net income	7,296,360	51,609	7,347,969

2. December 31, 2011

Balance Sheet	As Previously Reported December 31, 2011	Adjustments — Increase (Decrease)	As Audited by the MoA, December 31, 2011
Assets			
Receivables, net	\$ 91,051,049	33,167	91,084,216
Loans and discounts, net	2,158,391,915	(54,117)	2,158,337,798
Liabilities			
Payables	69,230,298	707	69,231,005
Stockholders' equity			
Unappropriated retained earnings	6,680,590	(21,657)	6,658,933

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Income statement	As Previously Reported 2011	Adjustments — Increase (Decrease)	As Audited by the MoA, 2011
Net revenues of service charges and commissions	\$ 3,778,928	(48,595)	3,730,333
Other non-interest gain (loss)	10,462,563	4,661	10,467,224
Bad debt expenses	4,999,902	54,114	5,054,016
Operating expenses	19,333,759	(56,639)	19,277,120
Income before tax expenses	4,683,310	(41,409)	4,641,901
Income tax expense	602,719	(19,752)	582,967
Net income	4,080,591	(21,657)	4,058,934

The subsidiary, BOT

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

1. December 31, 2012

Balance Sheet	As Previously Reported December 31, 2012	Adjustments — Increase (Decrease)	As Audited by the MoA, December 31, 2012
Asset			
Receivables, net	\$ 91,268,044	3,350	91,271,394
Liabilities			
Payables	42,146,153	(19)	42,146,134
Stockholders' equity			
Unappropriated retained earnings	8,377,872	3,369	8,381,241

Income statement	As Previously Reported 2012	Adjustments — Increase (Decrease)	As Audited by the MoA, 2012
Income tax expense	\$ 861,112	(3,369)	857,743
Net income	7,224,872	3,369	7,228,241

(Continued)

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

2. December 31, 2011

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

The subsidiary, BTLI

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The subsidiary, BTS

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

1. December 31, 2012

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

2. December 31, 2012

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

3) Financial information classified by business type

December 31, 2013

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

December 31, 2012

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

(Continued)

Balance Sheet

December 31, 2013 and 2012, and January 1, 2012
(expressed in thousands of New Taiwan dollars)

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TAIWAN FINANCIAL HOLDING CO., LTD.

Statements of Comprehensive Income

For the years ended December 31, 2013 and 2012

(expressed in thousands of New Taiwan dollars, except earnings per share)

	2013 Amount	%	2012 Amount	%	Percentage change
Revenue :					
Income from equity investments under equity method	7,121,083	100	7,378,846	100	(3)
Other gains	<u>(1,527)</u>	<u>-</u>	<u>(1,542)</u>	<u>-</u>	1
Total Revenue	<u>7,122,610</u>	<u>100</u>	<u>7,380,388</u>	<u>100</u>	(3)
Expense :					
Operating expenses	155,556	2	153,885	2	1
Other expenses and losses	<u>91,778</u>	<u>1</u>	<u>65,645</u>	<u>1</u>	40
	<u>247,334</u>	<u>3</u>	<u>219,530</u>	<u>3</u>	13
Net income before income ta	6,875,276	97	7,160,858	97	(4)
Income tax expense	<u>118,211</u>	<u>2</u>	<u>97,652</u>	<u>1</u>	21
Net income	<u>\$ 6,993,487</u>	<u>99</u>	<u>7,258,510</u>	<u>98</u>	(4)
Other comprehensive income (losses):					
Actuarial losses on defined benefit plans	\$ (12,889)	-	(6,036)	-	(114)
Share of other comprehensive income of associates and joint ventures under equity method	3,571,249	50	5,161,576	70	(31)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	-
Other comprehensive (losses) income for the period, net of income tax	<u>\$ 3,558,360</u>	<u>50</u>	<u>5,155,540</u>	<u>70</u>	-
Total comprehensive (losses) income for the period	<u>\$ 10,551,847</u>	<u>149</u>	<u>12,414,050</u>	<u>168</u>	(15)
Earnings per share (in dollars) :					
Earnings per share (in New Taiwan Dollars)	<u>\$ 0.78</u>		<u>0.81</u>		

TAIWAN FINANCIAL HOLDING CO., LTD.

