

Stock code:5868

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

**Consolidated Financial Statements**

**December 31, 2015 and 2014  
(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, 2015, 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 Financial Reporting Standards No.10 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, 2016



安侯建業聯合會計師事務所

KPMG

台北市11049信義路5段7號68樓(台北101大樓)  
68F., TAIPEI 101 TOWER, No.7, Sec. 5,  
Xinyi Road, Taipei City 11049, Taiwan (R.O.C.)

Telephone 電話 + 886 (2) 8101 6666  
Fax 傳真 + 886 (2) 8101 6667  
Internet 網址 kpmg.com/tw

## 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, 2015 and 2014, and January 1, 2014 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 of the consolidated financial statements, we did not audit the financial statements of investments in associates accounted for using equity method of Taiwan Financial Holding Co., Ltd and its subsidiary amounting to NT\$38,394,363 thousand, NT\$36,104,191 thousand, NT\$34,025,918 thousand as of December 31, 2015 and 2014 , and January 1, 2014, respectively, constituting 0.76%, 0.76% and 0.73% of the related consolidated total assets; nor the related shares of investment profit in associates accounted for using equity method of NT\$3,534,393 thousand and NT\$3,295,373 thousand for the years then ended, respectively, constituting 44.53% and 38.36% of the related consolidated net income before tax. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts includes above, is based solely on the report of the 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, 2015 and 2014, and January 1, 2014, 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”, 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 2014 and 2013 have been audited and approved by the Ministry of Audit. The adjustments made by the MoA are reflected in the financial statement. For further information, please see note 56 (2).

KPMG

March 24, 2016

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.

## Consolidated Balance Sheets

(expressed in thousands of New Taiwan dollars)

See accompanying notes to financial statements.

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

## Consolidated Statements of Comprehensive Income

For the year ended December 31, 2015 and 2014

(expressed in thousands of New Taiwan dollars)

	2015		2014		Percentage
	Amount	%	(Restated) Amount	%	Change
<b>Revenue and income :</b>					
41000 Interest income (note 37)	\$ 73,983,740	998	75,096,508	151	(1)
51000 Less: Interest expense (note 37)	<u>(36,543,681)</u>	<u>(493)</u>	<u>(36,573,222)</u>	<u>(72)</u>	-
Net interest income (note 37)	37,440,059	505	38,523,286	79	(3)
<b>Non-interest income, net</b>					
49800 Service fees, net (note 38)	3,490,806	47	3,986,237	8	(12)
49825 Gain on real estate investment, net (note 17)	140,710	2	109,942	-	28
49890 Share of profit (loss) of associates and joint ventures accounted for using equity method (note 15)	4,839,280	65	3,590,721	7	35
49810 Premiums gain (loss) (note 46)	(52,075,858)	(703)	(24,330,247)	(49)	(114)
49820 Gain on financial assets or liabilities measured at fair value through profit or loss (note 8 and 39)	(19,889)	-	10,709,102	22	(100)
49830 Realized gain on available-for-sale financial assets (note 40)	2,365,081	32	2,426,291	5	(3)
49840 Realized gain (loss) on held-to-maturity financial assets	37,168	1	201	-	18,392
49870 Foreign exchange gain (loss)	4,290,371	58	11,959,314	24	(64)
49880 Impairment loss of assets (note 21)	17,323	-	(1,685)	-	1,128
49943 Sales income (note 20 and 41)	499,423	7	450,651	1	11
48100 Subsidized income from government (note 41)	16,970,331	229	12,946,954	26	31
49999 Other miscellaneous income (note 41)	503,314	7	163,394	-	208
58090 Excess interest expenses (note 11 and 41)	<u>(11,085,764)</u>	<u>(150)</u>	<u>(10,764,146)</u>	<u>(22)</u>	(3)
Net Revenue	<u>7,412,355</u>	<u>100</u>	<u>49,770,015</u>	<u>101</u>	(85)
58100 Bad debt expense and reserve for guarantees (note 12)	(4,526,947)	(61)	(7,335,511)	(15)	(38)
58300 Provisions for policyholder's reserve premium	<u>26,556,546</u>	<u>358</u>	<u>(13,299,953)</u>	<u>(27)</u>	(300)
<b>Expenses:</b>					
58501 Employee benefits expenses (note 42)	(12,758,617)	(172)	(12,615,784)	(25)	1
58503 Depreciation and amortization expenses (note 43)	(1,168,242)	(16)	(1,261,794)	(3)	(7)
58599 Other general and administrative expenses (note 44)	<u>(7,578,558)</u>	<u>(102)</u>	<u>(6,666,155)</u>	<u>(13)</u>	14
Total Expenses	<u>(21,505,417)</u>	<u>(290)</u>	<u>(20,543,733)</u>	<u>(41)</u>	5
<b>Net income before income tax</b>	7,936,537	107	8,590,818	18	(8)
61003 Income Tax Expenses (note 35)	<u>(1,599,057)</u>	<u>(22)</u>	<u>(1,215,485)</u>	<u>(2)</u>	(32)
Net income	<u>6,337,480</u>	<u>85</u>	<u>7,375,333</u>	<u>16</u>	(14)
69500 <b>Other comprehensive income (losses):</b>					
69560 <b>Items not to be reclassified into profit or loss</b>					
69561 Remeasurements of the defined benefit plans	(725,875)	(10)	(457,302)	(1)	(59)
69563 Share of other comprehensive income of associates and joint ventures accounted for using equity method—					
Items not to be reclassified into profit or loss (note 15)	(46,067)	(1)	(92,336)	-	50
69569 Income tax—items not to be reclassified into profit or loss	<u>3,351</u>	<u>-</u>	<u>4,115</u>	<u>-</u>	(19)
Subtotal of items not to be reclassified into profit or loss	<u>(768,591)</u>	<u>(11)</u>	<u>(545,523)</u>	<u>(1)</u>	(41)
69570 <b>Items that may be subsequently reclassified into profit or loss</b>					
69571 Exchange differences on translation of foreign operations	634,243	9	391,039	1	62
69572 Unrealized losses on available-for-sale financial assets	(10,339,697)	(139)	2,330,097	5	(544)
69575 Share of other comprehensive income of associates and joint ventures accounted for using equity method					
(note 15)	1,315,286	18	653,861	1	101
69579 Income tax—items that may be reclassified into profit or loss (note 35)	<u>171,675</u>	<u>2</u>	<u>(58,469)</u>	<u>-</u>	394
Subtotal of items that may be subsequently reclassified into profit or loss	<u>(8,218,493)</u>	<u>(110)</u>	<u>3,316,528</u>	<u>7</u>	(348)
69500 Other comprehensive income (losses) for the period, net of income tax	<u>(8,987,084)</u>	<u>(121)</u>	<u>2,771,005</u>	<u>6</u>	(424)
<b>Total comprehensive income (loss), net of tax for the year</b>	<u>\$ (2,649,604)</u>	<u>(36)</u>	<u>10,146,338</u>	<u>22</u>	(126)
<b>Basic earnings per share (In dollars) (note 45)</b>	<u>\$ 0.70</u>		<u>0.82</u>		

See accompanying notes to financial statements.

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

**Consolidated Statements of Changes in Equity**

**For the years ended December 31, 2015 and 2014**

(expressed in thousands of New Taiwan dollars)

	Total equity attributable to owners of parent										Other equity interests	
	Common stock	Capital surplus	Legal reserve	Special reserve	Retained earnings			Total	translation of foreign operations	Exchange differences on	Unrealized gains(losses) on available-	attributable to change in credit risk of liability
					Unappropriated retained earnings	Special reserve	Unappropriated retained earnings					
<b>Balance at January 1, 2014</b>	\$ 90,000,000	111,434,739	3,493,367	23,850,122	6,868,563		34,212,052	(306,784)	17,378,040	-	17,071,256	252,718,047
Effects of retrospective application and retrospective restatement	-	-	-	-	(108,215)	-	(108,215)	-	-	-	-	(108,215)
Equity at January 1, 2014 (restated)	90,000,000	111,434,739	3,493,367	23,850,122	6,760,348		34,103,837	(306,784)	17,378,040	-	17,071,256	252,609,832
Appropriation of retained earnings:												
Legal reserve appropriated	-	-	682,548	-	(682,548)	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	3,132,212	(3,132,212)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(3,053,803)	-	(3,053,803)	-	-	-	-	(3,053,803)
Recovery of special reserve	-	-	-	(399,000)	399,000	-	-	-	-	-	-	-
Reversal of special reserve—sale of land	-	-	-	(25,148)	25,148	-	-	-	-	-	-	-
Changes in equity of associates and joint ventures accounted for using equity method	-	28,900	-	-	-	-	-	-	-	-	-	28,900
Net income for the period	-	-	-	-	7,375,333	-	7,375,333	-	-	-	-	7,375,333
Other comprehensive income (losses) for the period	-	-	-	-	(601,319)	-	(601,319)	617,113	2,699,349	55,862	3,372,324	2,771,005
Total comprehensive income (losses) for the period	-	-	-	-	6,774,014	-	6,774,014	617,113	2,699,349	55,862	3,372,324	10,146,338
<b>Balance at December 31, 2014</b>	90,000,000	111,463,639	4,175,915	26,558,186	7,089,947		37,824,048	310,329	20,077,389	55,862	20,443,580	259,731,267
Appropriation of retained earnings:												
Legal reserve appropriated	-	-	681,293	-	(681,293)	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	3,237,006	(3,237,006)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(3,318,776)	-	(3,318,776)	-	-	-	-	(3,318,776)
Reversal of special reserve—sale of land	-	-	-	(24,245)	24,245	-	-	-	-	-	-	-
Net income for the period	-	-	-	-	6,337,480	-	6,337,480	-	-	-	-	6,337,480
Other comprehensive income (losses) for the period	-	-	-	-	(836,780)	-	(836,780)	952,882	(9,073,955)	(29,231)	(8,150,304)	(8,987,084)
Total comprehensive income (losses) for the period	-	-	-	-	5,500,700	-	5,500,700	952,882	(9,073,955)	(29,231)	(8,150,304)	(2,649,604)
Disposal of investment accounted for using equity method	-	(78,422)	-	-	-	-	-	-	-	-	-	(78,422)
<b>Balance at December 31, 2015</b>	\$ 90,000,000	111,385,217	4,857,208	29,770,947	5,377,817		40,005,972	1,263,211	11,003,434	26,631	12,293,276	253,684,465

See accompanying notes to financial statements.

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

**Consolidated Statements of Cash Flows**

**For the year ended December 31, 2015 and 2014**

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

	2015	2014
<b>Cash flows from (used in) operating activities :</b>		
Net income before income tax	\$ 7,936,537	8,590,818
Adjustments :		
Adjustments to reconcile profit (loss)		
Depreciation expense	908,893	965,749
Amortization expense	362,489	383,572
Provision for bad debt expense	4,553,092	6,798,218
Interest expense	36,543,681	36,573,222
Interest income	(73,983,740)	(75,096,508)
Provision for guarantee liabilities	(25,761)	538,460
Net change in other provisions	(25,712,565)	14,514,567
Share of profit of associates and joint ventures accounted for using equity method	(4,839,280)	(3,590,721)
Gain on disposal of property and equipment	(411,269)	(170,378)
Impairment loss on financial assets	-	2,301
Reversal of impairment loss on non-financial assets	(17,323)	(616)
Others	(13,942)	(1,351)
Total adjustments to reconcile profit (loss)	<u>(62,635,725)</u>	<u>(19,083,485)</u>
Changes in operating assets and liabilities :		
Decrease (increase) in placement with Central Bank and call loans to banks	7,386,604	(16,662,249)
Decrease (increase) in financial assets measured at fair value through profit or loss	29,978,045	(60,045,190)
Increase in available-for-sale financial assets	(246,825,371)	(6,123,766)
Decrease (increase) in hedging derivative financial assets	9,643	(20,170)
(Increase) decrease in bills and bonds purchased under resell agreements	(17,184)	332,077
(Increase) decrease in receivables	(9,807,338)	22,842,586
Increase in loans and discounts	(85,857,401)	(66,382,800)
(Increase) decrease in held-to-maturity financial assets	(25,789,325)	5,254,077
Decrease in other financial assets	19,222,032	23,954,532
Decrease (increase) in other assets	7,547	(2,020,380)
Increase (decrease) in deposits of Central Bank and other banks	68,436,687	(95,749,414)
(Decrease) increase in financial liabilities measured at fair value through profit or loss	(10,158,434)	45,694,578
Increase (decrease) in hedging derivative financial liabilities	140,943	(122,782)
(Decrease) increase in bills and bonds sold under repurchase agreement	(21,595,857)	18,689,473
Decrease in payables	(4,175,554)	(5,600,608)
Increase in deposits and remittances	288,829,901	145,527,074
Increase in employee benefit obligations	1,137,019	563,449
Increase in other liabilities	19,041	749,159
Total adjustments	<u>(51,694,727)</u>	<u>(8,203,839)</u>
Cash (outflow) generated from operations	(43,758,190)	386,979
Interest received	74,209,688	72,303,267
Dividends received	9,540,729	7,452,947
Interest paid	(35,409,849)	(35,260,599)
Income taxes paid	<u>(1,523,565)</u>	<u>(1,270,587)</u>
Net cash flows from (used in) operating activities	<u>3,058,813</u>	<u>43,612,007</u>
<b>Cash flows (used in) from investing activities :</b>		
Acquisition of property and equipment	(692,784)	(626,978)
Increase in refundable deposits	(626,101)	(378,007)
Acquisition of intangible assets	(272,827)	(279,148)
Acquisition of investments property	(1,561,500)	(337,611)
Increase in other financial assets	-	(7,100)
Decrease in other financial assets	<u>2,186,636</u>	<u>-</u>
Net cash flows (used in) investing activities	<u>(966,576)</u>	<u>(1,628,844)</u>
<b>Cash flows from (used in) financing activities :</b>		
Increase in commercial papers payable	-	978,677
Decrease in commercial papers payable	(1,018,722)	-
Proceeds from issuing financial bonds	-	8,999,372
Decrease in guarantee deposits received	(335,478)	(376,768)
Decrease in other financial liabilities	(580,174)	(1,341,909)
Cash dividends paid	<u>-</u>	<u>(1,229,425)</u>
Net cash flows (used in) from financing activities	<u>(1,934,374)</u>	<u>7,029,947</u>
Effect of exchange rate changes on cash and cash equivalents	1,723,619	(931,887)
Net increase in cash and cash equivalents	1,881,482	48,081,223
Cash and cash equivalents at beginning of period	<u>934,300,980</u>	<u>886,219,757</u>
Cash and cash equivalents at end of period	<u>\$ 936,182,462</u>	<u>934,300,980</u>
Compose of cash and cash equivalents :		
Cash and cash equivalents reported in the statement of financial position	\$ 148,235,815	175,980,371
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	167,350,034	156,883,746
Investments qualifying for cash and cash equivalents under the definition of IAS 7	<u>620,596,613</u>	<u>601,436,863</u>
Cash and cash equivalents at end of period	<u>\$ 936,182,462</u>	<u>934,300,980</u>

See accompanying notes to financial statements.

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

## Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

(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 2008; \$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.

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

## Notes to the Consolidated Financial Statements

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, 6 billion and 5.5 billion on June 30, 2009, June 30, 2010, June 28, 2013 and September 30, 2015, respectively. BTLI became a public company on November 18, 2013. Its main businesses are life insurance and related businesses.

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

BTS became a public company on October 21, 2013. BTS's main businesses include the following: 1. Securities trading brokerage. 2. Providing margin purchases and short sales for securities transactions. 3. Securities dealing 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 18, 2016 as well as Board of Directors on March 24, 2016 and then published.

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

- 1) New standards and interpretations adopted by the Company and its subsidiaries endorsed by the Financial Supervisory Commissions R.O.C ("FSC"). Starting 2015, the Company and its subsidiaries fully adopted the 2013 annual version of IFRSs endorsed by the FSC (except for IFRS 9 "Financial Instruments") to prepare its financial statements. Relevant accounting standards interpretations and amendments are summarized below:

The new issuance, amendments, and revisions of standards and interpretations	Effective date per IASB
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

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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 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
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

Apart from the following items, the adoption of the 2013 annual version of IFRSs by the Company would have no significant impacts on the financial statements:

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

The Company and its subsidiaries have added the newly required disclosures to its consolidated financial statement (please refer to note 15).

2. IFRS 13 "Fair value measurement"

The standard redefines the definition of fair value, establishes a single framework for measuring fair value and requires disclosures about fair value measurements. The standard is applied prospectively at the beginning of 2014 in which it is initially applied and additional information about fair value measurements is disclosed in accordance with new requirements (please refer to notes 41). The information regarding fair value disclosures of comparative period is not required in the first year of transition to IFRS 13 and no significant impact on how the Company and its subsidiaries measures the fair values of its assets and liabilities.

3. IAS 1 "Presentation of Financial Statements"

The amendments to IAS 1 may result in changes to the presentation of other comprehensive income. An entity should split other comprehensive income between those items that will and will not be reclassified to profit or loss, and present in aggregate as single line items within these two groups. The amended standard has been applied by the Bank and the information of current and comparative period was adjusted accordingly.

4. Recognition and measurement of the financial liabilities designated as at fair value through profit or loss

According to the amended version of Rules Governing the Preparation of Financial Reports by Financial Holding Companies, the changes in fair value of the financial liabilities resulting from the changes in credit risk are recognized in other comprehensive income and not allowed to reclassify to profit or loss in subsequent periods. The rest of changes in fair value are recognized in profit or loss.

(Continued)

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

If the accounting treatment mentioned above would otherwise incur or even aggravate a measurement or recognition inconsistency (referred to as 'accounting mismatch'), however, all the gain or loss arising from the changes in fair value of financial liabilities will be recognized in profit or loss.

5. IAS 19 "Employee Benefits"

The amendments to IAS 19 require the Company 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 plan assets used in the previous IAS 19. In addition, the amendments eliminate the accounting treatment of either the corridor approach or the immediate recognition of actuarial gains and losses in profit or loss when they occur, and instead require the Company to 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 is incurred and will no longer be amortized over the average period before meeting vesting conditions on a straight-line basis. The Company shall recognize a termination benefit liability not only when it decides to terminate an employee's employment, but also at the earlier date when it can no longer withdraw the offer of those benefits or when it recognizes related costs for restructuring. In addition, the amendments also require a broader disclosure of defined benefit plans.

The amend IAS 19 was retrospectively applied by restating the start of comparative period (2014) with initial adjustments arising from the changes in the Bank's prior service cost being recognized in provisions and retained earnings. In addition, the disclosure of sensitivity analysis for the comparative period is optional and the Bank elects not to disclose it.

6. Due to the retrospective adoption of the 2013 IFRSs by the associates accounted for using the equity method, both investments in associates accounted for using the equity method and retained earnings of the Company and its subsidiaries decreased by \$1,053 thousand and \$935 thousand as of December 31, 2015 and December 31, 2014, respectively. In addition, in accordance with the amendment to the "Regulations Governing the Preparation of Financial Reports by Securities Issuers," the amount of changes in the fair value of financial liabilities designated as at fair value through profit or loss, attributable to changes in the credit risk of that liability, shall be reflected in other equity. The amendment was applied retrospectively, wherein the retained earnings decreased by \$55,862 thousand and the other equity increased by \$55,862 thousand at December 31, 2014.

(Continued)

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

## Notes to the Consolidated Financial Statements

7. The material impacts for the period 2014 arising from the adoption of the 2013 IFRSs and the amendment of the "Regulations Governing the Preparation of Financial Reports by Financial Holding Companies" were as follows:

Impacts on consolidated balance sheets	Amounts before restatement (after being audited by the MoA)	Cumulative effect of changes in accounting principles	
		Defined benefit plans	Amounts after restatement
January 1, 2014			
Investments accounted for using equity method	\$ 40,325,633	(1,053)	40,324,580
Impact of assets	<u>\$ 40,325,633</u>	<u>(1,053)</u>	<u>40,324,580</u>
Provisions	<u>\$ 597,615,741</u>	<u>107,162</u>	<u>597,722,903</u>
Impact of liabilities	<u>\$ 597,615,741</u>	<u>107,162</u>	<u>597,722,903</u>
Retained earnings	<u>\$ 34,212,052</u>	<u>(108,215)</u>	<u>34,103,837</u>
Impact of equities	<u>\$ 34,212,052</u>	<u>(108,215)</u>	<u>34,103,837</u>

Impacts on consolidated balance sheets	Amounts before restatement (after being audited by the MoA)	Cumulative effect of changes in accounting principles		Amounts after restatement
		Defined benefit plans	IFRS 9 Credit risk reclassification	
December 31, 2014				
Investments accounted for using equity method	\$ 42,915,583	(935)	-	42,914,648
Impact of assets	<u>\$ 42,915,583</u>	<u>(935)</u>	<u>-</u>	<u>42,914,648</u>
Provisions	<u>\$ 613,249,048</u>	<u>90,331</u>	<u>-</u>	<u>613,339,379</u>
Impact of liabilities	<u>\$ 613,249,048</u>	<u>90,331</u>	<u>-</u>	<u>613,339,379</u>
Retained earnings	<u>\$ 37,971,176</u>	<u>(91,266)</u>	<u>(55,862)</u>	<u>37,824,048</u>
Other equities	<u>20,387,718</u>	<u>-</u>	<u>55,862</u>	<u>20,443,580</u>
Impact of equities	<u>\$ 58,358,894</u>	<u>(91,266)</u>	<u>-</u>	<u>58,267,628</u>

(Continued)

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

## Notes to the Consolidated Financial Statements

Impacts on consolidated statement of comprehensive income	Amounts before restatement (after being audited by the MoA)	Cumulative effect of changes in accounting principles	Amounts after restatement
		Defined benefit plans	
2014			
Share of profit of associates and joint ventures accounted for using equity method	\$ 3,590,679	42	3,590,721
Operating expenses	(20,560,564)	16,831	(20,543,733)
Impact of net income	7,358,460	16,873	7,375,333
Share of other comprehensive income of associates and joint ventures accounted for using equity method	561,449	76	561,525
Impact of other comprehensive income (losses) for the period, net of income tax	2,770,929	76	2,771,005
Impact of Total comprehensive income (losses) for the period	\$ 10,129,389	16,949	10,146,338
Earnings per share (in New Taiwan Dollars)	\$ 0.82	-	0.82

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

A summary of the new standards and interpretations issued by the International Accounting Standards Board (the "IASB") but not yet endorsed by the FSC at the reporting date:

New issuances, amendments, and revisions of standards and interpretations	Effective date per IASB
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)	Not yet decided
Amendments to IFRS 10, IFRS 12 and IAS 28 (Investing Entities: Applying the Consolidation Exception)	January 1, 2016
Amendment to IFRS 11 (Acquisition of an Interest in a Joint Operation)	January 1, 2016
IFRS 14 (Regulatory Deferral Accounts)	January 1, 2016
IFRS 15 (Revenue from Contracts with Customers)	January 1, 2018
IFRS 16 (Leases)	January 1, 2019

(Continued)

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

New issuances, amendments, and revisions of standards and interpretations	Effective date per IASB
Amendment to IAS 1 (Disclosure Initiative)	January 1, 2016
Amendment to IAS 7 (Disclosure Initiative)	January 1, 2017
Amendment to IAS 12 (Recognition of Deferred Tax Assets for Unrealised Losses)	January 1, 2017
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 (Novations of derivatives and continuing hedge)	January 1, 2014
Annual Improvements to IFRSs 2010-2012 & 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016
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.

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

(Continued)

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

## Notes to the Consolidated Financial Statements

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 2014 and 2013 were approved by the MOA, and the opening balances of retained earnings of 2015 and 2014 are the same as the approved closing balances of 2014 and 2013, respectively. Please refer to note 56 for the government audit adjustments.

### 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 amount of the pension fund less the present value of the defined benefit obligation.
- (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."

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.

