

Stock code:5868

**TAIWAN FINANCIAL HOLDING CO., LTD.  
AND ITS SUBSIDIARY COMPANIES**

**Consolidated Financial Statements**

**December 31, 2014 and 2013  
(With Independent Auditors' Report Thereon)**

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

**Tel: (02)2349-3456**

## LETTER OF DECLARATION

The entities that are required to be included in the consolidated financial statements of Taiwan Financial Holding Co., Ltd. as of December 31, 2014, 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 related parties consolidated financial statements.

Truthfully yours,

TAIWAN FINANCIAL HOLDING CO., LTD.

By

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Jih-Chu Lee  
Chairperson

March 24, 2015



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 consolidated financial statements of Taiwan Financial Holding Co., Ltd (the Company) and its subsidiaries, which comprise the consolidated balance sheet as of December 31, 2014 and 2013, 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 management of the Company is responsible for the preparation of these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit. 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, 2014 and 2013 amounting NTD36,105,126 thousand, constituting 0.76% of the total assets and NTD34,026,971 thousand, constituting 0.73% of the total assets, respectively, and the related investment gains of NTD3,295,331 thousand and NTD2,521,721 thousand, constituting 38.42% and 30.30% of the income before income tax in 2014 and 2013, respectively, were accounted for 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 the "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 on a test basis 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 our audits and the audit performed by the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the audit of the other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial performance of the Company and its subsidiaries as of December 31, 2014 and 2013, 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 endorsed by the Financial Supervisory Commission.



In accordance with the 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 financial statement for the financial year ended 2013 have been audited and approved by the Ministry of Audit. The adjustments by that office are reflected in the financial statement. For further information, please see note 56 (2).

A handwritten signature of the KPMG firm, written in black ink, appearing as 'KPMG' with a stylized flourish at the end.

March 24, 2015

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, 2014 and 2013

(expressed in thousands of New Taiwan dollars)

Assets	December 31, 2014		December 31, 2013		Liabilities and Stockholders' Equity		December 31, 2014		December 31, 2013	
	Amount	%	Amount	%			Amount	%	Amount	%
11000 Cash and Cash Equivalents (note 6 and 47)	\$ 175,979,782	4	124,627,966	3	21000 Deposits of Central Bank and Other Banks (note 22 and 47)		\$ 156,988,830	3	252,738,244	6
11500 Placement with Central Bank and Call Loans to Banks (note 7, 12 and 47)	582,914,021	12	585,444,072	13	12000 Financial Liabilities Measured at Fair Value through Profit or Loss (note 23 and 47)		50,111,045	1	4,416,467	-
12000 Financial Assets Measured at Fair Value through Profit or Loss, Net (note 8 and 47)	208,952,372	4	167,496,351	4	13000 Hedging Derivative Financial Liabilities (note 9)		103,024	-	225,806	-
12100 Available-for-Sale Financial Assets, Net (note 13, 21 and 47)	852,076,122	18	815,602,042	17	22500 Bills and Bonds Sold under Repurchase Agreements (note 10)		39,587,959	1	20,898,486	-
12200 Hedging Derivative Financial Assets (note 9)	25,613	-	5,443	-	22600 Commercial Paper Payables, Net (note 24)		2,478,382	-	1,499,705	-
12500 Bills and Bonds Purchased under Resell Agreements (note 10)	7,945,387	-	13,671,033	-	23000 Payables (note 25)		66,577,265	2	70,865,244	2
13000 Receivables, Net (note 11, 12 and 47)	71,031,163	2	90,884,392	2	23200 Current Income Tax Liabilities		259,952	-	217,159	-
13200 Loans and Discounts, Net (note 12 and 47)	4,200,074	-	3,349,666	-	23500 Deposits and Remittances (note 26 and 47)		3,537,029,089	74	3,391,502,015	73
13700 Reinsurance Assets	12,528	-	16,588	-	24000 Financial Bonds Payable (note 27 and 47)		24,997,612	1	15,998,240	-
14500 Held-to-Maturity Financial Assets, Net (note 14 and 21)	270,591,631	6	270,703,495	6	24600 Provision (note 30, 31, 32 and 33)		613,249,048	13	597,615,741	14
15000 Investments under Equity Method, Net (note 15)	42,915,583	1	40,325,633	1	25500 Other Financial Liabilities (note 29)		2,378,613	-	3,720,522	-
15500 Other Financial Assets, Net (note 12, 16 and 21)	142,602,433	3	166,509,512	4	29300 Deferred Tax Liabilities (note 35)		18,562,701	-	18,427,706	-
18000 Investments property, Net (note 17)	5,487,465	-	5,512,559	-	29500 Other Liabilities (note 34)		8,343,565	-	8,003,288	-
18500 Property and Equipment, Net (note 18, 21 and 48)	99,283,101	2	99,369,646	2	Total liabilities		4,520,667,085	95	4,386,128,623	95
19000 Intangible Assets (note 19)	958,129	-	1,062,179	-	Equity attributable to shareholders of the parent (note 36):		90,000,000	2	90,000,000	2
19300 Deferred Tax Assets (note 35)	1,447,820	-	2,044,758	-	Capital Stock		111,463,639	2	111,434,739	2
19500 Other Assets (note 20)	14,156,169	-	11,748,859	-	Capital Surplus					
					Retained earnings:					
					Legal Reserve	32001	4,175,915	-	3,493,367	-
					Special Reserve	32003	26,558,186	1	23,850,122	1
					Unappropriated Retained Earnings	32011	7,301,081	-	6,868,563	-
					Other Equity	32500	38,035,182	1	34,212,052	1
					Total equity		20,387,718	-	17,071,256	-
					Total liabilities and stockholders' equity		259,886,539	5	232,718,047	5
Total assets	\$ 4,780,553,624	100	\$ 4,638,846,670	100			\$ 4,780,553,624	100	\$ 4,638,846,670	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, 2014 and 2013**

**(expressed in thousands of New Taiwan dollars)**

		2014		2013		Percentage
		Amount	%	Amount	%	Change
<b>Revenue and income :</b>						
41000	Interest income (note 37)	\$ 75,096,486	151	68,852,758	90	9
51000	Less: Interest expense (note 37)	<u>(36,573,222)</u>	<u>(73)</u>	<u>(33,482,173)</u>	<u>(44)</u>	9
	Net interest income (note 37)	38,523,264	78	35,370,585	46	9
<b>Non-interest income, net</b>						
49800	Service fees, net (note 38)	3,986,237	8	3,756,396	5	6
49825	Gain on real estate investment, net (note 17)	109,942	-	95,397	-	15
49890	Share of profit (loss) of associates and joint ventures accounted for using equity method (note 15)	3,590,679	7	2,319,959	3	55
49810	Premiums gain (loss) (note 46)	(24,313,619)	(49)	10,383,823	14	(334)
49820	Gain on financial assets or liabilities measured at fair value through profit or loss (note 39)	10,709,102	22	12,585,765	16	(15)
49830	Realized gain on available-for-sale financial assets (note 40)	2,426,302	5	2,381,266	3	2
49840	Realized gain (loss) on held-to-maturity financial assets	201	-	252	-	(20)
49870	Foreign exchange gain (loss)	11,959,313	24	3,892,948	5	207
49880	Impairment loss of assets (note 21)	(1,685)	-	(19,063)	-	91
49943	Sales income (note 20 and 41)	450,651	1	430,636	1	5
48100	Subsidized income from government (note 41)	12,946,954	26	15,696,251	20	(18)
48063	Gain on disposal of property and equipment (note 41)	188,574	-	466,674	1	(60)
49999	Other miscellaneous income (note 41)	(25,223)	-	377,317	-	(107)
58090	Excess interest expenses (note 11 and 41)	<u>(10,764,146)</u>	<u>(22)</u>	<u>(10,860,588)</u>	<u>(14)</u>	1
	<b>Net Revenue</b>	<u>49,786,546</u>	<u>100</u>	<u>76,877,618</u>	<u>100</u>	(35)
58100	Bad debt expense and reserve for guarantees (note 12)	(7,335,511)	(15)	(2,627,371)	(3)	179
58300	Provisions for policyholder's reserve premium	<u>(13,299,952)</u>	<u>(27)</u>	<u>(46,618,023)</u>	<u>(61)</u>	(71)
<b>Expenses:</b>						
58501	Employee benefits expenses (note 42)	(12,632,621)	(25)	(12,496,516)	(16)	1
58503	Depreciation and amortization expenses (note 43)	(1,261,794)	(3)	(1,333,860)	(2)	(5)
58599	Other general and administrative expenses (note 44)	<u>(6,679,560)</u>	<u>(13)</u>	<u>(5,478,630)</u>	<u>(7)</u>	22
	<b>Total Expenses</b>	<u>(20,573,975)</u>	<u>(41)</u>	<u>(19,309,006)</u>	<u>(25)</u>	7
	<b>Net income before income tax</b>	8,577,108	17	8,323,218	11	3
61003	<b>Income Tax Expenses (note 35)</b>	<u>(1,154,642)</u>	<u>(2)</u>	<u>(1,256,113)</u>	<u>(2)</u>	8
	<b>Consolidated net income</b>	<u>7,422,466</u>	<u>15</u>	<u>7,067,105</u>	<u>9</u>	5
69500	<b>Other comprehensive income (loss):</b>					
69501	Exchange differences arising on translation of foreign operations	391,039	1	6,933	-	5,540
69511	Unrealized gain on available-for-sale financial assets	2,330,095	5	4,699,092	6	(50)
69531	Other comprehensive income, before tax, actuarial losses on defined benefit plans	(457,300)	(1)	(292,153)	-	(57)
69541	Share of other comprehensive income of associates accounted for using equity method (note 15)	561,449	1	(1,038,566)	(1)	154
69591	Income tax related to components of other comprehensive income (note 35)	<u>(54,354)</u>	<u>-</u>	<u>183,054</u>	<u>-</u>	(130)
69500	<b>Other comprehensive income (loss), net of tax for the year</b>	<u>2,770,929</u>	<u>6</u>	<u>3,558,360</u>	<u>5</u>	(130)
	<b>Total comprehensive income (loss), net of tax for the year</b>	<u>\$ 10,193,395</u>	<u>21</u>	<u>10,625,465</u>	<u>14</u>	(4)
	<b>Basic earnings per share (In dollars) (note 45)</b>	<u>\$ 0.82</u>		<u>0.79</u>		

See accompanying notes to financial statements.

(expressed in thousands of New Taiwan dollars)

**See accompanying notes to financial statements.**

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

**Consolidated Statements of Cash Flows**

**For the year ended December 31, 2014 and 2013**

**(expressed in thousands of New Taiwan dollars)**

	2014	2013
<b>Cash flows from (used in) operating activities :</b>		
Net income before income tax	\$ 8,577,108	8,323,218
Adjustments :		
Adjustments to reconcile profit (loss)		
Depreciation expense	965,749	1,004,578
Amortization expense	383,572	415,001
Provision for bad debt expense	6,798,218	2,717,392
Interest expense	36,573,222	33,482,173
Interest income	(75,096,486)	(68,852,758)
Provision for guarantee liabilities	537,293	(17,527)
Net change in other provisions	13,299,952	46,618,023
Share of profit of associates and joint ventures accounted for using equity method	(3,590,677)	(2,319,959)
Gain on disposal of property and equipment	(188,574)	(466,674)
Impairment loss on financial assets	2,303	50
Impairment loss on non-financial assets	-	19,013
Reversal of impairment loss on non-financial assets	(616)	-
Others	1,351	(6,899)
Total adjustments to reconcile profit (loss)	<u>(20,314,693)</u>	<u>12,592,413</u>
Changes in operating assets and liabilities :		
Increase in placement with Central Bank and call loans to banks	(16,693,019)	(28,075,745)
Increase in financial assets measured at fair value through profit or loss	(60,045,190)	(14,133,242)
Decrease (increase) in available-for-sale financial assets	528,082	(106,033,005)
Increase in hedging derivative financial assets	(20,170)	(1,900)
Decrease in bills and bonds purchased under resell agreements	332,077	4,457,882
Decrease in receivables	23,479,561	7,569,504
Increase in loans and discounts	(66,382,800)	(61,143,052)
Decrease (increase) in held-to-maturity financial assets	5,254,077	(50,019,896)
Decrease (increase) in other financial assets	23,953,906	(9,248,650)
(Increase) decrease in other assets	(2,026,525)	493,355
(Decrease) increase in deposits of Central Bank and other banks	(95,749,414)	39,363,779
Increase (decrease) in financial liabilities measured at fair value through profit or loss	13,954,635	(92,040)
Decrease in hedging derivative financial liabilities	(122,782)	(75,584)
Increase in bills and bonds sold under repurchase agreement	18,689,473	7,556,681
(Decrease) increase in payables	(4,466,769)	1,072,579
Increase in deposits and remittances	145,527,074	113,704,251
Increase in employee benefit obligations	563,449	271,635
Increase (decrease) in other liabilities	717,044	(2,654,171)
Total changes in operating liabilities	<u>79,112,710</u>	<u>159,147,130</u>
Total changes in operating assets and liabilities	<u>(12,507,291)</u>	<u>(96,987,619)</u>
Total adjustments	<u>(32,821,984)</u>	<u>(84,395,206)</u>
Cash (outflow) generated from operations	(24,244,876)	(76,071,988)
Interest received	71,510,680	67,302,618
Dividends received	1,591,078	917,817
Interest paid	(36,394,431)	(34,741,651)
Income taxes paid	(1,230,325)	(1,645,356)
Net cash flows from (used in) operating activities	<u>11,232,126</u>	<u>(44,238,560)</u>
<b>Cash flows (used in) from investing activities :</b>		
Acquisition of property and equipment	(626,978)	(584,107)
Proceeds from disposal of property and equipment	301,075	664,366
Increase in refundable deposits	(378,007)	(128,659)
Acquisition of intangible assets	(279,517)	(299,877)
Acquisition of investments property	(337,611)	(1,280,208)
Increase in other financial assets	(7,100)	-
Net cash flows used in investing activities	<u>(1,328,138)</u>	<u>(1,628,485)</u>
<b>Cash flows from (used in) financing activities :</b>		
Increase in commercial papers payable	978,677	979,825
Proceeds from issuing financial bonds	40,739,315	15,998,240
Decrease in guarantee deposits received	(376,767)	(542,985)
Decrease in other financial liabilities	(1,341,909)	(9,163,535)
Cash dividends paid	(3,053,877)	(3,395,499)
Net cash flows from financing activities	<u>36,945,439</u>	<u>3,876,046</u>
Effect of exchange rate changes on cash and cash equivalents	1,231,207	869,740
Net increase (decrease) in cash and cash equivalents	48,080,634	(41,121,259)
Cash and cash equivalents at beginning of period	886,219,757	927,341,016
Cash and cash equivalents at end of period	<u>\$ 934,300,391</u>	<u>886,219,757</u>
<b>Compose of cash and cash equivalents :</b>		
Cash and cash equivalents reported in the statement of financial position	\$ 175,979,782	124,627,966
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	156,883,746	176,106,816
Investments qualifying for cash and cash equivalents under the definition of IAS 7	601,436,863	585,484,975
Cash and cash equivalents at end of period	<u>\$ 934,300,391</u>	<u>886,219,757</u>

See accompanying notes to financial statements.



# TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

(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) Subsidiaries' activities

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 since 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. foreign exchange operations allowed under the Foreign Regulation Act;
3. operations of offshore banking unit allowed under the Offshore Banking Act;
4. savings and trust operations;
5. overseas branch operations authorized by the respective foreign governments; and
6. other operations authorized by the central competent authority in charge.

The assets of BOT have continuously increased through revaluations of its legal and special reserve over the period since the Government provided the capital for the establishment of BOT. After the currency revolution in June 1949, the Government approved \$5 million as the Bank's capital in May 1950; \$100 million in May 1954; \$300 million in August 1963; \$600 million in September 1967; \$1 billion in May 1973; \$2 billion in September 1977; \$4 billion in September 1980; \$8 billion in November 1982; \$12 billion in May 1990; \$16 billion in April 1992; \$22 billion in December 1994; \$32 billion in August 1998; \$48 billion in September 2002; \$53 billion in July 2007; \$45 billion in January 2009; \$70 billion in November 2010 and \$95 billion in October 2014.

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 yield by BOT as its owner's equity. BTLI have 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.

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

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 and underwriting. 4. Operating as futures introducing brokers.

**(2) Financial statements authorization date and authorization process**

The consolidated financial statements were approved by the Audit Committee on March 20, 2015 as well as Board of Directors on March 24, 2015 and then published.

**(3) New standards and interpretations not yet adopted**

- 1) The 2013 International Financial Reporting Standard endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") but not yet in effect.

Since the FSC announced a full adoption of updated IFRS, the Company and its subsidiaries should adopt the 2013 IFRSs endorsed by the FSC starting from 2015 (except for IFRS 9 "Financial Instruments") to prepare its financial statements. Relevant accounting standards, interpretations and amendments are summarized below:

<b>The new issuance, amendments, and revisions of standards and interpretations</b>	<b>Effective date per IASB</b>
The amendment to IFRS 1 (Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters)	July 1, 2010
The amendment to IFRS 1 (Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters)	July 1, 2011
The amendment to IFRS 1 (Government Loans)	January 1, 2013
The amendment to IFRS 7 (Disclosure—Transfers of Financial Assets)	July 1, 2011
The amendment to IFRS 7 (Disclosures — Offsetting Financial Assets and Financial Liabilities)	January 1, 2013
IFRS 10 (Consolidated Financial Statements)	January 1, 2013 (Becomes effective for investment entity starting January 1, 2014)
IFRS 11 (Joint Arrangements)	January 1, 2013
IFRS 12 (Disclosure of Interest in other Entities)	January 1, 2013
IFRS 13 (Fair Value Measurement)	January 1, 2013
Amendment to IAS 1 (Presentation of Items of Other Comprehensive Income)	July 1, 2012
Amendment to IAS 12 (Deferred Tax: Recovery of Underlying Assets)	January 1, 2012
Amendment to IAS 19 (Employee Benefits)	January 1, 2013
Amendment to IAS 27 (Separate Financial Statements)	January 1, 2013

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

<b>The new issuance, amendments, and revisions of standards and interpretations</b>	<b>Effective date per IASB</b>
Amendment to IAS 32 (Offsetting Financial Assets and Financial Liabilities)	January 1, 2014
IFRIC 20 (Stripping Costs in the Production Phase of a Surface Mine)	January 1, 2013

Except for the following items, the adoption of 2013 IFRSs by the Company and its subsidiaries are not expected to have any material financial impacts to the consolidated financial statements.

1. IAS 19 "Employee Benefits"

The amendments to IAS 19 require the Company and its subsidiaries to calculate a "net interest" amount by applying the discount rate to the net defined benefit liability or asset to replace the interest cost and expected return on planned assets used in current IAS 19. In addition, the amendments eliminate the accounting treatment of either the corridor approach or the immediate recognition of actuarial gains and losses to profit or loss when it incurs. However, they shall recognize all actuarial gains and losses immediately through other comprehensive income. The past service cost, on the other hand, will be expensed immediately when it incurs and will no longer be amortized over the average period before vesting on a straight-line basis. The Company and its subsidiaries will recognize all of the past service cost which will cause an increase in their employee benefit obligations by \$90,331 thousand and a decrease in retained earnings by \$90,331 thousand. Due to the adoption of the 2013 IFRSs by the equity-accounted investee, there will be a decrease in investments under the equity method and retained earnings by \$935 thousand.

2. IAS 1 "Presentation of Financial Statements"

The amendments to IAS 1 change the presentation of other comprehensive income. They require the grouping of items of other comprehensive income into (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. In addition, all items under other comprehensive income shall be presented in pre-tax amount. The related tax effects shall be disclosed separately based on the aforesaid grouping method. The Company and its subsidiaries will change the presentation of the consolidated statements of comprehensive income in conformity with the amendments.

3. IFRS 7 "Financial Instruments: Disclosures"

The amendments to IFRS 7 require enhanced disclosure on the credit risk arising from financial instruments, transfers of financial assets, offsetting financial assets and financial liabilities and others. The Company and its subsidiaries will disclose all required information in accordance with the standard.

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

4. IFRS 12 "Disclosure of Interests in Other Entities"

IFRS 12 integrates all related standards regarding the disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Company and its subsidiaries will increase the disclosures of its consolidated and non-consolidated entities according to this standard.

5. IFRS 13 "Fair Value Measurement"

IFRS 13 defines the fair value, establishes a framework for measuring fair value, and requires the disclosures of the fair value measurements. After an initial assessment, the Company and its subsidiaries will increase the disclosures related to the fair value measurement according to the standard.

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

A summary of the new issuance, amendments, and revisions of standards and interpretations issued by IASB but not yet endorsed as the 2013 IFRSs by FSC:

<b>The new issuance, amendments, and revisions of standards and interpretations</b>	<b>Effective date per IASB</b>
IFRS 9 (Financial Instruments)	January 1, 2018
Amendments to IFRS 10 and IAS 28 (Sale or Contribution of Assets between an Investor and its Associate or Joint Venture)	January 1, 2016
IFRS 14 (Regulatory Deferral Accounts)	January 1, 2016
IFRS 15 (Revenue from Contracts with Customers)	January 1, 2017
Amendment to IFRS 11 (Acquisition of an Interest in a Joint Operation)	January 1, 2016
Amendment to IAS 16 and IAS 38 (Clarification of Acceptable Methods of Depreciation and Amortisation)	January 1, 2016
Amendment to IAS 16 and IAS 41 (Bearer Plant)	January 1, 2016
Amendment to IAS 19 (Defined Benefit Plans: Employee Contributions)	July 1, 2014
Amendment to IAS 27 (Equity Method in Separate Financial Statements)	January 1, 2016
Amendment to IAS 36 (Recoverable Amount Disclosures for Non-Financial Assets)	January 1, 2014
Amendment to IAS 39 (Novation of derivatives and continuation of hedge accounting)	January 1, 2014
IFRIC 21 (Levies)	January 1, 2014

The Company and its subsidiaries are continuing assessing the possible impact on the financial position and financial performance as a result of the adoption of the abovementioned new, amended and revised standards and interpretations, and will disclose the relevant impact when the assessment is complete.

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
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**(4) Significant accounting policies**

The adopted significant accounting policies are summarized as follows. Except for those with interpretations, the following policies have been applied consistently to all reporting periods of these consolidated financial statements.

**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 prepare the 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, International Accounting Standards and IFRS interpretations endorsed by the Financial Supervisory Committee.

The Company and its subsidiary are government-owned enterprises, so its accounting practices mainly follow the Budget Law, Budget 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 the implementation 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 2013 were approved by the MOA, and the opening balances of retained earnings of 2014 are the same as the approved closing balances of 2013.

**2) Basis of preparation**

**1. Basis of Measurement**

These consolidated financial statements are prepared on a historical cost basis, except for the following items.

- (a) Financial instruments measured at fair value through profit or loss (including derivative financial instruments)
- (b) Available-for-sale financial assets measured at fair value
- (c) Derivative financial instruments designated as hedges which are measured at fair value
- (d) The defined benefit assets which is the net of the present value of the defined benefit obligation and the pension fund, plus unrecognized past service cost as well as unrecognized actuarial loss less, unrecognized actuarial gain;
- (e) Some property, equipment and investments property of which the revaluation value is used are deemed as cost on revaluation date in accordance with the ROC GAAP ;
- (f) Reinsurance assets, insurance liabilities and foreign exchange volatility reserve which are accounted in accordance with the " Regulations Governing Insurance Enterprises for Setting Aside Various Reserves."

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

2. Preparing the financial statements in accordance with IFRSs requires not only the use of some critical accounting estimates in the application of the Company's accounting policies but also the management's judgment on significant assumptions and estimates of the financial statements. Please refer to note 5 for further information.
3. 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.
4. Functional currency and presentation currency

The functional currency of each entity of the Company and its subsidiaries is based on the primary economic environment in which the entity operates. These consolidated financial statements are presented in New Taiwan dollars, which also the functional currency of the Company and its subsidiaries. All financial information represented in New Taiwan dollars 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 the non-controlling interests to have a deficit balance.

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

2. List of subsidiaries in the consolidated financial statements

Name of Investor	Name of Subsidiary	Principal activities	Shareholdings	
			December 31, 2014	December 31, 2013
The Company	Bank of Taiwan (BOT)	Banking	100 %	100 %
The Company	BankTaiwan Life Insurance (BTLI)	Life Insurance	100 %	100 %
The Company	BankTaiwan Securities (BTS)	Broker	100 %	100 %
Bank of Taiwan	BankTaiwan Insurance Brokers (BTIB)	Life and Property insurance broker	100 %	100 %

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
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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 of the reporting date are retranslated to the functional currency at the exchange rate of 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 of the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of translation.

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

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

2. Foreign operations

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

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

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

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. The aforementioned time deposits which are held for short-term cash commitment rather than investment or other purposes are recognized as cash equivalents.

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 7 accepted by FSC.

6) Financial instrument

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

1. Financial asset

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

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

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

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

(Continued)



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

**(b) Available-for-sale financial assets**

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

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

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

**(c) Held to maturity financial assets**

Financial assets which 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.

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

(d) Loans and receivables

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

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

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

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

(e) Financial assets at cost

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

(f) Debts investment without active market

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

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

(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.

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.

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.

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
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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. Except for the normal credit assets that are classified at the first category, the other bad credit rating assets are classified as the second category- attention required, the third category- collectable, the forth category- hard to collect and the fifth category- impossible to collect by assessing the collaterals and overdue days.

According to the above regulations, the provisions for the bad debt expense and gurantee liabilities are the sum of 1% of the first category (other than those loans to ROC government), 2% of the second category, 10% of the third category, 50% of the forth category and 100% of the fifth category.

The subsidiary, BTLI, conforms to the Regulations Governing the Procedures for Insurance Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans to classify bad credit assets into attention required, collectable, hard to collect and impossible to collect, and recognizes 2%, 10%, 50% and 100% of the outstanding balance of each category respectively as allowance for loans. Otherwise, 0.5% of the normal credit assets (other than insurance loans and premium loans) will also be recognized as allowance for loans. The above percentages are the minimum requirements in accordance with the above mentioned regulation.

Since January 1, 2014, the allowance for bad debts of the subsidiary, BTLI, cannot be lower than the following requirements according to the amendments to the Regulations Governing the Procedures for Insurance institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans.

- a) the sum of 0.5% of the first category (other than insurance loans, premium loans and loans to ROC government), 2% of the second category, 10% of the third category, 50% of the forth category and 100% of the fifth category.
- b) 1% of the sum of all credit loans, less, insurance loans, premium loans and loans to ROC government.
- c) the total unsecured portions of overdue loans, non-performing loans and overdue receivables.

Furthermore, in accordance with the Supplementary Accounting Regulations on Management of Overdue Loans, Doubtful Loans and Bad Debts of Government-owned Enterprises issued by the Directorate-General of the Budget, Accounting and Statistics Office of the Executive Branch, various types of loans and debts that meet the requirements shall be written off upon approval.

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

(h) The derecognition of financial assets

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

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

2. Financial liability and equity instrument

(a) The classification of liabilities and equity

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

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

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

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

This type of financial liabilities 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.

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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 profit/loss in the consolidated statement of comprehensive income.

(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.

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

3. Derivative financial instruments and hedge accounting

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

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

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

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

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

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

7). Pecuniary and securities financing and refinancing

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

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
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Pecuniary refinancing represents loans from securities finance companies when the subsidiary, BTS, lacks sufficient funds to perform pecuniary financing. These loans are recorded as refinance borrowings.

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

8) Repo and reverse repo transactions involving bill and bond investment or debt

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

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

9) Investments in associates

Associate refers to an entity in which the Company and its subsidiaries have hold 20% of the voting power or less than 20% of the voting power but 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.

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

10) Investment property

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.

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
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3. Subsequent cost

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

4. Depreciation

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

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

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

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

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

12) Reinsurance assets

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

The insurance subsidiaries have the following rights over reinsurer: reinsurance reserve assets, claims and benefits recoverable from reinsurers, reinsurance premiums receivable / payable. The insurance subsidiaries shall regularly perform impairment 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.

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

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

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

The change of deposit amount is recognized as current gains or losses. The interest generated from the deposit without transferring any risk or the deposit only transfers time risk is calculated based on the effective interest rate which are determined by the estimates 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.

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

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

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

14) Lease

1. Operating Lease

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

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
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15) Intangible assets

1. Computer Software

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

2. Subsequent Expenditure

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

3. Amortization

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

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

Computer software	5 years
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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.

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

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

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

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19) Separate account – insurance instrument assets

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

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

20) Insurance liability

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.

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
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**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.

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.

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
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- 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.

- (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.
- (c) According to the Jin Guan Bao Shou No.10302125060, if the result of the insurance profit testing is negative, BTLI should recognize the special reserves according to the related operating principles.

**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.

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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, 2014.

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.

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22) Future trader's equity

The future trader's equity is the future's margin and premium from future traders, plus, the daily market value of the future. It is allowed to offset accounts, if, and only if, they belong to the same client and same type. If the margin account is a debit balance, then a margin call is made and the account owner must replenish the margin account.

23) Revenue and operating expense 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
  - (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 income
  - (a) The service fee income 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.

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6. According to the “Civil Servant and Teacher Insurance Act”, if GESSI experiences a loss, the loss before May 31, 1999, would be covered by the Ministry of Finance; and the loss after that date would be covered by an adjustment of the insurance premium.
7. Revenue and expense that relate to the same transaction or other event are recognized simultaneously; this process is commonly referred to as the matching of revenue and expense.

**Subsidiary, BTLI:**

1. Premium revenue recognition and policy acquisition costs

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

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

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

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

2. Interest revenue

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

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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.

4. 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.

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.
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.
9. 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.

24) 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.