Statements of Changes in Equity

For the years ended December 31, 2013 and 2012

(expressed in thousands of New Taiwan dollars)

	Stock Common stock	Capital Surplus	Legal reserve	Special reserve	Retained earnings Unappropriated retained earnings	Total	Exchange differences arising on translation of foreign operations	Other equity Unrealized gains(losses) on available- for-sale financial instrument	Total	Total equity
Balance at January 1, 2012	\$ 90,000,000	111,385,217	2,352,676	5,023,197	22,214,808	29,590,681	(18,194)	7,607,021	7,588,827	238,564,725
Legal reserve	-	-	405,894	-	(405,894)	-	-	-	-	-
Special reserve appropriated	-	-	-	1,849,656	(1,849,656)	-	-	-	-	-
Cash dividends	-	-	-	-	(4,403,384)	(4,403,384)	-	-	-	(4,403,384)
Reversal of special reserve	-	-	-	(1,153,000)	1,153,000	-	-	-	-	-
Net income for the period	-	-	-	-	7,258,510	7,258,510	-	-	-	7,258,510
Other comprehensive income (losses) for the period	-	-	-	-	(526,904)	(526,904)	(351,557)	6,034,001	5,682,444	5,155,540
Total comprehensive income (losses) for the period	-	-	-	-	6,731,606	6,731,606	(351,557)	6,034,001	5,682,444	12,414,050
Balance at December 31, 2012	90,000,000	111,385,217	2,758,570	5,719,853	23,440,080	31,918,903	(369,751)	13,641,022	13,271,271	246,575,391
Legal reserve	-	-	734,797	-	(734,797)	-	-	-	-	-
Special reserve appropriated	-	-	-	3,233,842	(3,233,842)	-	-	-	-	-
Cash dividends	-	-	-	-	(4,532,331)	(4,532,331)	-	-	-	(4,532,331)
Changes in equity of associates and joint ventures accounted for using equity method	-	49,522	-	-	-	-	-	-	-	49,522
Special reserve appropriated for the adoption of IFRSs at first time	-	-	-	14,939,510	(14,939,510)	-	-	-	-	-
Reversal of special reserve	-	-	-	(44,358)	44,358	-	-	-	-	-
Net income for the period	-	-	-	-	6,993,487	6,993,487	-	-	-	6,993,487
Other comprehensive income (losses) for the period	-	-	-	-	(241,625)	(241,625)	62,967	3,737,018	3,799,885	3,558,360
Total comprehensive income (losses) for the period	-	-	-	-	6,751,862	6,751,862	62,967	3,737,018	3,799,885	10,551,847
Balance at December 31, 2013	90,000,000	111,434,739	3,493,567	23,848,847	6,796,220	34,138,434	(306,784)	17,378,040	17,071,256	252,644,329

Note: The directors and supervisors' compensations are \$7,383 and \$8,130 thousand dollars in 2013 and 2012, respectively. Both of them are deducted from the Statement of Comprehensive Income.

TAIWAN FINANCIAL HOLDING CO., LTD.

Statements of Cash Flows

For the years ended December 31, 2013 and 2012

(expressed in thousands of New Taiwan dollars)