(Continued)

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

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, 2015	December 31, 2014
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 %

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.

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES****Notes to the Consolidated Financial Statements****2. Foreign operations**

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

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

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

**5) Cash and cash equivalents**

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

(Continued)

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

1. Financial asset

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

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

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

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

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which take into account any dividend and interest income, are recognized in profit or loss, and are included in statement of comprehensive income statement.

(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.

(Continued)

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

(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.

(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 accounts receivable and other receivables. 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.

(Continued)

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

(e) Financial assets at cost

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

(f) Debts investment without active market

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

(g) 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.

(h) Reclassification of financial assets

According to IAS 39, the Company and its subsidiaries are only permitted to reclassify their financial assets, classified as held for trading, out of the fair value through profit or loss category in the rare circumstances prescribed in paragraph 50B. Moreover, as stated in paragraph 50C, if the Company and its subsidiaries reclassify a financial asset out of the fair value through profit or loss category in accordance with paragraph 50B, the financial asset shall be reclassified at its fair value on the date of reclassification. Any gains or losses already recognized in profit or loss shall not be reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

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.

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES****Notes to the Consolidated Financial Statements****(b) Financial liabilities at fair value through profit or loss**

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

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

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

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

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

**(c) Other financial liabilities**

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

(Continued)

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

(e) Offsetting the financial assets and financial liabilities

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

(f) Financial guarantee contract

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

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

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

3. Derivative financial instruments and hedge accounting

The Derivative financial instruments means forward swaps, FX swaps, interest rate swaps, cross currency swaps, options and other transactions related to foreign exchange, interest rate and capital market. The derivative financial instruments are initially recognized at fair value and the transaction costs are recognized through profit or loss. The sequential assessment is still assessed by fair value and the resulted gain or loss is recognized as profit or loss. However, for the derivative 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 derivative 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 derivative 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 derivative 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.

(Continued)

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

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.

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.

(Continued)

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

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.

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 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 and equipment, the carrying amount at the date of reclassification becomes its cost for subsequent accounting.

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

11) Property, plant and equipment

1. Recognition and measurement

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

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

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

2. Reclassification to investment property

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

3. Subsequent cost

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

4. Depreciation

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

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

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

## Notes to the Consolidated Financial Statements

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: ceded unearned premium reserve, ceded claim reserve, claims recoverable from reinsurers, and due from reinsurers and ceding companies, net. The method used for estimating claims recoverable from reinsurers should be the same as the method used for estimating the claim reserve liabilities.

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

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

In addition, in determining the classification of a reinsurance contract, insurance subsidiary considers whether a significant insurance risk should be transferred to the reinsurer. If there is no significant risk that are being transferred, the contract shall be recognized and measured in accordance with deposit accounting and the consideration received or paid for reinsurance contracts shall be treated as a financial liability or a financial asset, rather than as revenue or expense..

If a reinsurance contract on the ceded date or balance sheet date is deemed unqualified ceded reinsurance under the "Regulation Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms", the Company utilizes "The Provision of Unqualified Reinsurance Reserve" to evaluate the effect of unqualified reinsurance in supervision reports, and the results are disclosed in its financial statements. The Company has no unqualified reinsurance so far.

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

13) Insurance contract

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

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

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

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

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

If the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, it is required to be separated from the host contract and the value embedded derivate shall be measured at fair value through profit or loss, and the change shall be recognized as current gains or losses. If the embedded derivate 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 derivate and the insurance contract in terms of recognition.

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

## 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 cause by the operating lease agreement is included in the net lease investment. Lease investment is recognized as financial lease because of it has a steady rate of return, apportioning into each lease period.

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

## 15) Intangible assets

## 1. Computer Software

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

## 2. Subsequent Expenditure

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

## 3. Amortization

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

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

Computer software	5 years
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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated Financial Statements**

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 of assets**

**1. Impairment of financial assets**

The financial assets with 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 BOT on terms that the Company and its subsidiary would not consider otherwise indications that a debtor 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 on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

Impairment losses recognized on 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 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.

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

## Notes to the Consolidated Financial Statements

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

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 Bank and its subsidiary uses historical trends of the probability of default, the timing of recoveries, and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than those suggested by historical trends.

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

The Company and its subsidiaries 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. A bank shall classify credit assets on and off balance sheet. Normal credit assets shall be classified as "Category One." The remaining unsound credit assets shall be evaluated based on the status of the loan collaterals and the length of time overdue. Assets that require special mention shall be classified as "Category Two," assets that are substandard shall be classified as "Category Three," assets that are doubtful shall be classified as "Category Four," and assets for which there is loss shall be classified as "Category Five."

In accordance with afore mentioned rules, the minimum loan loss provision and guarantee reserve shall be the sum of 1% of the outstanding balance of Category One credit asset's claim (excluding assets that represent claims against the central and local government in Taiwan), 2% of the balance of Category Two credit assets, 10% of the balance of Category Three credit assets, 50% of the balance of Category Four credit assets, and the full balance of Category Five credit assets.

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.

According to the "Guidelines for Handling Assessment of Assets, Loans Overdue, Receivable on Demand and Bad Debts by Insurance Enterprises", the amount of the allowance for bad debts cannot be lower than the amount as follow:

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

- (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) tthe total unsecured portions of nonperforming loans and non accrual receivables.

In accordance with the "Accounting Guidelines for The Delinquent Debt Legal Right Urges to Accept The Payment and The Delinquent Debt Processing" issued by the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, the Company will write off the loans and credit when those are authorized and are in conformity with the regulations.

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

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

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

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

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

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

Reversal of an impairment loss for goodwill is prohibited.

**17) Provision**

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

**18) Other reserves**

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

**19) Separate account – insurance instrument assets**

The insurance subsidiary is engaged in selling investment linked products. 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 insurance subsidiary follows the related rules and financial accounting standards in the IFRS to determine the net asset value.

In accordance with the "Regulations Governing the Preparation of Financial Reports by Insurance Companies", the assets and liabilities are recorded as "Assets on insurance product, separated account" and "Liabilities on insurance product, separated account", no matter it is caused by a insurance contract or the insurance contract with financial instrument feature. The revenue and expenses in accordance with the definition of IFRS No.4 (including insurance products, separated account with discretionary participating features) are recorded as "Income on insurance product, separated account" and "Disbursements on insurance product, separated account", respectively.

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

## Notes to the Consolidated Financial Statements

### 20) Insurance liability

Reserves for insurance contracts are provided in accordance with the "Regulations Governing Insurance Enterprises for Setting Aside Various Reserves" and are also certified by an appointed actuary approved by the Financial Supervisory Commission, Executive Yuan, R.O.C. (FSC). 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 Tai Tsai Pao No. 852367814 and other reserve basis listed below:

In addition, partial insurance contracts contain a discretionary participation feature as well as a guaranteed element; the insurance subsidiary classifies the whole contract as a liability rather than recording them separately.

#### 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 and universal 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 "Not Reported and Not Paid". 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, universal insurance, and life insurance, health insurance, and annuity insurance with insurance terms more than one year are determined in accordance with actual information on a per-policy-claim-report basis and are respectively set aside for each type of insurance.

#### 3. Policy reserve

The provision for policy reserves 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.

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

Starting from 2012, the insurance subsidiary 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. However, to comply with Jin Guan Pao Tsai No. 10202124790 on November 21, 2013, the insurance subsidiary no longer has to provide the new reserve since 2013.

Starting from 2012, in accordance with the Gin Guan Bao Tsai No. 10102500530 on January 19, 2012 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 reserve

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

a) Special catastrophe reserve:

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

b) Special risk-volatility reserve:

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

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

## Notes to the Consolidated Financial Statements

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 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.

In addition, according to the Tai Cai Bao No.0910074195, the insurance subsidiary should provide the special reserve for the withdrawal amount of special risk-volatility reserve (net of taxes), and should be authorized by the competent authority before distributing or using those reserve for other purpose.

- (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 bonuses 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

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

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

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

21) Reserve for foreign exchange valuation

In accordance with "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises", starting on March 1, 2012, BTLI should set up a reserve for foreign exchange valuation under liabilities for their foreign investments. In addition, BTLI transfers some of the special reserve to the reserve for foreign exchange valuation as the opening balance. 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, 2011.

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

1. Limit of provision: the total amount of its foreign investment assets in the current month times the exposure ratio times 0.042% equals the provision. If any, the foreign exchange gain from the non hedged foreign currency assets times 50% equals the additional provision.
2. Limit of offsetting: 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.
3. If the current balance of the reserve decreased to 20% (the lower limit) of that of the prior year end and last for more than 3 months, the ratio of setting aside non-hedging foreign assets profit shall increase from 50% to 60% until the balance bounces back twice as high as the lower limit.
4. The definitions of the amount of "overseas investment", "exposure ratio", "non-hedge asset dominated in foreign currency", and "hedging cost" are in accordance with Article 2 and 3 of the "Regulation Governing the Setting Aside of Various Reverses by Insurance Enterprise".
5. BTLI shall provide the same amount as the reduction of hedging cost attributable to the application of this rule as special earnings reserve each year. If BTLI does not have enough retained earnings for the reserve in the current year, BTLI shall compensate for the insufficient amount in the following year when it has earnings. The amounts provided as the special earnings reserve shall only be used to increase the capital or to offset the accumulated deficit in the subsequent periods.
6. If there are earnings after tax in the current year, 10% of the earnings amount should be provided as special earnings reserves. However, BTLI may not provide such reserves if the regulatory authority approves.

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.

(Continued)

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

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.
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.

(Continued)

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

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 insurance product, separated account shall be recognized as premium income to the extent of insurance component. The remaining, after being subtracted by other revenues, including upfront fee or investment management service fee income, shall be fully recognized as "Liabilities on insurance product, separated account" on the balance sheet.

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

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

2. Interest revenue

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

3. Lease income

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

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

## Notes to the Consolidated Financial Statements

### 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.

(Continued)

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

2. Pension

(a) Employee pension:

The grant of employees' pension compromise: a) the contributions made by the Bank at the rate from 4% to 8.5% of an employee's monthly wage, depending on an employee's 'salary point' and service period before the Labor Standards Act was applied and the contributions made by an employee at the rate of 3% of his or her monthly wage under Article 9 and Article 8 of the aforementioned regulations, respectively. (These two kinds of contributions were ceased when the Labor Standards Act was applied.) The Bank also contributed 3% of the total amount of wages as reserve. ;b) the contributions calculated based on an employee's monthly wage and service period (after May 1, 1997) in accordance with Article 41.1 and the related regulations set forth in Labor Standards Act. All the contributions are made to the fund managed by the Pension Supervision Committee for future payments.

(b) Labor pension:

Labor Pension is a defined contribution pension plan. The grant of labors' pension is conducted under the Bank's Work Rules before the Labor Standards Act was applied. Under the Article 73 of the Rules, the service period before and after May 1, 1997 is accumulated in accordance with the Rules and the Labor Standard Act, respectively. The contributions calculated at a certain rate under Labor Pension are made to a designated Labor Retirement Reserve Account for future payments. In addition, the Bank is required to allocate 6% of each employee's monthly wages to the labor pension personal account at the Bureau of the Labor Insurance in accordance with the provisions of the Labor Pension Act, effective July 1, 2005.

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

(d) 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. Prior period servicing costs should recognize in profit or loss immediately. The prior period's service costs which are due to the modification of retirement plan are currently recognized as personnel expenses in profit or loss.

(e) The oversea branches of the bank subsidiary follow the foreign government's regulations.

(Continued)

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

## Notes to the Consolidated Financial Statements

### 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. Civil servant and teacher insurance excess annuity benefit plans

According to the "Civil Servant and Teacher Insurance Act" (the CSTI Act) that took effect on May 29, 2015 and Tui Yi Zi No. 10440257582 issued by the Ministry of Finance, BTLI's employees who are not qualified for preferential interest deposits are entitled to receive annuity when retiring or getting laid off if they meet the requirements prescribed in Article 16 and 18 of the CSTI Act. The sum of the monthly payments from this annuity and the total amount of the defined benefit plan shall not exceed 80% of twice the amount of the employee's salary at the time of retirement. Moreover, if the payment rate of the annuity is lower than the basic rate of annuity (0.75%), the annuity will be calculated using the latter rate. However, if the payment rate is higher than the upper limit (1.3%), the annuity is calculated based on 1.3%.

BTLI is responsible for the portion of the annuity payments that exceeds 0.75% and the calculation is reviewed by the insurance carrier (Department of Government Employees' Insurance, Bank of Taiwan) on a monthly basis in accordance with the CSTI Act.

### 5. 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.

(Continued)

**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.

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.

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

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.

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.

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

## Notes to the Consolidated Financial Statements

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

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

(Continued)

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

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

- (a) The actual result in the market 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.

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.

(Continued)

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
**Notes to the Consolidated 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 by each insurance unexpired risk. The methods of reserve provision are determined by actuaries about each insurance characteristic.

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.

7) Reinsurance reserves

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

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

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

**(6) Cash and Cash Equivalents**

	December 31, 2015	December 31, 2014
Cash on hand	\$ 12,147,326	12,051,445
Foreign currency on hand	9,387,186	10,613,947
Bank deposits	12,813,367	20,075,195
Cash in transit	-	44,064
Notes and checks for clearing	5,039,875	7,240,754
Placement with banks	<u>108,848,061</u>	<u>125,954,966</u>
Total	<u><u>\$ 148,235,815</u></u>	<u><u>175,980,371</u></u>

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

	December 31, 2015	December 31, 2014
Cash and cash equivalents in consolidated balance sheets	\$ 148,235,815	175,980,371
Placement with Central Bank of R.O.C. and other banks that meet the definition of cash and cash equivalents under the definition of IAS 7	167,350,034	156,883,746
Investments qualifying cash and cash equivalents under the definition of IAS 7	620,596,613	601,436,863
Total	<u><u>\$ 936,182,462</u></u>	<u><u>934,300,980</u></u>

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

	December 31, 2015	December 31, 2014
Call loans to banks	\$ 154,125,778	118,420,159
Less: allowance for doubtful accounts—call loans to banks	(55,427)	(25,494)
Deposit reserve—account A and account B	85,185,155	105,503,877
Deposit reserve—foreign—currency deposits	576,860	395,975
Deposits in Central Bank—oversea branches	3,322,191	11,473,277
Deposits in Central Bank	<u>342,809,215</u>	<u>347,146,227</u>
Total	<u><u>\$ 585,963,772</u></u>	<u><u>582,914,021</u></u>

(Continued)

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

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

Additionally, as of December 31, 2015 and 2014, 60% of the reserve deposits collected by the subsidiary, BOT, on behalf of a government institution amounting to \$4,728,694 thousand dollars and \$4,940,792 thousand dollars, respectively, were deposited in the Central Bank and their use is restricted according to the regulations.

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

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

	December 31, 2015	December 31, 2014
Financial assets held for trading	\$ 143,589,902	156,898,365
Add: Valuation adjustment	<u>19,364,632</u>	<u>32,556,806</u>
Subtotal	<u>162,954,534</u>	<u>189,455,171</u>
Financial assets designated at fair value through profit or loss	13,334,634	19,194,984
Add: Valuation adjustment	<u>96,341</u>	<u>302,217</u>
Subtotal	<u>13,430,975</u>	<u>19,497,201</u>
Total	<u><u>\$ 176,385,509</u></u>	<u><u>208,952,372</u></u>

(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:

	December 31, 2015	December 31, 2014
Commercial papers	\$ 9,993,145	23,778,638
Government bonds	493,311	619,935
Stocks and beneficiary certificates	121,816,782	126,186,393
Treasury bills	3,405,242	1,997,506
Domestic convertible bonds	1,255,886	1,069,223
Corporate and financial bonds	14,230	17,655
Foreign government bonds	2,077,970	2,225,868
Foreign exchange call options	20,574	10,365
Structured time deposits	1,509,129	985,292
Contract value of asset swap IRS	7,622	5,182
Contract value of asset swap IRS	211	-
Negotiable certificates of deposits	2,995,800	-

(Continued)

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

	December 31, 2015	December 31, 2014
Add: Valuation adjustment		
Non derivative financial instruments	\$ 5,477,302	11,297,368
Cross currency swaps	689,329	397,589
Swaps	13,017,046	20,393,825
Interest rate swaps	38,632	48,782
Forward foreign exchange	126,247	398,423
Fixed rate commercial papers	11,338	(3,130)
Asset swaps	6,991	14,125
Structured time deposits	232	239
Foreign exchange call options	610	11,893
Contract value of asset swap IRS	(2,900)	-
Foreign exchange call options	(195)	-
Total	<u>\$ 162,954,534</u>	<u>189,455,171</u>

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

	December 31, 2015	December 31, 2014
Foreign government bonds, corporate bonds, financial bonds and others	\$ 13,334,634	19,194,984
Add: Valuation adjustment	96,341	302,217
Total	<u>\$ 13,430,975</u>	<u>19,497,201</u>

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

	December 31, 2015	December 31, 2014
Foreign exchange call options	\$ 3,566,272	2,894,574
Swaps	607,465,777	669,743,859
Interest rate swaps	17,520,107	21,948,386
Forward foreign exchange	12,630,323	17,381,745
Fixed rate commercial paper	1,500,000	1,000,000
Structured time deposit	1,509,129	985,292
Asset swaps	3,419,520	633,400
Cross currency swaps	6,849,000	6,599,600
Non-deliverable foreign exchange	3,000	-
Total	<u>\$ 654,463,128</u>	<u>721,186,856</u>

(Continued)

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

**(9) Hedging Derivative Financial Instruments**

The content of hedging asset is as follows:

	December 31, 2015	December 31, 2014
Fair value hedges :		
Interest rate swap	\$ <u>15,970</u>	<u>25,613</u>

The content of hedging liability is as follows:

	December 31, 2015	December 31, 2014
Fair value hedges :		
Interest rate swap	\$ <u>243,967</u>	<u>103,024</u>

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 dome debt investments with fixed interest rate. In doing so, the risk exposure position will calculated by floating interest rate and the interest rate risk will be hedge.

<b>Hedging Investments Fair Value</b>			
Hedged Item	Designated Hedging Instruments	December 31, 2015	December 31, 2014
USD subordinated bonds	interest rate swap	\$ -	(12,593)
USD financial bonds	"	(59,538)	(43,904)
USD corporate debts	"	(7,780)	(23,451)
USD government debts	"	(160,859)	2,537

The net losses of above hedging instruments in 2015 and 2014 are \$359,402 thousand dollars and \$49,365 thousand dollars, respectively. The net gains and losses of hedged items embedded in hedging instrument in 2015 and 2014 are \$152,609 thousand dollars and \$(146,704) thousand dollars, respectively.

(Continued)

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

**(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:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Bills and bonds purchased under resell agreements:		
Negotiable certificates of deposit	\$ 3,051,608	1,913,424
Commercial paper	7,143,992	5,292,037
Government bonds	194,311	339,169
Corporate bonds	<u>402,353</u>	<u>400,757</u>
Total	<u>\$ 10,792,264</u>	<u>7,945,387</u>
	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Bills and bonds sold under repurchase agreements:		
Commercial papers	\$ 139,917	449,425
Government bonds	16,391,273	28,257,321
Corporate bonds	1,360,893	2,128,865
Foreign government bonds	-	437,353
Convertible Corporate bonds	-	70,118
Financial bonds	<u>100,019</u>	<u>8,244,877</u>
Total	<u>\$ 17,992,102</u>	<u>39,587,959</u>

(Continued)

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

**(11) Receivables, Net**

	December 31, 2015	December 31, 2014
Accounts receivable	\$ 945,086	1,135,954
Long-term receivables — payment on behalf of the government	21,521,114	22,148,817
Accrued revenues	832,746	885,609
Interests receivable	18,707,967	18,933,915
Insurance receivable	122,412	259,204
Notes receivable and acceptance notes receivable	2,138,217	2,626,103
Non-recourse factoring	9,973,985	4,777,703
Margin Loans Receivable	2,735,682	3,605,930
Settlement accounts receivable	1,985,279	2,453,838
Accounts receivable — others	224	-
Others — replenishment of national treasury	17,738,453	11,826,581
Others — undelivered spot exchange	698	7,150
Other — ATM temporary receipts, payments and interbank difference	1,698,101	1,753,987
Others — FX Swaps	39,637	50,899
Others	<u>3,520,198</u>	<u>886,326</u>
Subtotal	81,959,799	71,352,016
Less: allowance for doubtful accounts	<u>1,318,632</u>	<u>288,739</u>
Total	<u><u>\$ 80,641,167</u></u>	<u><u>71,063,277</u></u>

In accordance with Executive Yuan Tai-79-JEN-Cheng-SZU-tsu No. 14525, in 2015 and 2014, the Company and its subsidiaries paid an excess preferential interest rate of 1.8053% and 1.8005%, and the resulting interest expenses were \$8,245,628 thousand dollars and \$8,177,552 thousand dollars, respectively, due to executing the government premium savings policy.

As of the year ended December 31, 2015 and 2014, the subsidiary, BOT, had paid the following premium savings interest expenses on behalf the government:

	December 31, 2015	December 31, 2014
Long-term receivables	\$ 21,521,114	22,148,817
Short-term advances (booked under other financial assets, net)	<u>51,284,809</u>	<u>53,150,559</u>
Total	<u><u>\$ 72,805,923</u></u>	<u><u>75,299,376</u></u>

(Continued)

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

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

	December 31, 2015	December 31, 2014
Discounts and export / import negotiations	\$ 4,562,863	6,646,452
Short-term loans and overdrafts	424,130,489	309,148,966
Short-term secured loans and secured overdrafts	90,450,672	90,259,996
Insurances loans	5,856,111	6,215,990
Accounts receivable financing	416,348	472,703
Accounts receivable secured financing	5,733	2,544
Medium-term loans	615,794,231	627,197,926
Medium-term secured loans	260,183,469	287,174,930
Long-term loans	174,758,213	187,028,177
Long-term secured loans	828,713,453	805,685,505
Non-performing loans	<u>4,432,252</u>	<u>6,286,830</u>
Subtotal	2,409,303,834	2,326,120,019
Less: allowance for doubtful accounts	<u>27,977,455</u>	<u>26,145,788</u>
	<u><u>\$ 2,381,326,379</u></u>	<u><u>2,299,974,231</u></u>

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

	2015	2014
Loans:		
Beginning balance	\$ 26,145,788	19,845,588
Allowance for doubtful accounts	4,505,253	6,881,045
Write-off	(4,160,398)	(2,946,242)
Recovery from written-off	1,430,148	2,250,054
Effects of exchange rate changes and others	<u>56,664</u>	<u>115,343</u>
Ending balance	<u><u>\$ 27,977,455</u></u>	<u><u>26,145,788</u></u>

(Continued)

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

	2015	2014
Receivables(including other financial assets and so on):		
Beginning balance	\$ 370,730	932,334
Reversal of doubtful accounts	47,839	(82,827)
Write-off	(13,400)	(525,394)
Recovery from written-off	15,295	17,529
Effects of exchange rate changes and others*	<u>1,025,073</u>	<u>29,088</u>
Ending balance	<u>\$ 1,445,537</u>	<u>370,730</u>
Total	<u>\$ 29,422,992</u>	<u>26,516,518</u>

The increase was mainly because the securized bonds became due and then were reclassified to other receivables as well as the related accumulated impairment to the allowance for doubtful accounts – other receivables.

Details of allowance for doubtful accounts were as follows:

	December 31, 2015	December 31, 2014
Call loans to bank	\$ 55,427	25,494
Receivables	1,318,632	288,739
Loans and discounts	27,977,455	26,145,788
Other financial assets	<u>71,478</u>	<u>56,497</u>
Total	<u>\$ 29,422,992</u>	<u>26,516,518</u>

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

	2015	2014
Bad debts	\$ 4,553,092	6,798,218
Reserve for guarantee liabilities	<u>(26,145)</u>	<u>537,293</u>
Total	<u>\$ 4,526,947</u>	<u>7,335,511</u>

As of December 31, 2015 and 2014, the amounts of loans and receivables on which the interests stopped to accrue were \$4,456,007 thousand dollars and \$6,310,952 thousand dollars, respectively, which were booked under loans and discounts - non-performing loans and other financial assets-overdue receivables. As of December 31, 2015 and 2014, the estimation of non-accrued interests were \$343,454 thousand dollars and \$517,921 thousand dollars, respectively.