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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 Company and its subsidiaries contribute 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 Company and its subsidiaries 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 Company and its subsidiaries (who were hired before May 1, 1997) may elect to be subject to either the Act, and maintain their service years before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. Employees who are hired by the Company and its subsidiaries after May 1, 1997 are required to be covered by the pension plan as defined by the Act. For employees subject to the Act, the Company and its subsidiaries are required to make monthly cash contributions to the employees' individual pension accounts at the rate of not less than 6% of the employees' monthly wages.

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

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

- (b) For defined contribution plan, the employer has no further legal or constructive obligation to pay further contributions in accordance with the Labor Pension Act.

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

- (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 are 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 ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

25) 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.

26) Earnings per share

Basic earnings per share: 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.

(Continued)



**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

27) 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.

28) Due from Representative Organization

According to Military Insurance Act, the BTLI engages in the military insurance business and the related transactions are recorded in due from representative organization based on military insurance accounting requirement. Charges from military insurance business are recorded as fee income, and the agent fee from other institutions on behalf of the company to collect premiums and to release of benefit payments are recorded as expenses. Moreover, funding for military insurance is kept by BTLI, and the interest is paid and recorded as interest expense.

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

The preparation of the financial statements, in conformity with the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, the Regulations Governing the Preparation of Financial Reports by Securities Issuers, the International Financial Reporting Standards the International Accounting Standards and IFRS interpretation endorsed by the Financial Supervisory Commission 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

BOT reviews loan portfolios to assess impairment periodically. In determining whether an impairment loss should be recorded in the income statement, BOT makes 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.

For the valuation of impairment loss of loans and discounts, please see note 12.

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

2) Fair value of financial instruments

1. Fair value

The Company and its subsidiaries hold 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.

If the market of an investment held by the Company and its subsidiaries is not active, the fair value of the instrument is determined with valuation techniques. The Company and its subsidiaries apply 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 and its subsidiaries 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 48 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

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

- e) Disappearance of an active market for the assets concerned
- f) Adverse effects of changes in technological, market, economic or legal environment, in which the issuer operates.
- g) Significant or prolonged decline in the fair value of an investment in the equity instrument.

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

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

- (a) The actual result in the market may differ 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 changes 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 Company and its subsidiaries rely on significant accounting estimations. Determine the final tax 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 Company and its subsidiaries 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 Company and its subsidiaries 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.

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

5) Classification of insurance policy and significant risk transfer test

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

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

BTLI 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 BTLI'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 "Code of Conduct of Actuarial Practice Under the Statements of Financial Accounting Standards No 40 — Contracts Classification and Liability Adequacy Test" announced by the Actuarial Institute of the Republic of China. BTLI 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. Please refer note 31 for further information.

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 aforementioned.

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

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.

(6) Cash and Cash Equivalents

	December 31, 2014	December 31, 2013
Cash on hand	\$ 12,051,445	11,040,435
Foreign currency on hand	10,613,947	7,496,928
Bank deposits	20,074,606	5,360,186
Cash in transit	44,064	488,612
Notes and checks for clearing	7,240,754	5,047,909
Placement with banks	<u>125,954,966</u>	<u>95,193,896</u>
Total	<u>\$ 175,979,782</u>	<u>124,627,966</u>

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

	December 31, 2014	December 31, 2013
Cash and cash equivalents in consolidated balance sheets	\$ 175,979,782	124,627,966
Placement with Central Bank of R.O.C. and other banks that meet the definition of cash and cash equivalents in IAS 7	156,883,746	176,106,816
Securities purchased under agreements to resell that meet the definition of cash and cash equivalents in IAS 7	601,436,863	585,484,975
Total	<u>\$ 934,300,391</u>	<u>886,219,757</u>

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

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

	December 31, 2014	December 31, 2013
Call loans to banks	\$ 118,420,159	146,102,729
Less: allowance for doubtful accounts—call loans to banks	(25,494)	(16,955)
Deposit reserve—account A and account B	105,503,877	95,381,868
Deposit reserve—foreign—currency deposits	395,975	424,306
Deposits in Central Bank—oversea branches	11,473,277	-
Deposits in Central Bank	<u>347,146,227</u>	<u>343,552,124</u>
Total	<u>\$ 582,914,021</u>	<u>585,444,072</u>

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, 2014 and 2013, 60% of the reserve deposits collected by the subsidiary, BOT, on behalf of a government institution amounting to \$4,940,792 thousand dollars and \$5,584,031 thousand dollars, respectively, were deposited in the Central Bank and their use is restricted according to the regulations.

In accordance with the definition of placement with Central Bank published by the Financial Examination Bureau of the FSC in March 2014, except for those deposit accounts in the Central Bank of the R.O.C., the placement with Central Bank also includes the overseas branches' deposits reserved based on the local regulations and the accounts with the Central Banks of other countries. Hence, the amount of the overseas branches (excluding the Hong Kong Branch) placed with the Local Central Banks has been reclassified from the Call loans to banks to the Deposit reserve-oversea branches.

**(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, 2014	December 31, 2013
Financial assets held for trading	\$ 156,890,875	137,315,047
Add: Valuation adjustment	<u>32,564,296</u>	<u>9,912,879</u>
Subtotal	<u>189,455,171</u>	<u>147,227,926</u>
Financial assets designated at fair value through profit or loss	19,194,984	19,931,248
Add: Valuation adjustment	<u>302,217</u>	<u>337,177</u>
Subtotal	<u>19,497,201</u>	<u>20,268,425</u>
Total	<u>\$ 208,952,372</u>	<u>167,496,351</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

(b) For details of the valuation of the financial assets measured at fair value through profit or loss, please see note 47, "The Fair Value and Fair Value Hierarchy of the Financial Instruments".

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

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Commercial papers	\$ 23,778,638	34,295,502
Government bonds	619,935	672,990
Stocks and beneficiary certificates	126,186,393	90,851,096
Treasury bills	1,997,506	4,992,770
Domestic convertible bonds	1,069,223	555,878
Corporate and financial bonds	17,655	17,192
Foreign government bonds	2,225,868	2,371,124
Foreign exchange call options	10,365	62,480
Structured time deposits	985,292	1,671,209
Negotiable certificates of deposits	-	1,820,278
Contract value of asset swap IRS	5,182	4,528
Add: Valuation adjustment		
Non derivative financial instruments	\$ 11,297,368	5,904,959
Swaps and cross currency swaps	20,791,414	3,268,800
Interest rate swaps	48,782	66,593
Forward foreign exchange	398,423	639,392
Non-deliverable foreign exchange	-	6,072
Fixed rate commercial papers	(3,130)	(5,294)
Asset swaps	14,125	20,770
Structured time deposits	239	1,204
Foreign exchange call options	11,893	10,383
Total	<u>\$ 189,455,171</u>	<u>147,227,926</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

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

	December 31, 2014	December 31, 2013
Foreign government bonds, corporate bonds, financial bonds and others	\$ 19,194,984	19,931,248
Add: Valuation adjustment	<u>302,217</u>	<u>337,177</u>
Total	<u>\$ 19,497,201</u>	<u>20,268,425</u>

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

	December 31, 2014	December 31, 2013
Foreign exchange call options	\$ 2,894,574	3,333,886
Swaps and cross currency swaps	676,343,459	456,666,293
Interest rate swaps	21,948,386	10,392,515
Forward foreign exchange	17,381,745	61,605,555
Fixed rate commercial paper	1,000,000	1,000,000
Structured time deposit	985,292	1,671,209
Asset swaps	633,400	1,925,800
Non-deliverable foreign exchange	<u>-</u>	<u>1,788,000</u>
Total	<u>\$ 721,186,856</u>	<u>538,383,258</u>

**(9) Hedging Derivative Financial Instruments**

The details of hedging derivative financial assets were as follows:

	December 31, 2014	December 31, 2013
Fair value hedges :		
Interest rate swap	<u>\$ 25,613</u>	<u>5,443</u>

The content of hedging liabilities is as follows:

	December 31, 2014	December 31, 2013
Fair value hedges :		
Interest rate swap	\$ 99,315	217,229
Asset swap	<u>3,709</u>	<u>8,577</u>
Total	<u>\$ 103,024</u>	<u>225,806</u>

(Continued)



**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

**Fair value hedge**

In order to decrease the fair value volatility caused by changes of market interest rate, the Company and its subsidiaries use interest rate swaps and asset swaps for some debt investments with fixed interest rate. In doing so, the risk exposure position will be calculated by floating interest rate and the interest rate risk will be hedged.

Hedged Item	Designated Hedging Instruments	Hedging Investments Fair Value	
		December 31, 2014	December 31, 2013
USD subordinated bonds	interest rate swap	\$ (12,593)	(26,820)
USD financial bonds	"	(43,904)	(130,454)
USD corporate debts	"	(19,742)	(41,405)
USD government debts	"	2,537	(13,107)
USD corporate debts	assets swap	(3,709)	(8,577)

The net losses of above hedging instruments in 2014 and 2013 are \$49,365 thousand dollars and \$136,422 thousand dollars, respectively. The net losses of hedged items embedded in hedging instrument in 2014 and 2013 are \$146,704 thousand dollars and \$68,914 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, 2014	December 31, 2013
Bills and bonds purchased under resell agreements:		
Negotiable certificates of deposit	\$ 1,913,424	5,580,625
Commercial paper	5,292,037	7,168,770
Government bonds	339,169	520,328
Corporate bonds	400,757	401,310
Total	<u>\$ 7,945,387</u>	<u>13,671,033</u>
	December 31, 2014	December 31, 2013
Bills and bonds sold under repurchase agreements:		
Commercial papers	\$ 449,425	349,417
Government bonds	28,257,321	19,247,168
Corporate bonds	2,128,865	1,301,901
Foreign government bonds	437,353	-
Convertible Corporate bonds	70,118	-
Financial bonds	8,244,877	-
Total	<u>\$ 39,587,959</u>	<u>20,898,486</u>

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

**(11) Receivables, Net**

	December 31, 2014	December 31, 2013
Accounts receivable	\$ 1,135,954	1,099,563
Long-term receivables — payment on behalf of the government	22,148,817	25,627,282
Accrued revenues	885,609	978,457
Interests receivable	18,933,915	15,348,109
Insurance receivable	259,204	212,826
Notes receivable and acceptance notes receivable	2,593,989	3,219,978
Non-recourse factoring	4,777,703	13,194,113
Margin Loans Receivable	3,605,930	2,856,777
Settlement accounts receivable	2,453,838	2,257,501
Settlement prices	-	334,716
Others — replenishment of national treasury	11,826,581	17,478,404
Others — undelivered spot exchange	7,150	2,176,345
Other — ATM temporary receipts, payments and interbank difference	1,753,987	1,632,809
Others — FX Swaps	50,899	2,124,901
Others	<u>886,326</u>	<u>3,159,192</u>
Subtotal	71,319,902	91,700,973
Less: allowance for doubtful accounts	<u>288,739</u>	<u>816,581</u>
Total	<u><u>\$ 71,031,163</u></u>	<u><u>90,884,392</u></u>

In accordance with Executive Yuan Tai-79-JEN-Cheng-SZU-tsu No. 14525, in 2014 and 2013, the Company and its subsidiaries paid an excess preferential interest rate of 1.8005%, and the resulting interest expenses were \$8,177,552 thousand dollars and \$8,125,002 thousand dollars, respectively, due to executing the government premium savings policy.

As of the year ended December 31, 2014, December 31 and January 1, 2013, the subsidiary, BOT, had paid the following premium savings interest expenses on behalf the government:

	December 31, 2014	December 31, 2013
Long-term receivables	\$ 22,148,817	25,627,282
Short-term advances	<u>53,150,559</u>	<u>54,369,103</u>
Total	<u><u>\$ 75,299,376</u></u>	<u><u>79,996,385</u></u>

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

**(12) Loans and Discounts, Net**

	December 31, 2014	December 31, 2013
Discounts and export / import negotiations	\$ 6,646,452	6,814,447
Short-term loans and overdrafts	309,148,966	319,090,329
Short-term secured loans and secured overdrafts	90,259,996	94,841,516
Insurances loans	6,215,990	6,119,188
Accounts receivable financing	472,703	370,777
Accounts receivable secured financing	2,544	3,560
Medium-term loans	627,197,926	603,294,444
Medium-term secured loans	287,174,930	289,654,925
Long-term loans	187,028,177	178,717,832
Long-term secured loans	805,685,505	752,666,144
Non-performing loans	<u>6,286,830</u>	<u>8,744,902</u>
Subtotal	2,326,120,019	2,260,318,064
Less: allowance for doubtful accounts	<u>26,145,788</u>	<u>19,845,588</u>
	<u><u>\$ 2,299,974,231</u></u>	<u><u>2,240,472,476</u></u>

The movements of allowance for doubtful accounts of loans and receivables were as follows:

	2014	2013
Loans:		
Beginning balance	\$ 19,845,588	18,009,780
Allowance for doubtful accounts	6,881,045	2,720,224
Write-off	(2,946,242)	(2,662,128)
Recovery from written-off	2,250,054	1,980,604
Effects of exchange rate changes and others	<u>115,343</u>	<u>(202,892)</u>
Ending balance	<u><u>\$ 26,145,788</u></u>	<u><u>19,845,588</u></u>
	2014	2013
Receivables(including other financial assets and so on):		
Beginning balance	\$ 932,334	988,275
Reversal of doubtful accounts	(82,827)	(75,326)
Write-off	(525,394)	(15,116)
Recovery from written-off	17,529	20,085
Effects of exchange rate changes and others	<u>29,088</u>	<u>14,416</u>
Ending balance	<u><u>\$ 370,730</u></u>	<u><u>932,334</u></u>
Total	<u><u>\$ 26,516,518</u></u>	<u><u>20,777,922</u></u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

Details of allowance for doubtful accounts were as follows:

	December 31, 2014	December 31, 2013
Call loans to bank	\$ 25,494	16,955
Receivables	288,739	816,581
Loans and discounts	26,145,788	19,845,588
Other financial assets	56,497	98,798
Total	<u>\$ 26,516,518</u>	<u>20,777,922</u>

Details of bad debt expenses and reserves for guarantee liabilities were as follows:

	2014	2013
Bad debts	\$ 6,798,218	2,644,898
Reserve for guarantee liabilities	537,293	(17,527)
Total	<u>\$ 7,335,511</u>	<u>2,627,371</u>

As of December 31, 2014 and 2013, the amounts of loans and receivables on which the interests stopped to accrue were \$6,310,953 and \$8,812,797, respectively, which were booked under loans and discounts - non-performing loans and other financial assets-overdue receivables. As of December 31, 2014 and 2013, the estimation of non-accrued interests were \$517,921 and \$1,359,114, respectively.

For the date as above, the subsidiary, BOT, did not write off any loan without legal proceedings having been initiated.

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

	December 31, 2014	December 31, 2013
Negotiable certificates of deposit	\$ 658,400,000	625,200,000
Government bonds	30,285,017	31,059,355
Financial bonds	9,536,049	10,935,506
Corporate bonds	25,360,410	24,227,992
Financial asset securitization investments	995,505	8,490,597
TSEC and OTC stocks and certificates	60,367,339	40,373,501
Real estate securitization	865,101	835,435
Exchange traded funds	-	696,489
Foreign bonds	42,294,730	48,114,585
Foreign exchange traded funds	3,650,531	7,524,330
Add: Adjustment valuation	21,475,557	19,288,903
Less: accumulated impairment	(1,154,117)	(1,144,651)
Total	<u>\$ 852,076,122</u>	<u>815,602,042</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

- 1) Please see note 47 "Fair Value and Fair Value Hierarchy of the Financial Instruments", for valuation of available-for-sale financial assets.
- 2) Please see note 40 for realized gain (loss) on available-for-sale financial assets.

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

	December 31, 2014	December 31, 2013
Domestic:		
Financial bonds	\$ 49,910,650	46,413,267
Corporate bonds	43,018,639	46,902,832
Negotiable certificates of deposits	3,405,511	9,260,435
Commercial papers	8,990,254	14,432,630
Government bonds	57,105,876	50,957,324
Structured time deposit	-	800,000
	<u>162,430,930</u>	<u>168,766,488</u>
Foreign:		
Bonds	106,260,521	100,602,631
Negotiable certificates of deposits	1,900,180	1,339,850
Less: accumulated impairment	-	(5,474)
	<u>108,160,701</u>	<u>101,937,007</u>
Total	<u>\$ 270,591,631</u>	<u>270,703,495</u>

**(15) Investments under Equity Method, Net**

	December 31, 2014		December 31, 2013	
	Percentage of Ownership (%)	Amount	Percentage of Ownership (%)	Amount
Hua Nan Financial Holdings Co., Ltd.	25.07	\$ 36,086,328	25.07	34,009,782
Taiwan Life Insurance Co., Ltd.	20.26	3,239,021	20.48	2,635,385
Kaohsiung Ammonium Sulfate Co., Ltd.	91.86	2,193,752	91.86	2,328,632
Tang Eng Iron Works Co., Ltd.	21.37	1,377,684	21.37	1,334,645
Tai Yi Real Estate Management Co., Ltd.	30.00	18,798	30.00	17,189
Total		<u>\$ 42,915,583</u>		<u>40,325,633</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

- 1) Details of the Company and its subsidiaries' share of other comprehensive income (loss) of associates and joint venture under equity method were as follows:

	2014	2013
Hua Nan Financial Holdings Co., Ltd.	\$ 373,903	77,600
Taiwan Life Insurance Co., Ltd.	219,451	(1,130,413)
Tang Eng Iron Works Co., Ltd.	<u>(31,905)</u>	<u>14,247</u>
Total	<u>\$ 561,449</u>	<u>(1,038,566)</u>

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

Name of Investee	December 31, 2014	December 31, 2013
Hua Nan Financial Holdings Co., Ltd.	\$ 8,105,279	8,105,279
Taiwan Life Insurance Co., Ltd.	812,325	812,325
Kaohsiung Ammonium Sulfate Co., Ltd.	1,377,872	1,377,872
Tang Eng Iron Works Co., Ltd.	1,451,074	1,451,074
Tai Yi Real Estate Management Co., Ltd.	<u>3,793</u>	<u>3,793</u>
Total	<u>\$ 11,750,343</u>	<u>11,750,343</u>

- 3) The share of profit (loss) of associates and joint ventures accounted for using equity method were as follows:

Name of Investee	2014	2013
Hua Nan Financial Holdings Co., Ltd.	\$ 3,292,173	2,520,001
Taiwan Life Insurance Co., Ltd.	355,284	69,654
Kaohsiung Ammonium Sulfate Co., Ltd.	(134,880)	(64,853)
Tang Eng Iron Works Co., Ltd.	74,944	(206,563)
Tai Yi Real Estate Management Co., Ltd.	<u>3,158</u>	<u>1,720</u>
Total	<u>\$ 3,590,679</u>	<u>2,319,959</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

The financial information of associates were summarized as follows (without adjustment made for the Company and its subsidiaries' proportionate share):

	December 31, 2014	December 31, 2013
Total assets:		
Hua Nan Financial Holdings Co., Ltd.	\$ 2,259,950,882	2,164,728,571
Taiwan Life Insurance Co., Ltd.	508,321,739	449,732,462
Kaohsiung Ammonium Sulfate Co., Ltd.	3,449,340	3,491,444
Tang Eng Iron Works Co., Ltd.	25,267,432	27,712,833
Tai Yi Real Estate Management Co., Ltd.	102,061	98,783
Total liabilities:		
Hua Nan Financial Holdings Co., Ltd.	\$ 2,116,007,105	2,029,067,821
Taiwan Life Insurance Co., Ltd.	492,334,469	436,864,370
Kaohsiung Ammonium Sulfate Co., Ltd.	1,061,193	956,465
Tang Eng Iron Works Co., Ltd.	18,059,450	20,706,907
Tai Yi Real Estate Management Co., Ltd.	39,399	41,487
	<b>2014</b>	<b>2013</b>
Revenue:		
Hua Nan Financial Holdings Co., Ltd.	\$ 38,817,038	35,522,079
Taiwan Life Insurance Co., Ltd.	88,919,402	56,289,187
Kaohsiung Ammonium Sulfate Co., Ltd.	5,713	6,626
Tang Eng Iron Works Co., Ltd.	20,760,477	18,535,991
Tai Yi Real Estate Management Co., Ltd.	70,841	52,695
Net income (loss) for the period:		
Hua Nan Financial Holdings Co., Ltd.	\$ 13,131,021	10,051,262
Taiwan Life Insurance Co., Ltd.	1,813,584	477,304
Kaohsiung Ammonium Sulfate Co., Ltd.	(146,833)	(70,600)
Tang Eng Iron Works Co., Ltd.	370,900	(950,941)
Tai Yi Real Estate Management Co., Ltd.	10,527	5,734

1. The investment gains from the investees audited by other auditors were \$3,295,331 and \$2,521,721 in 2014 and 2013, respectively.
2. The investment loss from the investees amounting to \$134,880 and \$64,853 in 2014 and 2013, respectively, were based on its unaudited financial statements.

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

3. Since Kaohsiung Ammonium Sulfate Co., Ltd. still in the process of liquidation and the liquidators and supervisors were appointed by the Ministry of Economic Affairs, the Company and its subsidiaries have no power to control such investee.
4. Taiwan Life Insurance Co., Ltd had issued private equity funds and unsecured subordinated mandatory convertible bonds, which were due on March 28, June 27, September 2, October 1, October 8, and November 6, 2013, and March 6, 2014. The investee were obligated to convert their bonds into shares. The Company and its subsidiaries did not hold any unsecured subordinated mandatory convertible bonds; hence, the percentage of ownership was decrease from 21.59% to 20.26%.

**(16) Other Financial Assets, Net**

	December 31, 2014	December 31, 2013
Short-term advances	\$ 56,675,763	58,010,363
Less: allowance for doubtful accounts—Short-term advances	(33,467)	(36,513)
Debt investments without quoted price in active markets	55,871,570	57,045,187
Financial assets carried at cost	10,786,462	10,779,362
Less: cumulative impairment—financial assets carried at cost	(15,049)	(12,475)
Remittances purchased	10,448	13,622
Less: allowance for doubtful accounts—remittances purchased	(105)	(138)
Overdue receivables	31,726	69,811
Less: allowance for doubtful accounts—overdue receivables	(22,925)	(62,147)
Separate account insurance product assets	621,659	2,476,824
Time deposits over three months	18,657,721	38,205,700
Others	18,630	19,916
Total	<u>\$ 142,602,433</u>	<u>166,509,512</u>

- 1) Please see note 47, “Fair Value and Fair Value Hierarchy of the 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, 2014 and 2013.
- 2) Concerning for the payment of excess interest for the government, booked under “short term payment” for December 31, 2014 and 2013, please refer to note 11 for further information.

(Continued)



**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

**(17) Investment property**

	<b>Land and improvements</b>	<b>Buildings</b>	<b>Total</b>
Cost or deemed cost:			
Balance at January 1, 2014	\$ 3,598,287	2,072,494	5,670,781
Additions	209,140	128,471	337,611
Reclassification to property and equipment	<u>(251,391)</u>	<u>(67,534)</u>	<u>(318,925)</u>
Balance at December 31, 2014	<u><u>\$ 3,556,036</u></u>	<u><u>2,133,431</u></u>	<u><u>5,689,467</u></u>
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>
Depreciation:			
Balance at January 1, 2014	\$ -	158,222	158,222
Depreciation	-	48,974	48,974
Reclassification to property and equipment	<u>-</u>	<u>(5,194)</u>	<u>(5,194)</u>
Balance at December 31, 2014	<u><u>\$ -</u></u>	<u><u>202,002</u></u>	<u><u>202,002</u></u>
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>
Carrying amounts:			
December 31, 2014	<u><u>\$ 3,556,036</u></u>	<u><u>1,931,429</u></u>	<u><u>5,487,465</u></u>
January 1, 2013	<u><u>\$ 2,882,590</u></u>	<u><u>1,398,171</u></u>	<u><u>4,280,761</u></u>
December 31, 2013	<u><u>\$ 3,598,287</u></u>	<u><u>1,914,272</u></u>	<u><u>5,512,559</u></u>

Detail of operating lease of the Company and its subsidiaries were as follows:

<b>Location</b>	<b>2014</b>	<b>2013</b>
Rental revenue	\$ 187,884	162,097
Direct operating cost of the investment property for the period (comprise maintenance fee)	<u>(77,942)</u>	<u>(66,700)</u>
Net profit of investment property	<u><u>\$ 109,942</u></u>	<u><u>95,397</u></u>

The fair values of the investment properties of the Company and its subsidiaries were as follows:

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Fair value of investment properties	<u><u>\$ 8,036,252</u></u>	<u><u>7,066,222</u></u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**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 rental income to determine fair value of the property for which current prices are not available in an active market were as follows:

	December 31, 2014	December 31, 2013
Capitalization of earning percentage	0.30%~2.95%	0.27%~3.51%

As of December 31, 2014 and 2013, the Company and its subsidiaries' investment property neither served as a guarantee or collateral, nor they were pledged.

**(18) Property and Equipment, Net**

Changes in the cost, depreciation, and impairment of the properties and equipments of the Company and its subsidiaries for the year ended 2014 and 2013 were as follows:

	Land and Land improvements	Buildings	Machinery and equipment	Transportation equipment	Miscellaneous equipment	Leasehold improvements	Construction in progress and prepayment for equipment	Total
<b>Cost:</b>								
Balance at January 1, 2014	\$ 87,619,640	15,563,237	6,403,582	1,102,602	1,032,997	696,279	248,131	112,666,468
Additions	175	15,303	265,422	20,051	34,360	1,695	289,972	626,978
Disposals	(95,451)	-	(189,916)	(37,835)	(34,504)	(685)	-	(358,391)
Reclassification	251,391	109,832	144,479	5,190	6,028	29,155	(227,150)	318,925
Effect of change in exchange rates	-	-	318	390	845	2,483	-	4,036
Balance at December 31, 2014	<u>\$ 87,775,755</u>	<u>15,688,372</u>	<u>6,623,885</u>	<u>1,090,398</u>	<u>1,039,726</u>	<u>728,927</u>	<u>310,953</u>	<u>113,258,016</u>
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>
<b>Accumulated depreciation:</b>								
Balance at January 1, 2014	\$ 13,699	6,161,615	4,692,424	895,548	827,215	614,786	-	13,205,287
Depreciation	-	-	(175,999)	(37,201)	(32,005)	(685)	-	(245,890)
Disposal	363	322,145	471,068	46,950	40,054	36,195	-	916,775
Reclassification	-	5,194	-	-	-	-	-	5,194
Effect of change in exchange rates	-	-	287	224	831	1,288	-	2,630
Balance at December 31, 2014	<u>\$ 14,062</u>	<u>6,488,954</u>	<u>4,987,780</u>	<u>905,521</u>	<u>836,095</u>	<u>651,584</u>	<u>-</u>	<u>13,883,996</u>
Balance at December 31, 2014	\$ 13,336	5,879,917	4,461,986	883,404	824,767	591,338	-	12,654,748
Depreciation	-	(50,129)	(257,654)	(38,290)	(39,620)	(13,668)	-	(399,361)
Disposal	363	331,827	490,295	50,859	42,890	39,933	-	956,167
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>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**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, 2014	\$ 91,535	-	-	-	-	-	-	91,535
Impairment loss	(616)	-	-	-	-	-	-	(616)
Balance at December 31, 2014	<u>\$ 90,919</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>90,919</u>
Balance at December 31, 2014	\$ 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>
Carrying amounts:								
December 31, 2014	<u>\$ 87,670,774</u>	<u>9,199,418</u>	<u>1,636,105</u>	<u>184,877</u>	<u>203,631</u>	<u>77,343</u>	<u>310,953</u>	<u>99,283,101</u>
January 1, 2013	<u>\$ 87,657,970</u>	<u>9,687,767</u>	<u>1,715,255</u>	<u>225,155</u>	<u>220,143</u>	<u>100,825</u>	<u>351,101</u>	<u>99,958,216</u>
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>

The Company and its subsidiaries have conducted a few revaluations of land and buildings for many times over these years, and the latest was in December, 2011. As of December 31, 2014 and 2013, the total revaluation increments for land were \$82,286,879 and \$82,392,460, respectively. The total revaluation increments for Buildings were \$160,553 and \$159,374.

As of December 31, 2014, the Company and its subsidiaries' property and equipment neither served as a guarantee or collateral, nor were they pledged, please refer to note 51.