	2013	2012
Cash flows from operating activities:		
Income before income tax for the period	\$ 6,875,276	7,160,858
Adjustments :		
Loss (income) of non-cash activities		
Depreciation	1,620	1,948
Amortization	159	34
Interest expense	91,330	59,412
Interest income	(301)	(209)
Net changes in other reserves	(934)	11,626
Share of income of equity-accounted investees	(7,121,083)	(7,378,846)
Subtotal of loss (income) of non-cash activities	(7,029,209)	(7,306,035)
Change in operating assets and liabilities :		
Change in operating assets :		
Decrease in receivables	87	71
Increase in other assets	(1,446)	(249)
Subtotal of change in operating assets	(1,359)	(178)
Change in operating liabilities :		
Increase in payables	6,888	2,684
Decrease in other liabilities	-	(6,037)
Subtotal of change in operating liabilities	6,888	(3,353)
Subtotal of change in operating assets and liabilities	5,529	(3,531)
Subtotal of all adjustments	(7,023,680)	(7,309,566)
Cash (used in) provided by operating activities	(148,404)	(148,708)
Cash received from interest income	300	202
Cash received from dividends	3,786,057	4,835,793
Cash paid for income taxes	(30)	(20)
Net cash flow from operating activities	3,637,923	4,687,267
Cash flows from investing activities :		
Acquisition of equity-accounted investees	(6,000,000)	-
Acquisition of property, plant and equipment	(868)	(1,330)
Decrease (increase) in refundable deposits	192	(164)
Acquisition of intangible assets	(390)	(128)
Net cash flow used in investing activities	(6,001,066)	(1,622)
Cash flows from financing activities:		
Increase in short-term borrowings	5,800,000	100,000
Increase in guarantee deposits received	195	18
Cash dividends paid	(3,395,499)	(4,587,871)
Cash dividends paid	(90,704)	(59,375)
Net cash flow from (used in) financing activities	2,313,992	(4,547,228)
Net increase in cash and cash equivalents	(49,151)	138,417
Cash and cash equivalents at the beginning of period	309,775	171,358
Cash and cash equivalents at the end of period	\$ 260,624	\$ 309,775
Components of cash and cash equivalents:		
Cash and cash equivalents recognized in balance sheet	\$ 260,624	309,775
Cash and cash equivalents at the end of period	\$ 260,624	309,775

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

5) The balance sheets and income statements of the subsidiaries

1. Balance sheets

	Bank of Taiwan (Individual)		
	December 31, 2013	December 31, 2012	January 1, 2012
Cash and cash equivalents	\$ 119,265,263	72,812,404	76,426,176
Placement with central bank and call loans to banks	585,444,071	549,627,869	488,555,403
Financial assets measured at fair value through profit or loss	166,714,218	146,534,038	110,886,007
Hedging financial assets, net	5,443	3,543	3,074
Bills and bonds purchased under resell agreements	6,173,451	4,980,621	3,231,949
Receivables-net	82,258,188	89,166,548	84,601,770
Current tax assets	2,301,083	2,131,424	1,872,826
Loans and discounts, net	2,240,652,458	2,177,133,260	2,153,591,119
Available-for-sale financial assets — net	765,521,333	734,870,751	757,373,465
Held-to-maturity financial assets — net	73,044,728	62,009,085	50,957,785
Investments under equity method, net	34,941,396	34,652,109	32,075,050
Other financial assets-net	70,317,917	69,668,204	72,202,088
Property and equipment, net	97,497,978	98,086,367	98,711,359
Intangible assets	1,047,495	1,164,105	821,057
Deferred tax assets	204,531	331,086	267,915
Other assets, net	9,030,041	10,620,513	13,541,968
Total assets	\$ 4,254,419,594	4,053,791,927	3,945,119,011