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

(Continued)

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

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

	December 31, 2015	December 31, 2014
Negotiable certificates of deposit	\$ 888,310,000	658,400,000
Government bonds	35,702,178	30,285,017
Financial bonds	4,015,920	9,536,049
Corporate bonds	32,942,820	25,360,410
Financial asset securitization investments	6,067,571	995,505
TSEC and OTC stocks and certificates	53,980,235	60,367,339
Real estate securitization	865,101	865,101
Exchange traded funds	3,112,468	-
Foreign bonds	51,621,999	42,294,730
Foreign exchange traded funds	10,387,587	3,650,531
Foreign stocks	1,397,442	-
Add: Adjustment valuation	11,116,450	21,475,557
Less: accumulated impairment	-	(1,154,117)
<b>Total</b>	<b>\$ <u>1,099,519,771</u></b>	<b><u>852,076,122</u></b>

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, 2015	December 31, 2014
Domestic:		
Financial bonds	\$ 42,581,906	49,910,650
Corporate bonds	34,049,988	43,018,639
Negotiable certificates of deposits	2,503,296	3,405,511
Commercial papers	18,132,757	8,990,254
Government bonds	<u>75,304,748</u>	<u>57,105,876</u>
	<u>172,572,695</u>	<u>162,430,930</u>
Foreign:		
Bonds	126,790,614	106,260,521
Negotiable certificates of deposits	<u>1,600,170</u>	<u>1,900,180</u>
	<u>128,390,784</u>	<u>108,160,701</u>
<b>Total</b>	<b>\$ <u>300,963,479</u></b>	<b><u>270,591,631</u></b>

(Continued)

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

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

	December 31, 2015		December 31, 2014		January 1, 2014	
	Percentage of Ownership (%)	Amount	Percentage of Ownership (%)	Amount	Percentage of Ownership (%)	Amount
Hua Nan Financial Holdings Co., Ltd.	25.07	\$ 38,374,097	25.07	36,085,393	25.07	34,008,729
Taiwan Life Insurance Co., Ltd.	-	-	20.26	3,239,021	20.48	2,635,385
Kaohsiung Ammonium Sulfate Co., Ltd.	91.86	2,158,300	91.86	2,193,752	91.86	2,328,632
Tang Eng Iron Works Co., Ltd.	21.37	1,181,719	21.37	1,377,684	21.37	1,334,645
Tai Yi Real Estate Management Co., Ltd.	30.00	20,266	30.00	18,798	30.00	17,189
Total		<u>\$ 41,734,382</u>		<u>42,914,648</u>		<u>40,324,580</u>

- 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:

	2015	2014
Hua Nan Financial Holdings Co., Ltd.	\$ 208,586	373,979
Taiwan Life Insurance Co., Ltd.	1,057,758	219,451
Tang Eng Iron Works Co., Ltd.	2,875	(31,905)
Total	<u>\$ 1,269,219</u>	<u>561,525</u>

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

Name of Investee	2015	2014
Hua Nan Financial Holdings Co., Ltd.	\$ 3,530,225	3,292,215
Taiwan Life Insurance Co., Ltd.	1,539,178	355,284
Kaohsiung Ammonium Sulfate Co., Ltd.	(35,452)	(134,880)
Tang Eng Iron Works Co., Ltd.	(198,839)	74,944
Tai Yi Real Estate Management Co., Ltd.	4,168	3,158
Total	<u>\$ 4,839,280</u>	<u>3,590,721</u>

(Continued)

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

## Notes to the Consolidated Financial Statements

## 3) Maturity associate enterprise

The Company and its subsidiaries acquired Hua Nan Financial Holdings Company 25.07% shares, which had maturity effect, using equity method for accounted, other informations as following:

Aassociates Company	The relations between the Combined company	Business place/ registration country	The proportion of ownership interest and voting rights		
			December 31, 2015	December 31, 2014	January 1, 2014
Hua Nan Financial Holdings Co., Ltd.	Followed the FHC to investment, such as banking, finance bills industry	Taiwan	25.07 %	25.07 %	25.07 %

The Company and its subsidiaries has major affiliates of the listed or OTC companies, its fair value is as follows:

	December 31, 2015	December 31, 2014	January 1, 2014
Hua Nan Financial Holdings Co., Ltd.	\$ 37,879,361	41,515,153	39,511,208

1. Summarized of Financial Information  
Hua Nan Financial Holding Co., Ltd.

	December 31, 2015	December 31, 2014	January 1, 2014
Total Assets	\$ 2,350,288,574	2,259,951,646	2,164,728,571
Total Liabilities	(2,197,219,247)	(2,116,011,599)	(2,029,067,821)
Net Assets	<u>\$ 153,069,327</u>	<u>143,940,047</u>	<u>135,660,750</u>
The Company holding shares	<u>\$ 38,374,097</u>	<u>36,085,393</u>	<u>34,008,729</u>
	2015	2014	
Net income	\$ 14,080,661	13,131,187	
other comprehensive income	832,014	1,491,746	
Total comprehensive income	<u>\$ 14,912,675</u>	<u>14,622,933</u>	
The Company holding shares			
Investment income	\$ 3,530,225	3,292,215	
other comprehensive income	208,586	373,979	

- There are no significant restrictions on the ability of Hua Nan Financial Holding Co., Ltd. to transfer funds to its investors by distributing dividends, repaying loans or advances.
- The summarized financial information of Hua Nan Financial Holding Co., Ltd. has been adjusted to align the accounting results with those of the Bank accounted for using the equity method.

(Continued)

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

## Notes to the Consolidated Financial Statements

4. Hua Nan Financial Holdings Co., Ltd.'s financial statements is audited by other auditors. The related investment gains is \$3,530,225 thousand and \$3,292,215 thousand in 2015 and 2014, respectively.

### 4) Maturity associate enterprise

1. Summarized of Financial Information- The Company and its subsidiaries holding shares

	December 31, 2015	December 31, 2014	January 1, 2014
Total investment in book value	\$ <u>3,360,285</u>	<u>6,829,255</u>	<u>6,315,851</u>
		2015	2014
Investment income		\$ 1,309,055	298,506
other comprehensive income		1,060,633	187,546

2. Some invested company were accounted for using the equity method and have not audited by auditors. The related investment gains (loss) is \$(35,452) thousand and \$(134,880) thousand in 2015 and 2014.
3. Kaohsiung Ammonium Sulfate Co., Ltd., one of the associates accounted for using the equity method is in process of liquidation. The Bank has no control over it since the liquidators and supervisors are both assigned by the Ministry of Economic Affairs.
4. Taiwan Life Insurance Co., Ltd., one of the associates accounted for using the equity method, issued new shares on March 6, 2014 due to the maturity of its unsecured subordinated convertible bonds conducted in a private placement. The shareholding of the Company and its subsidiaries from 20.48% dropped to 20.26% as the Company and its subsidiaries did not recognize new shares proportionally by original shareholding percentage.
5. Taiwan Life Insurance Co., Ltd. agreed to be acquired as a subsidiary of CTBC Financial Holding Co., Ltd. ("CTBC") through swapping shares and both of these two companies have obtained approval from their board of directors for the deal on June 29, 2015. Under the agreement, the baseline date was set on October 15, 2015 and every 1 equity share of Taiwan Life Insurance Co., Ltd. can exchange for 1.6129 equity shares of CTBC.

On the baseline date, the Bank held 174,424 thousand shares of Taiwan Life Insurance Co., Ltd. and could exchange for 281,328 thousands of CTBC. After the exchange, the shareholding of the Company and its subsidiaries dropped to 1.76%, which makes Taiwan Life Insurance Co., Ltd. no longer an associate accounted for using the equity method of the bank due to the lack of significant influence. As such, the bank reclassified the investment to available-for-sale financial assets was 5,757,536 thousand and recognized the 1,679,506 thousand gain on disposal as the CTBC's stock price was 18.2 per share on the baseline date.

### 5) Collateral

No investment in associates was used as collateral of December 31, 2015.

(Continued)

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

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

	December 31, 2015	December 31, 2014
Short-term advances	\$ 54,833,878	56,675,763
Less: allowance for doubtful accounts — Short-term advances	(34,816)	(33,467)
Debt investments without quoted price in active markets	53,997,677	55,871,570
Financial assets carried at cost	8,599,826	10,786,462
Less: cumulative impairment — financial assets carried at cost	(15,049)	(15,049)
Remittances purchased	7,739	10,448
Less: allowance for doubtful accounts — remittances purchased	(77)	(105)
Overdue receivables	47,879	31,726
Less: allowance for doubtful accounts — overdue receivables	(36,585)	(22,925)
Separate account insurance product assets	13,009	621,659
Time deposits over three months	3,746,150	18,657,721
Others	19,153	18,630
Total	<u>\$ 121,178,784</u>	<u>142,602,433</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, 2015 and 2014.
- 2) Concerning for the payment of excess interest for the government, booked under “short term payment” for December 31, 2015 and 2014, please refer to note 11 for further information.
- 3) BOT received \$2.5 billion from Taiwan High Speed Rail Corporation for the repurchase of convertible preferred stocks (recognized as financial assets carried at cost) as part of capital reduction on August 7, 2015.

**(17) Investment property**

	Land and improvements	Buildings	Total
Cost or deemed cost:			
Balance at January 1, 2015	\$ 3,556,036	2,133,431	5,689,467
Additions	1,180,567	380,933	1,561,500
Reclassification to property and equipment	31,176	23,767	54,943
Balance at December 31, 2015	<u>\$ 4,767,779</u>	<u>2,538,131</u>	<u>7,305,910</u>
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	(251,391)	(67,534)	(318,925)
Balance at December 31, 2014	<u>\$ 3,556,036</u>	<u>2,133,431</u>	<u>5,689,467</u>

(Continued)

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

	Land and improvements	Buildings	Total
Depreciation:			
Balance at January 1, 2015	\$ -	202,002	202,002
Depreciation	-	60,220	60,220
Transferred from property and equipment	-	5,818	5,818
Balance at December 31, 2015	<u>\$ -</u>	<u>268,040</u>	<u>268,040</u>
Balance at January 1, 2014	\$ -	158,222	158,222
Depreciation	-	48,974	48,974
Reclassification to property and equipment	-	(5,194)	(5,194)
Balance at December 31, 2014	<u>\$ -</u>	<u>202,002</u>	<u>202,002</u>
Carrying amounts:			
December 31, 2015	<u>\$ 4,767,779</u>	<u>2,270,091</u>	<u>7,037,870</u>
January 1, 2014	<u>\$ 3,598,287</u>	<u>1,914,272</u>	<u>5,512,559</u>
December 31, 2014	<u>\$ 3,556,036</u>	<u>1,931,429</u>	<u>5,487,465</u>

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

Location	2015	2014
Rental revenue	\$ 234,285	187,884
Direct operating cost of the investment property for the period (comprise maintenance fee)	(93,575)	(77,942)
Net profit of investment property	<u>\$ 140,710</u>	<u>109,942</u>

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

	December 31, 2015	December 31, 2014
Fair value of investment properties	<u>\$ 9,812,066</u>	<u>8,036,252</u>

The fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent appraiser who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued. The range of yields applied to the net annual rentals to determine fair value of property for which current prices in an active market are unavailable was as follows:

	December 31, 2015	December 31, 2014
Capitalization of earning percentage	1.80%~3.18%	0.30%~2.95%

As of December 31, 2015 and 2014, the Company and its subsidiaries' investment property neither served as a guarantee or collateral, nor they were pledged.

(Continued)

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

**(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 2015 and 2014 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, 2015	\$ 87,775,755	15,688,372	6,623,885	1,090,398	1,039,726	728,927	310,953	113,258,016
Additions	-	7,682	310,862	39,213	30,572	38,797	265,658	692,784
Disposals	(175,065)	(137,334)	(397,957)	(62,157)	(43,454)	-	-	(815,967)
Reclassification	(31,179)	(18,173)	75,518	4,799	805	15,165	(102,202)	(55,267)
Effect of change in exchange rates	-	-	(714)	(431)	250	2,381	-	1,486
Balance at December 31, 2015	<u>\$ 87,569,511</u>	<u>15,540,547</u>	<u>6,611,594</u>	<u>1,071,822</u>	<u>1,027,899</u>	<u>785,270</u>	<u>474,409</u>	<u>113,081,052</u>
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>
<b>Accumulated depreciation:</b>								
Balance at January 1, 2015	\$ 14,062	6,488,954	4,987,780	905,521	836,095	651,584	-	13,883,996
Depreciation	362	306,125	430,915	44,442	37,323	29,506	-	848,673
Disposal	-	(71,847)	(371,082)	(61,126)	(39,550)	(41)	-	(543,646)
Reclassification	-	(5,818)	-	-	-	-	-	(5,818)
Effect of change in exchange rates	-	-	(625)	(359)	60	1,946	-	1,022
Balance at December 31, 2015	<u>\$ 14,424</u>	<u>6,717,414</u>	<u>5,046,988</u>	<u>888,478</u>	<u>833,928</u>	<u>682,995</u>	<u>-</u>	<u>14,184,227</u>
Balance at December 31, 2015	\$ 13,699	6,161,615	4,692,424	895,548	827,215	614,786	-	13,205,287
Depreciation	363	322,145	471,068	46,950	40,054	36,195	-	916,775
Disposal	-	-	(175,999)	(37,201)	(32,005)	(685)	-	(245,890)
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>
<b>Accumulated impairment:</b>								
Balance at January 1, 2015	\$ 90,919	-	-	-	-	-	-	90,919
Impairment loss	(17,323)	-	-	-	-	-	-	(17,323)
Balance at December 31, 2015	<u>\$ 73,596</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73,596</u>
Balance at December 31, 2015	\$ 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>
<b>Carrying amounts:</b>								
December 31, 2015	<u>\$ 87,481,491</u>	<u>8,823,133</u>	<u>1,564,606</u>	<u>183,344</u>	<u>193,971</u>	<u>102,275</u>	<u>474,409</u>	<u>98,823,229</u>
January 1, 2014	<u>\$ 87,514,406</u>	<u>9,401,622</u>	<u>1,711,158</u>	<u>207,054</u>	<u>205,782</u>	<u>81,493</u>	<u>248,131</u>	<u>99,369,646</u>
December 31, 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>

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, 2015 and 2014, the total revaluation increments for land were \$82,119,093 thousand and \$82,286,879 thousand, respectively. The total revaluation increments for Buildings were \$155,372 thousand and \$160,553 thousand.

As of December 31, 2015, the Company and its subsidiaries' property and equipment neither served as a guarantee or collateral, nor were they pledged, please refer to note 51.

(Continued)

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

## Notes to the Consolidated Financial Statements

## (19) Intangible Assets

Changes in the costs, amortization, and impairment loss of intangible assets of the Company and its subsidiaries for the year ended 2015 and 2014 were as follows:

	<b>Computer software</b>
Costs:	
Balance at January 1, 2015	\$ 2,696,930
Additions	273,417
Reclassification	<u>(70)</u>
Balance at December 31, 2015	<u>\$ 2,970,277</u>
Balance at January 1, 2014	\$ 2,417,782
Additions	<u>279,148</u>
Balance at December 31, 2014	<u>\$ 2,696,930</u>
Amortization and Impairment loss:	
Balance at January 1, 2015	\$ 1,738,801
Amortization for the year	362,335
Reclassification	<u>(70)</u>
Balance at December 31, 2015	<u>\$ 2,101,066</u>
Balance at January 1, 2014	\$ 1,355,603
Amortization for the year	<u>383,198</u>
Balance at December 31, 2014	<u>\$ 1,738,801</u>
Carrying value:	
Balance at December 31, 2015	<u>\$ 869,211</u>
Balance at January 1, 2014	<u>\$ 1,062,179</u>
Balance at December 31, 2014	<u>\$ 958,129</u>

## (20) Other Assets

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Foreclosed collaterals and residuals taken over, net	\$ 1,076,959	1,076,959
Advance payments	5,479,379	8,699,346
Operating guarantee deposits and settlement funds	101,625	94,814
Refundable deposits	3,865,256	3,239,155
Temporary Payments and Suspense Accounts	288,344	191,772
Inventories	746,112	849,303
Others	<u>392</u>	<u>1,008</u>
Total	<u>\$ 11,558,067</u>	<u>14,152,357</u>

(Continued)

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

1) Foreclosed collaterals and residuals taken over, net

	December 31, 2015	December 31, 2014
Foreclosed collaterals and residuals taken over	\$ <u>1,076,959</u>	<u>1,076,959</u>

2) Advance payment

	December 31, 2015	December 31, 2014
Prepaid expenses	\$ 355,012	417,030
Prepaid interests	11,871	1,446
Prepaid tax	775	-
Prepaid stock dividends and bonus	-	3,226,771
Other prepayment—	5,001,812	4,614,073
Other prepayment—other	<u>109,909</u>	<u>440,026</u>
Total	\$ <u>5,479,379</u>	<u>8,699,346</u>

3) Inventories

	December 31, 2015	December 31, 2014
Inventories	\$ 749,542	866,675
Less: allowance for inventory valuation	<u>(3,430)</u>	<u>(17,372)</u>
Total	\$ <u>746,112</u>	<u>849,303</u>

The effects on the cost of goods sold derived from the inventory write-off or reversal for the year ended 2015 and 2014 were as follows:

	2015	2014
Sale gain	\$ <u>13,942</u>	<u>1,351</u>

(Continued)

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

**(21) Impairment**

For the year ended 2015 and 2014, the movements of the accumulated impairment were as follows:

	December 31, 2015	December 31, 2014
Beginning balance	\$ 1,260,085	1,254,135
Impairment loss recognized for the current period	-	46,421
Reversal of impairment loss for the current period	(17,323)	(44,736)
Write-off	(1,158,875)	(1,406)
Effect of foreign exchange rate changes and others	4,758	5,671
Ending balance	<u>\$ 88,645</u>	<u>1,260,085</u>

Note: It was mainly because the financial bonds and beneficiary certificates of financial asset securitization became due and then were reclassified to account receivables other receivables as well as the accumulated impairment to allowance for doubtful accounts – other receivables.

Details of accumulated impairment were as follows:

	December 31, 2015	December 31, 2014
Available-for-sale financial assets	\$ -	1,154,117
Other financial assets	15,049	15,049
Property and equipment	73,596	90,919
Ending balance	<u>\$ 88,645</u>	<u>1,260,085</u>

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

	December 31, 2015	December 31, 2014
Deposits from Central Bank	\$ 10,108,456	11,041,140
Deposits from banks—others	43,422,012	37,780,561
Postal deposits transferred	1,213,859	1,263,357
Bank overdrafts	787,631	2,066,604
Call loans from bank	169,893,559	104,837,168
Total	<u>\$ 225,425,517</u>	<u>156,988,830</u>

(Continued)

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

**(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, 2015	December 31, 2014
Financial liabilities held for trading	\$ 87,736	42,868
Add: Valuation adjustment	<u>6,589,471</u>	<u>18,328,234</u>
Subtotal	<u>6,677,207</u>	<u>18,371,102</u>
Financial liabilities designated at fair value through profit or loss	33,537,600	32,303,400
Add: Valuation adjustment	<u>(262,196)</u>	<u>(563,457)</u>
Subtotal	<u>33,275,404</u>	<u>31,739,943</u>
Total	<u><u>\$ 39,952,611</u></u>	<u><u>50,111,045</u></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".
- 3) Financial liabilities held for trading

	December 31, 2015	December 31, 2014
Foreign exchange options premium	\$ 33,763	14,846
Asset swaps-options	38,359	28,022
Contract value of asset swap IRS	184	-
Issuing Warrants	15,430	-
Add: Valuation adjustment		
Foreign exchange options premium	2,419	9,456
Swaps	5,615,491	16,561,975
Cross currency swaps	105,644	96,916
Interest rate swaps	128,911	278,764
Forward foreign exchanges	526,736	766,414
Issuing Warrants	(12,430)	56
Asset swaps	227,492	578,495
Asset swaps-options	(4,792)	36,025
Credit default swaps	<u>-</u>	<u>133</u>
Total	<u><u>\$ 6,677,207</u></u>	<u><u>18,371,102</u></u>

(Continued)

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

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

	December 31, 2015	December 31, 2014
Financial bonds	\$ 33,537,600	32,303,400
Add: Valuation adjustment	<u>(262,196)</u>	<u>(563,457)</u>
Total	<u>\$ 33,275,404</u>	<u>31,739,943</u>

The Bank was approved by the FSC to issue USD \$1.5 billion of 2014-2 Senior Unsecured Financial Bonds denominated in U.S. dollar within one year on October 23, 2014. The authorized but not publicly offered and issued amount, USD \$0.48 billion, expired automatically on October 23, 2015.

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, 2015	December 31, 2014
2014-2 Senior unsecured financial bonds-A	2014/11/26	2034/11/26	0 %	USD \$100 million	Senior unsecured financial bond	\$ 3,288,000	3,167,000
2014-2 Senior unsecured financial bonds-B	2014/11/26	2044/11/26	0 %	USD \$480 million	Senior unsecured financial bond	15,782,400	15,201,600
2014-2 Senior unsecured financial bonds-C	2014/12/01	2044/12/01	0 %	USD \$440 million	Senior unsecured financial bond	14,467,200	13,934,800
Valuation adjustment						<u>(262,196)</u>	<u>(563,457)</u>
						<u>\$ 33,275,404</u>	<u>31,739,943</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, 2015	December 31, 2014
Foreign exchange options premium	\$ 3,799,753	3,283,323
Swaps	547,759,691	619,665,305
Cross currency swaps	2,597,800	1,495,600
Interest rate swaps	9,933,676	23,921,204
Forward foreign exchanges	25,000,759	18,216,271
Asset swaps	32,207,933	31,477,085
Asset swaps-options	25,000	190,500
Credit default swaps	-	192,700
Warrants	<u>722</u>	<u>200</u>
Total	<u>\$ 621,325,334</u>	<u>698,442,188</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, 2015</b>			
	<b>Guarantee or acceptance institution</b>	<b>Range of interest rates</b>	<b>Amount</b>
Commercial paper payable	International Bills Finance Corporation	0.858%~1.068%	\$ 840,000
	Mega Bills Finance Co., Ltd.	0.848%~1.018%	120,000
	China Bills Finance Corporation	0.858%~1.068%	500,000
			1,460,000
Less: discount			(340)
Total			\$ 1,459,660

<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	0.998%~1.068%	\$ 1,280,000
	China Bills Finance Corporation	0.988%~1.148%	1,200,000
			2,480,000
Less: discount			(1,618)
Total			\$ 2,478,382

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, 2015	December 31, 2014
Accounts payable	\$ 5,954,001	7,724,170
Receipts under custody	1,316,211	1,152,674
Accrued expense	2,831,416	2,786,713
Other tax payable	541,311	569,891
Interest payable	13,092,140	11,958,308
Banker's acceptance payable	2,143,698	2,552,753
Payables to representative organizations	17,811,159	21,167,952
Construction payable	14,244	7,949
Commission payable	202,633	217,627
Other payables—collection bills	2,319,808	2,459,106
Other payables—payments awaiting transfer	5,783,459	5,476,557
Other payables—ATM temporary receipts, payments and inter branch difference	1,722,094	1,715,625
Other payables—foreign exchange awaiting transfer	500,296	320,889
Other payables—non-recourse factoring	316,680	338,219
Other payables—amounts awaiting settlement	5,209,447	3,307,611
Other payables—settlement accounts payable	1,115,273	1,533,401
Other payables—settlement prices	883,055	925,083
Other payables—overdue accounts	168,143	424,423
Other payables—check deposit	122,753	109,184
Other payables—others	1,487,716	1,829,124
Total	<u>\$ 63,535,537</u>	<u>66,577,259</u>

(Continued)

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

**(26) Deposits and Remittances**

	December 31, 2015	December 31, 2014
Check deposits	\$ 32,868,515	34,637,401
Government deposits	247,463,233	227,835,069
Demand deposits	374,288,214	326,226,441
Time deposits	661,571,152	584,004,637
Remittances	587,182	2,901,582
Savings account deposits:		
Demand savings deposits	807,918,761	699,193,320
Staff accounts	24,230,401	23,964,049
Club saving deposits	1,009,183	1,012,102
Non-drawing time savings deposits	346,590,130	358,167,407
Interest withdrawal on principal deposited	865,905,386	818,933,212
Preferential Interest deposits	463,426,833	460,153,869
Total	<u><u>\$ 3,825,858,990</u></u>	<u><u>3,537,029,089</u></u>

**(27) Financial Bonds Payable**

Name of bond	Beginning date	Maturity date	Condition Interest rate	Type	Bond Amount	
					December 31, 2015	December 31, 2014
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	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	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	1,500,000
			Unamortized discount amount		(2,174)	(2,388)
Total					<u><u>\$ 24,997,826</u></u>	<u><u>24,997,612</u></u>

(Continued)

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

**(28) Borrowings**

As of December 31, 2015 and 2014, the short-term borrowings which were not utilized by the Company's subsidiary, BankTaiwan Securities, were 16,263,040 thousand dollar, and 15,686,447 thousand dollar, respectively.