**(19) Intangible Assets**

Changes in the costs, amortization, and impairment loss of intangible assets of the Company and its subsidiaries for the year ended 2014 and 2013 were as follows:

	Computer software
Costs:	
Balance at January 1, 2014	\$ 2,417,413
Additions	<u>279,517</u>
Balance at December 31, 2014	<u>\$ 2,696,930</u>
Balance at January 1, 2013	\$ 2,117,444
Additions	299,877
Reclassification	<u>461</u>
Balance at December 31, 2013	<u>\$ 2,417,782</u>
Amortization and Impairment loss:	
Balance at January 1, 2014	\$ 1,355,234
Amortization for the year	<u>383,567</u>
Balance at December 31, 2014	<u>\$ 1,738,801</u>
Balance at January 1, 2013	\$ 940,237
Amortization for the year	414,997
Reclassification	<u>369</u>
Balance at December 31, 2013	<u>\$ 1,355,603</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

**Computer  
software**

Carrying value:

Balance at December 31, 2014	\$ <u>958,129</u>
Balance at January 1, 2013	\$ <u>1,177,207</u>
Balance at December 31, 2013	\$ <u>1,062,179</u>

**(20) Other Assets**

	December 31, 2014	December 31, 2013
Foreclosed collaterals and residuals taken over, net	\$ 1,076,959	1,241,449
Advance payments	8,702,569	6,054,048
Operating guarantee deposits and settlement funds	94,814	131,919
Refundable deposits	3,239,155	2,861,148
Temporary Payments and Suspense Accounts	191,772	653,241
Inventories	849,303	806,222
Others	1,597	832
Total	\$ <u>14,156,169</u>	<u>11,748,859</u>

1) Foreclosed collaterals and residuals taken over, net

	December 31, 2014	December 31, 2013
Foreclosed collaterals and residuals taken over	\$ <u>1,076,959</u>	<u>1,241,449</u>

2) Advance payment

	December 31, 2014	December 31, 2013
Prepaid expenses	\$ 420,253	727,457
Prepaid interests	1,446	303
Prepaid stock dividends and bonus	3,226,771	3,226,697
Other prepayment	5,054,099	2,099,591
Total	\$ <u>8,702,569</u>	<u>6,054,048</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

## 3) Inventories

	December 31, 2014	December 31, 2013
Inventories	\$ 866,675	824,945
Less: allowance for inventory valuation	<u>(17,372)</u>	<u>(18,723)</u>
Total	<u><u>\$ 849,303</u></u>	<u><u>806,222</u></u>

The effects on the cost of goods sold derived from the inventory write-off or reversal for the year ended 2014 and 2013 were as follows:

	2014	2013
Sale loss (gain)	<u><u>\$ 1,351</u></u>	<u><u>(6,899)</u></u>

**(21) Impairment**

For the year ended 2014 and 2013, the movements of the accumulated impairment were as follows:

	December 31, 2014	December 31, 2013
Beginning balance	\$ 1,254,135	1,313,340
Impairment loss recognized for the current period	46,421	22,873
Reversal of impairment loss for the current period	(44,736)	(3,810)
Write-off	(1,406)	(16,497)
Effect of foreign exchange rate changes and others	<u>5,671</u>	<u>(61,771)</u>
Ending balance	<u><u>\$ 1,260,085</u></u>	<u><u>1,254,135</u></u>

Details of accumulated impairment were as follows:

	December 31, 2014	December 31, 2013
Available-for-sale financial assets	\$ 1,154,117	1,144,651
Held-to-maturity financial assets	-	5,474
Other financial assets	15,049	12,475
Property and equipment	<u>90,919</u>	<u>91,535</u>
Ending balance	<u><u>\$ 1,260,085</u></u>	<u><u>1,254,135</u></u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

**(22) Deposits of Central Bank and other banks**

	December 31, 2014	December 31, 2013
Deposits from Central Bank	\$ 11,041,140	10,618,857
Deposits from banks — others	37,780,561	30,707,975
Postal deposits transferred	1,263,357	1,673,695
Bank overdrafts	2,066,604	2,725,028
Call loans from bank	<u>104,837,168</u>	<u>207,012,689</u>
Total	<u>\$ 156,988,830</u>	<u>252,738,244</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 were as follows:

	December 31, 2014	December 31, 2013
Financial liabilities held for trading	\$ 42,868	89,611
Add: Valuation adjustment	<u>18,328,234</u>	<u>4,326,856</u>
Subtotal	<u>18,371,102</u>	<u>4,416,467</u>
Financial liabilities designated at fair value through profit or loss	32,303,400	-
Add: Valuation adjustment	<u>(563,457)</u>	<u>-</u>
Subtotal	<u>31,739,943</u>	<u>-</u>
Total	<u>\$ 50,111,045</u>	<u>4,416,467</u>

- 2) For valuation of financial liabilities measured at fair value through profit or loss, please refer to note 47 "Fair Value and Fair Value Hierarchy of the Financial Instruments".

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

3) Financial liabilities held for trading

	December 31, 2014	December 31, 2013
Foreign exchange options premium	\$ 14,846	67,076
Asset swaps-options	28,022	19,369
Asset swaps -IRS contract	-	75
Issuing Warrants	-	3,091
Add: Valuation adjustment		
Foreign exchange options premium	9,456	5,773
Swaps and cross currency swaps	16,658,891	3,607,693
Interest rate swaps	278,764	474,589
Forward foreign exchanges	766,414	212,045
Issuing Warrants	56	(2,115)
Non-deliverable Forwards	-	11,008
Asset swaps	578,495	-
Asset swaps-options	36,025	17,865
Asset swaps-IRS contract	-	(2)
Credit default swaps	133	-
Total	<u>\$ 18,371,102</u>	<u>4,416,467</u>

4) The details of the financial liabilities designated at fair value through profit or loss were as follows:

	December 31, 2014	December 31, 2013
Financial bonds	\$ 32,303,400	-
Add: Valuation adjustment	(563,457)	-
Total	<u>\$ 31,739,943</u>	<u>-</u>

BOT was approved by the FSC to issue USD \$1.5 billion of 2014-2 Senior Unsecured Financial Bonds on October 23, 2014. As of December 31, 2014, there were \$480 million dollars of the authorized amount yet to be utilized.

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

The details of the financial bonds were as follow:

Name of bond	Beginning date	Maturity date	Conditions Coupon rate	Face value	Type	Bond	
						Amount	
						December 31, 2014	December 31, 2013
2014-2 Senior unsecured financial bonds-A	2014/11/26	2034/11/26	0 %	USD \$100 million	Senior unsecured financial bond	\$ 3,167,000	-
2014-2 Senior unsecured financial bonds-B	2014/11/26	2044/11/26	0 %	USD \$480 million	Senior unsecured financial bond	15,201,600	-
2014-2 Senior unsecured financial bonds-C	2014/12/01	2044/12/01	0 %	USD \$440 million	Senior unsecured financial bond	13,934,800	-
Valuation adjustment						(563,457)	-
						<u>\$ 31,739,943</u>	<u>-</u>

BOT has embedded call options to the above bonds. The Call options may be exercised 2 years after the issuing date. If the call options are not exercised prior to the bonds maturity date, BOT will pay the principal and interests accrued in full upon maturity.

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

	December 31, 2014	December 31, 2013
Foreign exchange options premium	\$ 3,283,323	3,330,976
Swaps and cross currency swaps	621,160,905	465,597,384
Interest rate swaps	23,921,204	29,305,358
Forward foreign exchanges	18,216,271	14,519,985
Asset swaps	31,477,085	-
Asset swaps-options	190,500	121,000
Non-deliverable Forwards	-	2,145,600
Credit default swaps	192,700	-
Warrants	200	483,728
Total	<u>\$ 698,442,188</u>	<u>515,504,031</u>

(Continued)



**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

**(24) Commercial paper payable, net**

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

<b>December 31, 2014</b>			
	<b>Guarantee or acceptance institution</b>	<b>Range of interest rates</b>	<b>Amount</b>
Commercial paper payable	International Bills Finance Corporation	0.988%~1.068%	\$ 1,280,000
	China Bills Finance Corporation	0.988%~1.148%	1,200,000
			<u>2,480,000</u>
Less: discount			<u>(1,618)</u>
Total			<u><u>\$ 2,478,382</u></u>

<b>December 31, 2013</b>			
	<b>Guarantee or acceptance institution</b>	<b>Range of interest rates</b>	<b>Amount</b>
Commercial paper payable	International Bills Finance Corporation	0.998%~1.068%	\$ 850,000
	Mega Bills Finance Co., Ltd.	1.028%~1.068%	250,000
	China Bills Finance Corporation	0.998%~1.068%	400,000
			<u>1,500,000</u>
Less: discount			<u>(295)</u>
Total			<u><u>\$ 1,499,705</u></u>

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

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

**(25) Payables**

	December 31, 2014	December 31, 2013
Accounts payable	\$ 7,724,170	5,714,266
Receipts under custody	1,152,674	1,816,543
Accrued expense	2,786,713	2,871,716
Other tax payable	569,891	258,936
Interest payable	11,958,308	11,779,517
Banker's acceptance payable	2,552,753	2,931,435
Payables to representative organizations	21,167,952	22,467,379
Construction payable	7,949	2,187
Commission payable	217,627	202,328
Other payables — undelivered spot exchange	24	2,177,539
Other payables — collection bills	2,459,106	2,481,515
Other payables — payments awaiting transfer	5,476,557	5,216,002
Other payables — ATM temporary receipts, payments and inter branch difference	1,715,625	1,638,436
Other payables — foreign exchange awaiting transfer	320,889	411,355
Other payables — non-recourse factoring	338,219	403,796
Other payables — amounts awaiting settlement	3,045,600	9,157,844
Other payables — settlement accounts payable	1,533,401	-
Other payables — settlement prices	925,083	-
Other payables — overdue accounts	424,423	-
Other payables — others	2,200,301	1,334,450
Total	<u>\$ 66,577,265</u>	<u>70,865,244</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

**(26) Deposits and Remittances**

	December 31, 2014	December 31, 2013
Check deposits	\$ 34,637,401	31,966,485
Government deposits	227,835,069	201,810,162
Demand deposits	326,226,441	311,112,259
Time deposits	584,004,637	494,132,178
Remittances	2,901,582	617,218
Savings account deposits:		
Demand savings deposits	699,193,320	703,153,584
Staff accounts	23,964,049	23,686,085
Club saving deposits	1,012,102	1,074,974
Non-drawing time savings deposits	358,167,407	406,070,125
Interest withdrawal on principal deposited	818,933,212	759,703,496
Preferential Interest deposits	460,153,869	458,175,449
Total	<u>\$ 3,537,029,089</u>	<u>3,391,502,015</u>

**(27) Financial Bonds Payable**

Name of bond	Beginning date	Maturity date	Condition Interest rate	Type	Bond Amount	
					December 31, 2014	December 31, 2013
2013-1 TWD subordinated unsecured financial bond	2013/12/2	2023/12/2	The BOT listed annual interest rate of time deposits plus 0.15%	Subordinated unsecured financial bond	\$ 16,000,000	16,000,000
2014-1 TWD subordinated unsecured financial bonds-A	2014/6/25	2024/6/25	TAIBOR 3M plus 0.3%.	Subordinated unsecured financial bond	5,500,000	
2014-1 TWD subordinated unsecured financial bonds-B	2014/6/27	2024/6/27	1.70%	Subordinated unsecured financial bond	2,000,000	
2014-1 TWD subordinated unsecured financial bonds-C	2014/6/27	2024/6/27	The BOT listed annual interest rate of time deposits plus 0.15%.	Subordinated unsecured financial bond	1,500,000	
			Unamortized discount amount		(2,388)	(1,760)
Total					<u>\$ 24,997,612</u>	<u>15,998,240</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

**(28) Borrowings**

As of December 31, 2014 and 2013, the short-term borrowings which were not utilized by the Company's subsidiary, BankTaiwan Securities, were 15,686,447 thousand dollar, and 15,799,208 thousand dollar, respectively.

**(29) Other Financial Liabilities**

	December 31, 2014	December 31, 2013
Appropriated loan funds	\$ 99,410	212,398
Liability of insurance product-separate account	621,659	2,476,824
Principal from structured products	<u>1,657,544</u>	<u>1,031,300</u>
Total	<u>\$ 2,378,613</u>	<u>3,720,522</u>

For hedged derivative financial liabilities, please refer to note 47 "Fair Value and Fair Value Hierarchy of the Financial Instruments".

**(30) Provision**

	December 31, 2014	December 31, 2013
Reserve for unearned premiums	\$ 417,355	423,167
Claims reserve	76,037	77,030
Liability reserve	351,525,857	362,136,716
Special reserve	317,003	267,493
Reserve for premium deficiency	991,750	702,608
Foreign exchange volatility reserve	1,376,324	439,970
Employee benefit obligations	16,931,150	16,367,701
Guarantee reserve	1,144,965	606,505
Reserve for government employees insurance	<u>240,468,607</u>	<u>216,594,551</u>
Total	<u>\$ 613,249,048</u>	<u>597,615,741</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**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, as of December 31, 2014 and 2013 were as follows:

1) Details of reserve for unearned premium:

	<b>December 31, 2014</b>		
	<b>Insurance</b>	<b>Financial</b>	
	<b>Contract</b>	<b>products with</b>	
		<b>discretionary</b>	
		<b>participation</b>	
		<b>feature</b>	<b>Total</b>
Personal life insurance	\$ 14,743	3,732	18,475
Personal injury insurance	69,085	-	69,085
Personal health insurance	121,041	-	121,041
Group insurance	208,703	-	208,703
Investment-linked insurance	51	-	51
Total	<u>413,623</u>	<u>3,732</u>	<u>417,355</u>
Deduction of reserve for unearned premium outward:			
Personal life insurance	644	84	728
Personal injury insurance	4,385	-	4,385
Group insurance	4,623	-	4,623
Total	<u>9,652</u>	<u>84</u>	<u>9,736</u>
Net	<u>\$ 403,971</u>	<u>3,648</u>	<u>407,619</u>

	<b>December 31, 2013</b>		
	<b>Insurance</b>	<b>Financial</b>	
	<b>Contract</b>	<b>products with</b>	
		<b>discretionary</b>	
		<b>participation</b>	
		<b>feature</b>	<b>Total</b>
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>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

	<b>December 31, 2013</b>		
	<b>Insurance</b>	<b>Financial</b>	
	<b>Contract</b>	<b>products with</b>	
		<b>discretionary</b>	
		<b>participation</b>	<b>Total</b>
		<b>feature</b>	
Deduction of reserve 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>

The reconciliations of reserve for unearned premium were listed below:

	<b>2014</b>		
	<b>Insurance</b>	<b>Financial</b>	
	<b>Contract</b>	<b>products with</b>	
		<b>discretionary</b>	
		<b>participation</b>	
		<b>feature</b>	<b>Total</b>
Balance at January 1, 2014	\$ 417,432	5,735	423,167
Provision	411,071	3,732	414,803
Reclaim	(414,821)	(5,735)	(420,556)
Other	(59)	-	(59)
Balance at December 31, 2014	<u>413,623</u>	<u>3,732</u>	<u>417,355</u>
Deduction of reserve for unearned premium outward			
Balance at January 1, 2014, net	11,621	109	11,730
Provision	9,652	84	9,736
Reclaim	(11,621)	(109)	(11,730)
Balance at December 31, 2014, net	<u>9,652</u>	<u>84</u>	<u>9,736</u>
Total	<u>\$ 403,971</u>	<u>3,648</u>	<u>407,619</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

	<b>Insurance Contract</b>	<b>2013 Financial products with discretionary participation feature</b>	<b>Total</b>
Balance at 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)
Balance at December 31, 2013	<u>417,432</u>	<u>5,735</u>	<u>423,167</u>
Deduction of reserve for unearned premium outward			
Balance at January 1, 2013, net	16,039	108	16,147
Provision	11,621	109	11,730
Reclaim	(16,039)	(108)	(16,147)
Balance at 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>

2) Details of claims reserve:

	<b>Insurance Contract</b>	<b>December 31, 2014 Financial products with discretionary participation feature</b>	<b>Total</b>
Personal life Insurance			
Reported but not paid	\$ 4,573	1,103	5,676
Not reported and not paid	476	734	1,210
Personal injury insurance			
Reported but not paid	1,012	-	1,012
Not reported and not paid	7,455	-	7,455
Personal health insurance			
Reported but not paid	1,660	-	1,660
Not reported and not paid	17,623	-	17,623
Group insurance			
Reported but not paid	1,588	-	1,588
Not reported and not paid	<u>39,813</u>	<u>-</u>	<u>39,813</u>
Total	<u>74,200</u>	<u>1,837</u>	<u>76,037</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

	<b>December 31, 2014</b>		
	<b>Financial products with discretionary participation feature</b>		
	<b>Insurance Contract</b>		<b>Total</b>
Deduction of claims reserve-outward:			
Personal life Insurance	\$ 35	5	40
Personal injury insurance	701	-	701
Personal health insurance	14	-	14
Group insurance	<u>633</u>	<u>-</u>	<u>633</u>
Total	<u>1,383</u>	<u>5</u>	<u>1,388</u>
Net	<u>\$ 72,817</u>	<u>1,832</u>	<u>74,649</u>

	<b>December 31, 2013</b>		
	<b>Financial products with discretionary participation feature</b>		
	<b>Insurance Contract</b>		<b>Total</b>
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 claims reserve-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 ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

The reconciliations of claims reserve were listed below:

	<b>Insurance Contract</b>	<b>2014 Financial products with discretionary participation feature</b>	<b>Total</b>
Balance at January 1, 2014	\$ 73,203	3,827	77,030
Provision	261,129	4,430	265,559
Recovery	<u>(260,132)</u>	<u>(6,420)</u>	<u>(266,552)</u>
Balance at December 31, 2014	<u>74,200</u>	<u>1,837</u>	<u>76,037</u>
Deduction of claims reserve-outward			
Balance at January 1, 2014, net	3,362	7	3,369
Provision	6,847	22	6,869
Recovery	<u>(8,826)</u>	<u>(24)</u>	<u>(8,850)</u>
Balance at December 31, 2014, net	<u>1,383</u>	<u>5</u>	<u>1,388</u>
Closing balance	<u><u>\$ 72,817</u></u>	<u><u>1,832</u></u>	<u><u>74,649</u></u>

  

	<b>Insurance Contract</b>	<b>2013 Financial products with discretionary participation feature</b>	<b>Total</b>
Balance at 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>
Balance at December 31, 2013	<u>73,203</u>	<u>3,827</u>	<u>77,030</u>
Deduction of claims reserve-outward			
Balance at 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>
Balance at December 31, 2013, net	<u>3,362</u>	<u>7</u>	<u>3,369</u>
Closing balance	<u><u>\$ 69,841</u></u>	<u><u>3,820</u></u>	<u><u>73,661</u></u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

3) Details of liability reserve :

<b>December 31, 2014</b>			
	<b>Insurance Contract</b>	<b>Financial products with discretionary participation feature</b>	<b>Total</b>
Life insurance	\$ 240,619,075	67,993,779	308,612,854
Health insurance	5,263,533	-	5,263,533
Annuity insurance	32,637	37,088,520	37,121,157
Investment-linked insurance	243	-	243
Reclaim of reserve for major accidents	2,429	-	2,429
Strengthen increasing reserve	380,000	-	380,000
Reserve for life insurance – reduce sales tax (the accumulated unwritten-off allocation of 3% of sales)	145,641	-	145,641
<b>Total</b>	<b>\$ 246,443,558</b>	<b>105,082,299</b>	<b>351,525,857</b>

  

<b>December 31, 2013</b>			
	<b>Insurance Contract</b>	<b>Financial products with discretionary participation feature</b>	<b>Total</b>
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
Strengthen increasing reserve	280,000	-	280,000
Reserve for life insurance – reduce sales tax (the accumulated unwritten-off allocation of 3% of sales)	145,641	-	145,641
<b>Total</b>	<b>\$ 240,235,191</b>	<b>121,901,525</b>	<b>362,136,716</b>

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

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

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

	<b>Insurance Contract</b>	<b>2014 Financial products with discretionary participation feature</b>	<b>Total</b>
Balance at January 1, 2014	\$ 240,235,191	121,901,525	362,136,716
Provision	29,846,011	13,508,232	43,354,243
Reclaim	(24,839,244)	(30,310,435)	(55,149,679)
Effect of changes in exchange rates	1,233,476	-	1,233,476
Gain from cancellation of insurance	(31,876)	(17,023)	(48,899)
Balance at December 31, 2014	<u>\$ 246,443,558</u>	<u>105,082,299</u>	<u>351,525,857</u>

	<b>Insurance Contract</b>	<b>2013 Financial products with discretionary participation feature</b>	<b>Total</b>
Balance 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)
Effect of changes in exchange rates	389,777	-	389,777
Gain from cancellation of insurance	(30,048)	(17,221)	(47,269)
Other	145,641	-	145,641
Balance at December 31, 2013	<u>\$ 240,235,191</u>	<u>121,901,525</u>	<u>362,136,716</u>

4) Details of special reserve:

Information on special reserve of the subsidiary, BTLI, as of December 31, 2014 and 2013 were as follows:

	<b>Insurance Contract</b>	<b>December 31, 2014 Financial products with discretionary participation feature</b>	<b>Total</b>
Provision for dividend policy	<u>\$ 317,003</u>	<u>-</u>	<u>317,003</u>

(Continued)

## TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## Notes to the Consolidated Financial Statements

	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>
The movements of special reserve were listed below:			
	2014		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2014	\$ 267,493	-	267,493
Provision of dividend policy	150,629	-	150,629
Recovery of dividend policy	<u>(101,119)</u>	<u>-</u>	<u>(101,119)</u>
Balance at December 31, 2014	\$ <u>317,003</u>	<u>-</u>	<u>317,003</u>
	2013		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2013	\$ 240,812	-	240,812
Provision of dividend policy	82,593	-	82,593
Recovery of dividend policy	<u>(55,912)</u>	<u>-</u>	<u>(55,912)</u>
Balance at December 31, 2013	\$ <u>267,493</u>	<u>-</u>	<u>267,493</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

5) Reserve for premium deficiency:

	<b>December 31, 2014</b>		
	<b>Insurance Contract</b>	<b>Financial products with discretionary participation feature</b>	<b>Total</b>
Personal life insurance	\$ 991,598	-	991,598
Personal health insurance	152	-	152
Total	<u>\$ 991,750</u>	<u>-</u>	<u>991,750</u>

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

The reconciliations of reserve for premium deficiency were listed as below:

	<b>2014</b>		
	<b>Insurance Contract</b>	<b>Financial products with discretionary participation feature</b>	<b>Total</b>
Balance at January 1, 2014	\$ 702,608	-	702,608
Provision	640,585	-	640,585
Reclaim	(353,388)	-	(353,388)
Effect of changes in exchange rates	1,945	-	1,945
Balance at December 31, 2014	<u>\$ 991,750</u>	<u>-</u>	<u>991,750</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
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	Insurance Contract	2013 Financial products with discretionary participation feature	Total
Balance at January 1, 2013	\$ 965,808	-	965,808
Provision	222,339	-	222,339
Reclaim	(485,600)	-	(485,600)
Effect of changes in exchange rates	61	-	61
Balance at December 31, 2013	<u>\$ 702,608</u>	<u>-</u>	<u>702,608</u>

6) Details of provision for liability adequacy:

1. Information on provision for liability adequacy of the subsidiary, BTLI, as of December 31, 2014, December 31, 2013 was as follows:

	December 31, 2014	December 31, 2013
Liability reserve	\$ 351,409,802	362,012,630
Reserve for unearned premium	12,957	14,710
Special reserve	317,003	267,493
Reserve for premium deficiency	991,750	702,608
Subtotal	352,731,512	362,997,441
Less: intangible asset	-	-
Book value of insurance liability	<u>\$ 352,731,512</u>	<u>362,997,441</u>
Estimate of present cash flow	<u>\$ 345,375,042</u>	<u>361,207,181</u>
Provision for liability adequacy balance	<u>\$ -</u>	<u>-</u>

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

2. As of December 31, 2014 and 2013, the total loss ratio of short-term insurance of BTLI is summarized as follows:

	December 31, 2014	December 31, 2013
Loss ratio	46.09 %	40.89 %
commission ratio	12.90 %	12.83 %
Expense ratio	22.00 %	29.63 %
Total loss ratio	<u>80.99 %</u>	<u>83.35 %</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
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In accordance with the liability adequacy test, the total loss ratio were 80.99% and 83.35%, respectively, which were lower than 100%. There was no concern of provision for the adequacy of the liability.

3. The liability adequacy test methods used by the subsidiary, BTLI, were listed below:

	December 31, 2014	December 31, 2013
Test 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
Group	Test long and short term insurance separately	Test long and short term insurance separately
Significant assumption	Based on the newest composed of asset on the time of evaluating and the level of risk-free interest rate, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2013 (with steady state assumption for discount rates after 30 year).	Based on the newest composed of asset on the time of evaluating and the level of risk-free interest rate, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2012 (with steady state assumption for discount rates after 30 year).

**(32) Foreign exchange volatility reserve**

- 1) Hedging strategy and risk exposure:

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

As of December 31, 2014 and 2013, the primary foreign exchange exposures were USD assets, amounting \$40,071,903 thousand dollars and \$37,914,967 thousand dollars, respectively.

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

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

	2014	2013
Balance as at 1 January, 2013	\$ 439,970	96,960
Current provision:		
Compulsory provision	213,090	181,153
Additional provision	<u>1,172,821</u>	<u>763,729</u>
Subtotal	<u>1,385,911</u>	<u>944,882</u>
Current write-off	<u>(449,557)</u>	<u>(601,872)</u>
Balance as at 31 December, 2013	<u>\$ 1,376,324</u>	<u>439,970</u>

- 3) Effect of foreign exchange volatility reserve:

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

Item	Unapplied amount	2014 Applied amount	Effectuated amount
Net income before income tax	\$ 9,513,462	8,577,108	936,354
Net income after income tax	8,199,640	7,422,466	777,174
Earnings per share before tax	1.06	0.95	-
Earnings per share after tax	0.91	0.82	-
Net increase on Provision for foreign exchange (book under net change in insurance liabilities)	-	936,354	936,354 (Note)
Special provisions—major accident (under Provisions)	203,856	101,928	(101,928)
Special provisions—variation of risk (under Provisions)	137,584	68,792	(68,792)
Provision for foreign exchange volatility (under Provisions)	-	1,376,324	1,376,324 (Note)
Owner's equity	260,663,714	259,886,540	777,174

(Note): The provision for foreign exchange volatility at December 31, 2014, \$1,376,324 thousand dollar, derived from the unrealized foreign exchanges of \$439,970 thousand dollar as of December 31, 2013, plus the provision of \$936,354 thousand dollar recognized in current period.

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

Item	Unapplied amount	2013 Applied amount	Effected amount
Net income before income tax	\$ 8,666,228	8,323,218	343,010
Net income after income tax	7,351,803	7,067,105	284,698
Earnings per share before tax	0.96	0.92	-
Earnings per share after tax	0.82	0.79	-
Net increase on Provision for foreign exchange (book under net change in insurance liabilities)	-	343,010	343,010 (Note)
Special provisions—major accident (booked under Provisions)	203,856	101,928	(101,928)
Special provisions—variation of risk (booked under Provisions)	137,584	68,792	(68,792)
Provision for foreign exchange volatility (booked under Provisions)	-	439,970	439,970 (Note)
Owner's equity	253,002,745	252,718,047	284,698

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

**(33) Employee benefit obligations**

	December 31, 2014	December 31, 2013
Recognized in Consolidated Balance Sheet:		
— Defined benefit plans	\$ 8,830,556	8,427,018
— Employees preferential interest deposits	7,863,789	7,705,950
— Three Chinese festival bonus	236,805	234,733
Total	<u>\$ 16,931,150</u>	<u>16,367,701</u>

**(34) Other Liabilities**

	December 31, 2014	December 31, 2013
Advance collections	\$ 2,283,161	2,335,451
Guarantee deposits received	3,658,459	4,035,227
Temporary receipt awaiting transfer	1,128,903	220,514
Other liabilities	8,239	8,239
Compensation arising from land revaluation	1,264,803	1,266,345
Others	-	137,512
Total	<u>\$ 8,343,565</u>	<u>8,003,288</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

**(35) Income Tax Expenses**

1) Income tax expenses (benefit)

The income tax expenses for 2014 and 2013 were as follows:

	2014	2013
Current income tax expense	\$ 1,832,221	1,248,327
Adjustment of prior periods	-	214
Deferred tax expenses (benefit)	<u>(677,579)</u>	<u>7,572</u>
Income tax expenses	<u>\$ 1,154,642</u>	<u>1,256,113</u>

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

	2014	2013
Unrealized gain (loss) on available-for-sale financial assets	\$ 58,469	(191,187)
Actuarial gain (loss) on defined benefit plans	<u>(4,115)</u>	<u>8,133</u>
	<u>\$ 54,354</u>	<u>(183,054)</u>

Reconciliations of income tax expense (benefit) and profit before tax for 2014 and 2013 were as follows:

	2014	2013
Profit before tax	<u>\$ 8,577,108</u>	<u>8,323,218</u>
Income tax based on domestic tax rate	1,458,108	1,414,947
Tax-exempt income	(78,971)	4,979
Effect on consolidated tax returns	13,399	(59,054)
Share of profit (loss) of associates and joint ventures accounted for using equity method	(1,259,066)	(1,212,878)
Effect on tax carryforwards	154,490	161,054
Income tax expense of overseas branches	564,603	552,777
Adjustment of prior periods	-	214
Income basic tax	88,841	7,892
Others	<u>213,238</u>	<u>386,182</u>
Total	<u>\$ 1,154,642</u>	<u>1,256,113</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

2) Deferred Tax Assets and Liabilities—recognized deferred tax assets and liabilities

Changes in deferred tax assets and liabilities for 2014 and 2013 were as follows:

Deferred Tax Assets:

	Defined Benefit Plans	Fair Value Gains	Unrealized Gain or Loss on Foreign Exchange	Other	Total
Balance at January 1, 2014	\$ 24,310	270,927	1,073,655	675,866	2,044,758
Recognized in profit or loss	13,330	469,201	(1,073,655)	96,715	(494,409)
Recognized in other comprehensive income	4,115	(106,644)	-	-	(102,529)
Balance at December 31, 2014	<u>\$ 41,755</u>	<u>633,484</u>	<u>-</u>	<u>772,581</u>	<u>1,447,820</u>
Balance at January 1, 2013	\$ 28,519	260,511	1,332,333	469,130	2,090,493
Recognized in profit or loss	3,924	(180,771)	(258,678)	206,736	(228,789)
Recognized in other comprehensive income	(8,133)	191,187	-	-	183,054
Balance at December 31, 2013	<u>\$ 24,310</u>	<u>270,927</u>	<u>1,073,655</u>	<u>675,866</u>	<u>2,044,758</u>

Deferred Tax Liabilities:

	Defined Benefit Plans	Fair Value Gains	Unrealized Gain or Loss on Foreign Exchange	Other	Total
Balance at January 1, 2014	\$ 18,274,254	110,926	674	41,852	18,427,706
Recognized in profit or loss	(11,812)	-	89,995	104,987	183,170
Recognized in other comprehensive income	-	(48,175)	-	-	(48,175)
Balance at December 31, 2014	<u>\$ 18,262,442</u>	<u>62,751</u>	<u>90,669</u>	<u>146,839</u>	<u>18,562,701</u>
Balance at January 1, 2013	\$ 18,320,539	258,142	-	85,386	18,664,067
Recognized in profit or loss	(46,285)	(147,216)	674	(43,534)	(236,361)
Balance at December 31, 2013	<u>\$ 18,274,254</u>	<u>110,926</u>	<u>674</u>	<u>41,852</u>	<u>18,427,706</u>

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

	December 31, 2014	December 31, 2013
Unappropriated earnings of 1998 and after	<u>\$ 7,301,081</u>	<u>6,868,563</u>

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

	December 31, 2014	December 31, 2013
Balance of deductible tax account	\$ <u>492,019</u>	<u>981,360</u>
	2014(Projected)	2013(Actual)
Imputed tax creditable ratio for appropriating net income	<u>20.48 %</u>	<u>22.22 %</u>

The integrated income tax is calculated according to the Tai Cai Shui No.10204562810 (October 17, 2013).