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	Bank of Taiwan (Individual)		
	December 31, 2013	December 31, 2012	January 1, 2012
Deposits of central bank and other banks	\$ 252,738,244	213,374,465	208,926,475
Financial liabilities measured at fair value through profit or loss	3,999,496	4,876,954	3,902,885
Hedging financial liabilities, net	225,806	301,390	409,907
Bills and bonds sold under repurchase agreements	19,036,703	11,998,398	14,906,165
Payables	44,801,734	41,988,683	39,429,620
Current tax liabilities	97,148	96,083	33,893
Deposits and remittances	3,409,804,155	3,294,903,719	3,218,010,687
Financial bonds payable	15,998,240	-	-
Other financial liabilities	1,243,698	8,198,013	5,346,276
Provision	232,743,115	210,201,483	192,806,676
Deferred tax liabilities	18,266,259	18,359,086	18,278,673
Other liabilities	<u>7,482,893</u>	<u>7,671,101</u>	<u>7,134,077</u>
Total liabilities	<u>4,006,437,491</u>	<u>3,811,969,375</u>	<u>3,709,185,334</u>
Capital stock	70,000,000	70,000,000	70,000,000
Capital surplus	105,496,092	105,453,034	105,453,034
Retained earnings			
Legal reserve	27,386,900	25,218,428	24,119,287
Special reserve	16,488,296	15,087,006	15,998,121
Unappropriated retained earnings	<u>7,085,827</u>	<u>8,381,241</u>	<u>6,263,805</u>
	<u>50,961,023</u>	<u>48,686,675</u>	<u>46,381,213</u>
Other equity	<u>21,524,988</u>	<u>17,682,843</u>	<u>14,099,430</u>
Total equity	<u>247,982,103</u>	<u>241,822,552</u>	<u>235,933,677</u>
Total liabilities and stockholders' equity	<u>\$ 4,254,419,594</u>	<u>4,053,791,927</u>	<u>3,945,119,011</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	BankTaiwan Life Insurance		
	December 31, 2013	December 31, 2012	January 1, 2012
Cash and cash equivalents	\$ 22,859,656	40,147,289	24,868,033
Receivables	3,282,052	4,139,681	2,334,985
Current tax assets	908,441	774,948	522,172
Financial assets measured at fair value through profit or loss	195,292	834,218	979,164
Available-for-sale financial assets	48,136,850	40,809,899	43,264,835
Investments under equity method, net	5,533,592	5,426,140	4,990,952
Debt investments without quoted price in active market	55,509,059	40,972,005	33,525,229
Held-to-maturity financial assets	197,658,767	181,947,391	176,735,640
Other financial assets-net	44,585,700	41,900,000	20,326,000
Real estate investments	6,111,686	4,890,098	4,175,573
Loans	11,620,809	10,788,881	10,436,679
Reinsurance assets	16,588	22,133	22,773
Property and equipment, net	770,660	776,259	773,316
Intangible assets	10,950	11,674	7,751
Deferred tax assets	1,802,766	1,758,768	1,380,275
Other assets	2,758,200	2,749,454	1,898,414
Separate account-insurance assets	2,476,824	4,686,044	5,490,078
Total assets	\$ 404,237,892	382,634,882	331,731,869

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

BankTaiwan Life Insurance			
	December 31, 2013	December 31, 2012	January 1, 2012
Payables	\$ 23,196,712	27,387,192	30,072,432
Current tax liabilities	158	216	-
Financial liabilities measured at fair value through profit or loss	566,702	35,267	915,132
Insurance liabilities	363,607,014	338,722,137	288,294,844
Other liabilities	379,313	3,562,746	1,194,365
Provisions	572,029	600,594	530,987
Deferred tax liabilities	38,079	215,684	60,006
Separate account-insurance liabilities	2,476,824	4,686,044	5,490,078
Foreign-exchange volatility reserves	439,970	96,960	-
Total liabilities	<u>391,276,801</u>	<u>375,306,840</u>	<u>326,557,844</u>
Capital stock	17,000,000	11,000,000	11,000,000
Capital surplus	366,463	360,000	360,000
Retained earnings			
Legal reserve	96,557	52,673	-
Special reserve	549,661	448,656	236,686
Unappropriated retained earnings	(565,866)	(128,527)	8,175
	<u>80,352</u>	<u>372,802</u>	<u>244,861</u>
Other equity	(4,485,724)	(4,404,760)	(6,430,836)
Total equity	<u>12,961,091</u>	<u>7,328,042</u>	<u>5,174,025</u>
Total liabilities and stockholders' equity	<u>\$ 404,237,892</u>	<u>382,634,882</u>	<u>331,731,869</u>

BankTaiwan Securities			
	December 31, 2013	December 31, 2012	January 1, 2012
Current assets	\$ 9,507,420	6,279,103	7,993,008
Property and equipment, net	490,974	479,228	483,303
Intangible assets	2,848	1,303	1,522
Deferred tax assets	1,201	638	37
Other non-current assets	404,221	380,092	350,395
Total assets	<u>\$ 10,406,664</u>	<u>7,140,364</u>	<u>8,828,265</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Current liabilities	\$	6,766,951	3,651,655	5,384,491
Reserves		130,832	138,661	107,804
Deferred tax liabilities		89,970	89,296	89,296
Other non-current liabilities		<u>5,266</u>	<u>3,707</u>	<u>4,351</u>
Total liabilities		<u>6,993,019</u>	<u>3,883,319</u>	<u>5,585,942</u>
Capital stock		3,000,000	3,000,000	3,000,000
Retained earnings		381,653	263,857	322,091
Other equity		<u>31,992</u>	<u>(6,812)</u>	<u>(79,768)</u>
Total equity		<u>3,413,645</u>	<u>3,257,045</u>	<u>3,242,323</u>
Total liabilities and stockholders' equity	\$	<u>10,406,664</u>	<u>7,140,364</u>	<u>8,828,265</u>