Bank	December 31, 2015		Total amount	Interest rate
	Nature			
Hua Nan Bank	Short-term loans		1,000,000	1.430 %
	Overdrafts			0.300 %
	Guaranteed loans			0.500 %
Yuanta Bank	Short-term loans		1,000,000	1.350 %
	Guaranteed loans			0.250 %
Taiwan Cooperative Bank	Short-term loans		5,000,000	1.350 %
	Guaranteed loans			0.300 %
Chinatrust Commercial Bank	Short-term loans		1,000,000	1.020 %
	Overdrafts			0.180 %

Bank	December 31, 2014		Total amount	Interest rate
	Nature			
Hua Nan Bank	Short-term loans		1,000,000	1.320 %
	Overdrafts			0.300 %
	Guaranteed loans			0.500 %
Yuanta Bank	Short-term loans		1,000,000	1.300 %
	Guaranteed loans			0.250 %
Taiwan Cooperative Bank	Short-term loans		5,000,000	1.300 %
	Guaranteed loans			0.300 %
Chinatrust Commercial Bank	Short-term loans		1,000,000	1.000 %
	Overdrafts			0.180 %

(Continued)

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

**(29) Other Financial Liabilities**

	December 31, 2015	December 31, 2014
Appropriated loan funds	\$ 64,900	99,410
Liability of insurance product-separate account	13,009	621,659
Principal from structured products	<u>1,720,530</u>	<u>1,657,544</u>
Total	<u>\$ 1,798,439</u>	<u>2,378,613</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, 2015	December 31, 2014	January 1, 2014
Reserve for unearned premiums	\$ 420,430	417,355	423,167
Claims reserve	77,337	76,037	77,030
Liability reserve	319,274,456	351,525,857	362,136,716
Special reserve	228,097	317,003	267,493
Reserve for premium deficiency	2,683,251	991,750	702,608
Foreign exchange volatility reserve	869,492	1,376,324	439,970
Employee benefit obligations	18,068,169	17,021,481	16,474,863
Guarantee reserve	1,119,204	1,144,965	606,505
Reserve for government employees insurance	<u>245,997,636</u>	<u>240,468,607</u>	<u>216,594,551</u>
Total	<u>\$ 588,738,072</u>	<u>613,339,379</u>	<u>597,722,903</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, 2015 and 2014 were as follows:

1) Details of reserve for unearned premium:

	<b>December 31, 2015</b>		
	<b>Insurance</b>	<b>Financial</b>	
	<b>Contract</b>	<b>products with</b>	<b>Total</b>
		<b>discretionary</b>	
		<b>participation</b>	
		<b>feature</b>	
Personal life insurance	\$ 15,516	2,235	17,751
Personal injury insurance	68,696	-	68,696
Personal health insurance	121,555	-	121,555
Group insurance	212,370	-	212,370
Investment-linked insurance	<u>58</u>	<u>-</u>	<u>58</u>
Total	<u>418,195</u>	<u>2,235</u>	<u>420,430</u>
Deduction of reserve for unearned premium outward:			
Personal life insurance	832	62	894
Personal injury insurance	4,430	-	4,430
Group insurance	4,032	-	4,032
Investment-linked insurance	<u>1</u>	<u>-</u>	<u>1</u>
Total	<u>9,295</u>	<u>62</u>	<u>9,357</u>
Net	<u>\$ 408,900</u>	<u>2,173</u>	<u>411,073</u>

	<b>December 31, 2014</b>		
	<b>Insurance</b>	<b>Financial</b>	
	<b>Contract</b>	<b>products with</b>	<b>Total</b>
		<b>discretionary</b>	
		<b>participation</b>	
		<b>feature</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	<u>51</u>	<u>-</u>	<u>51</u>
Total	<u>413,623</u>	<u>3,732</u>	<u>417,355</u>

(Continued)

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

## Notes to the Consolidated Financial Statements

	December 31, 2014		
	Insurance	Financial	
	Contract	products with	
		discretionary	
		participation	
		feature	Total
Deduction of reserve for unearned premium outward:			
Personal life insurance	\$ 644	84	728
Personal injury insurance	4,385	-	4,385
Group insurance	<u>4,623</u>	<u>-</u>	<u>4,623</u>
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>

The reconciliations of reserve for unearned premium were listed below:

	2015		
	Insurance	Financial	
	Contract	products with	
		discretionary	
		participation	
		feature	Total
Balance at January 1, 2015	\$ 413,623	3,732	417,355
Provision	413,480	2,235	415,715
Reclaim	(408,899)	(3,732)	(412,631)
Other	<u>(9)</u>	<u>-</u>	<u>(9)</u>
Balance at December 31, 2015	<u>418,195</u>	<u>2,235</u>	<u>420,430</u>
Deduction of reserve for unearned premium outward			
Balance at January 1, 2015, net	9,652	84	9,736
Provision	9,295	62	9,357
Reclaim	<u>(9,652)</u>	<u>(84)</u>	<u>(9,736)</u>
Balance at December 31, 2015, net	<u>9,295</u>	<u>62</u>	<u>9,357</u>
Total	<u>\$ 408,900</u>	<u>2,173</u>	<u>411,073</u>

(Continued)

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

## Notes to the Consolidated Financial Statements

	Insurance Contract	2014 Financial products with discretionary participation feature	Total
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	<u>(11,621)</u>	<u>(109)</u>	<u>(11,730)</u>
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>

## 2) Details of claims reserve:

	Insurance Contract	December 31, 2015 Financial products with discretionary participation feature	Total
Personal life Insurance			
Reported but not paid	\$ 7,832	3,137	10,969
Not reported and not paid	622	564	1,186
Personal injury insurance			
Reported but not paid	26	-	26
Not reported and not paid	7,101	-	7,101
Personal health insurance			
Reported but not paid	1,387	-	1,387
Not reported and not paid	17,384	-	17,384
Group insurance			
Reported but not paid	5,137	-	5,137
Not reported and not paid	<u>34,147</u>	<u>-</u>	<u>34,147</u>
Total	<u>73,636</u>	<u>3,701</u>	<u>77,337</u>

(Continued)

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

## Notes to the Consolidated Financial Statements

	December 31, 2015		
	Financial products with discretionary participation feature		
	Insurance Contract		Total
Deduction of claims reserve-outward:			
Personal life Insurance	\$ 1,046	1	1,047
Personal injury insurance	248	-	248
Personal health insurance	2	-	2
Group insurance	757	-	757
Total	2,053	1	2,054
Net	<u>\$ 71,583</u>	<u>3,700</u>	<u>75,283</u>

	December 31, 2014		
	Financial products with discretionary participation feature		
	Insurance Contract		Total
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	39,813	-	39,813
Total	74,200	1,837	76,037
Deduction of claims reserve-outward:			
Personal life Insurance	35	5	40
Personal injury insurance	701	-	701
Personal health insurance	14	-	14
Group insurance	633	-	633
Total	1,383	5	1,388
Net	<u>\$ 72,817</u>	<u>1,832</u>	<u>74,649</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:

	Insurance Contract	2015 Financial products with discretionary participation feature	Total
Balance at January 1, 2015	\$ 74,200	1,837	76,037
Provision	278,018	5,486	283,504
Recovery	<u>(278,582)</u>	<u>(3,622)</u>	<u>(282,204)</u>
Balance at December 31, 2015	<u>73,636</u>	<u>3,701</u>	<u>77,337</u>
Deduction of claims reserve-outward			
Balance at January 1, 2015, net	1,383	5	1,388
Provision	6,363	2	6,365
Recovery	<u>(5,693)</u>	<u>(6)</u>	<u>(5,699)</u>
Balance at December 31, 2015, net	<u>2,053</u>	<u>1</u>	<u>2,054</u>
Closing balance	<u>\$ 71,583</u>	<u>3,700</u>	<u>75,283</u>

  

	Insurance Contract	2014 Financial products with discretionary participation feature	Total
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>\$ 72,817</u>	<u>1,832</u>	<u>74,649</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, 2015</b>			
	<b>Insurance Contract</b>	<b>Financial products with discretionary participation feature</b>	<b>Total</b>
Life insurance	\$ 219,252,240	50,618,229	269,870,469
Health insurance	5,897,354	-	5,897,354
Annuity insurance	42,161	42,546,402	42,588,563
Reclaim of reserve for major accidents	2,429	-	2,429
Strengthen increasing reserve	770,000	-	770,000
Reserve for life insurance – reduce sales tax (the accumulated unwritten-off allocation of 3% of sales)	145,641	-	145,641
Total	<u><u>\$ 226,109,825</u></u>	<u><u>93,164,631</u></u>	<u><u>319,274,456</u></u>

  

<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
Total	<u><u>\$ 246,443,558</u></u>	<u><u>105,082,299</u></u>	<u><u>351,525,857</u></u>

(Continued)

**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>2015 Financial products with discretionary participation feature</b>	<b>Total</b>
Balance at January 1, 2015	\$ 246,443,558	105,082,299	351,525,857
Provision	29,647,951	8,212,204	37,860,155
Reclaim	(50,856,471)	(20,106,067)	(70,962,538)
Gain from cancellation of insurance	(57,347)	(23,805)	(81,152)
Effect of changes in exchange rates	932,134	-	932,134
Balance at December 31, 2015	<u>\$ 226,109,825</u>	<u>93,164,631</u>	<u>319,274,456</u>

	<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)
Gain from cancellation of insurance	(31,876)	(17,023)	(48,899)
Effect of changes in exchange rates	1,233,476	-	1,233,476
Balance at December 31, 2014	<u>\$ 246,443,558</u>	<u>105,082,299</u>	<u>351,525,857</u>

4) Details of special reserve:

	<b>Insurance Contract</b>	<b>December 31, 2015 Financial products with discretionary participation feature</b>	<b>Total</b>
Provision for dividend policy	<u>\$ 228,097</u>	<u>-</u>	<u>228,097</u>

(Continued)

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

		<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>
Provision for dividend policy	\$ <u>317,003</u>	<u>-</u>	<u>317,003</u>

The movements of special reserve were listed below:

		<b>2015</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, 2015	\$ 317,003	-	317,003
Provision of dividend policy	4,639	-	4,639
Recovery of dividend policy	<u>(93,545)</u>	<u>-</u>	<u>(93,545)</u>
Balance at December 31, 2015	\$ <u>228,097</u>	<u>-</u>	<u>228,097</u>

		<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	\$ 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>

5) Reserve for premium deficiency:

		<b>December 31, 2015</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	\$ 2,682,579	-	2,682,579
Personal health insurance	<u>672</u>	<u>-</u>	<u>672</u>
Total	\$ <u>2,683,251</u>	<u>-</u>	<u>2,683,251</u>

(Continued)

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

	<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>Total</b>
		<b>feature</b>	
Personal life insurance	\$ 991,598	-	991,598
Personal health insurance	<u>152</u>	-	<u>152</u>
Total	<u><u>\$ 991,750</u></u>	<u>-</u>	<u><u>991,750</u></u>

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

	<b>2015</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, 2015	\$ 991,750	-	991,750
Provision	1,740,125	-	1,740,125
Reclaim	(50,514)	-	(50,514)
Effect of changes in exchange rates	<u>1,890</u>	-	<u>1,890</u>
Balance at December 31, 2015	<u><u>\$ 2,683,251</u></u>	<u>-</u>	<u><u>2,683,251</u></u>

	<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	\$ 702,608	-	702,608
Provision	640,585	-	640,585
Reclaim	(353,388)	-	(353,388)
Effect of changes in exchange rates	<u>1,945</u>	-	<u>1,945</u>
Balance at December 31, 2014	<u><u>\$ 991,750</u></u>	<u>-</u>	<u><u>991,750</u></u>

(Continued)

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

6) Details of provision for liability adequacy:

1. Information on provision for liability adequacy of the subsidiary, BTLI, as of December 31, 2015, December 31, 2014 was as follows:

	December 31, 2015	December 31, 2014
Liability reserve	\$ 319,163,286	351,409,802
Reserve for unearned premium	189,628	12,957
Special reserve	228,097	317,003
Reserve for premium deficiency	<u>2,683,251</u>	<u>991,750</u>
Book value of insurance liability	<u>\$ 322,264,262</u>	<u>352,731,512</u>
Estimate of present cash flow	<u>\$ 290,677,124</u>	<u>345,375,042</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.

Inward reinsurance: Starting from 2015, the Central Reinsurance Corporation no longer transfers the business of reinsurance to the Company, due to the policy adjustment. There is no need to conduct the liability adequacy test of inward reinsurance.

2. As of December 31, 2015 and 2014, the short-term insurance of liability adequacy reserve of the Company is summarized as follows:

	December 31, 2015	December 31, 2014
Claim and reserve within a year	\$ 92,090	218,320
Less: Premium not received within a year	<u>3,138</u>	<u>56,917</u>
Subtotal	<u>\$ 88,952</u>	<u>161,403</u>
Unearned premium reserve	<u>\$ 229,584</u>	<u>399,970</u>
Liability adequacy reserve	<u>\$ -</u>	<u>-</u>

The amount of claim and reserve within a year, deducted by the current unpaid premium, were lower than the amount of unearned premium reserve; and therefore, the liability adequacy was sufficient.

Inward reinsurance: Starting 2015, the Central Reinsurance Corporation ceased to continue to transfer its reinsurance business to BTLI due to its reinsurance policy adjustment. It is not required to conduct a liability adequacy test for inward reinsurance.

(Continued)

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

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

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Test Method	Long term insurance : gross premium evaluation method: Short term insurance (including inward reinsurance) : loss evaluation method	Long term insurance : gross premium evaluation method: Short term insurance (including inward 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 2014 (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 2013 (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, 2015 and 2014, the primary foreign exchange exposures were USD assets, amounting \$27,800,944 thousand dollars and \$40,071,903 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:

	2015	2014
Balance as at 1 January, 2013	\$ 1,376,324	439,970
Current provision:		
Compulsory provision	159,627	213,090
Additional provision	924,088	1,172,821
Subtotal	<u>1,083,715</u>	<u>1,385,911</u>
Current write-off	<u>(1,590,547)</u>	<u>(449,557)</u>
Balance as at 31 December, 2013	<u>\$ 869,492</u>	<u>1,376,324</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	2015 Applied amount	Effectuated amount
Net income before income tax	\$ 7,429,705	7,936,537	(506,832)
Net income after income tax	5,916,809	6,337,480	(420,671)
Earnings per share before tax	0.83	0.88	-
Earnings per share after tax	0.66	0.70	-
Net increase on Provision for foreign exchange (book under net change in insurance liabilities)	-	(506,832)	(506,832) (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)	-	869,492	869,492 (Note)
Owner's equity	253,263,848	253,684,465	(420,617)

(Note): The provision for foreign exchange volatility at December 31, 2015, \$869,492 thousand dollar, derived from the unrealized foreign exchanges of \$1,376,324 thousand dollar as of December 31, 2014, plus the provision of \$506,832 thousand dollar recognized in current period.

(Continued)

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

Item	Unapplied amount	2014 Applied amount	Effected amount
Net income before income tax	\$ 9,527,172	8,590,818	936,354
Net income after income tax	8,152,507	7,375,333	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 (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)	-	1,376,324	1,376,324 (Note)
Owner's equity	260,508,441	259,731,267	777,174

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

**(33) Employee benefit obligations**

	December 31, 2015	December 31, 2014	January 1, 2014
Recognized in Consolidated Balance Sheet:			
— Defined benefit plans	\$ 9,564,733	8,920,887	8,534,180
— Employees preferential interest deposits	8,209,886	7,863,789	7,705,950
— Three Chinese festival bonus	256,441	236,805	234,733
— Civil servant and teacher insurance excess annuity benefit plans	37,109	-	-
Total	<u>\$ 18,068,169</u>	<u>17,021,481</u>	<u>16,474,863</u>

(Continued)

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

**(34) Other Liabilities**

	December 31, 2015	December 31, 2014
Advance collections	\$ 2,373,940	2,315,275
Guarantee deposits received	3,322,981	3,658,459
Temporary receipt awaiting transfer	665,066	1,128,903
Other liabilities	8,239	8,239
Compensation arising from land revaluation	1,264,803	1,264,803
Collections for underwriting stock value	424,213	-
Total	<u>\$ 8,059,242</u>	<u>8,375,679</u>

**(35) Income Tax Expenses**

## 1) Income tax expenses (benefit)

The income tax expenses for 2015 and 2014 were as follows:

	2015	2014
Current income tax expense	\$ 142,982	1,306,586
Deferred tax expenses (benefit)	<u>1,456,075</u>	<u>(91,101)</u>
Income tax expenses	<u>\$ 1,599,057</u>	<u>1,215,485</u>

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

	2015	2014
Unrealized (gain) loss on available-for-sale financial assets	\$ 171,675	(58,469)
Actuarial gain (loss) on defined benefit plans	<u>3,351</u>	<u>4,115</u>
	<u>\$ 175,026</u>	<u>(54,354)</u>

Reconciliations of income tax expense (benefit) and profit before tax for 2015 and 2014 were as follows:

	2015	2014
Profit before tax	\$ <u>7,936,537</u>	<u>8,590,818</u>
Income tax based on domestic tax rate	1,349,211	1,460,439
Income tax expense of overseas branches	636,074	552,777
Changes in deferred tax assets and liabilities	1,456,075	(91,101)
Others	<u>(1,842,303)</u>	<u>(706,631)</u>
Total	<u>\$ 1,599,057</u>	<u>1,215,484</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

1. Unrecognized deferred tax assets

Unrecognized deferred tax assets are as follows:

	December 31, 2015	December 31, 2014
Deductible temporary difference	\$ <u>3,928,256</u>	<u>3,166,398</u>

2. Recognized deferred tax assets and liabilities

Changes in deferred tax assets and liabilities for 2015 and 2014 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, 2015	\$ 41,755	881,319	88	1,294,011	2,217,173
Recognized in profit or loss	17,116	(310,202)	159	(998,198)	(1,291,125)
Recognized in other comprehensive income	3,351	199,915	-	-	203,266
Balance at December 31, 2015	\$ <u>62,222</u>	<u>771,032</u>	<u>247</u>	<u>295,813</u>	<u>1,129,314</u>
Balance at January 1, 2014	\$ 24,310	427,932	137	1,592,379	2,044,758
Recognized in profit or loss	13,330	560,031	(41)	(298,376)	274,944
Recognized in other comprehensive income	4,115	(106,644)	-	-	(102,529)
Balance at December 31, 2014	\$ <u>41,755</u>	<u>881,319</u>	<u>96</u>	<u>1,294,003</u>	<u>2,217,173</u>

Deferred Tax Liabilities:

	Defined benefit plans	Land value increment tax	Fair value gains	Unrealized gain or loss on foreign exchange	Other	Total
Balance at January 1, 2015	\$ -	18,262,442	110,179	91,343	99,410	18,563,374
Recognized in profit or loss	5,780	(36,238)	-	199,250	(3,842)	164,950
Recognized in other comprehensive income	-	-	28,240	-	-	28,240
Balance at December 31, 2015	\$ <u>5,780</u>	<u>18,226,204</u>	<u>138,419</u>	<u>290,593</u>	<u>95,568</u>	<u>18,756,564</u>
Balance at January 1, 2014	\$ -	18,274,254	144,645	(1,072,981)	1,081,788	18,427,706
Recognized in profit or loss	-	(11,812)	13,709	1,164,324	(982,378)	183,843
Recognized in other comprehensive income	-	-	(48,175)	-	-	(48,175)
Balance at December 31, 2014	\$ <u>-</u>	<u>18,262,442</u>	<u>110,179</u>	<u>91,343</u>	<u>99,410</u>	<u>18,563,374</u>

(Continued)

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

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

	December 31, 2015	December 31, 2014	January 1, 2014
Unappropriated earnings of 1998 and after	\$ <u>5,377,817</u>	<u>7,089,947</u>	<u>6,760,348</u>

	December 31, 2015	December 31, 2014	January 1, 2014
Balance of deductible tax account	\$ <u>844</u>	<u>515,932</u>	<u>981,360</u>

2015(Projected)      2014(Actual)

Imputed tax creditable ratio for appropriating net income	<u>11.72 %</u>	<u>20.48 %</u>
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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, 2015 and 2014, 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, 2015	December 31, 2014
Changes in capital surplus-associates and joint ventures accounted using equity method	\$ -	78,422
Equity premium	<u>111,385,217</u>	<u>111,385,217</u>
Total	<u>\$ 111,385,217</u>	<u>111,463,639</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 when which without loss and resolution by the shareholders. The aforementioned realized capital surplus includes the income derived from the issuance of new shares at a premium and the income from endowment 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.

(Continued)

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

## Notes to the Consolidated Financial Statements

## 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.

## 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.

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

## 5) Other equity

	Exchange differences arising on translation of foreign operations	Unrealized gain (loss) on available-for-sale financial assets	Change in fair value of financial liability attributable to change in credit risk of liability	Total
Balance at January 1, 2015	\$ 310,329	20,077,389	55,862	20,443,580
Exchange differences arising on translation of foreign operations	952,882	-	-	952,882
Unrealized gain (loss) on available-for-sale financial assets	-	(9,073,955)	-	(9,073,955)
Change in fair value of financial liability attributable to change in credit risk of liability	-	-	(29,231)	(29,231)
Balance at December 31, 2015	<u>\$ 1,263,211</u>	<u>11,003,434</u>	<u>26,631</u>	<u>12,293,276</u>
Balance at January 1, 2014	\$ (306,784)	17,378,040	-	17,071,256
Exchange differences arising on translation of foreign operations	617,113	-	-	617,113
Unrealized gain (loss) on available-for-sale financial assets	-	2,699,349	-	2,699,349
Change in fair value of financial liability attributable to change in credit risk of liability	-	-	55,862	55,862
Balance at December 31, 2014	<u>\$ 310,329</u>	<u>20,077,389</u>	<u>55,862</u>	<u>20,443,580</u>

## (37) Net interest income

	2015	2014
Interest income:		
Loans and discounts	\$ 44,158,073	44,353,306
Placement with Central Bank and call loans to banks	9,109,597	10,983,498
Securities investment	19,384,960	18,503,669
Credit cards	30,693	32,524
Bonds purchased under resell agreements	36,002	64,125
Others	1,264,415	1,159,386
Subtotal	<u>73,983,740</u>	<u>75,096,508</u>

(Continued)

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

	2015	2014
Interest expense:		
Deposits from customers	\$ 33,744,507	32,592,735
Deposits of Central Banks and other banks	2,032,233	3,167,445
Bonds sold under repurchased agreements	152,285	239,550
Financial bonds	364,053	327,108
Structured deposits	27,345	5,230
Others	<u>223,258</u>	<u>241,154</u>
Subtotal	<u>36,543,681</u>	<u>36,573,222</u>
Total	<u>\$ 37,440,059</u>	<u>38,523,286</u>

**(38) Service fees, net**

	2015	2014
Service fees revenue:		
Bank business	\$ 5,044,810	5,385,991
Insurance business	107,703	109,835
Securities business	<u>379,042</u>	<u>398,392</u>
Subtotal	<u>5,531,555</u>	<u>5,894,218</u>
Service fees expense:		
Bank business	578,156	83,022
Insurance business	1,438,076	1,801,740
Securities business	<u>24,517</u>	<u>23,219</u>
Subtotal	<u>2,040,749</u>	<u>1,907,981</u>
Total	<u>\$ 3,490,806</u>	<u>3,986,237</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.