**(36) Equity**

1) Capital stock

As of December 31, 2014 and 2013, the Company's 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, 2014	December 31, 2013
Changes in capital surplus-associates and joint ventures accounted using equity method	\$ 78,422	49,522
Equity premium	<u>111,385,217</u>	<u>111,385,217</u>
Total	<u>\$ 111,463,639</u>	<u>111,434,739</u>

According to the ROC Company Act prior to the new amendment on January 4, 2012, capital surplus can only be used to increase share capital by using the realized capital surplus after making good the deficit. Capital surplus cannot be used for distribution of cash dividends. According to the new amendment of the ROC Company Act, the 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 prior to the new amendment on January 4, 2012, the Company shall set aside 10 percent of the net income after tax as legal reserve until such legal reserve amounts have reach the authorized capital. The legal reserve can only be used to make good the deficit but not use to distribute any cash dividends. According to the amendment of the ROC Company Act, the distribution of the legal reserve by issuing new shares or by cash is allowed only with the approval granted through the shareholder's meeting when the Company does not have any deficit, and only the portion of legal reserve which exceeds 25 percent of the paid-in capital may be distributed.

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

4) Appropriation of earnings

The articles of incorporation of the Company and its subsidiaries stipulate that net income should be distributed in the following order:

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

to appropriate 40~60% as special reserve; to appropriate 20~40% as special reserve; In accordance with the Order No. 1010012865 issued by the FSC on April 6, 2012, for any unrealized revaluation gains and cumulative translation adjustments (gains) recorded in the shareholders equity which the Company and its subsidiaries elect to transfer to retained earnings by application of the exemption under IFRSs No. 1, the Company and its subsidiaries shall set aside an equal amount of special reserve. When the Company and its subsidiaries subsequently use, dispose of, or reclassify the relevant assets, it may be reversed to distributable earnings a proportional amount of the special reserve originally set aside.

5. to appropriate dividends

The remaining balance would be appropriated, combining accumulated retained earnings, in accordance with related laws and regulations.

According to the Company's policy, before the legal reserve balance amounts to the authorized capital, cash dividend distributions cannot exceed 15% of the authorized capital.

5) Other equity

	<b>Exchange differences arising on translation of foreign operations</b>	<b>Unrealized gain (loss) on available-for- sale financial assets</b>	<b>Total</b>
Balance at January 1, 2014	\$ (306,784)	17,378,040	17,071,256
Exchange differences arising on translation of foreign operations	436,847	-	436,847
Unrealized gain (loss) on available-for-sale financial assets	-	2,879,615	2,879,615
Balance at December 31, 2014	<u>\$ 130,063</u>	<u>20,257,655</u>	<u>20,387,718</u>

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

	<b>Exchange differences arising on translation of foreign operations</b>	<b>Unrealized gain (loss) on available-for- sale financial assets</b>	<b>Total</b>
Balance at January 1, 2013	\$ (369,751)	13,641,022	13,271,271
Exchange differences arising on translation of foreign operations	62,967	-	62,967
Unrealized gain (loss) on available-for-sale financial assets	-	3,737,018	3,737,018
Balance at December 31, 2013	<u>\$ (306,784)</u>	<u>17,378,040</u>	<u>17,071,256</u>

**(37) Net interest income**

	<b>2014</b>	<b>2013</b>
Interest income:		
Loans and discounts	\$ 44,353,306	42,344,844
Placement with Central Bank and call loans to banks	10,983,476	7,136,428
Securities investment	18,503,669	18,098,000
Credit cards	32,524	35,663
Bonds purchased under resell agreements	64,125	68,517
Others	<u>1,159,386</u>	<u>1,169,306</u>
Subtotal	<u>75,096,486</u>	<u>68,852,758</u>
Interest expense:		
Deposits from customers	32,592,735	31,006,243
Deposits of Central Banks and other banks	3,167,445	2,075,545
Bonds sold under repurchased agreements	239,550	97,132
Financial bonds	327,108	19,788
Structured deposits	5,230	64,596
Others	<u>241,154</u>	<u>218,869</u>
Subtotal	<u>36,573,222</u>	<u>33,482,173</u>
Total	<u>\$ 38,523,264</u>	<u>35,370,585</u>

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

**(38) Service fees, net**

	2014	2013
Service fees revenue:		
Bank business	\$ 5,385,991	5,053,367
Insurance business	109,835	106,187
Securities business	<u>398,392</u>	<u>301,080</u>
Subtotal	<u>5,894,218</u>	<u>5,460,634</u>
Service fees expense:		
Bank business	83,022	600,000
Insurance business	1,801,740	1,091,730
Securities business	<u>23,219</u>	<u>12,508</u>
Subtotal	<u>1,907,981</u>	<u>1,704,238</u>
Total	<u><u>\$ 3,986,237</u></u>	<u><u>3,756,396</u></u>

The Company and its subsidiaries provide custody, trust, investment management and advisory services to third parties, therefore, the Company 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 Company and its subsidiaries.

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

	2014	2013
Gain (loss) on financial assets or liabilities measured at fair value through profit or loss:		
Dividend income	\$ 3,010,659	2,267,067
Net interest income	820,962	916,091
Net gain on disposal	<u>2,595,626</u>	<u>3,981,877</u>
	<u>6,427,247</u>	<u>7,165,035</u>
Gain (loss) on financial assets or liabilities measured at fair value through profit or loss — valuation:		
Net gain on valuation	<u>4,281,855</u>	<u>5,420,730</u>
Total	<u><u>\$ 10,709,102</u></u>	<u><u>12,585,765</u></u>

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

	2014	2013
Dividend income	\$ 2,537,214	2,119,750
Gain (loss) on disposal	<u>(110,912)</u>	<u>261,516</u>
Total	<u><u>\$ 2,426,302</u></u>	<u><u>2,381,266</u></u>

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
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**(41) Other non-interest income (expenses)**

	2014	2013
Sales revenue, net	\$ 450,651	430,636
Subsidized income from government	12,946,954	15,696,251
Excess preferential interest expenses	(10,764,146)	(10,860,588)
Gain on disposal of property and equipment	188,574	466,674
Others	<u>(25,223)</u>	<u>377,317</u>
Total	<u><u>\$ 2,796,810</u></u>	<u><u>6,110,290</u></u>

**(42) Employee benefits expenses**

	2014	2013
Salaries	\$ 10,942,263	10,870,004
Labor and health insurances	591,224	529,786
Pensions	855,407	872,437
Others	<u>243,727</u>	<u>224,289</u>
Total	<u><u>\$ 12,632,621</u></u>	<u><u>12,496,516</u></u>

**(43) Depreciation and amortization expenses**

	2014	2013
Depreciation expenses	\$ 878,222	918,859
Amortization expenses	<u>383,572</u>	<u>415,001</u>
Total	<u><u>\$ 1,261,794</u></u>	<u><u>1,333,860</u></u>

**(44) Other general and administrative expenses**

	2014	2013
Taxes	\$ 2,859,814	1,786,520
Rental expenses	681,421	734,327
Insurance expenses	849,659	819,969
Postage and phone / fax expenses	236,034	236,085
Utilities	241,656	230,980
Supplies expense	171,869	182,734
Repair and maintenance expenses	409,510	398,048
Marketing expenses	345,568	379,775
Professional service fees	415,650	339,302
Others	<u>468,379</u>	<u>370,890</u>
Total	<u><u>\$ 6,679,560</u></u>	<u><u>5,478,630</u></u>

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
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**(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 2014 and 2013 are \$7,422,466 and \$7,067,105, respectively. The weighted average outstanding shares are 9,000,000 thousand.

The Company's basic earnings per share were calculated as follows:

	2014	2013
Consolidated net income	\$ <u>7,422,466</u>	<u>7,067,105</u>
Weighted average outstanding shares	<u>9,000,000</u>	<u>9,000,000</u>
Basic earnings per share (In dollars)	\$ <u>0.82</u>	<u>0.79</u>

**(46) Insurance income, net**

		2014	
	BOT government employees' insurance department	BTLI	Total
Premium income	\$ 20,948,956	34,983,993	55,932,949
Amortized reinsurance claims payment	-	15,156	15,156
Income on insurance product-separated account	-	145,195	145,195
Insurance business income	<u>20,948,956</u>	<u>35,144,344</u>	<u>56,093,300</u>
Reinsurance expense	-	68,931	68,931
Direct business expenses	-	469	469
Insurance claims payment	24,452,013	55,700,173	80,152,186
Disbursement toward industry stability	-	40,138	40,138
Disbursement on insurance product separated account	-	145,195	145,195
Insurance business expenses	<u>24,452,013</u>	<u>55,954,906</u>	<u>80,406,919</u>
Net income from insurance business	\$ <u>(3,503,057)</u>	<u>(20,810,562)</u>	<u>(24,313,619)</u>

(Continued)

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		<b>2013</b>	
	<b>BOT government employees' insurance department</b>	<b>BTLI</b>	<b>Total</b>
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	-	112,101	112,101
Insurance business income	<u>20,863,143</u>	<u>48,156,923</u>	<u>69,020,066</u>
Reinsurance expenses	-	72,540	72,540
Direct business expenses	-	212	212
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	-	112,101	112,101
Insurance business expenses	<u>26,426,619</u>	<u>32,209,624</u>	<u>58,636,243</u>
Net income from insurance business	<u>\$ (5,563,476)</u>	<u>15,947,299</u>	<u>10,383,823</u>

The retained earned premium and retained benefits and claims paid were as follow:

1) Retained earned premiums

		<b>2014</b>	
	<b>Insurance Contract</b>	<b>Financial products with discretionary participation feature</b>	<b>Total</b>
Direct written premium	\$ 23,775,155	11,204,930	34,980,085
Reinsurance premium	<u>3,908</u>	<u>-</u>	<u>3,908</u>
Premium income	<u>23,779,063</u>	<u>11,204,930</u>	<u>34,983,993</u>
Less: Reinsurance premium ceded	68,764	167	68,931
Net change in unearned premium reserve	<u>(1,840)</u>	<u>(1,978)</u>	<u>(3,818)</u>
	<u>66,924</u>	<u>(1,811)</u>	<u>65,113</u>
Retained earned premium	<u>\$ 23,712,139</u>	<u>11,206,741</u>	<u>34,918,880</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
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	<b>Insurance Contract</b>	<b>2013 Financial products with discretionary participation feature</b>	<b>Total</b>
Direct written premium	\$ 27,727,675	20,288,835	48,016,510
Reinsurance premium	4,365	-	4,365
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	66,916	(2,906)	64,010
	<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>

2) Retained benefits and claims paid

	<b>Insurance Contract</b>	<b>2014 Financial products with discretionary participation feature</b>	<b>Total</b>
Claims payment incurred	\$ 25,381,380	30,317,606	55,698,986
Reinsurance claims	1,187	-	1,187
Insurance claims payment	25,382,567	30,317,606	55,700,173
Less: Claims payment recovered from reinsures	(15,156)	-	(15,156)
Retained benefits and claims paid	<u><u>\$ 25,367,411</u></u>	<u><u>30,317,606</u></u>	<u><u>55,685,017</u></u>

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

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

**(47) The Fair Value and Fair Value Hierarchy of the Financial Instruments**

1) The fair value of financial instruments

	December 31, 2014		December 31, 2013	
	Book value	Fair value	Book value	Fair value
<b>Financial Assets:</b>				
Cash and cash equivalents	\$ 175,979,782	175,979,782	124,627,966	124,627,966
Placement with Central Bank and call loans to bank	582,914,021	582,914,021	585,444,072	585,444,072
Financial assets measured at fair value through profit or loss	208,952,372	208,952,372	167,496,351	167,496,351
Available-for-sale financial assets	852,076,122	852,076,122	815,602,042	815,602,042
Hedging derivative financial assets	25,613	25,613	5,443	5,443
Bills and Bonds Purchased under resell agreements	7,945,387	7,945,387	13,671,033	13,671,033
Receivables	71,031,163	71,031,163	90,884,392	90,884,392
Loans and discounts	2,299,974,231	2,299,974,231	2,240,472,476	2,240,472,476
Reinsurance assets—Due from reinsurers and ceding companies and claims recoverable from reinsurers	12,528	12,528	16,588	16,588
Held-to-maturity financial assets	270,591,631	271,058,879	270,703,495	269,595,592
Other financial assets—Debt investments without quoted price in an active market	55,871,570	56,260,525	57,045,188	53,828,329
Other financial assets—Financial assets carried at cost	10,771,413	10,771,413	10,766,887	10,766,887
Other financials—Others	75,959,450	75,959,450	98,697,437	98,697,437
<b>Financial Liabilities:</b>				
Deposits of Central Bank and other banks	156,988,830	156,988,830	252,738,244	252,738,244
Financial liabilities measured at fair value through profit or loss	50,111,045	50,111,045	4,416,467	4,416,467
Hedging derivative financial liabilities	103,024	103,024	225,806	225,806
Bills and bonds sold under repurchase agreements	39,587,959	39,587,959	20,898,486	20,898,486
Commercial paper payables	2,478,382	2,478,382	1,499,705	1,499,705
Payables	66,577,265	66,577,265	70,865,244	70,865,244
Deposits and Remittances	3,537,029,089	3,537,029,089	3,391,502,015	3,391,502,015
Financial bonds payable	24,997,612	24,997,612	15,998,240	15,998,240
Other financial liabilities	2,378,613	2,378,613	3,720,522	3,720,522

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

- 2) 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, notes receivables and other receivables, other financial liabilities (other than financial assets carried at cost and debt investments without quote price in an active market), margin loans and stock loans, deposits of central bank and other banks, commercial paper payables, bills and bonds sold under repurchase agreements, payables, deposits, other borrowings and other financial liabilities.
  2. For financial instruments measured at fair value through profit or loss, available-for-sale financial assets, held-to-maturity financial assets and hedging derivative financial assets, the fair value is based on quoted market price in an active market. If a quoted market price is not available, the fair value is determined based on valuation technique or quoted price from other financial institution.
  3. For loans and discounts, negotiations, factoring receivables, credit card receivables, acceptance receivables, and overdue, the fair value is the balance of adjustment unamortized discount or premium and accumulated impairment loss.
  4. Debt investments without quoted price in an active market use the valuation model or quoted price from financial institution as reference.
  5. Other financial assets- financial assets carried at cost are composed of unlisted stocks without quoted price in an active market; hence the Company and its subsidiaries measure them at cost.
  6. 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.
  7. 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.
  8. The fair value of the financial instruments is the attainable or payable amount if the contract is terminated at the reporting date. The fair value includes the unrealized gain (loss) of unexpired contracts. The derivatives are measured using the quoted price from financial institutions or valuation model.

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

3) The fair value hierarchy of financial instruments

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.

(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. For example:

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

(c) Level 3

The input parameters used are not based on observable market data. (Unobservable input parameters such as option pricing model using historical volatility rate which does not represent the expected future volatility from market participants)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

The Fair Value Hierarchy of the Financial Instruments

Financial instruments measured at fair value	December 31, 2014			
	Total	Level 1	Level 2	Level 3
<b><u>Non-derivative financial instruments</u></b>				
Assets:				
Financial assets held for trading				
Investment in stocks	74,888,839	74,878,237	10,602	-
Investment in bonds	4,172,269	3,186,536	985,733	-
Others	88,131,478	62,358,396	25,773,082	-
Financial assets designated at fair value measured through profit or loss	19,497,201	1,265,390	18,231,811	-
Investments in stocks	83,140,464	83,140,464	-	-
Investment in bonds	105,985,002	6,217,750	99,767,252	-
Others	662,950,656	2,561,227	660,389,429	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Financial liabilities held for trading	56	-	56	-
Financial liabilities designated at fair value through profit or loss	31,739,943	-	31,739,943	-
<b><u>Derivative financial instruments</u></b>				
Assets:				
Financial assets measured at fair value through profit or loss	22,262,585	-	22,262,585	-
Hedging derivative financial assets	25,613	-	25,613	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	18,371,046	9,112	18,361,934	-
Hedging derivative financial liabilities	103,024	-	103,024	-

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

Financial instruments measured at fair value	December 31, 2013			
	Total	Level 1	Level 2	Level 3
<b><u>Non-derivative financial instruments</u></b>				
Assets:				
Financial assets held for trading				
Investment in stocks	54,495,703	54,480,551	15,152	-
Investment in bonds	3,895,928	2,971,388	924,540	-
Others	83,090,159	41,988,723	41,101,436	-
Financial assets designated at fair value through profit or loss	20,268,425	1,839,784	18,131,585	297,056
Investment in stocks	74,398,335	74,398,335	-	-
Investment in bonds	111,870,539	18,651,598	93,218,941	-
Others	629,333,168	1,160,248	628,172,920	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	-	-	-	-
Financial liabilities held for trading	976	976	-	-
<b><u>Derivative financial instruments</u></b>				
Assets:				
Financial assets measured at fair value through profit or loss	5,746,136	-	5,746,136	-
Hedging derivative financial assets	5,443	-	5,443	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	4,415,491	34,966	4,380,525	-
Hedging derivative financial liabilities	225,806	-	225,806	-

Reconciliations for financial assets measured at fair value classified in Level 3 of the fair value hierarchy.

								Unit: In Thousand of NTD
Account	December 31, 2014							
	Balance on January 1, 2013	Evaluation of gains and losses 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 through profit or loss	\$ 297,056	744	18,900	-	316,700	-	-	-

Unit: In Thousand of NTD

(Continued)



**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

Account	Balance on January 1, 2013	Evaluation of gains and losses profit or loss or the amount of equity	December 31, 2013				Effect of exchange rate change	Balance on December 31, 2013
			Increase		Decrease			
			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 through profit or loss	\$ 1,146,388	14,268	29,800	-	893,400	-	-	297,056
Available-for-sale financial assets	202,900	1,525	825,927	-	208,778	821,574	-	-
Total	\$ 1,349,288	15,793	855,727	-	1,102,178	821,574	-	297,056

4) The sensitivity analysis for the financial assets measured at fair value classified to the Level 3.

The fair value measurement of the Company and its subsidiaries is reasonable. However, if different valuation models or parameters are used, the valuation results will be different. Aiming at the financial instruments classified in the third level, the influence on the income or the other comprehensive income due to the  $\pm 0.01\%$  changes of the 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 fair value through profit or loss	6	(6)	-	-
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. No influence exists on December 31, 2014.

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 do not consider the correlation and variance.

**(48) Information of Financial Instruments**

1) Risk management committee

1. The Board of Directors is the final decision maker for risk management and is responsible for the resulted risk.
2. The committee shall be accountable to the Board and shall have a non-executive responsibility for the oversight of and advice to the Board on matters relating to high level risk related matters and risk governance.

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

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. The Board of Directors of each subsidiary is the final decision maker for the Company and the risk management committee and risk management department under the Board of Directors are responsible for monitoring various risks.
5. Each subsidiary 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 the entire company.
6. The risk management departments of the Company and its subsidiaries should periodically report the risk control situation to the Board of Directors and Risk management committee to enable the Committee to assess the risk involved in the Company's business and how they are controlled and monitored by the management.

2) Risk management strategies

The various risks resulted from the business no matter on/off the financial statements should be managed in order to optimize compliance and enhance the operating and development. Except for regulations requested by the competent authority, the Company and its subsidiaries also set related risk management regulations as a guideline to ensure the risk control of various risks.

The subsidiary, BOT

1) Overview

The Bank and its subsidiary's activities have exposed to various risks from financial instruments, which include credit risk, market risk, operational risk, interest rate risk, liquidity risk, national risk, legal risk and so forth. 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.

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

2) Risk management committee

The risk management committee of BOT is composed of 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.

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

To ensure the credit risk is in a tolerable range, BOT sets 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, BOT 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 BOT 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.

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

(a) Credit assets categories and post-loan management

BOT sets "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, BOT sets 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, BOT keeps 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.

(b) Internal credit rating

When conducting credit review, BOT 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 balances 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

BOT has established a credit policy under which each new customer is analyzed individually for creditworthiness before the interest rate is offered. BOT reviews include external rating, when available, and in some cases based on the information publicly available. The corporate credit rating score classify 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

BOT uses 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. BOT 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, BOT provides credit and investment quota rules for the same enterprise, and industry. BOT also limits and manages the credit amount for enterprises, groups and every industry.

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

- (b) BOT's 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, BOT allocates 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.

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 Bank 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

Unit: In Million of NTD

Item	December 31, 2014		December 31, 2013	
	Book Value	Maximum credit exposure (Note 1)	Book Value	Maximum credit exposure (Note 2)
Cash and cash equivalents	126,259	96,311	86,974	62,903
Placement with Central Bank and call loans to banks	582,940	129,894	585,461	146,103
Financial assets measured at fair value through profit or loss	69,832	67,301	67,424	61,832
Available-for-sale financial assets	797,691	110,148	765,519	110,741
Hedging derivative financial assets	26	26	5	5
Bonds and bills purchased under resell agreements	1,957	1,957	6,173	6,173
Receivables	51,481	27,940	86,203	58,437
Loans and discounts	2,324,302	2,197,992	2,260,469	2,141,316
Held-to-maturity financial assets	27,527	17,168	15,376	12,623
Other financial assets	74,802	27,432	70,418	23,183
<b>Total</b>	<b>\$ 4,056,817</b>	<b>2,676,169</b>	<b>3,944,022</b>	<b>2,623,316</b>

Note 1: December 31, 2014

(1) The amount of non-performing loans which included the department of loan management was \$6,279 million).

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

- (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 and the Central Bank. Explanations were as follows:
- 1) Cash and cash equivalents excludes cash and notes and checks for clearing (\$29,948 million).
  - 2) Placement with Central Bank and call loans to banks excludes placement with Central Bank and deposits in Central Bank (\$453,046 million).
  - 3) Financial assets measured at fair value through profit or loss exclude treasury bonds (\$1,996 million) and government bonds (\$535 million).
  - 4) Available-for-sale financial assets exclude government bonds (\$29,217 million) and negotiable certificate of deposits (\$658,326 million).
  - 5) Receivables exclude tax receivable (\$1,392 million) and long-term receivables (\$22,149 million).
  - 6) Loans and discounts exclude loans to government (\$126,310 million).
  - 7) Held-to-maturity financial assets exclude government bonds (\$10,359 million).
  - 8) Other financial assets exclude short-term advance to government (\$47,370 million).
- (3) 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) This table excluded the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

**Note 2: 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 and the Central Bank. Explanations were as follows:
  - 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 measured at fair value through profit or loss exclude treasury bonds (\$4,989 million) and government bonds (\$602 million).
  - 4) Available-for-sale financial assets exclude government bonds (\$29,508 million) and negotiable certificate of deposits (\$625,270 million).
  - 5) Receivables exclude tax receivable (\$2,139 million) and long-term receivables (\$25,627 million).
  - 6) Loan and discount exclude loans to government (\$119,153 million).
  - 7) Held-to-maturity financial assets exclude government bonds (\$2,754 million).
  - 8) Other financial assets exclude short-term advance to government (\$47,235 million).
- (3) 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) This table excluded the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

## (b) Off-balance Sheet Items

Unit: In Million of NTD

Item	December 31, 2014		December 31, 2013	
	Book Value	Maximum credit exposure (Note 1)	Book Value	Maximum credit exposure (Note 2)
Irrevocable loan commitment (with credit agreement)	453,152	22,612	483,971	93,801
Letter of credit receivables	29,146	28,308	32,738	32,362
Deposits receivables	<u>83,522</u>	<u>83,522</u>	<u>83,280</u>	<u>83,276</u>
Total	<u>\$ 565,820</u>	<u>134,442</u>	<u>599,989</u>	<u>209,439</u>

## Note 1: December 31, 2014

- (1) While measuring the maximum exposure to credit risk, BOT only considers 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 \$430,540 million.
  - 2) Letter of credit receivables exclude \$838 million.
- (2) This table excluded the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

## Note 2: December 31, 2013

- (1) 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.
- (2) This table excluded the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

## 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 ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

The credit risk of BOT 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 were as follows:

(a) Industry

Unit: In Million of NTD ; %

Industry type	December 31, 2014		December 31, 2013	
	Book Value(Note 1)	%	Book Value (Note 2)	%
Finance and insurance	1,097,493	31.71 %	1,058,076	31.48 %
Individuals	827,607	23.91 %	785,104	23.36 %
Manufacturing	390,431	11.28 %	426,103	12.68 %
Government agencies	403,944	11.67 %	367,730	10.94 %
Electricity and gas supply	117,160	3.39 %	144,634	4.30 %
Shipping, warehousing and communications	126,265	3.65 %	124,170	3.69 %
Others	497,826	14.39 %	455,341	13.55 %
<b>Total</b>	<b>\$ 3,460,726</b>	<b>100.00 %</b>	<b>3,361,158</b>	<b>100.00 %</b>

Note 1: December 31, 2014

- (1) The carrying amounts include loans (\$2,324,302 million), call loans to banks, overdraft of banks and placement with banks (\$214,731 million), security investments (\$921,693 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 (\$6,279 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) This table excluded the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

Note 2: December 31, 2013

- (1) The carrying amounts include loans (\$2,260,469 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) This table excluded the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

(Continued)



**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

## (b) Region

Unit: In Million of NTD ; %

Areas type	December 31, 2014		December 31, 2013	
	Book Value(Note 1)	%	Book Value(Note 2)	%
Domestic	\$ 3,080,445	89.01 %	3,007,243	89.47 %
Foreign	380,281	10.99 %	353,915	10.53 %
<b>Total</b>	<b>\$ 3,460,726</b>	<b>100.00 %</b>	<b>3,361,158</b>	<b>100.00 %</b>

Note 1: December 31, 2014

- (1) The carrying amounts include loans (\$2,324,302 million), call loans to banks, overdraft of banks and placement with banks (\$214,731 million), security investments (\$921,693 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 (\$6,279 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) This table excluded the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

Note 2: December 31, 2013

- (1) The carrying amounts include loans (\$2,260,469 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) This table excluded the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

## (c) Collateral

Unit: In Million of NTD ; %

Name of collateral	December 31, 2014		December 31, 2013	
	Book Value(Note 1)	%	Book Value(Note 1)	%
Non-secured bonds	\$ 1,011,065	43.50 %	995,040	44.02 %
Secured bonds	1,313,237	56.50 %	1,265,429	55.98 %
Guarantee	164,527	7.08 %	165,852	7.34 %
Securities	97,631	4.20 %	104,255	4.61 %
Real estate	967,901	41.64 %	915,951	40.52 %
Chattel	82,895	3.57 %	79,041	3.50 %
Valuables	283	0.01 %	330	0.01 %
<b>Total</b>	<b>\$ 2,324,302</b>	<b>100.00 %</b>	<b>2,260,469</b>	<b>100.00 %</b>

(Continued)

# TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## Notes to the Consolidated Financial Statements

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 (\$6,279 million at December 31, 2014; \$8,743 million at December 31, 2013).