BankTaiwan Insurance Broker

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

(Note) The Bank invested \$20 million dollars to set up a subsidiary, BankTaiwan Insurance Brokers, which was approved on January 23, 2013 and officially set up on February 6, 2013.

(Continued)

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

2. Income statements

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

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(Continued)

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

(56) Notes to Disclosure Items

1) Information on significant transactions:

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

1. Information regarding securities where the accumulated purchase or sale amounts for the period exceed NT\$300 million or 10% of the Bank's paid in capital: None.
2. Information on the acquisition of real estate for which the purchase amount exceeded NT\$300 million or 10% of the Bank's paid-in capital:

Unit: Thousand NTD

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

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

Unit: Thousand NTD

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

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

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

Unit: Thousand NTD

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

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

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

(Continued)

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

8. Information on significant transactions between parent and subsidiary company were as follow:

Unit: Thousand NTD

Number	Name of Company	Name of the counter-party	Existing relationship State of transaction with the counter-party	Account name	Amount	Terms of trading	Percentage of the total consolidated revenues or total assets
0	Taiwan Financial Holdings	Bank of Taiwan	1	Cash and cash equivalents	260,594	Same as regular transaction	0.01 %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Receivables, net	17	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Other assets-net	2,708	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Short-term loans	11,600,000	"	0.25 %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Payables	1,294	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Other liabilities	3,598,815	"	0.08 %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Other general and administrative expenses	26,453	"	0.03 %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Other non-interest income	738	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Interest expense	91,330	"	0.12 %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Interest income	301	"	- %
0	Taiwan Financial Holdings	BankTaiwan Life Insurance	1	Receivables, net	18	"	- %
0	Taiwan Financial Holdings	BankTaiwan Life Insurance	1	Other liabilities	107,653	"	- %
0	Taiwan Financial Holdings	BankTaiwan Life Insurance	1	Other non-interest income	732	"	- %
0	Taiwan Financial Holdings	BankTaiwan Securities	1	Other liabilities	70,465	"	- %
0	Taiwan Financial Holdings	BankTaiwan Securities	1	Other non-interest income	576	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Deposits and remittances	260,594	"	0.01 %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Payables	17	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Other liabilities	2,708	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Loans and discounts, net	11,600,000	"	0.25 %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Receivables, net	1,294	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Other assets, net	3,598,815	"	0.08 %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Interest expense	301	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Other general and administrative expenses	738	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Other non-interest income	26,453	"	0.03 %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Interest income	91,330	"	0.12 %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Financial assets measured at fair value through profit or loss	119,910	"	- %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Receivables, net	48,406	"	- %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Other assets, net	6,251	"	- %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Payables	13,267	"	- %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Financial assets measured at fair value through profit or loss	68,103	"	- %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Deposits and remittances	17,383,619	"	0.37 %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Services fee, net	384,027	"	0.50 %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Gain (loss) on financial assets or liabilities measured at fair value through profit or loss	1,030,042	"	1.34 %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Interest expense	91,538	"	0.12 %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Other general and administrative expenses	36,281	"	0.05 %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Other non-interest income	32,055	"	0.04 %
1	Bank of Taiwan	BankTaiwan Securities	3	Other assets, net	14	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Payables	304	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Receivables, net	88	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Deposits and remittance	458,997	"	0.01 %
1	Bank of Taiwan	BankTaiwan Securities	3	Other liabilities	1,636	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Loans and discounts, net	200,791	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Service fee, net	2,269	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Other non-interest income	42,539	"	0.06 %
1	Bank of Taiwan	BankTaiwan Securities	3	Interest expense	3,896	"	0.01 %
1	Bank of Taiwan	BankTaiwan Securities	3	Interest income	741	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Other general and administrative expenses	86	"	- %