(Continued)

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

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

	2015	2014
Gain (loss) on financial assets or liabilities measured at fair value through profit or loss:		
Dividend income	\$ 3,877,014	3,010,659
Net interest income	(499,686)	820,962
Net gain on disposal	<u>1,789,589</u>	<u>2,595,626</u>
	<u>5,166,917</u>	<u>6,427,247</u>
Gain (loss) on financial assets or liabilities measured at fair value through profit or loss—valuation:		
Net gain on valuation	<u>(5,186,806)</u>	<u>4,281,855</u>
Total	<u>\$ (19,889)</u>	<u>10,709,102</u>

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

	2015	2014
Dividend income	\$ 3,845,783	2,537,203
Gain (loss) on disposal	<u>(1,480,702)</u>	<u>(110,912)</u>
Total	<u>\$ 2,365,081</u>	<u>2,426,291</u>

**(41) Other non-interest income (expenses)**

	2015	2014
Sales revenue, net	\$ 499,423	450,651
Subsidized income from government	16,970,331	12,946,954
Others	503,314	163,394
Excess preferential interest expenses	<u>(11,085,764)</u>	<u>(10,764,146)</u>
Total	<u>\$ 6,887,304</u>	<u>2,796,853</u>

Note: According to Government Employees and School 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.

(Continued)

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

**(42) Employee benefits expenses**

	2015	2014
Salaries	\$ 11,032,287	10,942,263
Labor and health insurances	534,680	591,224
Pensions	893,786	855,407
Others	<u>297,864</u>	<u>226,890</u>
Total	<u>\$ 12,758,617</u>	<u>12,615,784</u>

**(43) Depreciation and amortization expenses**

	2015	2014
Depreciation expenses	\$ 805,753	878,222
Amortization expenses	<u>362,489</u>	<u>383,572</u>
Total	<u>\$ 1,168,242</u>	<u>1,261,794</u>

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

	2015	2014
Taxes	\$ 3,671,035	2,859,814
Rental expenses	690,871	684,644
Insurance expenses	892,789	849,659
Postage and phone / fax expenses	239,681	236,034
Utilities	225,541	241,656
Supplies expense	174,478	171,869
Repair and maintenance expenses	417,267	409,510
Marketing expenses	433,758	345,568
Professional service fees	402,191	415,650
Others	<u>430,947</u>	<u>451,751</u>
Total	<u>\$ 7,578,558</u>	<u>6,666,155</u>

**(45) Earnings per Share**

The consolidated basic earnings per share are calculated by dividing the net income by the number of shares outstanding. The net income in 2015 and 2014 are \$6,337,480 and \$7,375,333, respectively. The weighted average outstanding shares are 9,000,000 thousand.

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

	2015	2014
Consolidated net income	<u>\$ 6,337,480</u>	<u>7,375,333</u>
Weighted average outstanding shares	<u>9,000,000</u>	<u>9,000,000</u>
Basic earnings per share (In dollars)	<u>\$ 0.70</u>	<u>0.82</u>

(Continued)

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

**(46) Insurance income, net**

	<b>2015</b>		
	<b>BOT government employees' insurance department</b>	<b>BTLI</b>	<b>Total</b>
Premium income	\$ 20,918,139	31,413,540	52,331,679
Amortized reinsurance claims payment	-	28,756	28,756
Income on insurance product-separated account	-	(26,972)	(26,972)
Insurance business income	<u>20,918,139</u>	<u>31,415,324</u>	<u>52,333,463</u>
Reinsurance expense	-	81,444	81,444
Direct business expenses	-	1,093	1,093
Insurance claims payment	32,810,111	71,497,665	104,307,776
Disbursement toward industry stability	-	45,980	45,980
Disbursement on insurance product separated account	-	(26,972)	(26,972)
Insurance business expenses	<u>32,810,111</u>	<u>71,599,210</u>	<u>104,409,321</u>
Net income from insurance business	<u>\$ (11,891,972)</u>	<u>(40,183,886)</u>	<u>(52,075,858)</u>

  

	<b>2014</b>		
	<b>BOT government employees' insurance department</b>	<b>BTLI</b>	<b>Total</b>
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 expenses	-	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	-	56,766	56,766
Disbursement on insurance product separated account	-	145,195	145,195
Insurance business expenses	<u>24,452,013</u>	<u>55,971,534</u>	<u>80,423,547</u>
Net income from insurance business	<u>\$ (3,503,057)</u>	<u>(20,827,190)</u>	<u>(24,330,247)</u>

(Continued)

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

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

1) Retained earned premiums

	<b>Insurance Contract</b>	<b>2015 Financial products with discretionary participation feature</b>	<b>Total</b>
Direct written premium	\$ 25,194,845	6,216,259	31,411,104
Reinsurance premium	<u>2,436</u>	<u>-</u>	<u>2,436</u>
Premium income	<u>25,197,281</u>	<u>6,216,259</u>	<u>31,413,540</u>
Less: Reinsurance premium ceded	81,321	123	81,444
Net change in unearned premium reserve	4,928	(1,475)	3,453
	<u>86,249</u>	<u>(1,352)</u>	<u>84,897</u>
Retained earned premium	<u><u>\$ 25,111,032</u></u>	<u><u>6,217,611</u></u>	<u><u>31,328,643</u></u>

  

	<b>Insurance Contract</b>	<b>2014 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	(1,840)	(1,978)	(3,818)
	<u>66,924</u>	<u>(1,811)</u>	<u>65,113</u>
Retained earned premium	<u><u>\$ 23,712,139</u></u>	<u><u>11,206,741</u></u>	<u><u>34,918,880</u></u>

(Continued)

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

2) Retained benefits and claims paid

	Insurance Contract	2015 Financial products with discretionary participation feature	Total
Claims payment incurred	\$ 51,389,232	20,107,143	71,496,375
Reinsurance claims	<u>1,290</u>	<u>-</u>	<u>1,290</u>
Insurance claims payment	51,390,522	20,107,143	71,497,665
Less: Claims payment recovered from reinsures	<u>28,756</u>	<u>-</u>	<u>28,756</u>
Retained benefits and claims paid	<u><u>\$ 51,361,766</u></u>	<u><u>20,107,143</u></u>	<u><u>71,468,909</u></u>

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

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

- 1) The methods and assumptions used to estimate the fair value of financial instruments are as follows.
  1. For certain financial instruments, the Company and its subsidiaries consider their carrying amounts measured at amortized cost to be a reasonable approximation of fair value. 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.

(Continued)

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

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.
- 2) 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.

(Continued)

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

(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)

3) Fair value measurement

1. The fair value hierarchy

The following tables present for each of the fair value hierarchy levels the Company and its subsidiaries' assets and liabilities that are measured at fair value on a recurring basis.

(Continued)

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

Financial instruments measured at fair value	December 31, 2015			
	Total	Level 1	Level 2	Level 3
<b><u>Non-derivative financial instruments</u></b>				
Assets:				
Financial assets measured at fair value through profit or loss	161,004,557	129,626,933	31,377,624	-
Financial assets held for trading	147,573,582	129,626,933	17,946,649	
Investment in stocks	61,255,180	61,208,199	46,981	-
Investment in bonds	3,941,891	2,475,965	1,465,926	-
Others	82,376,511	65,942,769	16,433,742	-
Financial assets designated at fair value measured through profit or loss	13,430,975	-	13,430,975	-
Available-for-sale financial assets	1,099,519,771	95,036,715	1,004,483,056	
Investments in stocks	85,188,823	85,188,823	-	-
Investment in bonds	123,322,093	8,825,687	114,496,406	-
Others	891,008,855	1,022,205	889,986,650	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	33,275,404	-	33,275,404	-
Financial liabilities designated at fair value through profit or loss	33,275,404	-	33,275,404	-
<b><u>Derivative financial instruments</u></b>				
Assets:				
Financial assets measured at fair value through profit or loss	15,380,952	-	15,380,952	-
Hedging derivative financial assets	15,970	-	15,970	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	6,677,207	3,000	6,674,207	-
Hedging derivative financial liabilities	243,967	-	243,967	-

(Continued)

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

Financial instruments measured at fair value	Total	December 31, 2014		
		Level 1	Level 2	Level 3
<b><u>Non-derivative financial instruments</u></b>				
Assets:				
Financial assets measured at fair value through profit or loss	186,689,787	141,688,559	45,001,228	-
Financial assets held for trading	167,192,586	140,423,169	26,769,417	
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 through profit or loss	19,497,201	1,265,390	18,231,811	-
Available-for-sale financial assets	852,076,122	91,919,441	760,156,681	
Investment 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	31,739,999	-	31,739,999	-
Financial liabilities designated at fair value through profit or loss	31,739,999	-	31,739,999	-
<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	-

**2. Valuation techniques**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In addition, when measuring fair value, the following must be considered:

- (a) The asset or liability being measured, including its condition, location and any restrictions on sale
- (b) The principal (or most advantageous) market in which an orderly transaction would take place for the asset or liability
- (c) The highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis
- (d) The assumptions that market participants would use when pricing the asset or liability.

(Continued)

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

Financial instruments are recognized initially at fair values. In many case, they usually refers to transaction price. Subsequent to initial recognition, they are also measured at fair value except for those that are measured at amortized cost. The best evidence of fair value is the quoted price in an active market. If a financial instrument do not have a quoted market price in an active market, BOT uses the valuation techniques or refers to the quoted prices set by Bloomberg, Reuters or the Counterparties to determine the fair value.

The fair value of financial instruments is based on the quoted prices in an open market. These include trading prices of equity instruments listed on a major stock exchange or of the government bonds in an over the counter ("OTC") market.

When a quoted price of a financial instrument is timely available in a stock exchange or an OTC market or from brokers, underwriter, industry associations, pricing service organizations and the authorities and the price is often used in a arm's length transaction, the financial instrument is considered having a quoted price in an active market. If the above criteria are not met, the market is considered inactive. In general, a large or significantly increasing bid-ask spread and very low transaction volume indicate that the market where the financial instrument is trade is not active.

Other than those traded in an active market, the fair value of all other financial instruments is determined by using a valuation model or referring to the quoted price of the counterparty. The Company and its subsidiaries refers to the present values, the discounted cash flow or the values calculated under other valuation methods of financial instruments with similar terms and characteristics, including the one calculated by a model which uses the available market data at the financial statement day as inputs. (i.e. the applicable yield curve of bonds traded in the Taipei exchange and average prices of commercial papers quoted on Reuters)

When measuring a financial instrument which no specific techniques can be applied to but do not create challenge in valuation, such as bonds traded in an inactive market, interest rate swap, FX swaps and options, the Company and its subsidiary adopt the valuation methods which are widely used and accepted by other market participants. The parameters used are usually the observable market data or information.

For complex financial instruments, the Company and its subsidiary not only refers to the valuation methods which are widely used and accepted by other banks but also develops its own valuation models to determine the fair value. These valuation models are usually applied to the valuation of derivatives, debt instruments with embedded derivatives, or securitization products. The parameters used in such models are usually not observable in a market, and therefore, BOT has to make proper estimates based on assumptions and judgments.

(Continued)

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

3. Fair value adjustment

(a) Limitations of valuation models and inputs

Outputs of valuation models are approximate values and valuation techniques may not be able to reflect critical factors of all the financial and non financial instruments. As such, additional parameters shall be incorporated into the fair value measurement, such as modeling risk and liquidity risk, when necessary. The management of the Company and its subsidiary believe that the adjustments made to the fair value of financial and non financial instruments are appropriate and necessary since they are performed in accordance with the Company and its subsidiary's policies governing the fair value of valuation models and related internal controls. All the information and parameters are based on current market conditions and thoroughly reviewed by the Company and its subsidiary.

(b) Credit risk valuation adjustment

Credit risk valuation adjustment consists of credit valuation adjustments and debit valuation adjustments to the derivatives traded in an OTC market instead of a stock exchange market. The definitions are as follows:

- a) Credit value adjustments (CVA): adjust the valuation on transactions that occurs outside the exchange market, which refers to OTC derivative contracts, to reflect the possibility of the counter parties' delayed payment and default into fair value.
- b) Debit value adjustments (DVA): adjust the valuation on transactions that occurs outside the exchange market, which refers to OTC derivative contracts, to reflect the possibility of the Company and its subsidiaries' delayed payment and default into fair value.

The key inputs of the measurement of credit risk and the quality of the Company and its subsidiary's counterparties are the probability of default (PD), loss given default (LGD) and exposure at default (EAD).

CVAs are calculated by considering counterparty's probability of default (PD) under the condition that the Bank is not in default, Loss give default (LGD) and Exposure at default (EAD). On the contrary, DVAs are calculated by considering the Bank's PD under the condition that the counterparty is not in default, LGD and EAD.

The Company and its subsidiary refers to the counterparty's default rate graded by Moody's, experiences of John Gregory (scholar), and foreign financial institutions, to determine the PD at 60%. The Company and its subsidiary may also use other alternative PD assumptions if data availability is limited. Moreover, the Company and its subsidiary also take the credit risk valuation adjustments into consideration when calculating fair value by referring to the Mark to Market values of derivatives traded in the OTC markets to reflect the counterparty's credit risk and the Company and its subsidiary's creditworthiness.

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

## Notes to the Consolidated Financial Statements

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

Unit: In Thousand of NTD								
Account	Balance on January 1, 2014	Evaluation of gains and losses profit or loss or the amount of equity	December 31, 2014		Sale, disposal or settle at premium	Transferred from level 3	Effect of exchange rate change	Balance on December 31, 2014
			Buy, issue or discount	Transferred to 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	-	-	-

There were no financial instruments categorized in level 3 as of December 31, 2015.

5. The evaluation process of Fair value classified in the Third Estate

Referring to IFRS 13, the Trading Department should inform the Risk Management Department regarding the related valuation methods before any financial instruments categorized in Level 3 are bought or sold. The valuation result of such financial instruments is quarterly reported to Asset and Liability Management Committee.

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

BOT considers the valuation techniques used by BOT for fair value measurements in Level 3 reasonable. However, any changes in one or more of the parameters or assumptions may lead to a different result.

The favorable and unfavorable effects represent the changes in fair value, and the fair value are based on a variety of unobservable inputs calculated using a valuation technique. There are no such effects as of December 31, 2015 and 2014. The analysis only reflects the effects of changes in a single input, and it does not include the inter relationships with another input.

- 4) Hierarchy information of financial instruments not measured at fair value

1. Fair value information

In addition to the following items, the Bank's financial instruments that are not measured at fair value include cash and cash equivalents, due from the central bank and call loans to banks, securities purchased under resell agreements, receivables, other financial assets, discounts and loans, deposit from and due to the central bank and banks, securities sold under repurchase agreements, commercial papers issued, payables, deposits, other borrowings and other financial liabilities. Since their book value is a reasonable approximation to fair value, there is no fair value disclosure.

(Continued)

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

Item	Book value	Fair value
<b>December 31, 2015</b>		
Financial assets:		
Held-to-maturity financial assets	\$ 300,963,479	299,684,338
Other financial assets – Debt investments without quoted price in active markets	53,997,677	53,671,552
<b>December 31, 2014</b>		
Financial assets:		
Held-to-maturity financial assets	\$ 270,591,631	271,062,112
Other financial assets – Debt investments without quoted price in active markets	55,871,570	56,261,559
2. Fair value hierarchy		

		<b>December 31, 2015</b>		
		Quoted prices in active markets for identical asset (Level1)	Significant other observable inputs (Level2)	Significant observable inputs (Level3)
Assets and liabilities item	Total			
Financial Assets:				
Held-to-maturity financial assets	\$299,684,338	113,296,807	186,387,531	-
Other financial assets – Debt investments without quoted price in active markets	53,671,552	1,483,716	52,187,836	-

		<b>December 31, 2014</b>		
		Quoted prices in active markets for identical asset (Level1)	Significant other observable inputs (Level2)	Significant observable inputs (Level3)
Assets and liabilities item	Total			
Financial Assets:				
Held-to-maturity financial assets	\$271,062,112	109,387,819	161,674,293	-
Other financial assets – Debt investments without quoted price in active markets	56,261,559	1,564,367	54,697,192	-

(Continued)

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

**(48) Financial Risk Management**

1) Risk management structure

1. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.
2. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the risk management policies of the Company and its subsidiaries to reduce risk exposure. The committee reports regularly to the Board of Directors on its activities.
3. Risk management department is an independent organization responsible for monitoring the group's risk management practices, keeping track of the progress of the execution of resolutions made by the Board or the Committee and submitting the risk reports to the Board and the Committee regularly. If a significant risk exposure is identified, the Department shall take necessary action and report them to the Board and the Committee.
4. The Board of each subsidiary is the highest organization to make decisions on major company issues. Their respective risk management committees and risk management departments are charged with monitoring risks.
5. Each subsidiary is responsible for identify, evaluate, and control the risks of new products or business, set up related risk management guideline, and monitor the risk management to ensure the risk control of the 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.

(Continued)

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

## Notes to the Consolidated Financial Statements

4. Establish a valuation method for the quality and classification of assets, control the intensity of exposure and significant exposure, check periodically and recognize allowance for loss.
5. Establish information system protection mechanism and emergency plan for bank operation, transactions, and information. Build an independent and effective risk management mechanism and strengthen the risk management of business through appropriate policies, procedures, and systems.

### 2) Risk management committee

The risk management committee of 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 is the risk of financial loss to BOT if a borrower, issuer or a counterparty to a financial instrument fails to meet its contractual obligations principally due to their credit deterioration or other factors (i.e. disputes between a loanee and its counterparty). Credit risk is derived both from on and off balance sheet items. On balance sheet items include loans, placement with banks, call loans to banks, acceptance bills, debt instruments, derivatives, etc. Off balance sheet items include guarantees, acceptances, letter of credits, loan commitments, etc.

#### 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.

(Continued)

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

Except that the local financial supervisory institutions have their own regulations, the overseas business units of the BOT shall conduct the credit ability of the loans and discounts, and recognized impairment in accordance with the “Operational Manual of Evaluating the Impairment of Loans and Receivables”. The followings are the detailed information of how major businesses of BOT measures and manages credit risk.

(a) Credit business

a) Credit assets categories and post-loan management

BOT has established the “Operational Manual of Evaluating the Impairment of Loans and Receivables” and classify the credit assets into five categories. 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 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 set the “Credit Review and Follow up Evaluations Provision”, the “Review of the Credit Conducted by Managers Provision” and “Warning Mechanism Provision” and evaluate and monitor the quality of credit assets regularly. Also, the BOT keep retrial according to rating of credit cases and check significant credit case periodically to enhance the management of abnormal credit for the intention of warning and interim monitor.

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 are the credit process of 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 review includes external rating, when available, and in some cases, the information that is 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, all in all.

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.

(Continued)

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

(b) Due from banks and call loans to banks

BOT will assess the counterparty's creditworthiness, and refer to external ratings, provided by domestic and international credit rating agencies, to set up different credit risk limits before any transactions are carried out.

(c) Investment in debt instruments and derivative

BOT identifies and manages credit risk of debt instruments by reviewing the external ratings, bonds' creditworthiness, and geographic region of its counterparties.

Most of the BOT's derivative contracts with its counterparties are financial institutions with good credit ratings. For those financial institutions whose ratings are not available, the BOT reviews the transactions individually. All the counterparties, including non financial institutions, are managed based on their lines of credit (including loans at call).

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.

(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

(a) Collateral

BOT has established policy and procedures to mitigate credit risk. Among them, one of the most common ways, is to demand for collateral. In terms of collateral management and valuation, BOT established policies governing the scope of collateral and related procedures to secure debts. Moreover, BOT also requires the provisions that secure debts and collateral should be contained within a credit agreement to reduce credit risk by clearly defining the amounts BOT can cut and the grace periods the banks can offer or even requesting for a prepayment.

Non-credit businesses are not required to collect collateral, depending on the nature of the financial instruments. Only asset backed securities and other similar financial instruments are required to pledge an asset pool of financial instruments as collateral.

(Continued)

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

## Notes to the Consolidated Financial Statements

Considering both credit control and business expansion, BOT 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.

## (b) Master netting agreement

BOT's transactions are usually settled individually without bundling or netting with any other transactions. However, BOT also enters into netting agreements or chooses to settle net and terminates the deal if the counterparty is in default.

## (c) Other credits enhancement

BOT's credit contract contains the term that BOTs are entitled to offset the obligation by claiming the deposits of the borrower who are in default to mitigate credit risk.

## 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, 2015		December 31, 2014	
	Book Value	Maximum credit exposure (Note 1)	Book Value	Maximum credit exposure (Note 2)
Cash and cash equivalents	102,648	76,074	126,259	96,311
Placement with Central Bank and call loans to banks	586,019	157,448	582,940	129,894
Financial assets measured at fair value through profit or loss	46,449	42,623	69,832	67,301
Available-for-sale financial assets	1,053,599	128,998	797,691	110,148
Hedging derivative financial assets	16	16	26	26
Bonds and bills purchased under resell agreements	50	50	1,957	1,957
Receivables	55,952	33,159	51,481	27,940
Loans and discounts	2,414,484	2,323,111	2,324,302	2,197,992
Held-to-maturity financial assets	50,617	19,252	27,527	17,168
Other financial assets	68,897	21,051	74,802	27,432
<b>Total</b>	<b>\$ 4,378,731</b>	<b>2,801,782</b>	<b>4,056,817</b>	<b>2,676,169</b>

(Continued)

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

## Notes to the Consolidated Financial Statements

## Note 1: December 31, 2015

- (1) The amount of non-performing loans which included the department of loan management was \$4,408 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 (\$26,574 million).
  - 2) Placement with Central Bank and call loans to banks excludes placement with Central Bank and deposits in Central Bank (\$428,571 million).
  - 3) Financial assets measured at fair value through profit or loss exclude treasury bonds (\$3,401 million) and government bonds (\$425 million).
  - 4) Available-for-sale financial assets exclude government bonds (\$36,587 million) and negotiable certificate of deposits (\$888,014 million).
  - 5) Receivables exclude tax receivable (\$1,272 million) and long-term receivables (\$21,521 million).
  - 6) Loans and discounts exclude loans to government (\$91,373 million).
  - 7) Held-to-maturity financial assets exclude government bonds (\$31,365 million).
  - 8) Other financial assets exclude short-term advance to government (\$47,846 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, 2014

- (1) The amount of non-performing loans which included the department of loan management was \$6,279 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 (\$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 (\$535 million) and government bonds (\$1,996 million).
  - 4) Available-for-sale financial assets exclude government bonds (\$29,217 million) and negotiable certificate of deposits (\$658,326 million).
  - 5) Held-to-maturity financial assets exclude government bonds (\$10,359 million).
  - 6) Receivables exclude tax receivable (\$1,392 million) and long-term receivables (\$22,149 million).
  - 7) Loan and discount exclude loans to government (\$126,310 million).
  - 8) Other financial assets exclude short-term advance to government (\$47,370 million).
- (3) The greatest impact of the credit exposure is the fair value at the balance sheet date; the book value of hedging derivatives is the principal of the hedging instruments (IRS); and the amount of greatest credit exposure is the adjusted amount of hedging derivatives at fair value.
- (4) The carrying amounts excluded the assets of the Department of Government Employees Insurance.