Note 2: This table excluded the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

### i) Credit Quality Analysis for Discounts and Loans and Receivables

Unit: In Thousand of NTD

2014/12/31	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	156,611	93,939	111,819	490,966	504	853,839	26,495	12,268	892,602	3,633	4,599	884,370
Others	1,032,090	5,304,400	2,082,512	1,344,716	652,646	10,416,364		185,991	10,602,355	88,779	78,725	10,434,851
Loans and Discount	227,360,664	1,168,514,290	458,759,655	296,229,628	143,772,428	2,294,636,665		29,665,569	2,324,302,234	9,810,913	16,253,357	2,298,237,964

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	862,819	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

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

Unit: In Thousand of NTD

2014/12/31	Performing loans					
	Very good	Good	Medium	Weak	Non-evaluate	Total
Government agencies	126,310,471	231,728,326	-	-	-	358,038,797
Financial, investment, and insurance	11,550,000	12,942,443	23,291,330	2,025,006	206,289	50,015,068
Corporate and business	85,333,668	115,397,430	365,813,377	266,035,922	21,774,952	854,355,349
Individual	-	782,888,924	6,377,570	-	29,946,898	819,213,392
Other	4,166,525	25,557,167	63,277,378	28,168,700	91,844,289	213,014,059
Total	227,360,664	1,168,514,290	458,759,655	296,229,628	143,772,428	2,294,636,665

2013/12/31	Performing loans					
	Very good	Good	Medium	Weak	Non-evaluate	Total
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 ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

iii) Credit Quality Analysis for Security Investments

December 31, 2014

Item	Performing loans						NPL but not impair amount(B)	Impairment Amount(C)	Total (A)+(B)+(C)	Unit: In Thousand of 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	58,836,806	20,556,843	9,626,896	-	827,584	89,848,129	-	1,154,117	91,002,246	1,154,117	89,848,129
Stock investment	1,042,982	13,777,469	29,245,137	-	908,748	44,974,336	-	-	44,974,336	-	44,974,336
Others	658,326,820	178,174	1,923,493	-	2,441,850	662,870,337	-	-	662,870,337	-	662,870,337
Held-to-maturity Financial Assets											
Bond investment	53,961,320	2,726,381	4,899,918	1,387,154	101,980	63,076,753	-	-	63,076,753	-	63,076,753
Others	12,395,764	316,700	475,050	1,108,430	-	14,295,944	-	-	14,295,944	-	14,295,944
Other financial assets											
Stock investment	-	-	-	-	10,758,726	10,758,726	-	27,687	10,786,413	15,000	10,771,413
Bond investment	1,015,013	-	-	-	-	1,015,013	-	-	1,015,013	-	1,015,013

December 31, 2013

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	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

7. Aging Analysis of Overdue but Not Impaired Financial Assets

Item	Unit: In Thousand of NTD		
	December 31, 2014		
	Overdue less than 1 month	Overdue 1 to 3 months	Total
Accounts Receivable			
— Credit Card Business	\$ 2,463	3,528	5,991

Item	Unit: Thousand NTD		
	December 31, 2013		
	Overdue less than 1 month	Overdue 1 to 3 months	Total
Accounts Receivable			
— Credit Card Business	\$ 4,031	3,083	7,114

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

Allowance for Loans and Receivables

Loans

December 31, 2014			
Item		Total Loans	Allowance for doubtful accounts
There is objective evidence of impairment on individual asset	Individual assessment of impairment	17,444,146	4,282,588
	Collective assessment of impairment	12,221,423	5,528,325
There is no objective evidence of impairment on individual asset	Collective assessment of impairment	2,294,636,665	16,253,357
Subtotal		2,324,302,234	26,064,270

Receivables (including other financial assets)

December 31, 2014			
Item		Total Loans	Allowance for doubtful accounts
There is objective evidence of impairment on individual asset	Individual assessment of impairment	252,376	174,772
	Collective assessment of impairment	167,030	86,887
There is no objective evidence of impairment on individual asset	Collective assessment of impairment	237,577,066	108,519
Subtotal		237,996,472	370,178
Total			26,434,448

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

## Loans

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

## Receivables (including other financial assets)

<b>December 31, 2013</b>			
<b>Item</b>		<b>Total Loans</b>	<b>Allowance for doubtful accounts</b>
There is objective evidence of impairment on individual asset	Individual assessment of impairment	765,591	622,364
	Collective assessment of impairment	189,985	109,609
There is no objective evidence of impairment on individual asset	Collective assessment of impairment	286,335,842	199,766
Subtotal		287,291,418	931,739
Total			20,747,825

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**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, 2014						
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	2,909,662	587,106,404	0.50 %	9,004,821	309.48 %
	Non secured	870,004	973,869,570	0.09 %	8,988,137	1,033.11 %
Consumer finance	House mortgage (Note 4)	1,838,618	517,234,676	0.36 %	4,891,391	266.04 %
	Cash card	-	-	- %	-	- %
	Micro credit (Note 5)	22,325	5,830,031	0.38 %	90,330	404.61 %
	Others Secured	1,317,729	208,896,043	0.63 %	1,965,367	149.15 %
	(Note 6) Non secured	253,205	31,365,511	0.81 %	1,124,224	444.00 %
Total		7,211,543	2,324,302,235	0.31 %	26,064,270	361.42 %
		Overdue receivables	Account receivable	Ratio (%)	Allowance for bad debt	Cover ratio
Credit card business		2,058	982,600	0.21 %	11,740	570.46 %
Non-recourse factoring (Note 7)		-	4,777,703	- %	47,777	- %

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	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	1,246,139	198,045,853	0.63 %	1,251,443	100.43 %
	(Note 6) Non secured	240,896	36,271,480	0.66 %	1,058,197	439.28 %
Total		10,007,352	2,260,468,544	0.44 %	19,816,086	198.02 %
		Overdue receivables	Account receivable	Ratio (%)	Allowance for doubtful debt	Cover ratio
Credit card business		4,859	1,037,065	0.47 %	14,679	302.10 %
Non-recourse factoring (Note 7)		-	13,194,113	- %	133,796	- %

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.

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## TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## Notes to the Consolidated Financial Statements

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: In Thousand of NTD

	December 31, 2014		December 31, 2013	
	Excluded NPL	Excluded overdue receivables	Excluded NPL	Excluded overdue receivables
As a result of debt consultation and loans agreement	1,388	-	2,272	-
As a result of debt solvency and restart plan	63,399	22,034	79,898	21,374
Total	64,787	22,034	82,170	21,374

## (c) Concentration of Credit Risk

Unit: In Million of NTD, %

December 31, 2014			
Rank	Group Name	Credit Extensions Balance	% of Net Asset Value
1	A Company—railway transportation	71,250	28.06 %
2	B Company—petroleum and coal products manufacturing	49,357	19.44 %
3	C Company—iron smelting industry	31,400	12.37 %
4	D Company—air transportation	26,244	10.34 %
5	E Company—real estate development	17,507	6.89 %
6	F Company—LCD and its component manufacturing industry	15,814	6.23 %
7	G Company—real estate development	14,606	5.75 %
8	H Company—retailing	12,106	4.77 %
9	I Company—real estate leasing industry	12,021	4.73 %
10	J Company—real estate leasing industry	11,749	4.63 %

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## TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## Notes to the Consolidated Financial Statements

December 31, 2013			
Rank	Group Name	Credit Extensions Balance	% of Net Asset Value
1	A Company—railway transportation	72,358	29.36 %
2	B Company—petroleum and coal products manufacturing	51,503	22.18 %
3	C Company—iron smelting industry	34,076	16.07 %
4	D Company—air transportation	23,187	8.69 %
5	E Company—LCD and its component manufacturing industry	18,118	7.90 %
6	F Company—LCD and its component manufacturing industry	16,964	6.02 %
7	G Company—real estate development	16,570	5.29 %
8	H Company—petroleum and coal products manufacturing	15,949	4.92 %
9	I Company—overseas transportation	13,885	4.05 %
10	J Company—LCD and its component manufacturing industry	13,441	3.83 %

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

		December 31, 2014		Unit: In Thousand of NTD ; % December 31, 2013	
		Average	Average interest rate (%)	Average	Average interest rate (%)
<b>Interest earnings assets</b>					
Call loans and placement with banks	\$	137,923,999	4.30	205,198,715	1.12
Placement with Central Bank		462,737,139	0.90	368,493,457	1.14
Financial assets		806,539,814	1.16	778,442,778	1.14
Negotiation, discounts and total loans		2,335,987,982	1.88	2,219,992,364	1.89
<b>Interest bearing liabilities</b>					
Deposit of Central Bank		13,043,141	-	12,892,812	-
Deposits and call loans from banks		300,108,502	0.81	222,818,213	0.62
Demand deposit		326,446,304	0.14	312,632,355	0.14
Demand savings		722,802,793	0.73	714,168,872	0.76
Time savings		1,628,630,007	1.87	1,642,580,790	1.86
Time deposits		538,520,450	1.35	492,891,652	1.12
Government deposits		214,753,786	0.34	201,493,112	0.34
Structured products		1,701,807	1.21	8,150,051	0.79
Financial bonds		20,454,842	1.50	1,314,931	1.50

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

4) Liquidity Risk

1. Causes and definition of liquidity risk

The definition for liquidity risk is the risk BOT 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, BOT sets 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 to review the structure of deposits and loans 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, BOT 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 liquidity reserve ratio: According to "Liquidity Guidelines for Financial Institutions" published by the Center Bank, BOT has to maintain the liquidity reserve ratio of deposit balances greater than 15%.
  - b) Management of loan and deposit ratio: 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  $\pm 40\%$ .

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## TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## 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, 2014	0~30days	31~90 days	91days~1year	Over one year	Total
Cash and cash equivalents	29,947,631	-	-	-	29,947,631
Placement with Central Bank and call loans to banks	10,519,993	259,536,958	154,009,378	284,828,152	708,894,481
Financial assets measured at fair value through profit or loss, net	26,619,609	8,983,456	3,922,968	169,120,935	208,646,968
Bonds and bills purchased under resell agreements	1,956,563	-	-	-	1,956,563
Available-for-sale financial assets, net	569,068,604	55,194,394	62,130,911	111,298,893	797,692,802
Held-to-maturity financial assets, net	1,346,733	5,735,462	3,482,523	66,807,979	77,372,697
Hedging derivative financial assets	25,613	-	-	-	25,613
Financial assets carried at cost	-	-	-	10,771,413	10,771,413
Debt investments without quoted price in active markets	-	-	-	1,015,013	1,015,013
Investments under equity method, net	-	-	-	36,808,701	36,808,701
Receivables, net	21,495,107	1,195,263	983,114	17,036,075	40,709,559
Loans and discounts, net	181,781,299	245,783,798	369,874,946	1,513,936,513	2,311,376,556
Non-performing loans	-	-	-	6,310,952	6,310,952
Total assets	842,761,152	576,429,331	594,403,840	2,217,934,626	4,231,528,949
Deposits of Central Bank and other banks	46,225,819	41,407,130	27,612,866	41,743,015	156,988,830
Payables	18,812,901	18,410	726,117	21,499,894	41,057,322
Financial liabilities measured at fair value through profit or loss	84,575	6,325	22,765	47,801,677	47,915,342
Bonds and bills sold under repurchase agreements	18,816,086	18,014,255	1,187,812	-	38,018,153
Hedging derivative financial liabilities	103,024	-	-	-	103,024
Other financial liabilities	1,566,710	9,376	-	180,868	1,756,954
Deposits and remittances	377,592,971	385,682,260	1,163,261,851	1,627,544,640	3,554,081,722
Total liabilities	463,202,086	445,137,756	1,192,811,411	1,738,770,094	3,839,921,347

(Continued)

## TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## Notes to the Consolidated Financial Statements

December 31, 2013	0~30days	31~90days	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	200,906,366	680,637,968
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	111,489,914	765,521,333
Held-to-maturity financial assets, net	3,028,658	4,458,451	1,772,046	63,785,573	73,044,728
Hedging derivative financial 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
<b>Total assets</b>	<b>829,530,724</b>	<b>551,259,840</b>	<b>625,895,478</b>	<b>2,067,769,894</b>	<b>4,074,455,936</b>
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 financial 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
<b>Total liabilities</b>	<b>418,373,481</b>	<b>440,322,508</b>	<b>1,117,692,752</b>	<b>1,755,280,629</b>	<b>3,731,669,370</b>

## 4. Maturity analysis of derivatives

Unit: In Thousand of NTD

December 31, 2014	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	13,459,995	8,415,236	3,019,136	598,602	923,473	-	26,416,442
Foreign exchange inflow	13,457,093	8,415,085	3,019,136	598,602	923,473	-	26,413,389
Financial assets and liabilities measured at fair value through profit or loss, Derivative instruments (Interest)							
Interest outflow	661,292,842	309,724,144	159,989,232	56,812,069	3,274,691	15,552,846	1,206,645,824
Interest inflow	675,926,059	319,052,755	171,324,138	67,170,483	8,639,606	-	1,242,113,041

Unit: In Thousand of 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

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

5. Loans and Discounts and Receivables

If the 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: In Thousand of NTD

December 31, 2014	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year	Total
Irrevocable loan commitment	134,332	141,284,296	1,683,967	291,469,577	18,416,632	452,988,804
Irrevocable credit card commitment	-	-	-	-	162,817	162,817
Letter of credit receivables	10,564,271	2,233,385	4,764,823	8,697,743	2,885,282	29,145,504
Guarantee receivables	59,987,734	1,618,619	2,659,328	9,277,132	9,978,899	83,521,712
Total	70,686,337	145,136,300	9,108,118	309,444,452	31,443,630	565,818,837

Unit: In Thousand of NTD

December 31, 2013	0-30 days	31-90 days	91 days-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
Irrevocable credit card commitment	-	-	-	-	181,155	181,155
Letter of credit receivables	12,101,424	1,883,702	4,756,040	11,070,019	2,926,396	32,737,581
Guarantee 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	234,145,465	599,987,675

6. Maturity Analysis of Lease Agreements and Capital Expenditures

The lease agreements refer to operational lease.

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

December 31, 2014	Less than 1 year	1-5 year	Over 5 year	Total
Lease commitments				
Operating lease payments (Lessee)	(347,515)	(668,851)	(423)	(1,016,789)
Operating lease income(Lessor)	164,302	145,843	-	310,145
Total	(183,213)	(523,008)	(423)	(706,644)

  

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)	163,768	194,544	-	358,312
Total	(175,651)	(406,666)	(2,218)	(584,535)

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, 2014

Unit: In Thousand of 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	\$ 3,572,506,059	426,125,463	693,008,423	544,620,366	305,014,773	307,220,542	1,296,516,492
Major matured capital outflow	3,922,205,574	228,893,076	316,359,654	546,930,570	511,736,873	905,129,168	1,413,156,233
Capital gap	(349,699,515)	197,232,387	376,648,769	(2,310,204)	(206,722,100)	(597,908,626)	(116,639,741)

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

December 31, 2013

Unit: In Thousand of 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)

## Maturity Analysis of Assets and Liabilities (United State Dollars)

December 31, 2014

Unit: In Thousand of 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	\$ 45,203,458	16,092,595	10,230,926	5,266,681	2,692,906	10,920,350
Major matured capital outflow	45,203,458	22,283,601	8,984,827	3,516,780	1,934,638	8,483,612
Capital gap	-	(6,191,006)	1,246,099	1,749,901	758,268	2,436,738

December 31, 2013

Unit: In Thousand of 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

## 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, even if it is not included in the financial statements. The risk factors usually refer to interest rate, exchange rate, equity investment and price. When the factors change, BOT's net operating income and the value of investment portfolio will have volatility risk.

The main market risks of BOT 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

BOT sets 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.

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

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

BOT'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. BOT uses a consistent measurement standard and adopt quoted price in active market first. If the quoted price comes from non-active market, BOT should indicate the source of the price and pay attention to the reasonability.

(c) Monitor and Report

BOT conducts 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. BOT also has 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.

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
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(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, BOT uses quoted price in active market as the valuation basis. If the financial instrument doesn't have quoted price in active market, BOT will measure it using the quoted price from counterparties. While adopting modular valuation method, all parameters need to be evaluated every day. BOT uses a consistent measurement standard and adopt quoted price in active market first. If the quoted price comes from non-active market, BOT should indicate the source of the price and pay attention to the reasonability.

(c) Measurement Method

- a) BOT conducts stress testing to calculate the influence of every risk factor. The simulated situations are  $\pm 15\%$  changes of equity security price,  $\pm 100$  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 it on BOT's website as reference.

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.

(b) Procedures of Interest Rate Risk Management

BOT sets 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

BOT also uses the PV01 and Duration to monitor the influence of interest risk.

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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 BOT's flexibility in order to measure, manage and hedge the interest rate risk. BOT formulates "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, BOT conducts 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

BOT uses the "Assets and Liabilities Management Information System" to identify interest rate sensitivity assets and liabilities and analyses 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.

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. BOT'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, BOT sets 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.

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

(Continued)



**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
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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

BOT sets different investment quotas by industries, enterprises and groups. They use the  $\beta$  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.

(d) Measurement method

The control of the equity security price risk is based on the unrealized gain (loss) ratio,  $\beta$  value and the aforementioned investment limitations.

BOT conducts stress testing every season. The simulated situations are  $\pm 15\%$  changes of equity security price. The relevant statements are disclosed at sensitivity analysis.

9. Market risk valuation technique

(a) Interest Rate Risk Sensitivity

BOT assumes that other factors are unchanged and the yield curve of the whole world moves upward by 100 bps at December 31, 2014 and 2013. Under this assumption, the income after tax will decrease \$170 million and increase \$251 million, respectively and the other comprehensive income will decrease \$3,170 million and \$3,030 million, respectively. If the yield curve moves downward by 100 bps, the income after tax will increase \$377 million and decrease \$73 million, respectively and the other comprehensive income will increase \$3,377 million and \$3,288 million, respectively.

(b) Exchange Rate Risk Sensitivity

BOT assumes that other factors are unchanged and the foreign currency to New Taiwan Dollars exchange rate appreciates by 3% at December 31, 2014 and 2013. Under this assumption, the income after tax will increase \$1,889 million and \$1,806 million, respectively and the other comprehensive income will increase \$1,474 million and \$1,628 million, respectively.

If the exchange rate depreciates by 3%, the income after tax will decrease \$1,889 million and \$1,806 million, respectively and the other comprehensive income will decrease \$1,474 million and \$1,628 million, respectively.

(Continued)

## TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

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## (c) Equity Security Price Risk Sensitivity

BOT assumes that other factors are unchanged and the market prices of the equity securities increase by 15% at December 31, 2014 and 2013. Under this assumption, the income after tax will increase \$8,202 million and \$8,068 million, respectively and the other comprehensive income will increase \$7,112 million and \$6,708 million, respectively.

If the market prices decrease by 15 %, the income after tax will decrease \$8,202 million and \$8,068 million, respectively and the other comprehensive income will decrease \$7,112 million and \$6,708 million, respectively.

## (d) Sensitivity Analysis is as Follows.

Unit: In Million of NTD

December 31, 2014			
Main risk	Range	Amount Influence	
		Equity	Gain or loss
Interest rate risk	Interest rate curve rise 100BPS	(3,170)	(170)
Interest rate risk	Interest rate curve fall 100BPS	3,377	377
Exchange rate risk	Other foreign currency/ NTD rise 3%	1,474	1,889
Exchange rate risk	Other foreign currency / NTD fall 3%	(1,474)	(1,889)
Price of equity stock risk	Price of equity stock rise 15%	7,112	8,202
Price of equity stock risk	Price of equity stock fall 15%	(7,112)	(8,202)

Unit: In Million of 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 rise 3%	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)

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10. Interest rate sensitivity assets and liabilities analysis (New Taiwan Dollars)

Unit: In Thousand of NTD

December 31, 2014					
Item	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest rate sensitive assets	\$ 1,676,007,564	1,301,960,369	107,615,600	194,841,761	3,280,425,294
Interest rate sensitive liabilities	241,892,229	2,625,338,957	304,231,113	74,877,647	3,246,339,946
Interest rate sensitive gap	1,434,115,335	(1,323,378,588)	(196,615,513)	119,964,114	34,085,348
Net worth					251,861,201
Ratio of interest rate sensitive assets to liabilities (%)					101.05
Ratio of interest rate sensitive gap to net worth (%)					13.53

Unit: In Thousand of 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

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 (United States Dollars)**

Unit: In Thousand of USD

December 31, 2014					
Item	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest rate sensitive assets	\$ 25,410,086	5,370,211	3,000,170	2,098,376	35,878,843
Interest rate sensitive liabilities	25,125,789	5,866,968	1,856,361	2,291,247	35,140,365
Interest rate sensitive gap	284,297	(496,757)	1,143,809	(192,871)	738,478
Net worth					53,682
Ratio of interest rate sensitive assets to liabilities (%)					102.10
Ratio of interest rate sensitive gap to net worth (%)					1,375.65

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

Unit: In Thousand of 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

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: In Thousands of stated currencies

December 31, 2014		
Amount in original currency	Amount in New Taiwan Dollars	
USD	801,710	25,390,156
CNY	569,685	2,904,824
GBP	18,398	907,757
JPY	2,973,933	789,877
SGD	15,118	362,832

Units: In Thousands of stated currencies

December 31, 2013		
Amount in original currency	Amount in New Taiwan Dollars	
USD	719,263	21,419,652
CNY	371,977	1,827,523
GBP	18,440	906,142
JPY	2,994,716	850,499
CNY	19,772	525,639

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 ITS SUBSIDIARY COMPANIES**  
**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 at December 31, 2014 and December 31, 2013, respectively.

Unit: In Thousand of NTD			
<b>December 31, 2014</b>			
<b>Assets</b>	<b>USD to NTD</b>	<b>Other currency to NTD</b>	<b>Total NTD</b>
Cash and cash equivalents	\$ 16,638,731	96,384,842	113,023,573
Placement with Central Bank and call loans to banks	80,601,722	25,367,195	105,968,917
Financial assets measured at fair value through profit or loss, net	53,268,748	25,866,858	79,135,606
Available-for-sale financial assets	9,658,455	39,531,628	49,190,083
Hedging derivative financial assets	-	25,613	25,613
Receivables, net	7,113,220	2,453,653	9,566,873
Current income tax assets	230,230	161,323	391,553
Loans and Discounts, net	150,374,959	101,256,631	251,631,590
Held-to-maturity financial assets, net	7,676,709	24,915,360	32,592,069
Other financial assets, net	9,843	1,035,605	1,045,448
Property and equipment, net	29,970	18,195	48,165
Intangible assets	3,988	845	4,833
Deferred income tax assets, net	123,396	50,892	174,288
Other assets, net	383,484	46,495	429,979
<b>Total assets</b>	<b>\$ 326,113,455</b>	<b>317,115,135</b>	<b>643,228,590</b>

(Continued)

## TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## Notes to the Consolidated Financial Statements

Liabilities	December 31, 2014		
	USD to NTD	Other currency to NTD	Total NTD
Deposits of Central Bank and other banks	\$ 6,811,372	90,258,661	97,070,033
Financial liabilities measured at fair value through profit or loss	366,186	32,460,624	32,826,810
Hedging derivative financial liabilities	-	103,024	103,024
Bills and Bonds Sold under Repurchase Agreements	127,714	9,408,169	9,535,883
Payables	2,621,332	2,097,922	4,719,254
Current income tax liabilities	18,374	4,423	22,797
Deposits and remittances	320,185,522	223,149,117	543,334,639
Other financial liabilities	12,668	1,644,876	1,657,544
Provisions	13,492	10,069	23,561
Deferred income tax liabilities	-	62,751	62,751
Other liabilities	81,507,109	27,029,751	108,536,860
Total liabilities	<u>\$ 411,663,769</u>	<u>386,229,387</u>	<u>797,893,156</u>

Unit: Thousand NTD

Assets	December 31, 2013		
	USD to NTD	Other currency to NTD	Total 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	9,895,037	38,556,948	48,451,985
Hedging derivative financial assets	-	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 ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

Liabilities	December 31, 2013		
	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
Hedging derivative financial liabilities	-	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	<u>58,538,458</u>	<u>36,093,134</u>	<u>94,631,592</u>
Total liabilities	<u>\$ 444,790,161</u>	<u>282,200,709</u>	<u>726,990,870</u>

The subsidiary, BTLI

1) Risk management system

1. Risk management structure

The risk management structure of 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

BTLI sets credit limits for each rating and continuous credit risk mechanism for the credit risk management of securities investment. BTLI performs strict credit analysis based on the different characteristics of financial instruments in order to control the credit risk exposure by investment instrument, issuer, counterparty, nation and industry, and to set the credit limits for each rating. BTLI also prepares its related reports periodically to ensure it abides by the law.

BTLI performs strict credit analysis before undertaking mortgage loans and insurance loans. The mortgage loan policy not only limits the Loan-to-Value but also requests the evaluation of personal financial ranking to decide whether or not to undertake the loan. For the insurance loans, the loan amount shall be under the policy value reserves of the insurance product.

BTLI uses the Probability of Default (PD) and Loss Given Default (LGD) to measure the credit risk of risk related instruments, including the investments without quoted price in active market and the held-to-maturity investments. BTLI also performs pressure tests to evaluate the effect of abnormal credit changes on investment portfolio as a reference for making corresponding countermeasures.

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

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 uses VaR model, scenario analysis, stress test, back test, position limit, risk limit, and stop-loss system to manage market risk derived from financial investments.

2) Credit risk

1. The Credit Risk Exposure

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

Item	December 31, 2014	
	Carrying amount	Maximum credit exposure
<u>Financial assets</u>		
Cash and cash equivalents	\$ 38,564,185	38,564,185
Receivables	2,351,669	2,351,669
Financial assets measured at fair value through profit or loss	31,893	31,893
Available-for-sale financial assets	52,517,885	51,399,141
Debt investments without quoted price in active market	54,856,557	54,347,029
Held-to-maturity financial assets	193,218,934	150,157,854
Other financial assets	21,685,621	21,685,621
Loans	13,599,820	13,599,820
Refundable deposits	2,739,751	46,450
Total	<u>\$ 379,566,315</u>	<u>332,183,662</u>

(Continued)



**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

Item	December 31, 2013	
	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	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>

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.

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

(a) Industry

Item	Finance	Government	Petrochemical Industry	Manufacturing	Electricity	Other
December 31, 2014						
<u>Financial assets</u>						
Cash and cash equivalents	\$ 38,564,185	-	-	-	-	-
Financial assets measured at fair value through profit or loss	29,496	-	-	-	-	-
Available-for-sale financial assets-debt instruments	11,265,304	1,118,744	100,399	100,413	251,429	2,115,533
Debt investments without quoted price in active market-debt instruments	32,127,604	21,250,242	-	-	-	1,478,711
Held-to-maturity financial assets-debt instruments	111,641,147	60,156,724	279,838	9,042,781	2,596,350	9,502,094
Other financial assets-net	21,685,621	-	-	-	-	-
Refundable deposits	-	2,736,227	-	-	-	3,524

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

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-debt instruments	12,102,203	2,670,328	175,316	300,821	503,272	2,191,945
Debt investments without quoted price in active market-debt instruments	30,277,752	23,806,537	-	-	-	1,424,770
Held-to-maturity financial assets-debt instruments	105,541,966	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

## (b) Region

Item	Taiwan	America	Europe	Asia	Oceania	Other
December 31, 2014						
<u>Financial assets</u>						
Cash and cash equivalents	\$ 38,564,185	-	-	-	-	-
Financial assets measured at fair value through profit or loss	25,973	2,151	-	1,372	-	-
Available-for-sale financial assets-debt instruments	11,366,157	1,208,774	-	1,743,627	633,264	-
Debt investments without quoted price in active market-debt instruments	200,000	21,090,395	13,938,702	12,709,135	6,918,325	-
Held-to-maturity financial assets-debt instruments	116,161,694	19,233,901	35,823,368	11,985,455	9,223,688	790,828
Other financial assets-net	21,175,721	-	-	509,900	-	-
Refundable deposits	2,739,751	-	-	-	-	-

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-debt instruments	13,110,183	2,067,360	48,795	2,126,810	590,737	-
Debt investments without quoted price in active market-debt instruments	-	22,897,898	13,477,633	12,842,971	6,290,558	-
Held-to-maturity financial assets-debt instruments	122,081,699	20,181,220	39,066,112	6,690,608	8,840,534	-
Other financial assets-net	40,164,000	-	-	4,421,700	-	-
Refundable deposits	2,730,192	-	-	-	-	-

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

3. Credit Quality Analysis of the subsidiary, BTLI:

(a) Credit Quality Analysis for Securities Investment

December 31, 2014	Non-overdue nor 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	1,689,440	10,985,224	2,277,158	-	-	14,951,822	-	-	14,951,822	-	14,951,822
Held-to-maturity financial assets											
Debt investments	37,484,062	20,388,623	32,671,276	2,674,973	-	193,218,934	-	-	193,218,934	-	193,218,934
Debt investments without a quoted price in active market											
Debt investments	24,538,789	20,363,349	9,954,419	-	-	54,856,557	-	-	54,856,557	-	54,856,557
Refundable deposits	-	2,693,301	42,926	-	3,524	2,739,751	-	-	2,739,751	-	2,739,751

  

December 31, 2013	Non-overdue nor 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	-	297,800	196,864,241	4,068	196,860,173
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	-	-	13,842	2,730,192	-	-	2,730,192	-	2,730,192

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 (other than insurance loans and premium loans) and Receivables

December 31, 2014	Non-overdue nor non-impaired amount						NPL but not impair amount (B)	Impairment Amount (C)	Total (A)+(B)+(C)	Recognized Impairment Amount		Net (A)+(B)+(C)-(D)
	Very Good	Good	Medium	Weak	Non-evaluate	Subtotal (A)				With objective	No objective	
Receivables	\$				2,351,195	2,351,195	513		2,351,708		39	2,351,669
Loans	\$				7,323,007	7,323,007	135,432	6,909	7,465,348	496	81,022	7,383,830

  

December 31, 2013	Non-overdue nor non-impaired amount						NPL but not impair amount (B)	Impairment Amount (C)	Total (A)+(B)+(C)	Recognized Impairment Amount		Net (A)+(B)+(C)-(D)
	Very Good	Good	Medium	Weak	Non-evaluate	Subtotal (A)				With objective	No objective	
Receivables	\$				3,282,066	3,282,066	17	1	3,282,084	2	30	3,282,052
Loans	\$				5,505,147	5,505,147	24,526	1,450	5,531,123	1,976	27,526	5,501,621

(Continued)

## TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## Notes to the Consolidated Financial Statements

- (c) Aging Analysis of discounts and loans (Other than insurance loans and premium loans) and receivables which overdue but not impaired

	December 31, 2014	December 31, 2013
Overdue 1 to 3 months	\$ 133,384	21,731
Overdue more than 3 months	2,561	2,812
	<u>\$ 135,945</u>	<u>24,543</u>

## 3) Liquidity Risk

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

Derivatives settled in net

	December 31, 2014							
	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	\$ (5,274)	(11,400)	-	-	-	-	-	(16,674)

Derivatives settled in total

	December 31, 2014							
	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	\$ (8,848,075)	(45,526,783)	(19,685,110)	-	-	-	-	(74,059,968)
— Foreign exchange inflow	8,826,359	45,420,689	19,581,360	-	-	-	-	73,828,408
Foreign exchange derivatives								
— Foreign exchange outflow	(4,299)	(2,736)	-	(1,502,543)	-	-	-	(1,509,578)
— Foreign exchange inflow	-	-	-	1,495,600	-	-	-	1,495,600
Subtotal of outflows	\$ (8,852,374)	(45,529,519)	(19,685,110)	(1,502,543)	-	-	-	(75,569,546)
Subtotal of inflows	8,826,359	45,420,689	19,581,360	1,495,600	-	-	-	75,324,008
Net cash flows	\$ (26,015)	(108,830)	(103,750)	(6,943)	-	-	-	(245,538)

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)

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

Derivatives settled in total

	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	
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)

Maturity analysis of non-derivative:

Assets	December 31, 2014							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	\$ 38,578,491	-	-	-	-	-	-	38,578,491
Available-for-sale financial assets	492,295	353,817	42,674	1,182,349	1,649,464	7,441,507	6,687,103	17,849,209
Held-to-maturity financial assets	341,382	5,436,185	14,835,139	15,404,086	23,841,805	45,675,968	227,799,306	333,333,871
Debt investments without quoted price in active market	183,759	2,126,470	1,999,481	3,509,393	18,442,677	6,859,051	64,660,073	97,780,904
Other financial assets-net	20,578,492	-	-	1,179,760	-	-	-	21,758,252
Refundable deposits	-	24,750	-	46,626	71,376	615,753	2,701,949	3,460,454
Total	\$ 60,174,419	7,941,222	16,877,294	21,322,214	44,005,322	60,592,279	301,848,431	512,761,181

  

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	\$ 22,861,202	-	-	-	-	-	-	22,861,202
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	6,528,429	9,770,650	18,416,777	10,116,231	-	-	-	44,832,087
Refundable deposits	-	24,750	-	46,625	71,375	639,125	2,767,375	3,549,250
Total	\$ 30,535,070	10,605,643	21,668,675	16,605,890	34,680,093	62,813,916	498,238,200	675,147,487

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

## 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, 2014			December 31, 2013		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
AUD	\$ 429,938	26.025	11,189,147	429,697	26.585	11,423,503
CAD	115,585	27.32	3,157,772	110,773	27.98	3,099,428
EUR	13,447	38.54	518,234	-	-	-
HKD	370,064	4.082	1,510,599	322,595	3.840	1,238,764
JPY	33	0.2656	9	242,345	0.2840	68,826
NZD	40,760	24.85	1,012,894	-	-	-
USD	3,725,300	31.67	17,980,238	4,069,335	29.780	21,184,789
CNY	4,096,694	5.099	20,889,042	3,349,338	4.9130	16,455,300
ZAR	398,018	2.740	1,090,570	-	2.8600	-
SGD	25,123	24.000	602,941	-	-	-
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	721,159	31.6700	22,839,094	600,569	29.7800	17,884,939

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

	December 31, 2014										
	USD	AUD	HKD	EUR	CAD	NZD	CNY	JPY	ZAR	SGD	Total
Foreign financial assets											
Cash and cash equivalents	\$ 1,916,990	156,226	827,435	1,816	95,259	4,552	3,266,644	9	11,256	5	6,280,192
Financial assets measured at fair value through profit or loss	22,085	7,411	-	-	-	-	-	-	-	-	29,496
Available fo -sale financial assets	5,189,673	-	683,152	516,418	-	-	574,030	-	-	-	6,963,273
Held-to-maturity financial assets	59,021,811	7,788,913	-	-	1,328,382	1,002,408	5,892,164	-	790,828	602,936	76,427,442
Debt investments without quoted price in active market	28,302,912	3,135,828	-	-	1,714,621	-	8,314,704	-	259,453	-	41,727,518
Other financial assets-net	-	-	-	-	-	-	2,667,620	-	-	-	2,667,620
Total	\$ 94,453,471	11,088,378	1,510,587	518,234	3,138,262	1,006,960	20,715,162	9	1,061,537	602,941	134,095,541

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

	December 31, 2014										
	USD	AUD	HKD	EUR	CAD	NZD	CNY	JPY	ZAR	SGD	Total
<b>Foreign financial liabilities</b>											
Financial liabilities measured at fair value through profit or loss	\$ 3,184,818	5,776	-	-	-	-	-	-	-	-	3,190,594
Payables	1,058,259	-	-	-	-	-	-	-	-	-	1,058,259
Insurance liability	21,760,140	-	-	-	-	-	-	-	-	-	21,760,140
<b>Total</b>	<b>\$ 26,003,217</b>	<b>5,776</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26,008,993</b>

Note: December 31, 2014: 1 USD = 31.670 NTD; 1 AUD = 26.025 NTD; 1 HKD = 4.082 NTD; 1 EUR = 38.54 NTD; 1 CAD = 27.32 NTD; 1 NZD = 24.85 NTD; 1 CNY = 5.099 NTD; 1 JPY = 0.2656 NTD; 1 ZAR = 2.74 NTD; 1 SGD = 24.00 NTD

	December 31, 2013										
	USD	AUD	HKD	EUR	CAD	NZD	CNY	JPY	ZAR	SGD	Total
<b>Foreign financial assets</b>											
Cash and cash equivalents	\$ 3,826,601	203,054	488,876	-	23,784	-	58,646	68,824	-	-	4,669,785
Financial assets measured at fair value through profit or loss	146,161	49,131	-	-	-	-	-	-	-	-	195,292
Available-for-sale financial assets	6,214,939	48,795	747,931	-	-	-	283,410	-	-	-	7,295,075
Receivables	125,915	110,532	1,957	-	19,971	-	402,259	2	-	-	660,636
Held-to-maturity financial assets	62,314,062	7,914,121	-	-	1,312,227	-	2,348,954	-	-	-	73,889,364
Debt investments without quoted price in active market	30,483,567	3,147,001	-	-	1,743,446	-	8,940,331	-	-	-	44,314,345
Other financial assets-net	-	-	-	-	-	-	4,421,700	-	-	-	4,421,700
<b>Total</b>	<b>\$103,111,245</b>	<b>11,472,634</b>	<b>1,238,764</b>	<b>-</b>	<b>3,099,428</b>	<b>-</b>	<b>16,455,300</b>	<b>68,826</b>	<b>-</b>	<b>-</b>	<b>135,446,197</b>
<b>Foreign financial liabilities</b>											
Financial liabilities measured at fair value through profit or loss	\$ 556,211	10,491	-	-	-	-	-	-	-	-	566,702
Payables	132,650	-	-	-	-	-	-	-	-	-	132,650
Insurance liability	17,752,289	-	-	-	-	-	-	-	-	-	17,752,289
<b>Total</b>	<b>\$ 18,441,150</b>	<b>10,491</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,451,641</b>

Note: December 31, 2013: 1 USD = 29.78 NTD; 1 AUD = 26.585 NTD; 1 HKD = 3.840 NTD; 1 EUR = 41.12 NTD; 1 CAD = 27.98 NTD; 1 NZD = 24.50 NTD; 1 CNY = 4.913 NTD; 1 JPY = 0.2840 NTD; 1 ZAR = 2.86 NTD

## 2. Interest rate risk

The changes in the interest rates of financial assets and financial liabilities were addressed in the notes of liquidity risk management of BTLI.

The sensitivity analysis represents the interest rate risk exposure of the derivatives and non-derivatives at the reporting date. The risk of interest rate is mainly from the risk of interest repricing. The measure of monitoring account interest rate risk is to compute the repricing gap of risk-sensitive assets/ liabilities and to develop risk standard as the monitoring benchmark. Its measures are to set the interest rate, which increases or decreases 50 basis point to evaluate the risk.

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**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: In Millions of NTD

December 31, 2014			
Main risk	Range	Amount Influence	
		Equity	Gain or loss
Exchange rate risk	Other foreign currencies / NTD rise 5%	6.65	26.16
Exchange rate risk	Other foreign currencies / NTD fall 5%	(6.65)	(26.16)
Interest rate risk	Interest rate curve rises 50BPS	(4.14)	-
Interest rate risk	Interest rate curve falls 50BPS	4.14	-
Price of equity stock risk	Price of equity stock rises 10%	37.57	-
Price of equity stock risk	Price of equity stock falls 10%	(37.57)	-

  

December 31, 2013			
Main risk	Range	Amount Influence	
		Equity	Gain or loss
Exchange rate risk	Other foreign currencies / NTD rise 5%	5.84	23.25
Exchange rate risk	Other foreign currencies / 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)	-

5) Operational Risk

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

BTLI sets up operation regulations and internal control system for each product and operating activity. 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, 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.

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

6) The nature and scope of the Insurance Contract Risk

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

(a) The structure, organization and the responsibility of the risk management

The risk management structure of 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) Vice general manager, the supervisory of the risk management department

The vice general manager should abide with the "Practice code of risk management of insurance industry". However, included in this practice is the independence qualification which will become effective on January 1, 2015.

d) Risk management department

- a. In charge of the overall risk management of 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.
- 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.

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES****Notes to the Consolidated Financial Statements**

e) 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.

f) Audit department

The audit department shall audit the risk management performance of each department in accordance with the applicable regulations and legislations.

(b) 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 ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

2. Information of insurance risk

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

		<b>December 31, 2014</b>	
	<b>Change in assumption</b>	<b>Changes in profit or loss before tax</b>	<b>Changes in shareholder's equity</b>
Death rate	X1.1	(12,701)	(10,542)
Morbidity	X1.1	(21,643)	(17,964)
Contract Default Rate	X0.9	(33,276)	(27,619)
Expense	X1.1	(287,018)	(238,225)
Ratio of Return on Investment	(0.25)%	(870,963)	(722,899)

		<b>December 31, 2013</b>	
	<b>Change in assumption</b>	<b>Changes in profit or loss before tax</b>	<b>Changes in shareholder's equity</b>
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)

- (b) 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.

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

(c) 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, 2014 and 2013 are as follows:

December 31, 2014

Occurrence year	Development year										Claim Provision
	1	2	3	4	5	6	7	8	9	10	
94	182,965	245,770	248,116	253,655	253,839	254,146	524,200	254,206	254,207	254,218	-
95	168,989	210,053	217,422	218,071	218,164	218,466	218,522	218,550	218,551	218,559	8
96	425,676	532,759	547,878	549,554	550,644	550,647	550,672	550,673	550,674	550,712	39
97	165,310	213,533	216,353	221,841	221,880	221,881	221,908	221,916	221,917	221,925	17
98	160,616	202,266	207,255	208,577	208,657	208,739	208,767	208,775	208,776	208,783	44
99	150,536	200,284	207,399	208,700	208,776	208,870	208,899	208,906	208,907	208,915	139
100	158,363	203,032	210,554	211,064	211,221	211,317	211,347	211,354	211,355	211,362	298
101	174,121	224,805	228,736	224,805	230,838	230,955	230,988	230,996	230,997	231,004	2,268
102	184,516	240,199	245,950	247,879	248,086	248,195	248,230	248,238	248,239	248,249	8,050
103	194,581	245,503	250,132	252,566	252,726	252,874	252,908	252,917	252,918	252,926	58,345
Provision for unreported and within 1 year unpaid claims											69,208
Add: over 1 year reported but unpaid claims											6,829
Unreported provision claims											<u>76,037</u>

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										<u>77,030</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

b) Development trend of retained business loss

The development trends of the accumulated claims for the past seven to nine years on December 31, 2014 and 2013 are as follows:

December 31, 2014

Occurrence year	Development year										Claim Provision
	1	2	3	4	5	6	7	8	9	10	
94	171,933	229,310	231,639	235,718	235,902	236,210	236,264	236,270	236,271	236,281	-
95	159,622	198,715	205,620	206,227	206,320	206,622	206,678	206,706	206,706	206,713	7
96	281,376	355,445	364,533	365,509	366,428	366,431	366,456	366,457	366,458	366,480	23
97	151,816	196,181	198,907	203,895	203,934	203,935	203,962	203,969	203,970	203,977	15
98	153,588	193,488	198,157	199,358	199,438	199,520	199,548	199,555	199,556	199,562	42
99	143,101	189,407	196,245	197,440	197,516	197,604	197,632	197,639	197,639	197,647	131
100	152,753	195,787	202,928	203,439	203,585	203,676	203,706	203,713	203,713	203,720	281
101	166,896	216,798	220,729	222,531	222,680	222,790	222,822	222,830	222,831	222,838	2,109
102	177,367	230,050	235,398	237,216	237,406	237,510	237,545	237,552	237,553	237,563	7,513
103	193,081	243,479	248,024	250,438	250,596	250,742	250,776	250,785	250,787	250,794	57,713

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

BTLI provides claim reserve based on the expected future payments and relevant compensation processing cost of reported and unreported claims. In computation of such provision 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 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.

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## TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## Notes to the Consolidated Financial Statements

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 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

## (a) Credit risk

December 31, 2014			
Name	Credit rating		Date of rating
	agent	Credit 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
Dai-ichi Mutual Life	S&P	A+	103.11.26

December 31, 2013			
Name	Credit rating		Date of rating
	agent	Credit 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
Dai-ichi Mutual Life	S&P	A	95.03.23

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

(b) Liquidity risk

The liquidity risk of insurance contracts refers to the company fail to fulfill the obligations when due.

The maturity analysis of insurance and investment contract liabilities on December 31, 2014 and 2013 are as follows:

Units: In Millions of NTD				
<b>Undiscounted expected cash outflow (inflow) on December 31, 2014</b>				
	< 12 months	1~5 years	>5 years	total
\$	57,668	126,378	588,013	\$ 772,059
<b>Undiscounted expected cash outflow (inflow) on December 31, 2013</b>				
	< 12 months	1~5 years	> 5 years	total
\$	39,256	184,081	530,352	\$ 753,689

(c) Market risk

Market risk in insurance contracts refers to the adverse changes in the market resulting in the returns on investment lower than the forecasted interest rate. As a result, insurers are subjected to financial losses. Considering 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.

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

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.

The risk management mechanism is as follows:

- Measure, monitor and control every risk under an affordable level in order to achieve the goal of the risk management.
- Build risk indicators and precaution system to conduct proper risk monitor.

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# TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## Notes to the Consolidated Financial Statements

3. 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.
4. Assessing risk and preparing paper work before creating new business or products, changing operating process, or developing information system.
5. Enforcing the professional knowledge and training, and harness risk sensitivity within the corporation culture.

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.

### 1. Market risk

Market risk is the risk that BTS will suffer losses due to the changes in market interest rate, exchange rate or the security price fluctuation.

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 BTS.
- (c) Establishing risk target of market, precaution system, overrunning handling, and communication system to take proper policy of market risk, in order to accomplish fully supervising and prevention.
- (d) Establishing market risk information management system, including transaction system, operating system, and risk management system to define the responsibility, ensure the independence of the system, and keep the system proper and in balance. °
- (e) Create a model of market risk to assess and express the exposure of BTS; furthermore, to systematically manage the risk exposed.
- (f) Assessing market risk and preparing paper work before creating financial instrument, changing operating process, or developing information system and explore new financial services and products.
- (g) Enforcing the professional knowledge and training, and harness risk sensitivity within the corporation culture.

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
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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.

BTS has 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, BTS requests all business units to report the cash flow status every day. In addition, BTS also maintains sufficient cash and convertible securities consistently.

## TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## Notes to the Consolidated Financial Statements

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.

## 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:

	Unit: In Thousand of NTD	
	December 31, 2014	December 31, 2013
Cash and cash equivalents	\$ 202,070	183,610
Financial assets measured at fair value through profit or loss-current	1,129,524	580,701
Available-for-sale financial assets-current	1,491,598	1,605,126
Loans and receivables	<u>6,272,491</u>	<u>5,524,214</u>
	<u>\$ 9,095,683</u>	<u>7,893,651</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

The maximum exposure amounts by regions are as follows:

	Unit: In Thousands of NTD	
	December 31, 2014 (Taiwan)	December 31, 2013 (Taiwan)
Cash and cash equivalents	\$ 202,070	183,610
Financial assets measured at fair value through profit or loss-current	1,129,524	580,701
Available-for-sale financial assets-current	1,491,598	1,605,126
Loans and receivables	<u>6,272,491</u>	<u>5,524,214</u>
	<u><u>\$ 9,095,683</u></u>	<u><u>7,893,651</u></u>

The maximum exposure amounts by counterparties are as follows:

	Government	Finance	Other companies	Individuals	Total
<b>December 31, 2014</b>					
Cash and cash equivalents	\$ -	202,070	-	-	202,070
Financial assets measured at fair value through profit or loss-- current	-	328,344	801,180	-	1,129,524
Available-for-sale financial assets -- current	100,410	713,703	677,485	-	1,491,598
Loans and receivables	<u>143,366</u>	<u>316</u>	<u>-</u>	<u>6,128,809</u>	<u>6,272,491</u>
	<u><u>\$ 243,776</u></u>	<u><u>1,244,433</u></u>	<u><u>1,478,665</u></u>	<u><u>6,128,809</u></u>	<u><u>9,095,683</u></u>
<b>December 31, 2013</b>					
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 ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

## 2. Impairment loss

Aging analysis of loans and receivables:

	December 31, 2014		December 31, 2013	
	Amount	Impairment	Amount	Impairment
Non-overdue	\$ <u>6,272</u>	<u>-</u>	<u>5,524</u>	<u>-</u>

Unit: In Millions of NTD

The movements of the impairment were as follows:

	2014	2013
Beginning balance	\$ 562	724
Impairment loss recognized for the period	(49)	(162)
Ending balance	<u>\$ 513</u>	<u>562</u>

## 3. The credit quality information

	December 31, 2014			
	Normal	Caution	Abnormal	Subtotal
Cash and cash equivalents	\$ 202,070	-	-	202,070
Financial assets measured at fair value through profit or loss-current	1,129,524	-	-	1,129,524
Available-for-sale financial assets-current	1,491,598	-	-	1,491,598
Loans and receivables	<u>6,272,491</u>	<u>-</u>	<u>-</u>	<u>6,272,491</u>
Total	<u>\$ 9,095,683</u>	<u>-</u>	<u>-</u>	<u>9,095,683</u>

  

	December 31, 2013			
	Normal	Caution	Abnormal	Subtotal
Cash and cash equivalents	\$ 183,610	-	-	183,610
Financial assets measured at fair value through profit or loss-current	580,701	-	-	580,701
Available-for-sale financial assets-current	1,605,126	-	-	1,605,126
Loans and receivables	<u>5,524,214</u>	<u>-</u>	<u>-</u>	<u>5,524,214</u>
Total	<u>\$ 7,893,651</u>	<u>-</u>	<u>-</u>	<u>7,893,651</u>

Units: In Thousands of NTD

(Continued)

## TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## Notes to the Consolidated Financial Statements

## 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
<b>December 31, 2014</b>					
Non-derivatives financial liabilities					
Short-term borrowings	\$ 313,553	-	-	-	313,553
Commercial paper payable	2,478,382	-	-	-	2,478,382
Financial liabilities measured at fair value through profit or loss—current	64,103	-	-	-	64,103
Bonds sold under repurchase agreements	1,569,806	-	-	-	1,569,806
Deposits received from securities borrowers	34,996	34,996	69,992	-	139,984
Guaranteed price deposits received from securities borrowers	38,423	38,423	76,846	-	153,692
Accounts payables	2,460,430	-	-	-	2,460,430
Collections	6,944	-	-	-	6,944
Other payables	57,784	-	-	-	57,784
Other payables- related-party	77,915	-	-	-	77,915
Other current liabilities	114	-	-	-	114
Other non-current liabilities	-	-	-	4,985	4,985
	<u>\$ 7,102,450</u>	<u>73,419</u>	<u>146,838</u>	<u>4,985</u>	<u>7,327,692</u>

(Continued)

## TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## Notes to the Consolidated Financial Statements

	1~30 days	31~90 days	91days ~ 1 year	Over 1 year	Total
<b>December 31, 2013</b>					
Non-derivative financial liabilities					
Short-term borrowings	\$ 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
Payables	2,678,986	-	-	-	2,678,986
Collections	147,779	-	-	-	147,779
Other payables	64,067	-	-	-	64,067
Other payables-related-party	53,063	-	-	-	53,063
Other current liabilities	11	-	-	-	11
Other non-current liabilities	-	-	-	5,266	5,266
	<u>\$ 6,599,721</u>	<u>55,252</u>	<u>110,503</u>	<u>5,266</u>	<u>6,770,742</u>

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: In Million of NTD	
	Equity	Gain or loss
<b>December 31, 2014</b>		
Price increases 10%	120.36	49.09
Price decreases 10%	(15.72)	8.51
	Equity	Gain or loss
<b>December 31, 2013</b>		
Price increases 10%	95.84	26.61
Price decreases 10%	(32.33)	(12.03)

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

2. Interest rate risk

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

	Units: In Thousand of NTD	
	December 31, 2014	December 31, 2013
Financial instruments with fixed rate :		
Convertible bonds	\$ 1,124,342	576,562
Government bonds	100,410	101,324
Corporate bonds	778,625	898,229
Financial bonds	<u>306,016</u>	<u>303,469</u>
	<u>\$ 2,309,393</u>	<u>1,879,584</u>

5) Currency Risk

	Units: In Thousand of NTD		
	December 31, 2014		
	Foreign currency (in thousand dollars)	Exchange rate (in dollars)	NTD
Financial assets:			
Monetary items:			
CNY	73,138	5.0990	372,930
	December 31, 2013		
	Foreign currency (in thousand dollars)	Exchange rate (in dollars)	NTD
Financial assets:			
Monetary items:			
CNY	94,251	4.9130	463,055

The currency risk mainly arises from the available-for-sale financial assets and receivables denominated in foreign currencies. Foreign currency difference arises from the retranslation of the report. A 1% strengthening/ weakening of the NTD against the CNY at the reporting date would have increased (decreased) profit before tax by \$3,729 thousand dollars and \$4,631 thousand dollars, respectively, in 2014 and 2013. The analysis assumes that all other variables in particular interest rates remained constant.

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

**(49) 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 if the capital adequacy ratio is close to or lower than the alarm ratio.

December 31, 2014

Unit: In Thousands of NTD; %

<b>Name</b>	<b>Item</b>	<b>the financial holding company's shareholding in the subsidiary</b>	<b>net eligible capital</b>	<b>statutory capital requirement</b>
The Company		100 %	259,886,531	271,209,667
Subsidiary BOT		100 %	223,721,961	158,453,187
Subsidiary BTS		100 %	2,279,926	983,477
Subsidiary BTLI		100 %	15,748,873	11,074,016
Deducted Amount		-	(283,693,701)	(271,193,701)
Subtotal			217,943,590	170,526,646
The Group Capital Adequacy Ratio (C)=(A)÷(B)				127.81

(Continued)



**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

December 31, 2013

Unit: In Thousands of NTD; %

<b>Name</b>	<b>Item</b>	<b>the financial holding company's shareholding in the subsidiary</b>	<b>net eligible capital</b>	<b>statutory capital requirement</b>
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

- 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.

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

**(50) Related-party transactions**

- 1) Name of related party and relationship

<b>Name</b>	<b>Relationship</b>
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, managers and their relatives up to the second degree, affiliates and so on

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

2) Key Management Personnel Compensation

The related information about the salaries and bonus for the key management personnel in 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Short-term employee benefits	\$ <u>34,340</u>	<u>40,483</u>

3) Other related party transactions

1. Placement with banks

Name	December 31, 2014		December 31, 2013	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	\$ <u>5,578</u>	<u>-</u>	<u>6,745</u>	<u>-</u>

2. Bank deposits

Name	December 31, 2014		December 31, 2013	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	\$ <u>182,879</u>	<u>0.48</u>	<u>388,945</u>	<u>1.27</u>

Interest rate changed to the related parties was equivalent to those changed to non-related parties.

3. Call loans to banks

	Highest balance	December 31, 2014		
		Ending balance	Interest rate range (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	\$ 21,346,139	<u>4,433,800</u>	0.03~1.05	<u>26,331</u>
	Highest balance	December 31, 2013		
		Ending balance	Interest rate range (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	\$ 21,751,792	<u>2,229,060</u>	0.05~1.30	<u>24,919</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

## 4. Call loans from banks

		December 31, 2014		
	Highest balance	Ending balance	Interest rate range (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	\$ 13,033,740	<u>305,940</u>	0.39~4.05	<u>23,313</u>

  

		December 31, 2013		
	Highest balance	Ending balance	Interest rate range (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	\$ 11,453,725	<u>-</u>	0.26~2.70	<u>505</u>

The lending rates for the related party have no difference with the others.

## 5. Deposits

Name	December 31, 2014		December 31, 2013.	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	\$ 693,025	0.02	26,698	-
Taiwan Life Insurance Co., Ltd.	15,574	-	32,022	-
Kaohsiung Ammonium Sulfate Co., Ltd.	42,568	-	46,216	-
Tang Eng Iron Works Co., Ltd.	333	-	3,891	-
Tai Yi Real Estate Management Co., Ltd.	25,885	-	14,165	-
Total	<u>\$ 777,385</u>	<u>0.02</u>	<u>122,992</u>	<u>-</u>

The deposits rates for the above related parties are calculated using the board rates and the conditions are not different from the others.

## 6. Available-for-sale financial assets—current

Name	Summary	December 31, 2014	December 31, 2013
Hua Nan Financial Holdings Co., Ltd.	Financial bonds	\$ 901,280	899,988
	Operating securities — underwriting — stocks	165,225	157,250
		<u>\$ 1,066,505</u>	<u>1,057,238</u>
	Interest receivable	<u>\$ 1,587</u>	<u>1,587</u>

The interest income for the year ended 2014 and 2013 derived from the BTLI's financial bond investment on related party are both \$14,850 thousand dollars.

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

**7. Loans**

December 31, 2014							
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	41	20,008	13,451	13,451	-	None	None
House mortgages	111	637,142	549,553	549,553	-	Land and buildings	None
Call loans to banks	Hua Nan Financial Holdings Co., Ltd.	9,000,000	-	-	-	None	None
Long-term secured loans	Tai Yi Real Estate management Co., Ltd.	29,129	27,362	27,362	-	Land and buildings	None
Secured overdrafts loans	Tang Eng Iron Works Co., Ltd.	367,877	367,877	367,877	-	Land and factory	None
Short-term secured loans	Tang Eng Iron Works Co., Ltd.	100,000	100,000	100,000	-	Land and factory	None
Short-term secured loans	Tang Eng Iron Works Co., Ltd.	159,000	890,000	890,000	-	Land and factory	None
Short-term secured loans	Tang Eng Iron Works Co., Ltd.	290,561	-	-	-	Land and factory	None
Medium-term secured loans	Tang Eng Iron Works Co., Ltd.	500,000	500,000	500,000	-	Land and factory	None
Medium-term secured loans	Tang Eng Iron Works Co., Ltd.	800,000	800,000	800,000	-	Land and factory	None
Long-term secured loans	Tang Eng Iron Works Co., Ltd.	582,000	-	-	-	Land and factory	None

  

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 Holdings 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 management Co., Ltd.	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	1,250,000	1,250,000	-	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

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 respective related 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.