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Number	Name of Company	Name of the counter-party	Existing relationship State of transaction with the counter-party	Percentage of the total consolidated revenues or total assets			
				Account name	Amount	Terms of trading	Percentage of the total consolidated revenues or total assets
2	BankTaiwan Life Insurance	Taiwan Financial Holdings	2	Payables	18	"	- %
2	BankTaiwan Life Insurance	Taiwan Financial Holdings	2	Other assets, net	107,653	"	- %
2	BankTaiwan Life Insurance	Taiwan Financial Holdings	2	Other general and administrative expenses	732	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Financial assets measured at fair value through profit or loss	119,910	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Payables	48,406	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Other liabilities	6,251	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Receivables, net	13,267	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Financial assets measured at fair value through profit or loss	68,103	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Cash and cash equivalents	11,003,619	"	0.24 %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Other financial assets	6,380,000	"	0.14 %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Service fee, net	384,027	"	0.50 %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Other general and administrative expenses	32,055	"	0.04 %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Gain (loss) on financial assets or liabilities measured at fair value through profit or loss	415,971	"	0.54 %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Foreign exchange gain	219,100	"	0.29 %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Interest income	91,538	"	0.12 %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Gain on real estate investment, net	36,281	"	0.05 %
2	BankTaiwan Life Insurance	BankTaiwan Insurance Brokers	3	Payables	30,000	"	- %
2	BankTaiwan Life Insurance	BankTaiwan Insurance Brokers	3	Service fee, net	438,251	"	0.57 %
3	BankTaiwan Securities	Taiwan Financial Holdings	2	Other assets-net	70,465	"	- %
3	BankTaiwan Securities	Taiwan Financial Holdings	2	Other general and administrative expenses	576	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Other liabilities	14	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Receivables, net	304	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Payables	88	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Other assets-net	418,060	"	0.01 %
3	BankTaiwan Securities	Bank of Taiwan	3	Cash and cash equivalents	40,937	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Short-term loans	200,791	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Other assets, net	1,636	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Service fee, net	2,269	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Other general and administrative expenses	42,539	"	0.06 %
3	BankTaiwan Securities	Bank of Taiwan	3	Interest income	3,896	"	0.01 %
3	BankTaiwan Securities	Bank of Taiwan	3	Interest expense	741	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Other non-interest income	86	"	- %
4	BankTaiwan Insurance Brokers	BankTaiwan Life Insurance Brokers	3	Receivables, net	30,000	"	- %
4	BankTaiwan Insurance Brokers	BankTaiwan Life Insurance Brokers	3	Service fee, net	438,251	"	0.57 %

Note 1: Number is based on the following rules:

- 1) The parent company is 0.
- 2) Subsidiaries are numbered by company from 1.

Note 2: The relation with trader is numbered as follow:

- 1) The parent company to its subsidiary is 1.
- 2) The subsidiary to its parent company is 2.

Note 3: The transactions mention above have already write-off when building the financial report.

9. 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 SUBSIDIARIES

Notes to the Consolidated Financial Statements

2) Information on investees:

The followings are the information on investees:

Unit: Thousand NTD

Unit: Thousand NT\$

Name of the investee	Investee Location	Major Operation	% of shares	Original investment amount	Gain(Loss) recognized during the period	Held by the bank and related party at year-end				Notes
						Shares		Subtotal		
								Shares	% of Shares	
Hua Nan Financial Holdings Co., Ltd. and its subsidiaries	NO.38, Sec. 1, Chung-King South Road, Taipei, Taiwan	Financial Holding	25.07%	34,009,782	2,520,002	2,270,759,073	-	2,270,759,073	25.07%	
Taiwan Life Insurance Co., Ltd.	No.17 and 18 , Xuchang St., Taipei City, Taiwan	Life Insurance	20.48%	2,635,385	69,654	196,136,255	-	196,136,255	20.48%	
Tang Eng Iron Works Co., Ltd.	5F., No.53, Zhonghua 4th Rd., Kaohsiung City, Taiwan	Iron Industry	21.37%	1,334,645	(206,563)	74,802,414	-	74,802,414	21.37%	
Kaohsiung Ammonium Sulfate Co., Ltd.	No.4, Yanhai 2nd Rd., Kaohsiung City, Taiwan	Liquidation	91.86%	2,328,632	(64,853)	303,131,576	-	303,131,576	91.86%	
Tai Yi Real Estate Management Co., Ltd	3F., No.56, Dunhua N. Rd., Taipei City, Taiwan	Real Estate Service	30.00%	17,189	1,720	1,500,000	-	1,500,000	30.00%	
Bank of Taiwan	No. 120, Section 1, Chongching South Road, Taipei City	Banking	100.00%	247,982,103	7,325,894	7,000,000	-	7,000,000	100.00%	note 4
BankTaiwan Life Insurance	6F, No.69, Section 2, Dunhua South Road, Taipei City	Life insurance	100.00%	12,961,091	(326,662)	1,700,000	-	1,700,000	100.00%	note 4
BankTaiwan Securities	No. 58, Section 1, Chongching South Road, Taipei City	Securities	100.00%	3,413,645	121,851	300,000	-	300,000	100.00%	note 4
BankTaiwan Insurance Brokers	4F., No.49, Sec. 1, Wuchang St., Taipei City, Taiwan	Insurance broker	100.00%	149,355	129,355	2,000,000	-	2,000,000	100.00%	note 4

Note 1: The investee's shares or pro-forma shares held by the Company's board of directors, supervisors, general manager, vice general managers and affiliates conforming to the Company Act should be included.

Note 2: (1) Pro-forma shares are the "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 purpose.

3) Information regarding investment in China:

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

Unit: Thousand NTD

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

(Continued)

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

Note: The way of investing differentiates into 5 types as follow.

1. Investing the company in China by remitting money from the third country.
2. Investing the company in China by establishing investment in the third country.
3. Investing the company in China by investing the company in third country.
4. Directly investing the company in China.
5. Others: Establish oversea subsidiary.

2. Rationed investment in China:

Unit: Thousand CNY dollars
Thousand USD dollars

Current period of accumulate investment amount remitting from Taiwan	The rationed investing amount approved by Investment Commission, MOEA	The regulation announced by Investment Commission, MOEA rationed investing amount
2,456,500	2,456,500	148,789,261

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

(57) Segment Information

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

- 1) Bank department: include transacting deposit, loan, and foreign exchange; dispatching, managing, performing NTD and foreign currency; investing in securities, and analyzing, managing interest for loan and deposit, and etc.
- 2) Government employees' insurance department: include managing government employees' insurance business; auditing insurance, cash settlement, and issue business; analyzing, managing, and taking statistics of government employees' insurance business, and etc.
- 3) Department of Procurement: include managing government institutions, public schools, and public enterprises' centralized purchasing business; being agency of government institutions, public schools, and public enterprises for inter-entity supply contract, and etc.
- 4) Department of Precious Metals: include managing gold, silver, precious metals and analyzing customs duty; gold, silver and precious metals intermediary trading, planning, marketing, training, settlement, risk management, assuring and etc.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

(58) First time Adoption of International Financial Reporting Standards

The financial statement of the Company and its subsidiaries on December 31st, 2012 were followed the ROC GAAP as stated in 4(1). This financial statement was included in the First-time adoption of International Financial Reporting Standards, and the period of building International Financial Reporting Standards financial statement approved by Financial Supervisory Commission R.O.C. Also, this financial statement is in accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards which endorsed by Financial Supervisory Commission R.O.C.

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

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

1) Reconciliation of Balance Sheet

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2) Reconciliation of Income Statement

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

(Continued)