(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, 2015		December 31, 2014	
	Book Value	Maximum credit exposure (Note 1)	Book Value	Maximum credit exposure (Note 2)
Unused of irrevocable loan commitment (with credit agreement)	526,250	23,950	453,152	22,612
Letter of credit receivables	30,734	28,568	29,146	28,308
Deposits receivables	80,330	80,330	83,522	83,522
Total	<u>\$ 637,314</u>	<u>132,848</u>	<u>565,820</u>	<u>134,442</u>

Note 1: December 31, 2015

- (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 \$502,300 million.
- 2) Letter of credit receivables exclude \$2,166 million.
- (2) This table excluded the Department of Government Employees Insurance and the subsidiary, BankTaiwan Insurance Brokers.

Note 2: December 31, 2014

- (1) While measuring the maximum exposure to credit risk, BOT only consider the items that are positive at the reporting date, 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.

- (c) The assets in the balance sheet and off-balance sheet items held as collateral, master netting arrangement and other credit enhancements related information on the financial impact the maximum amount of the violence risk in credit risk shows in the following table:

Unit: In Million of NTD

December 31, 2014	Collateral	ment of net am	ement of other	Total
<u>In balance sheet :</u>				
Receivables				
Others	\$ 1,087	31	8,287	9,405
Loans and discounts	1,311,093	-	1,102,382	2,413,475
<u>Off-balance sheet</u>				
Irrevocable loan commitments	7,943	-	518,146	526,089
Standby letters of credit	1,966	-	28,768	30,734
Financial guarantees	6,435	-	73,895	80,330
Total	<u>\$ 1,328,524</u>	<u>31</u>	<u>1,731,478</u>	<u>3,060,033</u>

(Continued)

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

## Notes to the Consolidated Financial Statements

December 31, 2014	Collateral	ment of net amc	ement of other	Total
<u>In balance sheet:</u>				
Receivables				
Others	\$ 1,082	69	9,334	10,485
Loans and discounts	1,313,532	-	1,009,557	2,323,089
<u>Off-balance sheet</u>				
Irrevocable loan commitments	5,469	-	447,520	452,989
Standby letters of credit	2,091	-	27,055	29,146
Financial guarantees	5,891	-	77,631	83,522
Total	<u>\$ 1,328,065</u>	<u>69</u>	<u>1,571,097</u>	<u>2,899,231</u>

The Management believes that the reason why the BOT can continuously manage and minimize the exposure of credit risk to off balance sheet items is because a stricter review process is adopted, and cases are reviewed regularly in subsequent periods

## 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.

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

Industry type	December 31, 2015		December 31, 2014	
	Book Value (Note 1)	%	Book Value (Note 2)	%
Finance and insurance	1,371,945	35.80 %	1,097,493	31.71 %
Individuals	833,697	21.76 %	827,607	23.91 %
Manufacturing	375,421	9.80 %	390,431	11.28 %
Government agencies	520,066	13.57 %	403,944	11.67 %
Electricity and gas supply	122,013	3.18 %	117,160	3.39 %
Shipping, warehousing and communications	108,289	2.83 %	126,265	3.65 %
Others	500,636	13.06 %	497,826	14.39 %
Total	<u>\$ 3,832,067</u>	<u>100.00 %</u>	<u>3,460,726</u>	<u>100.00 %</u>

Note 1: December 31, 2015

(1) The carrying amounts include loans (\$2,414,484 million), call loans to banks, overdraft of banks and placement with banks (\$230,200 million), security investments (\$1,187,383 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 (\$4,408 million). Security investments include bonds and stocks. Bonds are measured at fair value. However the bonds classified as held-to-maturity financial assets or bond investments in non-active market are carried at cost. Equity investments are measure at fair value but those classified as cost of long-term equity investments under the equity method and financial assets carried at cost are measured at cost.

(Continued)

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

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

Note 2: 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.

(b) Region

Unit: In Million of NTD ; %

Areas type	December 31, 2015		December 31, 2014	
	Book Value (Note 1)	%	Book Value(Note 2)	%
Domestic	\$ 3,369,995	87.94 %	3,080,445	89.01 %
Foreign	462,072	12.06 %	380,281	10.99 %
<b>Total</b>	<b>\$ 3,832,067</b>	<b>100.00 %</b>	<b>3,460,726</b>	<b>100.00 %</b>

Note 1: December 31, 2014

(1) The carrying amounts include loans (\$2,414,484 million), call loans to banks, overdraft of banks and placement with banks (\$230,200 million), security investments (\$1,187,383 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 (\$4,408 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 (\$2,324,302 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.

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

## (c) Collateral

Unit: In Million of NTD ; %

Name of collateral	December 31, 2015		December 31, 2014	
	Book Value (Note 1)	%	Book Value (Note 1)	%
Non-secured bonds	\$ 1,103,390	45.70 %	1,011,065	43.50 %
Secured bonds	1,311,094	54.30 %	1,313,237	56.50 %
Guarantee	164,626	6.82 %	164,527	7.08 %
Securities	101,862	4.22 %	97,631	4.20 %
Real estate	966,540	40.03 %	967,901	41.64 %
Chattel	77,840	3.22 %	82,895	3.57 %
Valuables	226	0.01 %	283	0.01 %
<b>Total</b>	<b>\$ 2,414,484</b>	<b>100.00 %</b>	<b>2,324,302</b>	<b>100.00 %</b>

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 (\$4,408 million at December 31, 2015; \$6,279 million at December 31, 2014).

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

## 7. The analysis of credit quality and overdue cases

The financial instruments held by BOT, such as cash and cash equivalents, due to the Central Bank and other banks, financial assets measured at fair value through profit, bills and bonds purchased under resell agreements, guarantees deposits paid, operating guarantee deposits and settlement funds, are considered to have "very low risk" since all counterparties have good credit ratings.

## (a) Credit quality analysis for bills purchased, discounts and loans

Unit: In Thousand of NTD

December 31, 2015	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	178,934	56,749	92,601	72,150	472,541	872,975	26,205	7,618	906,798	4,692	733	901,373
Others	783,181	5,028,261	2,289,334	690,514	578,137	9,369,427		144,835	9,514,262	89,033	93,344	9,331,885
Loans and Discount	200,281,483	1,285,867,727	585,447,137	176,583,911	147,845,769	2,396,026,027		18,458,238	2,414,484,265	9,294,867	18,590,603	2,386,598,795

  

December 31, 2014	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

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

- (b) Credit quality analysis for either overdue nor impaired bill purchases discounts and loans by customers

Unit: In Thousand of NTD

December 31, 2015	Performing loans					Total
	Very good	Good	Medium	Weak	Non-evaluate	
Government agencies	91,373,411	352,188,283	-	-	-	443,561,694
Financial, investment, and insurance	17,050,000	13,330,517	33,424,359	678,637	187,194	64,670,707
Corporate and business	88,604,410	108,358,106	480,833,271	142,431,885	21,680,262	841,907,934
Individual	-	788,888,251	7,010,729	-	29,599,112	825,498,092
Other	3,253,662	23,102,570	64,178,778	33,473,389	96,379,201	220,387,600
Total	200,281,483	1,285,867,727	585,447,137	176,583,911	147,845,769	2,396,026,027

December 31, 2014	Performing loans					Total
	Very good	Good	Medium	Weak	Non-evaluate	
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

- (c) Credit quality analysis for security investments

December 31, 2015

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	72,856,020	27,456,586	12,559,564	976,992	798,992	114,648,154	-	-	114,648,154	-	114,648,154
Stock investment	1,207,484	34,192,868	11,215,052	-	1,697,328	48,312,732	-	-	48,312,732	-	48,312,732
Others	888,013,335	658,246	1,315,068	-	651,175	890,637,824	-	-	890,637,824	-	890,637,824
Held-to-maturity Financial Assets											
Bond investment	80,297,028	3,352,805	4,625,106	927,755	-	89,202,694	-	-	89,202,694	-	89,202,694
Others	21,993,358	-	1,604,128	986,211	-	24,583,697	-	-	24,583,697	-	24,583,697
Other financial assets											
Stock investment	-	-	6,805,780	12,501	1,750,857	8,569,138	-	27,687	8,596,825	15,000	8,581,825
Bond investment	3,122,135	2,284,580	-	-	-	5,406,715	-	-	5,406,715	-	5,406,715

December 31, 2014

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	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

(Continued)

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

## Notes to the Consolidated Financial Statements

## 8. Aging Analysis of Overdue but Not Impaired Financial Assets

Unit: In Thousand of NTD

Item	December 31, 2015		
	Overdue less than 1 month	Overdue 1 to 3 months	Total
Accounts Receivable			
— Credit Card Business	\$ 2,715	3,065	5,780

Unit: Thousand NTD

Item	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

Unit: Thousand NTD

9. The analysis of allowance for doubtful accounts of loans and receivable

## Loans

December 31, 2015			
Item		Total Loans	Allowance for doubtful accounts
There is objective evidence of impairment on individual asset	Individual assessment of impairment	6,702,400	1,585,017
	Collective assessment of impairment	11,755,838	3,542,567
There is no objective evidence of impairment on individual asset	Collective assessment of impairment	2,396,026,027	22,757,886
Subtotal		2,414,484,265	27,885,470

(Continued)

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

## Notes to the Consolidated Financial Statements

Receivables (including other financial assets)

December 31, 2015			
Item		Total Loans	Allowance for doubtful accounts
There is objective evidence of impairment on individual asset	Individual assessment of impairment	1,194,223	1,185,506
	Collective assessment of impairment	160,240	84,618
There is no objective evidence of impairment on individual asset	Collective assessment of impairment	281,039,030	174,351
Subtotal		282,393,493	1,444,475
Total			29,329,945

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

(Continued)

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

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	237,553,971	108,519
Subtotal		237,973,377	370,178
Total			26,434,448

10. Disclosures required by the Regulations Governing the Preparation of Financial Reports by Public Banks

(a) Asset Quality of overdue loans and receivables

December 31, 2015						
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 (Note 8)	1,706,533	575,321,952	0.30 %	9,185,538	538.26 %
	Non secured (Note 8)	619,452	1,065,158,902	0.06 %	10,140,647	1,637.04 %
Consumer finance	House mortgage (Note 4)	1,765,865	525,972,421	0.34 %	5,529,527	313.13 %
	Cash card	-	-	- %	-	- %
	Micro credit (Note 5)	27,166	5,486,791	0.50 %	108,010	397.59 %
	Others					
	Secured (Note 6)	1,254,761	209,799,744	0.60 %	2,450,531	195.30 %
	Non secured	229,168	32,744,455	0.70 %	471,217	205.62 %
Total		5,602,945	2,414,484,265	0.23 %	27,885,470	497.69 %
		Overdue receivables	Account receivable	Ratio (%)	Allowance for bad debt	Cover ratio
Credit card business		2,593	864,717	0.30 %	11,446	441.42 %
Non-recourse factoring (Note 7)		-	7,004,063	- %	71,026	- %

(Continued)

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

## Notes to the Consolidated Financial Statements

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 (Note 8)		2,909,662	587,106,404	0.50 %	9,004,821	309.48 %
	Non secured (Note 8)		870,004	973,869,570	0.09 %	8,988,137	1,033.11 %
Consumer	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 %	1,965,368	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 %	26,064,271	361.42 %
			Overdue receivables	Account receivable	Ratio (%)	Allowance for doubtful 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	- %

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

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

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

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

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

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

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

Note 8: Include secured and non secured loans for government institutions.

(Continued)

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

(b) Non performing Loans and Overdue Receivables Exempted from Reporting

Unit: In Thousand of NTD

	December 31, 2015		December 31, 2014	
	Excluded NPL	Excluded overdue receivables	Excluded NPL	Excluded overdue receivables
As a result of debt consultation and loans agreement	950	-	1,388	-
As a result of debt solvency and restart plan	50,562	22,703	63,399	22,034
Total	51,512	22,703	64,787	22,034

(c) Concentration of Credit Risk

Unit: In Million of NTD, %

December 31, 2015			
Rank	Group Name	Credit Extensions Balance	% of Net Asset Value
1	A Company—Transport via Railways	70,068	27.49 %
2	B Group—Manufacture of Petroleum and Coal Products	38,541	15.12 %
3	C Group—Air Transport	35,762	14.03 %
4	D Group—Smelting and Refining of Iron and Steel	27,704	10.87 %
5	E Group—Real Estate Development Activities	16,682	6.55 %
6	F Group—Other Retail Sale in Non specialized Stores	16,131	6.33 %
7	G Group—Manufacture of Made up Textile Articles	15,337	6.02 %
8	H Group—Manufacture of Liquid Crystal Panel and Components	14,511	5.69 %
9	I Group—Real Estate Activities for Sale and Rental with Own or Leased Property	12,949	5.08 %
10	J Group—Ocean Transportation	12,633	4.96 %

(Continued)

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

December 31, 2014			
Rank	Group Name	Credit Extensions Balance	% of Net Asset Value
1	A Company—Transport via Railways	71,250	28.05 %
2	B Group—Manufacture of Petroleum and Coal Products	49,357	19.43 %
3	C Group—Smelting and Refining of Iron and Steel	31,400	12.36 %
4	D Group—Air Transport	26,244	10.33 %
5	E Group—Real Estate Development Activities	17,507	6.89 %
6	F Group—Manufacture of Liquid Crystal Panel and Components	15,814	6.23 %
7	G Group—Real Estate Development Activities	14,606	5.75 %
8	H Group—Other Retail Sale in Non specialized Stores	12,106	4.77 %
9	I Group—Real Estate Activities for Sale and Rental with Own or Leased Property	12,021	4.73 %
10	J Group—Real Estate Development Activities	11,749	4.63 %

(d) Average balance and current average interest rates of interest bearing assets and liabilities

		December 31, 2015		Unit: In Thousand of NTD ; % December 31, 2014	
		Average	Average interest rate (%)	Average	Average interest rate (%)
<b>Interest earnings assets</b>					
Call loans and placement with banks	\$	249,166,134	1.75	287,765,491	2.06
Placement with Central Bank		524,503,383	0.82	462,737,139	0.90
Financial assets		962,565,401	1.07	806,539,814	1.16
Negotiation, discounts and total loans		2,329,836,513	1.88	2,335,987,982	1.88
<b>Interest bearing liabilities</b>					
Deposit of Central Bank		13,754,794	-	13,043,141	-
Deposits and call loans from banks		210,878,248	0.62	300,108,502	0.81
Demand deposit		361,926,476	0.13	326,446,304	0.14
Demand savings		812,223,369	0.71	722,802,793	0.73
Time savings		1,656,096,915	1.85	1,628,630,007	1.87
Time deposits		617,584,497	1.27	538,520,450	1.35
Government deposits		231,531,208	0.31	214,753,786	0.34
Structured products		2,543,629	1.07	1,701,807	1.21
Financial bonds		25,000,000	1.46	20,454,842	1.50

Note 1: Each average balance is calculated by respectively summing up the daily average balances and then dividing the number of days in the year starting from January to the financial statement date.

Note 2: The balances are derived from the Department of banking, credit cards, trusts and securities.

(Continued)

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

Note 3: The interest rates used in calculation include preferential interests.

Note 4: Finance bonds excluded financial assets designated at fair value through profit or loss.

**4) Liquidity Risk**

**1. Causes and definition of liquidity risk**

The definition for liquidity risk is BOT encounter difficulty in meeting the obligations with its financial liabilities and causes 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 cash flow for lending, trading, and investing activities. In some extreme situation, the poor liquidity position may decrease the level of balance sheet, sale assets, or the possibility of not fulfilling the contractual loan balance. Liquidity risk is containing in the inherent risk of bank operation, and could be affected by a separate industry 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) Liquidity coverage ratio: calculate their liquidity coverage ratio and report it to the authorities on a monthly basis. In accordance with the "Standards Implementing the Liquidity Coverage Ratio of Banks" announced by FSC and Central Bank, the ratio shall be higher than 100%.
  - e) Foreign currency gap management: Make sure the ratio of accumulated capital liquidity gap to each currency assets of the major foreign currencies of the Bank measured for every month and every term under one year between  $\pm 50\%$  and  $\pm 40\%$ .

(Continued)

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

- f) 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.
- g) 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, 2015	0~30days	31~90 days	91days~1year	Over one year	Total
Cash and cash equivalents	26,574,387	-	-	-	26,574,387
Placement with Central Bank and call loans to banks	100,381,382	245,760,589	236,305,247	112,420,041	694,867,259
Financial assets measured at fair value through profit or loss, net	13,578,657	3,879,989	5,655,286	149,891,273	173,005,205
Bonds and bills purchased under resell agreements	50,040	-	-	-	50,040
Available-for-sale financial assets, net	609,671,736	54,123,756	260,718,506	129,084,712	1,053,598,710
Held-to-maturity financial assets, net	1,108,095	7,001,402	4,309,493	101,367,401	113,786,391
Hedging derivative financial assets	15,970	-	-	-	15,970
Financial assets carried at cost	-	-	-	8,581,825	8,581,825
Debt investments without quoted price in active markets	-	-	-	5,406,715	5,406,715
Investments under equity method, net	-	-	-	35,856,579	35,856,579
Receivables, net	29,664,877	989,312	1,278,057	19,924,859	51,857,105
Loans and discounts, net	209,868,308	221,996,610	478,162,348	1,495,486,008	2,405,513,274
Non-performing loans	-	-	-	4,456,007	4,456,007
<b>Total assets</b>	<b>990,913,452</b>	<b>533,751,658</b>	<b>986,428,937</b>	<b>2,062,475,420</b>	<b>4,573,569,467</b>
Deposits of Central Bank and other banks	113,824,750	44,216,680	37,964,942	29,419,145	225,425,517
Payables	26,757,952	63	943,623	14,927,044	42,628,682
Financial liabilities measured at fair value through profit or loss	12,636	3,479	3,858	39,204,502	39,224,475
Bonds and bills sold under repurchase agreements	10,912,656	4,847,062	576,901	-	16,336,619
Hedging derivative financial liabilities	243,967	-	-	-	243,967
Other financial liabilities	1,619,185	101,345	-	64,900	1,785,430
Deposits and remittances	345,202,053	420,489,720	1,211,842,618	1,859,986,025	3,837,520,416
<b>Total liabilities</b>	<b>498,573,199</b>	<b>469,658,349</b>	<b>1,251,331,942</b>	<b>1,943,601,616</b>	<b>4,163,165,106</b>

(Continued)

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

## Notes to the Consolidated Financial Statements

December 31, 2014	0~30days	31~90days	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	-	-	-	36,989,325	36,989,325
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
<b>Total assets</b>	<b>842,761,152</b>	<b>576,429,331</b>	<b>594,403,840</b>	<b>2,218,115,250</b>	<b>4,231,709,573</b>
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
<b>Total liabilities</b>	<b>463,202,086</b>	<b>445,137,756</b>	<b>1,192,811,411</b>	<b>1,738,770,094</b>	<b>3,839,921,347</b>

## 4. Maturity analysis of derivatives

Unit: In Thousand of NTD							
December 31, 2015	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	12,238,343	11,849,387	4,757,998	1,453,250	451,401	-	30,750,379
Foreign exchange inflow	12,237,184	11,849,108	4,757,998	1,453,250	451,401	-	30,748,941
Financial assets and liabilities measured at fair value through profit or loss, Derivative instruments (Interest)							
Interest outflow	491,134,568	360,085,322	136,310,158	49,807,068	(480,455)	245,021	1,037,101,682
Interest inflow	510,231,283	373,468,010	142,805,598	76,366,129	3,496,416	-	1,106,367,436

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

(Continued)

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

5. Maturity analysis of off balance sheet items

If the off balance credit items of BOT 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 are disclosed together.

Unit: In Thousand of NTD

December 31, 2015	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year	Total
Irrevocable loan commitment	487,650	16,628,101	1,415,396	289,399,670	218,158,086	526,088,903
Irrevocable credit card commitment	-	-	-	-	160,645	160,645
Letter of credit receivables	14,265,854	1,215,206	5,617,940	6,944,844	2,689,992	30,733,836
Guarantee receivables	62,026,841	2,578,657	4,640,207	1,839,581	9,244,810	80,330,096
Total	76,780,345	20,421,964	11,673,543	298,184,095	230,253,533	637,313,480

Unit: In Thousand of NTD

December 31, 2014	0-30 days	31-90 days	91 days-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	4,764,923	8,697,743	2,885,282	29,145,604
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	9,108,218	309,444,452	31,443,630	565,818,937

6. Maturity analysis of lease agreements and capital expenditures

The lease agreements of BOT refer to operational lease.

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

December 31, 2015	Less than 1 year	1-5 year	Over 5 year	Total
Lease commitments				
Operating lease payments (Lessee)	(378,372)	(627,858)	-	(1,006,230)
Operating lease income(Lessor)	137,953	151,245	-	289,198
Total	(240,419)	(476,613)	-	(717,032)

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)	160,174	133,115	-	293,289
Total	(187,341)	(535,736)	(423)	(723,500)

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

(a) Maturity analysis of assets and liabilities (New Taiwan Dollars)

December 31, 2015

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	\$ 3,984,098,202	337,915,856	652,414,855	565,558,126	361,230,114	546,056,749	1,520,922,502
Major matured capital outflow	4,252,497,044	165,729,525	347,433,709	561,235,640	500,876,175	938,030,784	1,739,191,211
Capital gap	(268,398,842)	172,186,331	304,981,146	4,322,486	(139,646,061)	(391,974,035)	(218,268,709)

(Continued)

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

December 31, 2014

	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)

Unit: In Thousand of NTD

(b) Maturity analysis of assets and liabilities (United State Dollars)

December 31, 2015

	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	\$ 45,983,000	16,709,602	9,740,900	5,826,801	4,883,939	8,821,758
Major matured capital outflow	45,983,000	20,038,883	10,755,802	4,260,065	4,001,894	6,926,356
Capital gap	-	(3,329,281)	(1,014,902)	1,566,736	882,045	1,895,402

Unit: In Thousand of USD

December 31, 2014

	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

Unit: In Thousand of USD

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 classified in trading book are measured at market value every day; those classified in banking book are measured at market value at least once a month. Following IFRS 13, BOT ensures that Level 1 inputs (i.e. quoted prices in an active market, such as OTC or Bloomberg) and Level 2 inputs (those which can be directly or indirectly observed in the market) are available. When the aforementioned inputs are not available, the related instruments shall be classified to Level 3. The sources from which BOT obtains inputs largely remain the same as prior periods and BOT will check if a financial instrument can be reasonably measured before entering into a transaction.

(c) Monitor and Report

BOT conduct various risks monitoring for ordinary trading activities. The monitor includes the control of market risk position and profit and loss, the control of exposure and quota of investments, the control of concentration, the sensitivity analysis and the stress testing. They report to the risk management committee or the Board of Directors to let the directors understand the market risk control status. BOT also have communication mechanism. Each operating units put forward transaction information to management departments periodically in order to ensure accuracy and effectiveness, and communicate the events when 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 regarded as banking book.

(a) Policy and Procedure

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

(Continued)

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

(b) Valuation Policy

BOT's market risk exposure can be classified into trading book and banking book. Following IFRS 13, BOT ensures that Level 1 inputs (i.e. quoted prices in an active market, such as OTC or Bloomberg) and Level 2 inputs (which can be directly or indirectly observed in the market) are available. When the aforementioned inputs are not available, the related instruments shall be classified to Level 3. The sources from which the BOT obtains inputs largely remain the same as prior periods and the BOT will check if a financial instrument can be reasonably measured before entering into a transaction.