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

## 8. Short-term borrowings

		December 31, 2014		
	Highest balance	Ending balance	Interest rate range (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$ 440,000	<u>-</u>	1.320	<u>115</u>

		December 31, 2013		
	Highest balance	Ending balance	Interest rate range (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$ 550,000	<u>-</u>	1.320	<u>-</u>

## 9. Commission fee payable (recorded in payables)

Name	Summary	December 31, 2014	December 31, 2013
Hua Nan Financial Holdings Co., Ltd.	Agent fee	\$ <u>1,369</u>	<u>102</u>

## 10. Derivative instruments

December 31, 2014						
Name of relative party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Balance sheet	
					Account name	Amount
Taiwan Life Insurance Co., Ltd.	Swap agreement	2008.11.06~2015.02.17	19,931,272	489,217	Valuation adjustment of financial assets measured at fair value through profit or loss - swap	489,217
Taiwan Life Insurance Co., Ltd.	Swap agreement	2013.11.27~2015.02.26	635,120	(2,066)	Valuation adjustment of financial liabilities measured at fair value through profit or loss - swap	(2,066)

(Continued)

## TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## Notes to the Consolidated Financial Statements

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	2009.12.17~2013.09.24	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)

## 11. Broker service fee incomes

Broker service fee incomes derived from engaging in consignment trading of securities for related-parties are as follows:

	2014	2013
Hua Nan Financial Holdings Co., Ltd.	\$ <u>4</u>	<u>40</u>

## 12. Commission expenses

Name	Nature	2014	2013
Hua Nan Financial Holdings Co., Ltd.	Agent fee	\$ <u>2,801</u>	<u>2,413</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

## 13. Service charges

Name	Nature	2014	2013
Hua Nan Financial Holdings Co., Ltd.	Remittance fee and insurance agent fee	\$ <u>28</u>	<u>28</u>

## 14. Other operating expenses

Name	Nature	2014	2013
Hua Nan Financial Holdings Co., Ltd.	Service charge and business expense	\$ <u>964</u>	<u>959</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.	Holding company of BOT
BankTaiwan Life Insurance Co., Ltd.	Wholly-owned subsidiary of Taiwan Financial Holdings
BankTaiwan Securities Co., Ltd.	Wholly-owned subsidiary of Taiwan Financial Holdings
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, managers and their relatives up to the second degree, affiliates and so on

(Continued)

## TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## 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 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Short-term employee benefits	\$ <u>10,505</u>	<u>10,400</u>

## (c) Other related party transactions

## a) Call loans to banks

		December 31, 2014		
	Highest balance	Ending balance	Interest rate range (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	\$ 21,346,139	<u>4,433,800</u>	0.03~1.05	<u>26,331</u>

		December 31, 2013		
	Highest balance	Ending balance	Interest rate range (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	\$ 21,751,792	<u>2,229,060</u>	0.05~1.30	<u>24,919</u>

## b) Receivables

	December 31, 2014		December 31, 2013	
Name	Amount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holding Co., Ltd	\$ 1,629	-	1,294	-
BankTaiwan Life Insurance Co., Ltd	123,314	0.20	48,406	0.06
BankTaiwan Securities Co., Ltd	137	-	88	-
Total	<u>\$ 125,080</u>	<u>0.20</u>	<u>49,788</u>	<u>0.06</u>

(Continued)



## TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## Notes to the Consolidated Financial Statements

## c) Other assets

Name	December 31, 2014		December 31, 2013	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holdings Co., Ltd	\$ 3,649,926	32.01	3,598,815	38.99
BankTaiwan Life Insurance Co., Ltd	6,425	0.06	6,251	0.07
BankTaiwan Securities Co., Ltd	14	-	14	-
Total	<u>\$ 3,656,365</u>	<u>32.07</u>	<u>3,605,080</u>	<u>39.06</u>

## d) Deposits of banks

Name	December 31, 2014		December 31, 2013	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	<u>\$ 182,879</u>	<u>0.48</u>	<u>388,945</u>	<u>1.27</u>

## e) Call loans from banks

	Highest balance	December 31, 2014		Interest expense
		Ending balance	Interest rate range (%)	
Hua Nan Financial Holdings Co., Ltd.	\$ 13,033,740	<u>305,940</u>	0.39~4.05	<u>23,313</u>
	Highest balance	December 31, 2013		Interest expense
		Ending balance	Interest rate range (%)	
Hua Nan Financial Holdings Co., Ltd.	\$ 11,453,725	<u>-</u>	0.26~2.70	<u>505</u>

(Continued)

## TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## Notes to the Consolidated Financial Statements

## f) Deposits

Name	December 31, 2014		December 31, 2013	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holding Co., Ltd.	\$ 529,522	0.01	260,594	0.01
BankTaiwan Life Insurance Co., Ltd.	10,972,299	0.31	12,922,188	0.38
BankTaiwan Securities Co., Ltd.	325,409	0.01	458,997	0.01
Hua Nan Financial Holdings Co., Ltd.	693,025	0.02	26,698	-
Taiwan Life Insurance Co., Ltd.	15,574	-	32,022	-
Kaohsiung Ammonium Sulfate Co., Ltd.	42,568	-	46,216	-
Tang Eng Iron Works Co., Ltd.	333	-	3,891	-
Tai Yi Real Estate Management Co., Ltd.	25,885	-	14,165	-
Total	<u>\$ 12,604,615</u>	<u>0.35</u>	<u>13,764,771</u>	<u>0.40</u>

## g) Interest income

Name	2014		2013	
	Amount	Percentage of account balance	Amount	Percentage of account balance
BankTaiwan Life Insurance Co., Ltd.	\$ 118,493	0.18	91,330	0.15
BankTaiwan Securities Co., Ltd.	2,736	-	741	-
Total	<u>\$ 121,229</u>	<u>0.18</u>	<u>92,071</u>	<u>0.15</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

## h) Interest expense

Name	2014		2013	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holding Co., Ltd.	\$ 519	-	301	-
BankTaiwan Life Insurance Co., Ltd.	130,721	0.36	91,538	0.27
BankTaiwan Securities Co., Ltd.	2,754	0.01	3,896	0.01
Total	<u>\$ 133,994</u>	<u>0.37</u>	<u>95,735</u>	<u>0.28</u>

## i) Service fee income

Name	2014		2013	
	Amount	Percentage of account balance	Amount	Percentage of account balance
BankTaiwan Life Insurance Co., Ltd.	\$ 631,487	10.49	822,278	13.99
BankTaiwan Securities Co., Ltd.	3,297	0.05	2,271	0.04
Total	<u>\$ 634,784</u>	<u>10.54</u>	<u>824,549</u>	<u>14.03</u>

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

Name	2014		2013	
	Amount	Percentage of account balance	Amount	Percentage of account balance
BankTaiwan Life Insurance Co., Ltd.	\$ 243,178	1.53	196,871	1.39
BankTaiwan Securities Co., Ltd.	(2,032)	0.01	(1,740)	0.01
Taiwan Life Insurance Co., Ltd.	142,239	0.89	37,916	0.27
Total	<u>\$ 383,385</u>	<u>2.43</u>	<u>233,047</u>	<u>1.67</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

k) Other non-interest income (expense)

Name	Amount	2014	2013
		Percentage of account balance	Percentage of account balance
Taiwan Financial Holding Co., Ltd.	\$ 29,688	0.12	26,453 0.12
BankTaiwan Life Insurance Co., Ltd.	38,806	0.16	32,055 0.15
BankTaiwan Securities Co., Ltd.	34,758	0.14	42,539 0.20
Total	<u>\$ 103,252</u>	<u>0.42</u>	<u>101,047 0.47</u>

l) Loans

December 31, 2014							
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	41	20,008	13,451	13,451	-	None	None
House mortgages	111	637,142	549,553	549,553	-	Land and buildings	None
Call loans to banks	Hua Nan Financial Holdings Co., Ltd.	9,000,000	-	-	-	None	None
Call loans to banks	Taiwan business bank Co., Ltd.	3,000,000	-	-	-	None	None
Long-term secured loans	Tai Yi Real Estate management Co., Ltd.	29,129	27,362	27,362	-	Land and buildings	None
Short-term secured loans	Taiwan financial Holding Co., Ltd.	11,550,000	11,550,000	11,550,000	-	Government (or financial institutions) guarantee	None
Secured overdrafts loans	Tang Eng Iron Works Co., Ltd.	367,877	367,877	367,877	-	Land and factory	None
Short-term secured loans	Tang Eng Iron Works Co., Ltd.	100,000	100,000	100,000	-	Land and factory	None
Short-term secured loans	Tang Eng Iron Works Co., Ltd.	1,590,000	890,000	890,000	-	Land and factory	None
Short-term secured loans	Tang Eng Iron Works Co., Ltd.	290,561	-	-	-	Land and factory	None
Medium-term secured loans	Tang Eng Iron Works Co., Ltd.	500,000	500,000	500,000	-	Land and factory	None
Medium-term secured loans	Tang Eng Iron Works Co., Ltd.	800,000	800,000	800,000	-	Land and factory	None
Long-term secured loans	Tang Eng Iron Works Co., Ltd.	582,000	-	-	-	Land and factory	None
Short-term secured loans	BankTaiwan Securities Co., Ltd.	313,553	313,553	313,553	-	Real estate and government (or financial institutions) guarantee	None

(Continued)

## TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## Notes to the Consolidated Financial Statements

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 management Co., Ltd.	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	BankTaiwan Securities Co., Ltd.	730,791	200,791	200,791	-	Government (or financial institutions) guarantee	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.

## m) Derivative instruments

December 31, 2014						
Name of relative party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Balance sheet	
					Account name	Amount
Taiwan Life Insurance Co., Ltd.	Forward agreement	2008.11.06~2015.02.17	19,931,272	489,217	Valuation adjustment of financial assets measured at fair value through profit or loss - swap	489,217
Taiwan Life Insurance Co., Ltd.	Swap agreement	2013.11.27~2015.02.26	635,120	(2,066)	Valuation adjustment of financial liabilities measured at fair value through profit or loss - swap	(2,066)
BankTaiwan Life Insurance Co., Ltd.	Swap agreement	2008.04.30~2015.05.06	26,242,011	1,058,994	Valuation adjustment of financial assets measured at fair value through profit or loss - swap	1,058,994

(Continued)

## TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## Notes to the Consolidated Financial Statements

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	2009.12.17~2013.09.24	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	2008.04.30~2014.09.30	14,654,226	(68,103)	Valuation adjustment of financial liabilities measured at fair value through profit or loss - swap	(68,103)

## 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 of Taiwan Financial Holdings
BankTaiwan Securities Co., Ltd.	Wholly-owned subsidiary of Taiwan Financial Holdings
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
Others	Directors, supervisors, managers and their relatives up to the second degree, affiliates and so on

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

(b) Key Management Personnel Compensation

The related information about the salaries and bonus for BTLI's key management personnel in 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Short-term employee benefits	\$ <u>12,349</u>	<u>15,583</u>

(c) Other related party transactions

a) Bank deposits

The bank deposits in the related banks and the relevant interest revenues on December 31, 2014 and 2013 were as follows:

Name	December 31, 2014		December 31, 2013	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Bank of Taiwan Co., Ltd	\$ 13,168,831	34.15	11,003,620	48.14
Bank of Taiwan Co., Ltd	3,027,900	13.96	6,871,300	15.41
Hua Nan Financial Holdings Co., Ltd	9,316	0.02	37,805	0.17
Total	\$ <u>16,206,047</u>	<u>48.13</u>	<u>17,912,725</u>	<u>63.72</u>

The relevant interest revenues of the subsidiary, BTLI, in 2014 and 2013 were \$130,748 thousand dollars and \$91,560 thousand dollars, respectively.

b) Receivables

Name	Summary	December 31, 2014	December 31, 2013
Bank of Taiwan Co., Ltd.	Interest revenue	\$ 13,073	13,267
Taiwan Financial Holding Co., Ltd.	Other receivables reclassified from prepaid dividends	24,910	107,653
Total		\$ <u>37,983</u>	<u>120,920</u>

(Continued)

## TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## Notes to the Consolidated Financial Statements

## c) 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, 2014 and 2013 are as follows:

Name	December 31, 2014	December 31, 2013
Real estate secured loans	\$ <u>368,080</u>	<u>381,735</u>
Interest receivables	\$ <u>312</u>	<u>395</u>

All interest rate collars on December 31, 2014 and 2013 are 1.10%~1.94% and 0.95%~1.57%, respectively.

## d) Available-for-sale financial assets

Name	Summary	December 31, 2014	December 31, 2013
Hua Nan Financial Holdings Co., Ltd.	Financial bonds Cost (recorded in the available-for-sale financial assets)	\$ 900,000	900,000
	Other receivables reclassified from prepaid dividends	Valuation adjustment 1,280	(12)
	Carrying amount	\$ <u>901,280</u>	<u>899,988</u>
	Interest receivable	\$ <u>1,587</u>	<u>1,587</u>

Both of the interest revenues from the aforementioned financial bonds in 2014 and 2013 are \$14,850 thousand dollars.

## e) Derivatives

December 31, 2014						
Name of relative party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Balance sheet	
					Account name	Amount
Bank of Taiwan Co., Ltd.	Swap agreement	2014.06.27~2015.05.04	USD863,000	(1,058,994)	Valuation adjustment of financial liabilities measured at fair value through profit or loss - current-held for trading- swap	(1,058,994)

(Continued)



**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

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	2013.05.28~2014.04.28	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	2013.09.09~2014.04.10	USD472,000	(119,910)	Valuation adjustment of financial liabilities measured at fair value through profit or loss - current- held for trading-swap	(119,910)

## f) Gain (loss) on disposal of investments

Name	Summary	2014	2013
Bank of Taiwan	Gain (loss) on disposal of investment	\$ <u>(835,795)</u>	<u>(440,572)</u>

## g) Commission fees expense

Name	Summary	2014	2013
Bank of Taiwan Co., Ltd	Sales charge	\$ 95,567	347,910
BankTaiwan Insurance Brokers Co., Ltd	Agent fee	499,144	438,213
Hua Nan Financial Holdings Co., Ltd.	Agent fee	2,801	2,413
Total		\$ <u>597,512</u>	<u>788,536</u>

## h) Exchange loss (gain)

Name	Summary	2014	2013
Bank of Taiwan Co., Ltd	forward and swap	\$ (655,964)	(218,733)
BankTaiwan Insurance Brokers Co., Ltd.	Commission	(232)	38
Total		\$ <u>(656,196)</u>	<u>(218,695)</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

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 of Taiwan Financial Holdings
BankTaiwan Life Insurance Co., Ltd.	Wholly-owned subsidiary of Taiwan Financial Holdings
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 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Short-term employee benefits	\$ 8,067	11,036
Post-employment benefits	<u>1,781</u>	<u>1,781</u>
	<u>\$ 9,848</u>	<u>12,817</u>

(c) Other related party transactions

a) Bank deposits

The bank deposits in the Bank of Taiwan on December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Cash and cash equivalents	\$ 59,324	40,937
Operation guarantee deposits (recorded in other non-current assets)	265,000	280,000
Amounts awaiting delivery (recorded in other current assets)	1,084	548
Collections for underwriting stock value (recorded in other current assets)	-	137,512
	<u>\$ 325,408</u>	<u>458,997</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

The bank deposits in the Hua Nan Financial Holdings on December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Cash and cash equivalents	\$ <u>1,925</u>	<u>1,960</u>

The interest revenues from the deposits in the Bank of Taiwan on December 31, 2014 and 2013 were \$2,754 and \$3,896 thousand dollars, respectively.

b) Available-for-sale financial assets — current

Name	Summary	December 31, 2014	December 31, 2013
Hua Nan Financial Holdings Co., Ltd.	Operating securities — underwriting — stocks	\$ <u>165,225</u>	<u>157,250</u>

c) Shore-term loans borrowings

		December 31, 2014			
		Highest balance	Ending balance	Interest rate range (%)	Interest expense
Bank of Taiwan	\$	313,553	<u>313,553</u>	1.595	<u>2,736</u>
Hua Nan Financial Holding Co., Ltd		440,000	<u>-</u>	1.320	<u>115</u>

  

		December 31, 2013			
		Highest balance	Ending balance	Interest rate range (%)	Interest expense
Bank of Taiwan	\$	700,791	<u>200,792</u>	1.595	<u>741</u>
Hua Nan Financial Holding Co., Ltd		550,000	<u>-</u>	1.320	<u>-</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**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, 2014	December 31, 2013
Available-for-sale financial assets — bonds	Guarantee deposit for provisional seizure against defaulted loans and others	\$ 368,800	279,500
Available-for-sale financial assets — bonds	Operating deposit for securities investment trust and consulting	150,000	150,000
Available-for-sale financial assets — bonds	Guarantee deposits for trust business compensation reserve	50,000	50,000
Held-to-maturity financial assets — government bonds	Guarantee deposits for trust business compensation reserve	400,000	400,000
Deposit in Central Bank — time deposits	Payment and settlement systems of Central Bank	11,000,000	5,000,000
Available-for-sale financial assets — negotiable certificate of deposit	Payment and settlement systems of Central Bank	36,000,000	20,000,000
		<u>\$ 47,968,800</u>	<u>25,879,500</u>

The subsidiary, BTLI

Pledged assets	Purpose of pledge	December 31, 2014	December 31, 2013
Government bonds (accounted in refundable deposits)	Operating guarantee	\$ 2,693,301	2,716,350
Cash (accounted in refundable deposits)	Lease guarantee and future margin	<u>46,450</u>	<u>13,842</u>
		<u>\$ 2,739,751</u>	<u>2,730,192</u>

The subsidiary, BTS

Pledged assets	Purpose of pledge	December 31, 2014	December 31, 2013
Property and Equipment — Land	Short-term borrowings	\$ 379,309	379,309
Property and Equipment — Building	Short-term borrowings	89,640	68,339
		<u>\$ 468,949</u>	<u>447,648</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

**(52) Commitments and contingencies**

## 1) Commitments and contingencies

## 1. Commitments and contingencies of the subsidiary, BOT

	December 31, 2014	December 31, 2013
Consignment collection	\$ 52,183,034	52,322,587
Contract guarantee on behalf of counter parties	1,498,483	3,339,044
Traveler's checks held on consignment	1,269,239	1,229,319
Marketable securities held as custodian	1,840,395,253	1,668,910,750
Letters of credit	29,145,605	32,737,581
Goods held in custody	21,295,601	14,316,968
Issuance of New Taiwan Dollars	1,708,743,226	1,558,048,571
Trustee of behalf of Lenders	921,947,680	880,318,278
Registered government bonds for sale	566,858,100	474,860,600
Registered short term bills for sale	248,507,999	186,737,836
Consigned sales of goods	2,280,236	2,330,513
Trust liabilities	546,438,060	535,650,876
Guarantees	<u>83,521,712</u>	<u>83,279,532</u>
	<u><u>\$ 6,024,084,228</u></u>	<u><u>5,494,082,455</u></u>

## 2. Commitments and contingencies of the subsidiary, BTLI

The contract guarantees on behalf of counter parties of the subsidiary, BTLI, are \$1,580 thousand and \$2,633 thousand dollars on December 31, 2014 and 2013, 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 ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

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

Trust assets	December 31, 2014	December 31, 2013
Deposits		
Deposits in BOT	\$ 30,455,662	31,238,139
Deposits in other banks	4,240,140	4,401,991
Short term investment		
Investment in funds	178,853,246	174,442,560
Investment in bonds	203,435,186	201,695,311
Common stock investment–marketable securities	40,506,379	46,403,259
Receivables		
Interest receivable	1,516,687	1,408,992
Cash dividend receivable	3,356	1,538
Receivables from trading securities	393,953	740,029
Receivables from forward contracts	1,552,508	8,002,289
Prepaid expense	40	970
Real estate		
Land	13,953,770	12,419,874
Buildings	119,280	143,500
Construction in progress	13,581,464	6,099,891
Marketable securities under custody	<u>57,826,390</u>	<u>48,652,533</u>
Total of trust assets	<u><u>\$ 546,438,061</u></u>	<u><u>535,650,876</u></u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

<b>Trust liabilities</b>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Payables		
Payables from trading securities	\$ 404,081	301,829
Payables from forward contracts	1,561,500	7,975,500
Payables from management fee	3,938	4,046
Payables from supervision fee	324	325
Other payables	862	285
Tax payable	203	208
Securities held in custody payable	57,826,390	48,652,533
Trust capital		
Money trust	371,939,184	386,836,981
Marketable securities trust	119,262	2,497,474
Real estate investment trust	35,041,987	27,195,633
Other reserve and accumulated income		
Accumulated loss	43,116,285	33,383,769
Foreign currency translation	10,833,032	(1,095,677)
Deferred unrealized income	4,258,025	9,193,039
Current income	<u>21,332,988</u>	<u>20,704,931</u>
Total of trust liabilities	<u><u>\$ 546,438,061</u></u>	<u><u>535,650,876</u></u>

Notes: The funds invested by the OBU branch of the subsidiary, BOT, are included. The amounts as of December 31, 2014 and 2013 are \$316,436 thousand dollars and \$289,171 thousand dollars, respectively.

<b>Details of trust</b>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Deposits		
Deposits in the Bank	\$ 30,455,662	31,238,139
Deposits in other banks	4,240,140	4,401,991
Short term investment		
Investment in funds	178,853,246	174,442,560
Investment in bonds	203,435,186	201,695,311
Common stock investment– marketable securities	40,506,379	46,403,259
Real estate		
Land	13,953,770	12,419,874
Buildings	119,280	143,500
Construction in progress	13,581,464	6,099,891
Marketable securities under custody	<u>57,826,390</u>	<u>48,652,533</u>
Trust capital	<u><u>\$ 542,971,517</u></u>	<u><u>525,497,058</u></u>

(Continued)

## TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## Notes to the Consolidated Financial Statements

Income statement for assets under trust	December 31, 2014	December 31, 2013
Trust revenue		
Capital interest revenue	\$ 10,284,346	9,433,617
Cash dividend revenue	909,254	2,318,628
Donation revenue	736,644	-
Realized capital gain shares	1,124,155	4,083,806
Realized capital gain fund	3,832,346	1,734,464
Realized exchange gain – bond	1,022,769	1,799,725
Realized foreign exchange gain	315,459	746,848
Realized gain on property exchange	1,312,929	823,399
Income from beneficiary certificates	<u>2,771,898</u>	<u>274,682</u>
Total trust revenue	<u>22,309,800</u>	<u>21,215,169</u>
Trust expense		
Capital management fee	511,283	473,886
Tax expense	5,542	5,497
Supervisory fee	335	338
Storage fee	9,736	7,859
Commission fee	17	16
Donation cost	398,040	-
Other expense	<u>51,859</u>	<u>22,642</u>
	<u>976,812</u>	<u>510,238</u>
Net income	<u>\$ 21,332,988</u>	<u>20,704,931</u>

(Continued)



**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

3) Supplementary information for government employees' insurance department

1. Balance sheets

	<b>Government employees' insurance department</b>	
	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Cash and cash equivalents	\$ 29,643,920	32,288,292
Financial assets measured at fair value through profit or loss	139,064,547	99,412,781
Receivables, net	12,744,906	19,220,747
Current income tax assets	-	631
Held-to-maturity financial assets	49,845,846	57,668,646
Property and equipment, net	9,488	11,935
Intangible assets, net	2,906	3,992
Other assets, net	<u>9,621,079</u>	<u>9,585,446</u>
Total assets	<u>\$ 240,932,692</u>	<u>218,192,470</u>
Financial liabilities measured at fair value through profit or loss	\$ -	6,182
Payables	464,029	1,591,709
Provisions	240,468,607	216,594,551
Other liabilities	<u>56</u>	<u>28</u>
Total liabilities	<u>\$ 240,932,692</u>	<u>218,192,470</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

## 2. Income statement

	<b>Government employees' insurance department</b>	
	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Net interest income	\$ 1,582,659	1,447,520
Service fee expenses	(24,106)	22,715
Gain (loss) on financial assets and liabilities measured at fair value through profit or loss	10,426,444	9,724,337
Foreign exchange gain (loss)	2,592,250	740,029
Premium income	20,948,956	20,863,142
Government subsidy	12,946,954	15,696,251
Insurance payments	(24,452,013)	(26,426,619)
Provision for insurance premium reserve	(23,874,056)	(21,922,128)
Miscellaneous expense	(91,790)	(94,103)
Miscellaneous revenue	84,701	82,880
Net revenue	<u>139,999</u>	<u>134,024</u>
Bad debt expenses and reserve for guarantees	-	(55)
Employee benefits	122,054	117,427
Depreciation and amortization expenses	3,796	4,148
Other general and administrative expenses	<u>14,149</u>	<u>12,504</u>
	<u>139,999</u>	<u>134,024</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) Profitability**

## 1) The Company

Item		Unit: %	
		December 31, 2014	December 31, 2013
Return on Assets (note 6)	pre-tax	5.73	5.74
	after-tax	5.74	5.78
Return on Equity (Note 8)	pre-tax	6.07	6.05
	after-tax	6.09	6.09
Profit Margin		98.47	99.23

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

## 2) The Company and its subsidiaries

Unit: %

Item		December 31, 2014	December 31, 2013
Return on Assets (note 7)	pre-tax	0.38	0.39
	after-tax	0.35	0.36
Return on Equity (note 8)	pre-tax	6.54	6.59
	after-tax	6.09	6.09
Profit Margin		14.91	9.20

## 3) The subsidiary, BOT

Unit: %

Item		December 31, 2014	December 31, 2013
Return on Assets (note 7)	pre-tax	0.44	0.44
	after-tax	0.41	0.40
Return on Equity (note 8)	pre-tax	7.01	6.93
	after-tax	6.54	6.35
Profit Margin		22.88	25.15

## 4) The subsidiary, BTLI

Unit: %

Item		December 31, 2014	December 31, 2013
Return on Assets	pre-tax	(0.21)	(0.10)
	after-tax	(0.20)	(0.08)
Return on Equity	pre-tax	(6.37)	(4.05)
	after-tax	(6.19)	(3.23)
Profit Margin		7.75	(1.30)

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

## 5) The subsidiary, BTS

Unit: %

Item		December 31, 2014	December 31, 2013
Return on Assets	pre-tax	2.36	1.51
	after-tax	2.09	1.39
Return on Equity	pre-tax	7.29	3.98
	after-tax	6.46	3.65
Profit Margin		35.05	24.07

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/Net revenues.

Note 4: Income before (after) income tax is the income for the whole year of 2014 and 2013.

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 preferential interest expense.

Note 7: The return on total assets of the Group is the pre-tax or after-tax earnings, plus, the excess preferential interest expense divided by the assets, less, the temporary advances and the total assets of the Government employees' department's.

Note 8: Return on equity is calculated by pre-tax or after-tax earnings, plus, excess favorable interest expense.

(54) Losses due to major disasters: None.

(55) Subsequent events: None.

(56) Other

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

By function	December 31, 2014			December 31, 2013		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
By nature						
Employee benefits						
Salary	1,916,119	10,942,263	12,858,382	1,895,380	10,870,004	12,765,384
Labor and health insurance	117,360	591,224	708,584	119,173	529,786	648,959
Pension	2,938	855,407	858,345	2,755	872,437	875,192
Others	2	243,727	243,729	4	224,289	224,293
Depreciation	87,527	878,222	965,749	85,719	918,859	1,004,578
Amortization	-	383,572	383,572	-	415,001	415,001

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

2) Government audit adjustments for fiscal year ended 2013

The accounting records as at and for the year ended 2013, have been audited and examined by the MoA, and the resulting adjustments were summarized as follows:

**The Company and its subsidiaries**

Balance Sheet	As Previously Reported December 31, 2013	Adjustments — Increase (Decrease)	As Audited by the MoA, December 31, 2013
<b>Assets</b>			
Cash and cash equivalents	\$ 124,627,959	7	124,627,966
Current income tax assets	3,498,988	(149,322)	3,349,666
Other financial assets, net	166,509,627	(115)	166,509,512
Deferred tax assets	2,012,373	32,385	2,044,758
Other assets	11,551,422	197,437	11,748,859
<b>Liabilities</b>			
Payables	70,973,042	(107,798)	70,865,244
Current income tax liabilities	129,172	87,987	217,159
Deposits and remittances	3,391,508,828	(6,813)	3,391,502,015
Deferred tax liabilities	18,394,308	33,398	18,427,706
<b>Equity</b>			
Retained earnings	34,138,434	73,618	34,212,052
		<b>Adjustments</b>	
Income statement	As Previously Reported 2013	— Increase (Decrease)	As Audited by the MoA, 2013
Bad debt expenses and reserve for guarantees	\$ 2,699,865	(72,494)	2,627,371
Operating expenses	19,309,010	(4)	19,309,006
Income before tax expenses	8,250,720	72,498	8,323,218
Income tax expense	1,257,233	(1,120)	1,256,113
Net income	6,993,487	73,618	7,067,105

(Continued)

## TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## Notes to the Consolidated Financial Statements

## The subsidiary, BOT

The accounting records as at and for the year ended 2013, have been audited and examined by the MoA, and the resulting adjustments were summarized as follows:

<b>Balance Sheet</b>	<b>As Previously Reported December 31, 2013</b>	<b>Adjustments — Increase (Decrease)</b>	<b>As Audited by the MoA, December 31, 2013</b>
<b>Assets</b>			
Current income tax assets	\$ 2,301,083	(131,953)	2,169,130
Other financial assets	70,317,917	(115)	70,317,802
Deferred tax assets	208,406	33,398	241,804
Other assets, net	9,031,706	197,444	9,229,150
<b>Liabilities</b>			
Payables	44,813,384	(54,768)	44,758,616
Current income tax liabilities	127,506	34,924	162,430
Deposits and remittances	3,409,612,039	(6,813)	3,409,605,226
Deferred tax liabilities	18,266,259	33,398	18,299,657
<b>Equity</b>			
Retained earnings	50,961,023	92,033	51,053,056
<b>Income statement</b>	<b>As Previously Reported 2013</b>	<b>Adjustments — Increase (Decrease)</b>	<b>As Audited by the MoA, 2013</b>
Bad debt expense and reserve for guarantees	\$ 2,697,538	(72,494)	2,625,044
Income tax expense	1,449,163	(19,539)	1,429,624
Net income	7,325,894	92,033	7,417,927

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

**The subsidiary, BTLI**

The accounting records as at and for the year ended 2013 have been audited and examined by the MoA, and the resulting adjustments were summarized as follows:

<b>Balance Sheet</b>	<b>As Previously Reported December 31, 2013</b>	<b>Adjustments — Increase (Decrease)</b>	<b>As Audited by the MoA, December 31, 2013</b>
Assets			
Deferred tax assets	\$ 1,802,766	(1,044)	1,801,722
Liabilities			
Equity			
Retained earnings	(565,866)	(1,044)	(566,910)
<b>Income statement</b>	<b>As Previously Reported 2013</b>	<b>Adjustments — Increase (Decrease)</b>	<b>As Audited by the MoA, 2013</b>
Income tax expense	\$ (84,502)	1,044	(83,458)

**The subsidiary, BTS**

The accounting records as at and for the year ended 2013, have been audited and examined by the MoA, and the resulting adjustments were summarized as follows:

<b>Balance Sheet</b>	<b>As Previously Reported December 31, 2013</b>	<b>Adjustments — Increase (Decrease)</b>	<b>As Audited by the MoA, December 31, 2013</b>
Assets			
Deferred tax assets	\$ 1,201	31	1,232
Liabilities			
Other payables	64,071	(4)	64,067
Other payables-related-party	53,026	37	53,063
Equity			
Retained earnings	103,889	(2)	103,887

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

Income statement	As Previously Reported 2013	Adjustments — Increase (Decrease)	As Audited by the MoA, 2013
Employee benefits expenses	\$ 247,021	(4)	247,017
Income tax expense	10,783	6	10,789
Net income	121,851	(2)	121,849

3) Financial information classified by business type

December 31, 2014

Businesses	Banking business	Insurance business	Securities business	Government insurance	Other operations	Total
Items						
Net interest income	27,209,481	9,584,615	146,509	1,582,659	-	38,523,264
Non-interest income, net	7,735,557	(19,409,939)	509,267	22,431,396	(2,999)	11,263,282
Net revenue	34,945,038	(9,825,324)	655,776	24,014,055	(2,999)	49,786,546
Bad debt expense	7,284,809	50,702	-	-	-	7,335,511
Provisions	-	(10,574,104)	-	23,874,056	-	13,299,952
Operating expenses	19,155,631	794,167	362,778	139,999	121,400	20,573,975
Net income before income tax	8,504,598	(96,089)	292,998	-	(124,399)	8,577,108
Income tax expenses	1,185,145	(23,772)	29,030	-	(35,761)	1,154,642
Net income	7,319,453	(72,317)	263,968	-	(88,638)	7,422,466

December 31, 2013

Businesses	Banking business	Insurance business	Securities business	Government insurance	Other operations	Total
Items						
Net interest income	11,416,038	9,373,539	105,488	14,475,520	-	35,370,585
Non-interest income, net	16,828,757	16,689,036	409,874	7,580,633	(1,267)	41,507,033
Net revenue	28,244,795	26,062,575	515,362	22,056,153	(1,267)	76,877,618
Bad debt expense	2,625,045	2,326	-	-	-	2,627,371
Provisions	55	24,695,895	-	21,922,073	-	46,618,023
Operating expenses	17,853,825	851,402	340,597	134,080	129,102	19,309,006
Net income before income tax	7,765,870	512,952	174,765	-	(130,369)	8,323,218
Income tax expenses	1,429,623	(83,458)	10,789	-	(100,841)	1,256,113
Net income	6,336,247	596,410	163,976	-	(29,528)	7,067,105

- 4) There were cross-selling products between the subsidiaries. The subsidiary which offers products to the consigned subsidiary, will incur commission expenses in accordance to the product sold. Please refer to note 50 for further information.