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

3) Notes to the above reconciliation reports

1. Effective interest rate method

According to IAS No. 39 accepted by FSC, the amortization of financial assets will be calculated using the effective interest rate method instead of straight-line method. On January 1 and December 31, 2012, the effect of this adjustment on related accounts are as follows: for available-for-sale financial assets, a decrease of \$6,646 and a increase of \$2,527; for held-to-maturity financial assets, a decrease of \$31,419 and \$91,639, respectively; for other financial assets, an increase of \$12,178 and \$1,738, respectively; for other assets, an increase of \$110,877 and \$97,564, respectively; for provision, an increase of \$15,220 and \$10,327, respectively; for accounts receivable, a decrease of \$2,196 and \$1,310, respectively; for available-for-sale financial assets valuation adjustment, an increase of \$6,646 and \$2,527, respectively; for deferred income tax assets, an increase of \$54,908 and \$260,511, respectively; for deferred income tax liabilities, an increase of \$52 and \$258,142, respectively; for other equities, an increase of \$61,503 and \$5,220, respectively; for current income tax assets, an increase of \$55 and a decrease of \$40, respectively; for accounts payable, an increase of \$0 and a decrease of \$40, respectively; and for retained earnings, an increase of \$67,574 and a decrease of \$6,825, respectively. Also, for the consolidated comprehensive income statement for the year 2012, this adjustment increases interest income by \$28,450, reduces gains or losses on financial assets and liabilities measured at fair value through profit or loss by \$12, increases realized gains on available-for-sale financial assets by \$440, realized losses on held-to-maturity financial assets by \$72,163, foreign exchange losses by \$12,039, reduces non-interest income by \$23,968, and insurance reserve by \$4,893.

2. Regular way purchase or sale

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

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

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

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

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

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

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

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

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

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

5. Income tax

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

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

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

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

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

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

6. Deemed costs of property and equipment

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

7. Reclassification of property and equipment

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

8. Deem cost of Investment Property

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

On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for other equities, a decrease of \$123,179 and \$118,940, respectively; for payables, a decrease of \$0 and \$2, respectively; for retained earnings, an increase of \$102,239 and \$98,722, respectively; and for deferred liabilities, an increase of \$20,940 and \$20,220, respectively. Also, for the consolidated comprehensive income statement for the year 2012, this adjustment decreases the gains on investment property by \$4,097 and increases the operating expense by \$140.

9. Reclassification of Investment Property

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

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

10. Investments under equity method, net

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

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

11. Financial instruments are altered to measure at fair value

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

12. Translation of financial statements of the foreign operation

The Company and its subsidiaries adopts the exemption of IFRS 1 about cumulative translation differences of foreign branches. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for retained earnings, a decrease of \$414,852 on both dates; for other equities, an increase of \$344,327 and \$414,819, respectively; and for deferred income tax assets, a decrease of \$70,525 and \$33, respectively.

13. Provisions

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

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

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

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

14. Others

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

15. Special reserve

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

16. Reconciliation of Cash flow

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

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

The instructions of adopted optional exemptions are as follow:

- 1. The Company and its subsidiaries do not apply the retroactive application of IFRS 3 for the acquisition or merger that had existed before the date of transition to IFRS.

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

2. If, before the date of its first IFRS balance sheet, the Company and its subsidiaries had revalued any of these assets under its previous GAAP either to fair value or to a price-index-adjusted cost, that previous GAAP revalued amount at the date of the revaluation can become the deemed cost of the asset under IFRS. If the carrying amount of property, plant and equipment includes amounts under previous GAAP that do not qualify for capitalization in accordance with IFRSs, the Company and its subsidiaries will elect to use the previous GAAP carrying amount of such items as deemed cost on the initial adoption of IFRSs
3. The Company and its subsidiaries elect to recognize all cumulative actuarial gains and losses for all defined benefit plans at the opening IFRS balance sheet date.
4. The Company and its subsidiaries elect to reset translation reserve included in equity under previous GAAP to zero.
5. Because the carrying amount of intangible assets includes amounts under previous GAAP that do not qualify for capitalization in accordance with IFRSs, the Company and its subsidiaries elect to use the previous GAAP carrying amount of such items as deemed cost on the initial adoption of IFRSs.
6. According to IFRIC 1 - Changes in Existing Decommissioning, Restoration and Similar Liabilities, changes in decommissioning, restoration and similar liabilities are required to be capitalized as part of the cost of the item and depreciated prospectively over the remaining life of the item to which they relate. The Company and its subsidiaries applied retroactive application. But there is no significant difference required to be adjusted.
7. The Company and its subsidiaries apply the exemption of IFRS 4 Insurance Contract, and they do not have to disclose the compensation information for past five years before the end of the year of first-time adoption.