(c) Measurement Method

- a) BOT conduct stress test every quarter under unfavorable economic scenarios which are set up risk factors: equity securities, interest rate, foreign exchange and commodities, setting the scene to calculate possible impacts by inputting different on profit or loss of each risk factor.
- 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.

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.

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

## Notes to the Consolidated Financial Statements

### (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 exchange rate risk is derived from exchange, forward exchange, FX swaps, cross currency swaps, and foreign exchange options. Because BOT squares customer's position every day, the exchange rate does not have any significant risk.

### (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.

## 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.

(Continued)

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

(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, 2015 and 2014. Under this assumption, the income after tax will decrease \$1,253 million and \$170 million, respectively and the other comprehensive income will decrease \$5,339 million and \$3,170 million, respectively. If the yield curve moves downward by 100 bps, the income after tax will increase \$1,382 million and \$377 million, respectively and the other comprehensive income will increase \$5,588 million and \$3,377 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, 2015 and 2014. Under this assumption, the income after tax will increase \$2,365 million and \$1,889 million, respectively and the other comprehensive income will increase \$1,977 million and \$1,474 million, respectively.

If the exchange rate depreciates by 3%, the income after tax will decrease \$2,367 million and \$1,889 million, respectively and the other comprehensive income will decrease \$1,977 million and \$1,474 million, respectively.

(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, 2015 and 2014. Under this assumption, the income after tax will increase \$7,244 million and \$8,202 million, respectively and the other comprehensive income will increase \$7,346 million and \$7,112 million, respectively.

If the market prices decrease by 15 %, the income after tax will decrease \$7,244 million and \$8,202 million, respectively and the other comprehensive income will decrease \$7,346 million and \$7,112 million, respectively.

(Continued)

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

(d) Sensitivity analysis is as follows:

Unit: In Million of NTD

<b>December 31, 2015</b>			
<b>Main risk</b>	<b>Range</b>	<b>Amount Influence</b>	
		<b>Equity</b>	<b>Gain or loss</b>
Interest rate risk	Interest rate curve rise 100BPS	(5,339)	(1,253)
Interest rate risk	Interest rate curve fall 100BPS	5,588	1,382
Exchange rate risk	Other foreign currency/ NTD rise 3%	1,977	2,365
Exchange rate risk	Other foreign currency / NTD fall 3%	(1,977)	(2,367)
Price of equity stock risk	Price of equity stock rise 15%	7,346	7,244
Price of equity stock risk	Price of equity stock fall 15%	(7,346)	(7,244)

Unit: In Million of NTD

<b>December 31, 2014</b>			
<b>Main risk</b>	<b>Range</b>	<b>Amount Influence</b>	
		<b>Equity</b>	<b>Gain or loss</b>
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)

(Continued)

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

10. Information of currency risk concentrate

Units: In Thousands of stated currencies

<b>December 31, 2015</b>		
	<b>Amount in original currency</b>	<b>Amount in New Taiwan Dollars</b>
USD	989,862	32,546,663
CNY	622,838	3,109,830
GBP	18,482	900,998
JPY	3,032,924	827,988
SGD	15,120	351,540

Units: In Thousands of stated currencies

<b>December 31, 2014</b>		
	<b>Amount in original currency</b>	<b>Amount in New Taiwan Dollars</b>
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

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.

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, 2015 and 2014, respectively.

(Continued)

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

## Notes to the Consolidated Financial Statements

Unit: In Thousand of NTD

Assets	December 31, 2015		Total NTD
	USD to NTD	Other currency to NTD	
Cash and cash equivalents	\$ 19,772,703	68,977,974	88,750,677
Placement with Central Bank and call loans to banks	98,992,797	58,961,605	157,954,402
Financial assets measured at fair value through profit or loss, net	55,179,375	25,831,689	81,011,064
Available-for-sale financial assets	11,658,438	53,075,783	64,734,221
Hedging derivative financial assets	-	15,970	15,970
Receivables, net	6,482,558	5,436,136	11,918,694
Current income tax assets	192,281	208,835	401,116
Loans and Discounts, net	165,978,982	89,623,578	255,602,560
Held-to-maturity financial assets, net	7,297,402	29,622,750	36,920,152
Other financial assets, net	986,387	4,507,368	5,493,755
Property and equipment, net	73,655	17,932	91,587
Intangible assets	3,960	1,260	5,220
Deferred income tax assets, net	169,284	99,211	268,495
Other assets, net	191,504	72,187	263,691
Total assets	<u>\$ 366,979,326</u>	<u>336,452,278</u>	<u>703,431,604</u>

Liabilities	December 31, 2015		Total NTD
	USD to NTD	Other currency to NTD	
Deposits of Central Bank and other banks	\$ 43,715,878	99,097,384	142,813,262
Financial liabilities measured at fair value through profit or loss	286,207	33,603,281	33,889,488
Hedging derivative financial liabilities	-	243,967	243,967
Payables	5,574,702	446,041	6,020,743
Current income tax liabilities	8,836	81,375	90,211
Deposits and remittances	362,585,053	228,309,341	590,894,394
Other financial liabilities	213,642	1,506,888	1,720,530
Provisions	11,083	2,630	13,713
Deferred income tax liabilities	-	90,992	90,992
Other liabilities	92,273,593	27,893,506	120,167,099
Total liabilities	<u>\$ 504,668,994</u>	<u>391,275,405</u>	<u>895,944,399</u>

(Continued)

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

## Notes to the Consolidated Financial Statements

Unit: Thousand NTD

Assets	December 31, 2014		Total NTD
	USD to NTD	Other currency to NTD	
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
Total assets	<u>\$ 326,113,455</u>	<u>317,115,135</u>	<u>643,228,590</u>

Liabilities	December 31, 2014		Total NTD
	USD to NTD	Other currency to 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>

(Continued)

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

11. Disclosures required by the Regulations Governing the Preparation of Financial Reports by Public Banks

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

Unit: In Thousand of NTD

December 31, 2015					
Item	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest rate sensitive assets	\$ 1,629,531,364	1,472,564,685	254,393,149	252,371,479	3,608,860,677
Interest rate sensitive liabilities	344,060,000	2,737,548,699	337,299,385	121,934,922	3,540,843,006
Interest rate sensitive gap	1,285,471,364	(1,264,984,014)	(82,906,236)	130,436,557	68,017,671
Net worth					252,072,974
Ratio of interest rate sensitive assets to liabilities (%)					101.92
Ratio of interest rate sensitive gap to net worth (%)					26.98

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

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).

(b) Assets and liabilities interest rate sensitivity analysis (United States Dollars)

Unit: In Thousand of USD

December 31, 2015					
Item	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest rate sensitive assets	\$ 24,519,105	5,689,805	3,104,461	1,060,503	34,373,874
Interest rate sensitive liabilities	24,075,527	5,990,444	2,055,545	1,223,067	33,344,583
Interest rate sensitive gap	443,578	(300,639)	1,048,916	(162,564)	1,029,291
Net worth					(59,738)
Ratio of interest rate sensitive assets to liabilities (%)					103.09
Ratio of interest rate sensitive gap to net worth (%)					(1,723.01)

(Continued)

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

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

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).

6) Transfer of financial assets — transferred financial assets without overall derecognition

The transferred financial assets of BOT that are not qualified for de-recognition in the daily operation are mainly debt securities under repurchase agreements. Since the right to receive cash flow is transferred and it reflects the associated liabilities to repurchase transferred financial assets at fixed price in future period, BOT cannot use, sell or pledge these transferred financial assets during the valid transaction period. However, since BOT still bear the interest rate risk and credit risk, transferred financial assets are not completely derecognized. Analysis of financial assets that are not completely derecognized and the associated liabilities are as follows.

Financial assets type	December 31, 2015				
	Transferred financial assets book value	Financial liability book value	Transferred financial assets fair value	Financial liability fair value	Net fair
Financial asset at fair value through profit or loss					
Issued under repurchase agreement	\$ 282,767	299,050	282,767	299,050	(16,283)
Available-for-sale financial assets					
Issued under repurchase agreement	15,130,960	16,037,569	15,130,960	16,037,569	(906,609)

(Continued)

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

Financial assets type	December 31, 2014				
	Transferred financial assets book value	Financial liability book value	Transferred financial assets fair value	Financial liability fair value	Net fair
Financial asset at fair value through profit or loss					
Issued under repurchase agreement	\$ 4,311,574	4,205,629	4,311,574	4,205,629	105,945
Available-for-sale financial assets					
Issued under repurchase agreement	31,921,129	33,812,524	31,921,129	33,812,524	(1,891,395)
Securities lending agreement	31,100	-	31,100	-	31,100

7) Offsetting of financial assets and financial liabilities

BOT hold financial instruments which meet Section 42 of the IAS 32 endorsed by FSC. Therefore, the financial instrument will be offset on the balance sheet.

Although BOT do not engage in transactions that meet the offsetting condition in IFRSs, they have signed the net settlement contracts of similar agreements with counterparties, such as global master repurchase agreement, global securities lending agreement and similar repurchase agreement or reverse repurchase agreement. If both parties choose to net settle, the abovementioned executable net settlement contracts or similar agreements will be allowed to be settled in net amount after offsetting the financial assets and financial liabilities. Otherwise, the transaction will be settled in gross amount. However, if one party defaults, the other party could opt for net settling.

The offsetting information of financial assets and financial liabilities is shown below:

December 31, 2015						
Financial assets under offsetting or general agreement of net amount settlement or similar norms						
	Total recognized financial assets	Total recognized financial liabilities offsetting on the balance sheets	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheet (d) Financial instrument (note)	Cash received as collaterals	Net amount (e)=(c)-(d)
Financial assets	(a)	(b)	(c)=(a)-(b)	(note)		
Derivative financial assets	\$ <u>14,239,009</u>	<u>-</u>	<u>14,239,009</u>	<u>1,907,055</u>	<u>294,919</u>	<u>12,037,035</u>

Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
	Total recognized financial liabilities	Total recognized financial assets offsetting on the balance sheets	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheet (d) Financial instrument (note)	Pledged cash Collaterals	Net amount (e)=(c)-(d)
Financial liabilities	(a)	(b)	(c)=(a)-(b)	(note)		
Derivative financial liabilities	\$ <u>6,180,612</u>	<u>-</u>	<u>6,180,612</u>	<u>1,907,055</u>	<u>121,656</u>	<u>4,151,901</u>

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

December 31, 2014

Financial assets under offsetting or general agreement of net amount settlement or similar norms						
Financial assets	Total recognized financial assets (a)	Total recognized financial liabilities offsetting on the balance sheets (b)	Net amount of financial assets on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheet (d) Financial instrument (note)	Cash received as collaterals	Net amount (e)=(c)-(d)
Derivative financial assets	\$ 22,330,113	-	22,330,113	170,966	339,394	21,819,753

Financial liabilities under offsetting or general agreement of net amount settlement or similar norms						
Financial liabilities	Total recognized financial liabilities (a)	Total recognized financial assets offsetting on the balance sheets (b)	Net amount of financial liabilities on the balance sheets (c)=(a)-(b)	Relevant amount not offset on the balance sheet (d) Financial instrument (note)	Pledged cash Collaterals	Net amount (e)=(c)-(d)
Derivative financial liabilities	\$ 16,278,423	-	16,278,423	118,428	356,288	15,803,707
Securities sold under repurchase agreements	38,018,153	-	38,018,153	38,018,153	-	-
Total	\$ 54,296,576	-	54,296,576	38,136,581	356,288	15,803,707

Note: Netting settlement agreement and non-cash financial collaterals are included.

The subsidiary, BTLI

1) Risk management system

1. Risk management structure

(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 director of the heads of risk management, the internal audit department, the risk management department and all the operational units. Their responsibilities are described as follows:

a) Board of Directors

- a. The Board of each subsidiary is the highest organization to make decisions on major company issues and responsible for oversight of overall risks.

(Continued)

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

b. The Board of Directors shall establish the risk management policies in consideration of the operational strategies and business environment, monitor the risk management mechanism consistently, and control the company's risk exposure in order to ensure that the capital is sufficient to respond to all risks.

b) Risk management committee

a. Implement the risk management strategies and coordinate risk management events with different departments.

b. Formulate risk management policies and organization functions: establish qualified and quantified management standards, structure; regularly report the performance and provide suggestions to the Board of Director.

c) The Chief Risk Officer is responsible for overseeing the overall risk management.

d) The internal audit department

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

e) Risk management department

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

b. Implement, monitor and follow up on the resolutions made by the Board of Directors and the risk management committee. If there is any significant exposure that may endanger the company's operations or violate the law, the risk management department shall immediately take action and report the incident to the Board of Directors.

c. Assist the Board of Directors to set up and implement the risk management policies.

d. Establish BTLI's primary risk management standards and procedures, and submit them to the Parent Company for future reference.

e. Promptly report the current progress of risk management decisions to the Board of Directors and the risk management committee, and submit the risk management report to the Parent Company on a monthly basis.

f) All operational units

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

(b) Risk management procedures and protocols

a) Risk management procedures include risk identification, risk measurement, risk response, risk monitoring, data communication and documentation. Moreover, integrating risk management procedures to an operational level is helpful to reflect the impact on risk arising from changing in business environment.

(Continued)

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

## Notes to the Consolidated Financial Statements

- b) BTLI establishes the relevant risk indicators for the risks in business operations concerning the procedures, period and frequency of identification, measurement and evaluation of risk as means of decision making. It also includes performance evaluation and resource allocation.
- c) After the evaluation and compilation of risks, the appropriate responding procedure from the Company shall include the followings:
  - 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) BTLI establishes a risk monitoring system, timely scrutinize and monitor all the risks. If a risk is higher than expected or the tolerant limit, the Company should report and respond accordingly.
- e) The aforementioned risk monitoring and reporting system shall change along with the adjustment of operating objectives, risk exposure and external conditions of BTLI, including the effectiveness of the risk management system and the appropriateness of risk elements.

### 2. Credit risk management

BTLI sets credit limits for each rating and continuous credit risk mechanism for the credit risk management of securities investment. 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. 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. Also performs pressure tests to evaluate the effect of abnormal credit changes on investment portfolio as a reference for making corresponding countermeasures.

### 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.

(Continued)

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

4. Market risk management

BTLI performs evaluations before any financial instruments investment. Furthermore, the Company 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.

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.

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, 2015	
	Carrying amount	Maximum credit exposure
<u>Financial assets</u>		
Cash and cash equivalents	\$ 33,595,006	33,595,006
Receivables	3,894,709	3,894,709
Financial assets measured at fair value through profit or loss	2,544,003	2,544,003
Available-for-sale financial assets	44,179,000	44,179,000
Debt investments without quoted price in active market	48,590,962	48,590,962
Held-to-maturity financial assets	187,177,088	146,241,670
Other financial assets	3,746,150	3,746,150
Loans	11,777,584	11,777,584
Refundable deposits	3,568,127	49,443
Total	<u>\$ 339,072,629</u>	<u>294,618,527</u>

(Continued)

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

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>

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, 2015						
<u>Financial assets</u>						
Cash and cash equivalents	\$ 33,595,006	-	-	-	-	-
Receivables	2,550,521	653,717	-	22,895	18,880	643,696
Financial assets measured at fair value through profit or loss	43,915	-	-	-	-	-
Available-for-sale financial assets-debt instruments	4,940,650	-	-	-	-	2,986,478
Debt investments without quoted price in active market-debt instruments	24,597,292	22,545,700	-	-	-	1,447,970
Held-to-maturity financial assets-debt instruments	114,917,196	53,504,415	-	3,969,202	2,596,383	12,189,892
Other financial assets-net	3,746,150	-	-	-	-	-
Loans	-	-	1,440,563	234,824	647,195	9,455,002
Refundable deposits	47,343	3,518,684	-	-	-	2,100

(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, 2014						
<u>Financial assets</u>						
Cash and cash equivalents	\$ 38,564,185	-	-	-	-	-
Receivables	901,330	667,724	-	20,636	55,173	706,806
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	-	-	-	-	-
Loans	-	-	1,592,213	633,355	1,029,422	1,081,830
Refundable deposits	42,926	2,693,301	-	-	-	3,524

## (b) Region

Item	Taiwan	America	Europe	Asia	Oceania	Other
December 31, 2015						
<u>Financial assets</u>						
Cash and cash equivalents	\$ 33,595,006	-	-	-	-	-
Receivables	1,891,382	1,264,415	389,729	272,241	54,797	22,145
Financial assets measured at fair value through profit or loss	43,915	-	-	-	-	-
Available-for-sale financial assets-debt instruments	4,709,876	2,355,691	-	861,561	-	-
Debt investments without quoted price in active market-debt instruments	200,000	22,573,364	11,536,190	10,298,108	3,983,300	-
Held-to-maturity financial assets-debt instruments	95,031,735	31,610,326	32,298,185	19,524,662	8,087,345	624,835
Other financial assets-net	3,746,150	-	-	-	-	-
Loans	11,777,584	-	-	-	-	-
Refundable deposits	3,568,127	-	-	-	-	-

Item	Taiwan	America	Europe	Asia	Oceania	Other
December 31, 2014						
<u>Financial assets</u>						
Cash and cash equivalents	\$ 38,564,185	-	-	-	-	-
Receivables	1,946,617	102,422	110,789	138,274	24,946	28,621
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	-	-
Loans	13,599,820	-	-	-	-	-
Refundable deposits	2,739,751	-	-	-	-	-

(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, 2015	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	961,524	4,444,158	2,521,446	-	-	7,927,128	-	-	7,927,128	-	7,927,128
Held-to-maturity financial assets											
Debt investments	30,998,494	121,777,022	34,401,572	-	-	187,177,088	-	-	187,177,088	-	187,177,088
Debt investments without a quoted price in active market											
Debt investments	25,849,736	20,744,026	1,997,200	-	-	48,590,962	-	-	48,590,962	-	48,590,962
Refundable deposits	-	3,518,684	-	-	-	3,518,684	-	-	3,518,684	-	3,518,684

  

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	120,388,623	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	-	-	-	2,693,301	-	-	2,693,301	-	2,693,301

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, 2015	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	\$				3,894,683	3,894,683	81	15	3,894,779		70	3,894,709
Loans	\$				5,966,584	5,966,584	20,975	25,332	6,012,891	534	90,884	5,921,473

  

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

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**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, 2015	December 31, 2014
Overdue 1 to 3 months	\$ 21,056	133,384
Overdue more than 3 months	-	2,561
	<u>\$ 21,056</u>	<u>135,945</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, 2015						
	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	\$ (16,563)	(3,020)	-	-	-	-	(19,583)

Derivatives settled in total

	December 31, 2015						
	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	\$ (12,583,910)	(44,981,214)	(23,450,210)	(3,147,360)	-	-	(84,162,694)
— Foreign exchange inflow	12,562,978	44,882,320	23,385,525	3,127,776	-	-	83,958,599
Foreign exchange derivatives							
— Foreign exchange outflow	-	-	(2,875)	(2,875)	(627,859)	-	(633,609)
— Foreign exchange inflow	-	-	-	-	625,000	-	625,000
Subtotal of outflows	<u>\$ (12,583,910)</u>	<u>(44,981,214)</u>	<u>(23,453,085)</u>	<u>(3,150,235)</u>	<u>(627,859)</u>	<u>-</u>	<u>(84,796,303)</u>
Subtotal of inflows	<u>\$ 12,562,978</u>	<u>44,882,320</u>	<u>23,385,525</u>	<u>3,127,776</u>	<u>625,000</u>	<u>-</u>	<u>84,583,599</u>
Net cash flows	<u>\$ (20,932)</u>	<u>(98,894)</u>	<u>(67,560)</u>	<u>(22,459)</u>	<u>(2,859)</u>	<u>-</u>	<u>(212,704)</u>

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
Financial liabilities measured at fair value through profit or loss							
Foreign exchange derivatives	\$ (5,274)	(11,400)	-	-	-	-	(16,674)

(Continued)

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

Derivatives settled in total

	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	
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)

Maturity analysis of non-derivative:

Assets	December 31, 2015							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	\$ 31,493,224	2,111,854	-	-	-	-	-	33,605,078
Available-for-sale financial assets	165,164	8,582	361,818	1,054,599	1,177,243	2,872,721	5,307,034	10,947,161
Held-to-maturity financial assets	639,694	4,663,254	5,098,749	19,403,116	16,672,298	48,329,756	246,043,754	340,850,621
Debt investments without quoted price in active market	642,964	3,021,269	13,096,024	2,436,323	3,707,936	8,037,381	50,918,891	81,860,788
Other financial assets-net	761,583	970	2,283,404	775,148	-	-	-	3,821,105
Refundable deposits	-	24,750	-	62,564	87,314	640,192	3,838,646	4,653,466
Total	\$ 33,702,629	9,830,679	20,839,995	23,731,750	21,644,791	59,880,050	306,108,325	475,738,219

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

(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, 2015			December 31, 2014		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
AUD	\$ 451,076	23.9750	10,814,551	429,938	26.0250	11,189,147
CAD	90,703	23.7200	2,151,464	115,585	27.3200	3,157,772
EUR	19,222	35.9200	690,467	13,447	38.5400	518,234
HKD	538,056	4.2420	2,282,435	370,064	4.0820	1,510,599
JPY	33	0.2730	9	33	0.2656	9
NZD	18	22.5000	404	40,760	24.8500	1,012,894
USD	3,819,840	32.8800	125,596,347	3,725,300	31.6700	117,980,238
CNY	5,041,324	4.9930	25,171,329	4,096,694	5.0990	20,889,042
ZAR	428,354	2.1200	908,110	398,018	2.7400	1,090,570
SGD	67,559	23.2500	1,570,753	25,123	24.0000	602,941
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	807,124	32.8800	26,538,250	721,159	31.6700	22,839,094

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

	December 31, 2015										
	USD	AUD	HKD	EUR	CAD	NZD	CNY	JPY	ZAR	SGD	Total
Foreign financial assets											
Cash and cash equivalents	\$ 4,973,832	404,214	529,181	85,773	103,310	404	904,400	9	58,574	22	7,059,719
Financial assets measured at fair value through profit or loss	3,839	-	132	-	39,944	-	-	-	-	-	43,915
Available fo -sale financial assets	3,901,461	-	1,753,246	604,694	-	-	1,139,894	-	-	-	7,399,295
Loans and receivables	176,165	369,963	8	-	12,060	-	372,605	-	22,530	-	953,331
Held-to-maturity financial assets	65,718,852	7,954,549	-	-	1,077,575	-	14,559,997	-	624,835	1,570,730	91,506,538
Debt investments without quoted price in active market	23,311,730	2,085,825	-	-	958,519	-	5,448,284	-	202,172	-	32,006,530
Other financial assets-net	-	-	-	-	-	-	2,746,150	-	-	-	2,746,150
Total	\$ 98,085,879	10,814,551	2,282,567	690,467	2,191,408	404	25,171,330	9	908,111	1,570,752	141,715,478

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	December 31, 2015										Total
	USD	AUD	HKD	EUR	CAD	NZD	CNY	JPY	ZAR	SGD	
<b>Foreign financial liabilities</b>											
Financial liabilities measured at fair value through profit or loss	\$ 941,822	117,458	-	-	-	-	-	-	-	-	1,059,280
Payables	1,461	-	-	-	-	-	-	-	-	-	1,461
Insurance liability	25,748,397	-	-	-	-	-	-	-	-	-	25,748,397
<b>Total</b>	<b>\$ 26,691,680</b>	<b>117,458</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26,809,138</b>

Note: December 31, 2015: 1 USD = 32.88 NTD; 1 AUD = 23.975 NTD; 1 HKD = 4.242 NTD; 1 EUR = 35.92 NTD; 1 CAD = 23.72 NTD; 1 NZD = 22.50 NTD; 1 CNY = 4.993 NTD; 1 JPY = 0.273 NTD; 1 ZAR = 2.12 NTD; 1 SGD = 23.25 NTD

	December 31, 2014										Total
	USD	AUD	HKD	EUR	CAD	NZD	CNY	JPY	ZAR	SGD	
<b>Foreign financial assets</b>											
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-for-sale financial assets	5,189,673	-	683,152	516,418	-	-	574,030	-	-	-	6,963,273
Receivables	59,021,811	7,788,913	-	-	1,328,382	1,002,408	5,892,164	-	790,828	602,936	76,427,442
Held-to-maturity financial assets	28,302,912	3,135,828	-	-	1,714,621	-	8,314,704	-	259,453	-	41,727,518
Debt investments without quoted price in active market	-	-	-	-	-	-	2,667,620	-	-	-	2,667,620
<b>Total</b>	<b>\$ 94,453,471</b>	<b>11,088,378</b>	<b>1,510,587</b>	<b>518,234</b>	<b>3,138,262</b>	<b>1,006,960</b>	<b>20,715,162</b>	<b>9</b>	<b>1,061,537</b>	<b>602,941</b>	<b>134,095,541</b>
<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 = 31.67 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.