(Continued)



TAIWAN FINANCIAL HOLDING CO., LTD.

## Balance Sheet

December 31, 2014 and 2013

(expressed in thousands of New Taiwan dollars)

[illegible]

## TAIWAN FINANCIAL HOLDING CO., LTD.

## Statements of Comprehensive Income

For the years ended December 31, 2014 and 2013

(expressed in thousands of New Taiwan dollars, except earnings per share)

	2014		2013		Percentage
	Amount	%	Amount	%	change
<b>Revenue :</b>					
Share of profit of subsidiaries, associates and joint ventures accounted for using equity method	\$ 7,656,632	100	7,212,071	100	6
Other gains	(2,049)	-	(1,527)	-	(34)
<b>Total Revenue</b>	<u>7,658,681</u>	<u>100</u>	<u>7,213,598</u>	<u>100</u>	6
<b>Expense :</b>					
Operating expenses	151,079	2	155,556	2	(3)
Other expenses and losses	<u>120,897</u>	<u>2</u>	<u>91,778</u>	<u>1</u>	32
	<u>271,976</u>	<u>4</u>	<u>247,334</u>	<u>3</u>	10
<b>Net income before income tax</b>	7,386,705	96	6,966,264	97	6
<b>Income tax expense</b>	<u>35,761</u>	<u>-</u>	<u>100,841</u>	<u>1</u>	(65)
<b>Net income</b>	<u>7,422,466</u>	<u>96</u>	<u>7,067,105</u>	<u>98</u>	5
<b>Other comprehensive income (losses):</b>					
Actuarial losses on defined benefit plans	15,180	-	(12,889)	-	(218)
Share of other comprehensive income of subsidiaries, associates and joint ventures under equity method	2,755,749	36	3,571,249	50	(23)
Add: Income tax related to components of other comprehensive income	-	-	-	-	-
<b>Other comprehensive (losses) income for the period, net of income tax</b>	<u>\$ 2,770,929</u>	<u>36</u>	<u>3,558,360</u>	<u>50</u>	(22)
<b>Total comprehensive (losses) income for the period</b>	<u>\$ 10,193,395</u>	<u>132</u>	<u>10,625,465</u>	<u>148</u>	(4)
<b>Earnings per share (in dollars) :</b>					
<b>Earnings per share (in New Taiwan Dollars)</b>	<u>\$ 0.82</u>		<u>0.79</u>		

## TAIWAN FINANCIAL HOLDING CO., LTD.

## Statements of Changes in Equity

For the years ended December 31, 2014 and 2013

(expressed in thousands of New Taiwan dollars)

	Stock Common stock	Capital Surplus	Legal reserve	Special reserve	Retained earnings Unappropriated retained earnings	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, 2013	\$ 90,000,000	111,385,217	2,758,570	5,719,853	23,440,480	(369,751)	13,641,022	13,271,271	246,575,391
Legal reserve appropriated	-	-	734,797	-	(734,797)	-	-	-	-
Special reserve appropriated	-	-	-	3,233,842	(3,233,842)	-	-	-	-
Cash dividends	-	-	-	-	(4,532,331)	-	-	-	(4,532,331)
Changes in capital surplus-associates and joint ventures accounted for using equity method	-	49,522	-	-	-	-	-	-	49,522
Special reserve for the first-time adoption of IFRS	-	-	-	14,939,510	(14,939,510)	-	-	-	-
Reversal of special reserve- sale of land	-	-	-	(43,083)	43,083	-	-	-	-
Net income	-	-	-	-	7,067,105	-	-	-	7,067,105
Other comprehensive income (loss) for the period	-	-	-	-	(241,625)	62,967	3,737,018	3,799,985	3,558,360
Total other comprehensive income (loss) for the period	-	-	-	-	6,825,480	62,967	3,737,018	3,799,985	10,625,465
Balance at December 31, 2013	90,000,000	111,434,739	3,493,367	23,850,122	6,868,563	(306,784)	17,378,040	17,071,256	252,718,047
Legal reserve appropriated	-	-	682,548	-	(682,548)	-	-	-	-
Special reserve appropriated	-	-	-	3,132,212	(3,132,212)	-	-	-	-
Cash dividends	-	-	-	-	(3,053,803)	-	-	-	(3,053,803)
Reversal of special reserve	-	-	-	(399,000)	399,000	-	-	-	-
Changes in capital surplus-associates and joint ventures accounted for using equity method	-	28,900	-	-	-	-	-	-	28,900
Reversal of special reserve- sale of land	-	-	-	(25,148)	25,148	-	-	-	-
Net income	-	-	-	-	7,422,466	-	-	-	7,422,466
Other comprehensive income (loss) for the period	-	-	-	-	(545,533)	436,847	2,879,615	3,316,462	2,770,929
Total comprehensive income (loss) for the period	-	-	-	-	6,876,933	436,847	2,879,615	3,316,462	10,193,395
Balance at December 31, 2014	\$ 90,000,000	111,463,639	4,175,915	26,558,186	7,301,081	130,063	20,257,655	20,387,718	259,886,539

Note: The directors and supervisors' compensations are \$3,807 and \$4,407 thousand dollars in 2014 and 2013, 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, 2014 and 2013

(expressed in thousands of New Taiwan dollars)

	2014	2013
<b>Cash flows from operating activities:</b>		
Income before income tax for the period	\$ 7,386,705	6,966,264
Adjustments :		
Loss (income) of non-cash activities		
Depreciation	1,615	1,620
Amortization	106	159
Interest expense	118,492	91,330
Interest income	(518)	(301)
Share of profit of subsidiaries, associates and joint ventures	(7,656,632)	(7,212,071)
Subtotal of loss (income) of non-cash activities	(7,536,937)	(7,119,263)
Change in operating assets and liabilities :		
Change in operating assets :		
Decrease in receivables	16	88
Increase in other assets	(166)	(1,414)
Subtotal of change in operating assets	(150)	(1,326)
Change in operating liabilities :		
Decrease in payables	(115,408)	(157,094)
Increase (decrease) in employee benefit obligations	3,544	(936)
Subtotal of change in operating liabilities	(111,864)	(158,030)
Subtotal of change in operating assets and liabilities	(112,014)	(159,356)
Subtotal of all adjustments	(7,648,951)	(7,278,619)
Cash (used in) provided by operating activities	(262,246)	(312,355)
Interest received	500	300
Dividends received	3,751,079	3,950,041
Income taxes (received) paid	3,232	(30)
Net cash flow from operating activities	3,492,565	3,637,956
<b>Cash flows from investing activities :</b>		
Acquisition of equity-accounted investees	-	(6,000,000)
Acquisition of property, plant and equipment	(1,959)	(1,173)
Proceeds from disposal of property, plant and equipment	-	210
Decrease in refundable deposits	-	193
Acquisition of intangible assets	(165)	(293)
Increase in other assets	-	(36)
Decrease in other assets	667	-
Net cash flow used in investing activities	(1,457)	(6,001,099)
<b>Cash flows from financing activities:</b>		
Increase in short-term borrowings	-	5,800,000
Decrease in short-term borrowings	(50,000)	-
Increase in guarantee deposits received	-	195
Decrease in guarantee deposits received	(146)	-
Cash dividends paid	(3,053,877)	(3,395,499)
Interests paid	(118,157)	(90,704)
Net cash flow from (used in) financing activities	(3,222,180)	2,313,992
Net increase in cash and cash equivalents	268,928	(49,151)
Cash and cash equivalents at the opening of period	260,624	309,775
Cash and cash equivalents at the end of period	\$ 529,552	260,624
<b>Components of cash and cash equivalents:</b>		
Cash and cash equivalents recognized in balance sheet	\$ 529,552	260,624
Cash and cash equivalents at the end of period	\$ 529,552	260,624

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

6) The balance sheets and income statements of the subsidiaries

1. Balance sheets

	<b>Bank of Taiwan (Individual)</b>	
	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Cash and cash equivalents	\$ 155,902,567	119,265,263
Placement with Central Bank and call loans to banks	582,914,021	585,444,072
Financial assets measured at fair value through profit or loss	208,646,968	166,714,218
Hedging derivative financial assets, net	25,613	5,443
Bills and bonds purchased under resell agreements	1,956,563	6,173,451
Receivables, net	62,547,115	82,258,188
Current income tax assets	1,878,465	2,169,130
Loans and discounts, net	2,298,237,964	2,240,652,458
Available-for-sale financial assets, net	797,692,802	765,521,333
Held-to-maturity financial assets, net	77,372,697	73,044,728
Investments under equity method, net	37,242,253	34,941,396
Other financial assets, net	68,466,496	70,317,802
Property and equipment, net	97,103,753	97,497,978
Intangible assets, net	940,987	1,047,495
Deferred tax assets	357,844	237,929
Other assets, net	11,399,279	9,227,485
<b>Total assets</b>	<b>\$ <u>4,402,685,387</u></b>	<b><u>4,254,518,369</u></b>

(Continued)

## TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## Notes to the Consolidated Financial Statements

	Bank of Taiwan (Individual)	
	December 31, 2014	December 31, 2013
Deposits of Central Bank and other banks	\$ 156,988,830	252,738,244
Financial liabilities measured at fair value through profit or loss	47,915,342	3,999,496
Hedging derivative financial liabilities, net	103,024	225,806
Bills and bonds sold under repurchase agreements	38,018,153	19,036,703
Payables	41,013,062	44,746,966
Current tax liabilities	154,840	132,072
Deposits and remittances	3,554,349,701	3,409,797,342
Financial bonds payable	24,997,612	15,998,240
Other financial liabilities	1,756,954	1,243,698
Provisions	257,654,781	232,743,116
Deferred tax liabilities	18,348,772	18,299,657
Other liabilities	<u>7,202,842</u>	<u>7,482,893</u>
<b>Total liabilities</b>	<u>4,148,503,913</u>	<u>4,006,444,233</u>
Capital stock	95,000,000	70,000,000
Capital surplus	80,521,742	105,496,092
Retained earnings		
Legal reserve	29,526,951	27,386,900
Special reserve	17,502,398	16,489,571
Unappropriated retained earnings	<u>8,139,902</u>	<u>7,176,585</u>
	<u>55,169,251</u>	<u>51,053,056</u>
Other equity	<u>23,490,481</u>	<u>21,524,988</u>
<b>Total equity</b>	<u>254,181,474</u>	<u>248,074,136</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$ 4,402,685,387</u>	<u>4,254,518,369</u>

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

	<b>BankTaiwan Life Insurance</b>	
	<b>December 31,</b>	<b>December 31,</b>
	<b>2014</b>	<b>2013</b>
Cash and cash equivalents	\$ 38,564,185	22,859,656
Receivables	2,351,669	3,282,052
Current income tax assets	1,247,634	908,441
Financial assets measured at fair value through profit or loss	31,893	195,292
Available-for-sale financial assets	52,517,885	48,136,850
Debt investments without quoted price in an active market	54,856,557	55,509,059
Held-to-maturity financial assets	193,218,934	197,658,767
Investments under equity method, net	5,925,466	5,533,592
Other financial assets, net	21,685,621	44,585,700
Real estate investments	6,076,383	6,111,686
Loans	13,599,820	11,620,809
Reinsurance assets	12,528	16,588
Property and equipment	1,080,136	770,660
Intangible assets	12,324	10,950
Deferred tax assets	1,852,844	1,801,722
Other assets	3,078,094	2,758,200
Separate account-insurance assets	621,659	2,476,824
<b>Total assets</b>	<b>\$ 396,733,632</b>	<b>404,236,848</b>

(Continued)

## TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## Notes to the Consolidated Financial Statements

	BankTaiwan Life Insurance	
	December 31, 2014	December 31, 2013
Payables	\$ 22,835,523	23,196,712
Current tax liabilities	89	158
Financial liabilities measured at fair value through profit or loss	3,190,594	566,702
Insurance liabilities	353,328,002	363,607,014
Foreign exchange volatility reserves	1,376,324	439,970
Provisions	666,433	572,029
Deferred tax liabilities	122,475	38,079
Other liabilities	1,146,843	379,313
Separate account-insurance liabilities	<u>621,659</u>	<u>2,476,824</u>
<b>Total liabilities</b>	<u>383,287,942</u>	<u>391,276,801</u>
Capital stock	17,000,000	17,000,000
Capital surplus	369,713	366,463
Retained earnings		
Legal reserve	96,557	96,557
Special reserve	653,160	549,661
Unappropriated retained earnings	<u>(1,517,514)</u>	<u>(566,910)</u>
	<u>(767,797)</u>	<u>79,308</u>
Other equity	<u>(3,156,226)</u>	<u>(4,485,724)</u>
<b>Total equity</b>	<u>13,445,690</u>	<u>12,960,047</u>
<b>Total liabilities and equity</b>	<u>\$ 396,733,632</u>	<u>404,236,848</u>

(Continued)



**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

	<b>BankTaiwan Securities</b>	
	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Current assets	\$ 10,264,350	9,507,420
Property and equipment	498,644	490,974
Intangible assets	3,969	2,848
Deferred tax assets	2,531	1,232
Other non-current assets	<u>352,341</u>	<u>404,221</u>
<b>Total assets</b>	<b>\$ <u>11,121,835</u></b>	<b><u>10,406,695</u></b>
Current liabilities	\$ 7,322,707	6,766,984
Liabilities reserves	136,152	130,832
Deferred tax liabilities	91,454	89,970
Other non-current liabilities	<u>4,986</u>	<u>5,266</u>
<b>Total liabilities</b>	<b><u>7,555,299</u></b>	<b><u>6,993,052</u></b>
Capital stock	3,000,000	3,000,000
Retained earnings	-	-
Legal reserve	43,136	30,951
Special reserve	271,183	246,813
Unappropriated retained earnings	<u>198,754</u>	<u>103,887</u>
	<u>513,073</u>	<u>381,651</u>
Other equity	<u>53,463</u>	<u>31,992</u>
<b>Total equity</b>	<b><u>3,566,536</u></b>	<b><u>3,413,643</u></b>
<b>Total liabilities and equity</b>	<b>\$ <u>11,121,835</u></b>	<b><u>10,406,695</u></b>

(Continued)

## TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## Notes to the Consolidated Financial Statements

	<b>BankTaiwan Insurance Broker</b>	
	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Cash and cash equivalents	\$ 268,009	192,146
Receivables	96,155	96,520
Property and equipment	5,032	4,633
Intangible asset	430	530
Deferred tax assets	3,955	3,875
Other assets	5,425	2,353
<b>Total assets</b>	<b>\$ 379,006</b>	<b>300,057</b>
Payables	\$ 99,692	87,322
Current tax liabilities	27,109	30,358
Provision	-	23,788
Other liabilities	69	9,234
<b>Total liabilities</b>	<b>126,870</b>	<b>150,702</b>
Capital stock	20,000	20,000
Retained earnings	-	-
Legal reserve	12,936	-
Special reserve	12,936	-
Unappropriated retained earnings	206,264	129,355
	232,136	129,355
<b>Total equity</b>	<b>252,136</b>	<b>149,355</b>
<b>Total liabilities and equity</b>	<b>\$ 379,006</b>	<b>300,057</b>

(Note) The Bank invested \$20 million dollars to set up a subsidiary, BankTaiwan Insurance Brokers, which was approved on January 23, 2013 and was officially set up on February 6, 2013.

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

2. Income statements

	<b>Bank of Taiwan (Individual)</b>	
	<b>2014</b>	<b>2013</b>
Interest income	\$ 65,232,863	59,252,283
Less: interest expense	(36,453,834)	(33,364,505)
Net interest income	28,779,029	25,887,778
Other non-interest income	7,111,636	3,513,757
Net revenue	35,890,665	29,401,535
Bad debt expense and reserve for guarantees	(7,284,809)	(2,625,044)
Operating expenses	(19,214,750)	(17,955,435)
Net income before income tax	9,391,106	8,821,056
Income tax expense	(1,142,898)	(1,403,128)
Net income	8,248,208	7,417,928
Other comprehensive income	1,432,294	3,557,719
Total comprehensive income (loss) after tax for the period	9,680,502	10,975,647
Basic earnings per share (In dollars)	0.87	0.78

  

	<b>BankTaiwan Life Insurance</b>	
	<b>2014</b>	<b>2013</b>
Operating income	\$ 46,604,658	58,996,644
Operating cost	(46,522,525)	(58,517,759)
Operating expense	(872,041)	(874,248)
Operating loss	(789,908)	(395,363)
Non operating income (expense)	(50,890)	(15,801)
Net income (loss) before income tax	(840,798)	(411,164)
Income tax benefit	23,772	83,458
Net income (loss)	(817,026)	(327,706)
Other comprehensive income	1,299,419	(36,572)
Total comprehensive income (loss) after tax for the period	482,393	(364,278)
Basic earnings per share (In dollars)	(0.48)	(0.23)

(Continued)

## TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## Notes to the Consolidated Financial Statements

	<b>BankTaiwan Securities</b>	
	<b>2014</b>	<b>2013</b>
Revenue	\$ 684,652	513,335
Cost and expense	(471,632)	(428,366)
Net operating income	213,020	84,969
Non operating income	41,460	47,669
Net income before income tax	254,480	132,638
Income tax expense	(29,030)	(10,789)
Net income	225,450	121,849
Other comprehensive income	24,035	50,102
Total comprehensive income after tax for the period	249,485	171,951
Basic earnings per share (In dollars)	0.75	0.41

  

	<b>BankTaiwan Insurance Brokers</b>	
	<b>2014</b>	<b>2013</b>
Operating income	\$ 1,664,026	1,075,731
Operating cost	(1,282,982)	(843,413)
Operating expense	(132,119)	(76,411)
Non operating expense	(413)	(57)
Net income before income tax	248,512	155,850
Income tax expense	(42,247)	(26,495)
Net income	206,265	129,355
Total comprehensive income after tax for the period	206,265	129,355
Basic earnings per share (In dollars)	103.13	64.68

(Continued)

## TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## Notes to the Consolidated Financial Statements

## (57) 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 Company'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 Company's paid-in capital: None.
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: None.
4. Information regarding discounted processing fees on transactions with related parties for which the amount exceeded \$5 million: None.
5. Information regarding receivables from related parties for which the amount exceeded \$300 million or 10% of the Company's paid-in capital: None.
6. Information regarding selling non-performing loans:

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

Unit: In Thousand Of NTD

Transaction date	Transaction person	Contain of loans	Book value	Selling price	Gain (loss) on disposal	Condition with contract	Relation with the Bank
Jan 29, 2014	A Company	Construction loans	28,840	43,263	13,423	-	Non-related parties
Jan 29, 2014	B Company	Construction loans	28,325	43,177	14,852	-	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.
8. Other material transaction items which were significant to people who use the information in the financial statements: None.

## 2) Information on investees:

The followings are the information on investees:

Unit: In Thousand of NTD

Unit: In thousands of New Taiwan Dollars											
Name of the investee	Investee Location	Major Operation	% of shares	Highest holding ratio for the period	Original investment cost	Gain(Loss) recognized during the period	Held by the company 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%	25.07%	36,086,328	3,292,173	2,338,861,845	-	2,338,861,845	25.07%	
Taiwan Life Insurance Co., Ltd.	No.17 and 18 , Xuchang St., Taipei City, Taiwan	Life Insurance	20.26%	21.59%	3,239,021	355,284	196,136,255	-	196,136,255	20.26%	
Tung Eng Iron Works Co., Ltd.	5F., No.53, Zhonghua 4th Rd., Kaohsiung City, Taiwan	Iron Industry	21.37%	21.37%	1,377,683	74,944	74,802,414	-	74,802,414	21.37%	
Kaohsiung Ammonium Sulfate Co., Ltd.	No.4, Yanhai 2nd Rd., Kaohsiung City, Taiwan	Liquidation	91.86%	91.86%	2,193,752	(134,880)	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%	30.00%	18,799	3,158	1,500,000	-	1,500,000	30.00%	

(Continued)

## TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## Notes to the Consolidated Financial Statements

Name of the investee	Investee Location	Major Operation	% of shares	Highest holding ratio for the period	Original investment cost	Gain(Loss) recognized during the period	Held by the company and related party at year-end				Notes
							Shares		Subtotal Shares	% of Shares	
Bank of Taiwan	No. 120, Section 1, Chongching South Road, Taipei City	Banking	100.00%	100.00%	254,181,474	8,248,208	9,500,000	-	9,500,000	100.00%	note 4
BankTaiwan Life Insurance	6F, No.69, Section 2, Dunhua South Road, Taipei City	Life insurance	100.00%	100.00%	13,445,690	(817,026)	1,700,000	-	1,700,000	100.00%	note 4
BankTaiwan Securities	No. 58, Section 1, Chongching South Road, Taipei City	Securities	100.00%	100.00%	3,566,536	225,450	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%	100.00%	252,136	206,265	2,000	-	2,000	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 "equity-type securities" 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.

(2) The aforementioned equity-type securities refer to the securities defined in Securities and Exchange Act Enforcement Rules such as convertible corporate bonds and warrants.

(3) The aforementioned derivative instrument contracts refer to the contracts defined in the GAAP No.34 such as stock options.

3) Information regarding investment in China:

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

Unit: In Thousand of 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	Net income of investee	% 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	5,099,000 CNY1,000,000	(3)	2,549,500 CNY500,000	2,549,500 CNY500,000	-	5,099,000 CNY1,000,000	It's a branch rather than a investee company	It's a branch rather than a investee company	282,396	5,404,247	None

Note: The way of investing differentiates into 3 types as follow.

1. Directly investing the company in China.
2. Investing the company in China by investing the company in third country.
3. Others

2. Rationed investment in China:

Unit: In Thousand of NTD

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
5,099,000	5,099,000	152,508,884

3. Significant transactions with the invested company in China: None

- 4) Subsidiaries lending to other parties, guarantees and endorsements for other parties, securities held as of December 31, 2014, securities for which purchase or sale amount for the period exceed \$300 million or 10% of the Company's paid-in capital, and trading in derivative financial instruments: BOT, BTIL and BTS are banking industry, insurance industry and securities industry and their main operations include the above activities; hence it is not necessary to disclose the related information. The BankTaiwan Insurance Brokers does not have those transactions.

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

5) Information on significant transactions between parent and subsidiary company were as follow

Unit: In Thousand of 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	529,522	Same as regular transaction	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Receivables, net	35	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Other assets-net	2,708	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Short-term borrowings	11,550,000	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Payables	1,629	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Other liabilities	3,649,926	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Interest income	519	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Other non-interest income	990	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Other general and administrative expenses	29,688	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Interest expense	118,493	"	- %
0	Taiwan Financial Holdings	BankTaiwan Life Insurance	1	Other liabilities	24,910	"	- %
0	Taiwan Financial Holdings	BankTaiwan Life Insurance	1	Other non-interest income	576	"	- %
0	Taiwan Financial Holdings	BankTaiwan Securities	1	Other liabilities	50,116	"	- %
0	Taiwan Financial Holdings	BankTaiwan Securities	1	Other non-interest income	568	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Deposits and remittances	529,522	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Payables	35	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Other liabilities	2,708	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Other assets, net	3,649,926	"	0.24 %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Loans and discounts, net	11,550,000	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Receivables, net	1,629	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Interest expense	519	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Employee benefits expenses	990	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Other non-interest income	29,688	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Interest income	118,493	"	- %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Financial assets measured at fair value through profit or loss	1,058,994	"	- %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Receivables, net	30,014	"	- %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Other assets, net	6,425	"	- %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Payables	13,073	"	- %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Deposits and remittances	16,197,702	"	- %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Services fee, net	132,575	"	- %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Gain (loss) on financial assets or liabilities measured at fair value through profit or loss	243,178	"	- %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Other non-interest income	38,806	"	0.35 %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Interest expense	130,721	"	- %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Other general and administrative expenses	28,603	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Other assets, net	14	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Receivables, net	137	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Payables	140	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Deposits and remittance	325,409	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Loans and discounts, net	313,553	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Other liabilities	1,663	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Interest income	2,736	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Service fee, net	3,297	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Other non-interest income	34,758	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Interest expense	2,754	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Other general and administrative expenses	86	"	- %

(Continued)

## TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## 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	Other assets, net	24,910	"	- %
2	BankTaiwan Life Insurance	Taiwan Financial Holdings	2	Employee benefits expenses	576	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Payables	30,014	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Other liabilities	6,425	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Receivables, net	13,073	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Financial liabilities measured at fair value through profit or loss	1,058,994	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Cash and cash equivalents	13,169,802	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Other financial assets	3,027,900	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Service fee, net	(132,460)	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Foreign exchange gain	655,964	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Gain (loss) on financial assets or liabilities measured at fair value through profit or loss	(899,242)	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Gain on real estate investment, net	38,603	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Interest income	130,721	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	2	Other general and administrative expenses	38,822	"	- %
2	BankTaiwan Life Insurance	BankTaiwan Insurance Brokers	3	Payables	93,300	"	- %
2	BankTaiwan Life Insurance	BankTaiwan Insurance Brokers	3	Foreign exchange loss	(232)	"	- %
2	BankTaiwan Life Insurance	BankTaiwan Insurance Brokers	3	Service fee, net	499,144	"	- %
3	BankTaiwan Securities	Taiwan Financial Holdings	2	Other assets-net	50,116	"	- %
3	BankTaiwan Securities	Taiwan Financial Holdings	2	Employee benefits expenses	568	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Other liabilities	14	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Receivables, net	140	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Other assets-net	267,159	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Cash and cash equivalents	59,913	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Payables	137	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Short-term borrowings	313,553	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Interest expense	2,736	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Service fee, net	(12,629)	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Other general and administrative expenses	25,426	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Interest income	2,754	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Other non-interest income	86	"	- %
4	BankTaiwan Insurance Brokers	BankTaiwan Life Insurance	3	Receivables, net	93,300	"	- %
4	BankTaiwan Insurance Brokers	BankTaiwan Life Insurance	3	Service fee, net	498,912	"	- %

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.
- 3) The subsidiary to another subsidiary is 3.

Note 3: The transactions mention above have already write-off when building the financial report.

(Continued)



**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

**(58) Segment Information**

The Company and its subsidiaries have seven 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: Includes 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: Includes 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: Includes 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: Includes 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.
- 5) Insurance Business: Provides a variety of insurance services.
- 6) Security Business: Engages in securities business.
- 7) Other Business: Engages in financial holding, venture capital and asset management, etc.

Operating segments information was as follows:

	2014								
	Bank department	Department of Government Employees' Insurance	Department of Procurement	Department of Precious Metals	Insurance Business	Securities Business	Other business	Reconciliation and elimination	Total
Interest income	\$ 63,650,091	1,582,659	78	35	9,938,637	179,691	865	(255,570)	75,096,486
Less: interest expense	36,453,834	-	-	-	223,302	33,163	118,493	(255,570)	36,573,222
Interest income, net	27,196,257	1,582,659	78	35	9,715,335	146,528	(117,628)	-	38,523,264
Non-interest income, net	18,232,770	9,491,530	263,222	41,544	(20,217,909)	497,596	381,043	(223,325)	8,466,471
Other non-interest income	(10,334,880)	12,939,866	2,287	349,353	(40,288)	(872)	(1,632)	(117,023)	2,796,811
Net revenue	35,094,147	24,014,055	265,587	390,932	(10,542,862)	643,252	261,783	(340,348)	49,786,546
Bad debt expenses and reserve for guarantees	7,284,809	23,874,056	-	-	(10,523,402)	-	-	-	20,635,463
Operating costs	18,881,425	139,999	111,303	82,023	821,339	388,772	283,198	(134,084)	20,573,975
Continuing operating income before income tax	\$ 8,927,913	-	154,284	308,909	(840,799)	254,480	(21,415)	(206,264)	8,577,108
Continuing operating income after income tax	\$ 7,785,015	-	154,284	308,909	(817,026)	225,450	(27,902)	(206,264)	7,422,466
Total assets	\$ 4,169,425,658	240,932,692	2,587,268	1,090,015	396,733,632	11,121,835	275,649,628	(316,987,104)	4,780,553,624
Total Liabilities	\$ 3,915,707,376	240,932,692	2,432,985	781,106	383,287,942	7,555,299	15,510,952	(45,541,267)	4,520,667,085

(Continued)

## TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES

## Notes to the Consolidated Financial Statements

	2013								
	Bank department	Department of Government Employees' Insurance	Department of Procurement	Department of Precious Metals	Insurance Business	Securities Business	Other business	Reconciliation and elimination	Total
Interest income	\$ 57,804,653	1,447,520	80	30	9,657,751	130,230	418	(187,924)	68,852,758
Less: interest expense	33,364,506	-	-	-	192,674	21,587	91,330	(187,924)	33,482,173
Interest income, net	24,440,147	1,447,520	80	30	9,465,077	108,643	(90,912)	-	35,370,585
Non-interest income, net	13,913,684	4,923,606	393,582	26,244	15,674,828	375,798	232,317	(143,316)	35,396,743
Other non-interest income	(9,744,911)	15,685,028	(10,504)	249,160	19,074	21,835	604	(109,996)	6,110,290
Net revenue	28,608,920	22,056,154	383,158	275,434	25,158,979	506,276	142,009	(253,312)	76,877,618
Bad debt expenses and reserve for guarantees	2,625,099	21,922,074	-	-	24,698,221	-	-	-	49,245,394
Operating costs	17,622,953	134,080	118,595	79,808	871,922	373,638	231,967	(123,957)	19,309,006
Continuing operating income before income tax	\$ 8,360,868	-	264,563	195,626	(411,164)	132,638	(89,958)	(129,355)	8,323,218
Continuing operating income after income tax	\$ 6,957,739	-	264,563	195,626	(327,706)	121,849	(15,611)	(129,355)	7,067,105
Total assets	\$ 4,043,745,599	218,192,470	3,145,911	1,594,177	404,236,848	10,406,695	268,523,369	(310,998,399)	4,638,846,670
Total Liabilities	\$ 3,796,131,651	218,192,470	2,881,349	1,398,551	391,276,801	6,993,052	15,655,967	(46,401,218)	4,386,128,623