## 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 derived from the risk of interest reprising. The measurement of monitoring account interest rate risk is to compute the reprising gap of risk sensitive assets/ liabilities and to develop risk standard as the monitoring benchmark. Its measurements are to set the interest rate, which increases or decreases 50 basis points to evaluate the risk.

## 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.

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

December 31, 2015			
Main risk	Range	Amount Influence	
		Equity	Gain or loss
Exchange rate risk	Other foreign currencies / NTD rise 5%	6.67	32.26
Exchange rate risk	Other foreign currencies / NTD fall 5%	(6.67)	(32.26)
Interest rate risk	Interest rate curve rises 50BPS	(3.20)	-
Interest rate risk	Interest rate curve falls 50BPS	3.46	-
Price of equity stock risk	Price of equity stock rises 10%	36.25	0.50
Price of equity stock risk	Price of equity stock falls 10%	(36.25)	(0.50)

  

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	4.41	-
Price of equity stock risk	Price of equity stock rises 10%	37.57	0.02
Price of equity stock risk	Price of equity stock falls 10%	(37.57)	(0.02)

5) 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 director of the heads of risk management, the internal audit department, the risk management department and the business units. Their responsibilities are described as follows:

a) Board of directors

The Board of Directors is responsible for the oversight of BTLI's risks. They should identify risks in business operations and ensure the effectiveness of risk management.

b) Risk Management Committee

The Risk Management Committee is responsible for formulating risk the management policies and organization functions: (i) establish qualified and quantified management standards, structure; (ii) regularly report the performance and provide advice to the Board of Directors.

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
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c) The Chief Risk Officer

The Chief Risk Officer is responsible for overseeing the overall risk management.

d) Risk Management Department

The Risk Management Department is responsible for monitoring, measuring and evaluating the implementation of the risk management on a daily basis. The Risk Management Department shall remain independent of other operational units.

e) All the operational units

Each department shall identify, measure, response and monitor the risk of implementation.

f) The Internal Audit Department

The Internal 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, risk measurement, risk response, risk monitoring, data communication and documentation. Moreover, integrating risk management procedures to an operational level is helpful to reflect the impact on risk arising from changing in business environment.

b) BTLI establishes the relevant risk indicators for the risks in business operations concerning the procedures, period and frequency of identification, measurement and evaluation of risk as means of decision making. It also includes performance evaluation and resource allocation.

c) After the evaluation and compilation of risk, the appropriate responding procedure from BTLI shall include the following:

a. Risk averse: to exclude any involvement 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.

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

- d) BTLI establishes a risk monitoring system, timely scrutinize and monitor all the risks. If a risk is higher than expected or the tolerant limit, the Company should report and respond accordingly.
- e) The aforementioned risk monitoring and reporting system shall change along with the adjustment of operating objectives, risk exposure and external conditions of the subsidiary, including the effectiveness of the risk management system and the appropriateness of risk elements.

2. Information of insurance risk

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

		<b>December 31, 2015</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	(9,951)	(8,259)
Morbidity	X1.1	(25,011)	(20,759)
Contract Default Rate	X0.9	(26,347)	(21,868)
Expense	X1.1	(344,962)	(286,318)
Ratio of Return on Investment	(0.25)%	(824,696)	(684,497)

		<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) 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 its management in insurance risk, BTLI established "BankTaiwan Life Insurance 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, 2015 and 2014, and January 1, 2014 are as follows:

## December 31, 2015

Occurrence year	Development year										Claim Provision
	1	2	3	4	5	6	7	8	9	10	
95	168,989	210,053	217,422	218,071	218,164	218,466	218,522	218,550	218,629	218,631	-
96	425,676	532,759	547,878	549,554	550,644	550,647	550,672	550,673	550,681	550,687	6
97	165,310	213,533	216,353	221,841	221,880	221,881	221,909	221,918	221,935	221,937	19
98	160,616	202,266	207,255	208,577	208,657	208,739	208,739	208,748	208,763	208,764	25
99	150,536	200,284	207,399	208,700	208,778	208,888	208,912	208,921	208,938	208,940	52
100	158,363	203,032	210,554	211,065	211,106	211,191	211,216	211,226	211,242	211,243	137
101	174,121	224,805	228,749	229,003	229,154	229,261	229,289	229,299	229,315	229,317	314
102	184,516	240,433	246,756	248,077	248,273	248,362	248,390	248,400	248,422	248,423	1,667
103	194,838	237,694	242,559	244,352	244,507	244,636	244,665	244,676	244,691	244,693	6,999
104	194,813	243,742	248,740	250,598	250,756	250,889	250,919	250,930	250,946	250,948	56,135
Provision for unreported and within 1 year unpaid claims											65,354
Add: over 1 year reported but unpaid claims											11,983
Unreported provision claims											77,337

## 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	254,200	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	230,679	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											76,037

(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, 2015 and 2014 are as follows:

December 31, 2015

Occurrence year	Development year										Claim Provision
	1	2	3	4	5	6	7	8	9	10	
95	159,622	198,715	205,620	206,227	206,320	206,622	206,678	206,706	206,785	206,787	-
96	281,376	355,445	364,533	365,509	366,428	366,431	366,456	366,457	366,465	366,469	4
97	151,816	196,181	198,907	203,895	203,934	203,935	203,963	203,972	203,986	203,989	17
98	153,588	193,488	198,157	199,358	199,438	199,521	199,521	199,530	199,543	199,545	24
99	143,101	189,407	196,245	197,440	197,518	197,628	197,651	197,660	197,676	197,677	49
100	152,753	195,787	202,928	203,439	203,480	203,562	203,587	203,596	203,611	203,612	132
101	166,896	216,798	220,742	220,995	221,138	221,239	221,267	221,277	221,292	221,293	298
102	177,367	230,284	236,207	237,471	237,652	237,740	237,767	237,777	237,797	237,798	1,591
103	192,337	232,779	237,417	239,189	239,336	239,465	239,494	239,504	239,519	239,521	6,742
104	193,219	241,612	246,512	248,361	248,516	248,649	248,679	248,690	248,705	248,708	55,489

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	193,080	243,479	248,024	250,438	250,596	250,742	250,776	250,785	250,787	250,793	57,713

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 in profit or loss. 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, 2015			
Credit rating			
Name	agent	Credit rating	Date of rating
Central Re	S&P	A	102.06.10
Munich Re	S&P	AA-	95.12.22
Swiss Re	S&P	AA-	100.10.28
Cologne Re	S&P	AA+	99.02.04
Gibraltar Re	S&P	A+	104.09.17
Dai-ichi Mutual Life	S&P	A+	103.11.26

December 31, 2014			
Credit rating			
Name	agent	Credit rating	Date of rating
Central Re	S&P	A	102.06.10
Munich Re	S&P	AA-	95.12.22
Swiss Re	S&P	AA-	100.10.28
Cologne Re	S&P	AA+	99.02.04
Gibraltar Re	S&P	AA-	98.02.26
Dai-ichi Mutual Life	S&P	A	95.03.23

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**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARY COMPANIES**  
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(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, 2015 and 2014 are as follows:

Units: In Millions of NTD

<b>Undiscounted expected cash outflow (inflow) on December 31, 2015</b>				
	< 12 months	1~5 years	>5 years	total
\$	26,712	78,808	716,112	\$ 821,632

  

<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

(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, 2015, the undertaken risk is within the acceptable level.

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

6) Offsetting financial assets and financial liabilities

BTLI engages in the transactions of financial instruments that meet the offsetting conditions set forth in paragraph 42 of IAS 32 endorsed by the FSC. Those transactions are presented at the net amount on the balance sheet.

BTLI also engages in the transactions on repurchase agreement or reversed repurchase agreement that do not meets the offsetting condition. Such transactions include global master repurchase agreement, global securities lending agreement and related agreements. If both parties agree to settle the transactions on a net basis, BTLI can settle the transactions by netting the assets and liabilities. If there are no such agreements, BTLI shall settle the transaction on a gross basis. However, one party can choose to settle a transaction on a net basis if the other party defaults.

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The offsetting information of financial assets and financial liabilities is shown below:

December 31, 2015						
Financial assets subject to offsetting, enforceable master netting arrangement or similar agreement						
Description	Recognized financial assets (a)	Recognized financial liabilities offset in the balance sheet (b)	Net financial assets reported in the balance sheet (c)=(a)-(b)	Related amount not offset in the balance sheet (d) Financial instruments (Note)	Cash collateral received	Net (e)=(c)-(d)
Derivative financial assets	\$ <u>43,915</u>	<u>-</u>	<u>43,915</u>	<u>158,510</u>	<u>-</u>	<u>(114,595)</u>
Financial liabilities subject to offsetting, enforceable master netting arrangement or similar agreement						
Description	Recognized financial liabilities (a)	Recognized financial assets offset in the balance sheet (b)	Net financial liabilities reported in the balance sheet (c)=(a)-(b)	Related amount not offset in the balance sheet (d) Financial instruments (Note)	Cash collateral received	Net (e)=(c)-(d)
Derivative financial liabilities	\$ <u>1,059,280</u>	<u>-</u>	<u>1,059,280</u>	<u>43,915</u>	<u>-</u>	<u>1,015,365</u>

Note: Include master netting arrangement and non-cash collateral.

December 31, 2014						
Financial assets subject to offsetting, enforceable master netting arrangement or similar agreement						
Description	Recognized financial assets (a)	Recognized financial liabilities offset in the balance sheet (b)	Net financial assets reported in the balance sheet (c)=(a)-(b)	Related amount not offset in the balance sheet (d) Financial instruments (Note)	Cash collateral received	Net (e)=(c)-(d)
Derivative financial assets	\$ <u>29,496</u>	<u>-</u>	<u>29,496</u>	<u>983,414</u>	<u>-</u>	<u>(953,918)</u>
Financial liabilities subject to offsetting, enforceable master netting arrangement or similar agreement						
Description	Recognized financial liabilities (a)	Recognized financial assets offset in the balance sheet (b)	Net financial liabilities reported in the balance sheet (c)=(a)-(b)	Related amount not offset in the balance sheet (d) Financial instruments (Note)	Cash collateral received	Net (e)=(c)-(d)
Derivative financial liabilities	\$ <u>3,190,594</u>	<u>-</u>	<u>3,190,594</u>	<u>29,496</u>	<u>-</u>	<u>3,161,098</u>

Note: Include master netting arrangement and non-cash collateral.

(Continued)

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

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:

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

(Continued)

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

- (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.

**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.

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

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.

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, 2015	December 31, 2014
Cash and cash equivalents	\$ 164,450	202,070
Financial assets measured at fair value through profit or loss-current	1,112,795	1,129,524
Available-for-sale financial assets-current	1,117,843	1,491,598
Loans and receivables	<u>4,813,538</u>	<u>6,272,491</u>
	<u>\$ 7,208,626</u>	<u>9,095,683</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, 2015 (Taiwan)	December 31, 2014 (Taiwan)
Cash and cash equivalents	\$ 164,450	202,070
Financial assets measured at fair value through profit or loss-current	1,112,795	1,129,524
Available-for-sale financial assets-current	1,117,843	1,491,598
Loans and receivables	<u>4,813,538</u>	<u>6,272,491</u>
	<u>\$ 7,208,626</u>	<u>9,095,683</u>

The maximum exposure amounts by counterparties are as follows:

	Government	Finance	Other companies	Individuals	Total
<b>December 31, 2015</b>					
Cash and cash equivalents	\$ -	164,450	-	-	164,450
Financial assets measured at fair value through profit or loss—current	-	400,108	712,687	-	1,112,795
Available-for-sale financial assets—current	49,039	767,777	301,027	-	1,117,843
Loans and receivables	<u>46,385</u>	<u>1,083</u>	<u>-</u>	<u>4,766,070</u>	<u>4,813,538</u>
	<u>\$ 95,424</u>	<u>1,333,418</u>	<u>1,013,714</u>	<u>4,766,070</u>	<u>7,208,626</u>
<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>\$ 243,776</u>	<u>1,244,433</u>	<u>1,478,665</u>	<u>6,128,809</u>	<u>9,095,683</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, 2015		Unit: In Millions of NTD December 31, 2014	
	Amount	Impairment	Amount	Impairment
Non-overdue	\$ <u>4,814</u>	<u>-</u>	<u>6,272</u>	<u>-</u>

The movements of the impairment were as follows:

	2015	2014
Beginning balance	\$ 513	562
Reversal	<u>478</u>	<u>(49)</u>
Ending balance	<u>\$ 991</u>	<u>513</u>

3. The credit quality information

		Units: In Thousands of NTD December 31, 2015			Subtotal
		Normal	Caution	Abnormal	
Cash and cash equivalents	\$ 164,450	-	-	-	164,450
Financial assets measured at fair value through profit or loss-current	1,112,795	-	-	-	1,112,795
Available-for-sale financial assets-current	1,117,843	-	-	-	1,117,843
Loans and receivables	<u>4,813,538</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,813,538</u>
Total	<u>\$ 7,208,626</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,208,626</u>

  

		December 31, 2014			Subtotal
		Normal	Caution	Abnormal	
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>-</u>	<u>6,272,491</u>
Total	<u>\$ 9,095,683</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,095,683</u>

(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, 2015</b>					
Non-derivatives financial liabilities					
Short-term borrowings	\$ 65,760	-	-	-	65,760
Commercial paper payable	1,459,660	-	-	-	1,459,660
Bonds sold under repurchase agreements	1,655,483	-	-	-	1,655,483
Deposits received from securities borrowers	25,063	25,063	50,125	-	100,251
Guaranteed price deposits received from securities borrowers	25,420	25,420	50,840	-	101,680
Accounts payables	2,031,592	-	-	-	2,031,592
Collections	429,530	-	-	-	429,530
Other payables	63,680	-	-	-	63,680
Other payables- related-party	67,962	-	-	-	67,962
Other current liabilities	103	-	-	-	103
Other non-current liabilities	-	-	-	5,866	5,866
Derivatives financial liabilities					
Financial liabilities measured at fair value through profit or loss – current	36,751	-	-	-	36,751
	<u>\$ 5,861,004</u>	<u>50,483</u>	<u>100,965</u>	<u>5,866</u>	<u>6,018,318</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, 2014</b>					
Non-derivative financial liabilities					
Short-term borrowings	\$ 313,553	-	-	-	313,553
Commercial paper payable	2,478,382	-	-	-	2,478,382
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
Payables	2,460,430	-	-	-	2,460,430
Collections	6,944	-	-	-	6,944
Other payables	57,778	-	-	-	57,778
Other payables-related-party	77,326	-	-	-	77,326
Other current liabilities	114	-	-	-	114
Other non-current liabilities	-	-	-	4,986	4,986
Financial liabilities measured at fair value through profit or loss — current	64,103	-	-	-	64,103
	<u>\$ 7,101,855</u>	<u>73,419</u>	<u>146,838</u>	<u>4,986</u>	<u>7,327,098</u>

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

4) Market Risk

1. Equity securities price risk

Sensitivity analysis

	Units: In Million of NTD	
	Equity	Gain or loss
<b>December 31, 2015</b>		
Price increases 10%	31.14	16.99
Price decreases 10%	168.50	(0.69)
	Equity	Gain or loss
<b>December 31, 2014</b>		
Price increases 10%	120.36	49.09
Price decreases 10%	(15.72)	8.51

(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, 2015	December 31, 2014
Financial instruments with fixed rate :		
Convertible bonds	\$ 1,108,057	1,124,342
Government bonds	49,039	100,410
Corporate bonds	497,837	778,625
Financial bonds	<u>199,936</u>	<u>306,016</u>
	<u>\$ 1,854,869</u>	<u>2,309,393</u>

5) Currency Risk

	Units: In Thousand of NTD		
	December 31, 2015		
	Foreign currency (in thousand dollars)	Exchange rate (in dollars)	NTD
Financial assets:			
Monetary items:			
CNY	74,664	4.3900	327,775
USD	1,100	33.000	36,168
Financial liabilities:			
Monetary items:			
USD	2,000	32.880	65,760
	December 31, 2014		
	Foreign currency (in thousand dollars)	Exchange rate (in dollars)	NTD
Financial assets:			
Monetary items:			
CNY	73,138	5.099	372,930

(Continued)

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

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 TWD against the CNY at the reporting date would have increased (decreased) profit before tax by \$2,982 thousand dollars and \$3,729 thousand dollars, respectively, in 2015 and 2014. The analysis assumes that all other variables in particular interest rates remained constant.

6) Reclassification of financial assets

1. The reclassified amount from the original category and the reason for the reclassification are as follows:

	<b>2015</b>
	<b>Reclassified into</b>
	<b>available-for-</b>
	<b>sale financial</b>
	<b>assets</b>
Original category	
Financial asset at fair value through profit or loss—current	\$ <u>104,087</u>

Beginning July 2015, the global economy was suffering from a dramatic economic downturn which was mainly caused by the Greek sovereign debt crisis. In addition, the plunge of China's stock market and the rapid depreciation of CNY also led to a panic slide in the domestic stock market. BTS believed that the conditions above have met all the needed requirement (as prescribed in paragraph 50B of IAS 39) to reclassify its financial assets at fair value through profit or loss – current to available for sale financial assets. The reclassification is consistent with other security companies, which is in line with the letter (No.1040006663) issued by Taiwan Securities Association on October 12, 2015, with the authorities' oral approval, stating that a security company can reclassify its financial assets in accordance with paragraph 50C of IAS 39 (other than those held for market making purposes).

Due to the reclassification, the income before tax of BTS for the year ended December 31, 2015 increased by \$19,318 thousand, and the earnings per share (before tax) increased by \$0.06.

2. The book values and fair values of the reclassified financial assets

	<b>December 31, 2015</b>	
	<b>book value</b>	<b>fair value</b>
Available-for-sale financial assets—current	\$ <u>122,202</u>	<u>104,281</u>
	<b>December 31, 2014</b>	
	<b>book value</b>	<b>fair value</b>
Available-for-sale financial assets—current	\$ <u>136,938</u>	<u>157,947</u>

(Continued)

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

3. The information regarding the changes in fair value of reclassified financial assets

	Original category: financial asset measured at fair value through profit or loss—current	Gains (losses) recognized in other comprehensive income following the reclassification
	Gains (losses) would be recognized in profit or loss if not reclassified	
2015	\$ <u>(19,318)</u>	<u>(17,921)</u>

The fair value gains or losses on the reclassified financial assets recognized in profit or loss for the year 2015 and 2014 were as follows:

	2015	2014
valuation profit (loss)	\$ <u>(17,921)</u>	<u>21,009</u>

7) Transfer of Financial Assets—Transferred Financial Assets Without Overall Derecognition

The transferred financial assets of BTS that are not qualified for de recognition in the daily operation are mainly debt securities under repurchase agreements. Since the right to receive cash flow is transferred and it reflects the associated liabilities to repurchase transferred financial assets at fixed price in future period, BTS cannot use, sell or pledge these transferred financial assets during the valid transaction period. However, since BTS still bear the interest rate risk and credit risk, transferred financial assets are not completely derecognized. Analysis of financial assets that are not completely derecognized and the associated liabilities are as follows.

Financial assets type	Transferred financial assets book value	Financial liability book value	December 31, 2015		Net fair value
			Transferred financial assets fair value	Financial liability fair value	
Financial asset at fair value through profit or loss					
Issued under repurchase agreemen	\$ 680,288	660,422	680,288	660,422	19,866
Available-for-sale financial assets					
Issued under repurchase agreemen	450,910	449,508	450,910	449,508	1,402
Financial assets type	Transferred financial assets book value	Financial liability book value	December 31, 2014		Net fair value
			Transferred financial assets fair value	Financial liability fair value	
Financial asset at fair value through profit or loss					
Issued under repurchase agreemen	\$ 69,290	70,118	69,290	70,118	(828)
Available-for-sale financial assets					
Issued under repurchase agreemen	977,748	970,176	977,748	970,176	7,572

(Continued)

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

8) Offsetting financial assets and financial liabilities

BTS and its subsidiary hold financial instruments which meet Section 42 of the IAS 32 endorsed by FSC. Therefore, the financial instrument will be offset on the balance sheet.

Although BTS does not engage in transactions that meet the offsetting condition in IFRSs, they have signed the net settlement contracts of similar agreements with counterparties, such as global master repurchase agreement, global securities lending agreement and similar repurchase agreement or reverse repurchase agreement. If both parties choose to net settle, the abovementioned executable net settlement contracts or similar agreements will be allowed to be settled in net amount after offsetting the financial assets and financial liabilities. Otherwise, the transaction will be settled in gross amount. However, if one party defaults, the other party could opt for net settling.

The offsetting information of financial assets and financial liabilities is shown below:

December 31, 2015						
Financial assets subject to offsetting, enforceable master netting arrangement or similar agreement						
Description	Recognized financial assets	Recognized financial liabilities offset in the balance sheet	Net financial assets reported in the balance sheet	Related amount not offset in the balance sheet (d)		
	(a)	(b)	(c)=(a)-(b)	Financial instruments (Note)	Cash collateral received	Net (e)=(c)-(d)
Derivative financial assets	\$ <u>4,738</u>	<u>-</u>	<u>4,738</u>	<u>299</u>	<u>-</u>	<u>4,439</u>

Note: Netting settlement agreement and non-cash financial collaterals are included.

Financial liabilities subject to offsetting, enforceable master netting arrangement or similar agreement						
Description	Recognized financial liabilities	Recognized financial assets offset in the balance sheet	Net financial liabilities reported in the balance sheet	Related amount not offset in the balance sheet (d)		
	(a)	(b)	(c)=(a)-(b)	Financial instruments (Note)	Cash collateral received	Net (e)=(c)-(d)
Derivative financial liabilities	\$ <u>33,751</u>	<u>-</u>	<u>33,751</u>	<u>299</u>	<u>-</u>	<u>33,452</u>

Note: Netting settlement agreement and non-cash financial collaterals are included.

December 31, 2014						
Financial assets subject to offsetting, enforceable master netting arrangement or similar agreement						
Description	Recognized financial assets	Recognized financial liabilities offset in the balance sheet	Net financial assets reported in the balance sheet	Related amount not offset in the balance sheet (d)		
	(a)	(b)	(c)=(a)-(b)	Financial instruments (Note)	Cash collateral received	Net (e)=(c)-(d)
Derivative financial assets	\$ <u>5,182</u>	<u>-</u>	<u>5,182</u>	<u>207</u>	<u>-</u>	<u>4,975</u>

Note: Netting settlement agreement and non-cash financial collaterals are included.

(Continued)

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

December 31, 2014						
Financial liabilities subject to offsetting, enforceable master netting arrangement or similar agreement						
Description	Recognized financial liabilities (a)	Recognized financial assets offset in the balance sheet (b)	Net financial liabilities reported in the balance sheet (c)=(a)-(b)	Related amount not offset in the balance sheet (d)		
				Financial instruments (Note)	Cash collateral received	Net (e)=(c)-(d)
Derivative financial liabilities	\$ <u>64,047</u>	<u>-</u>	<u>64,047</u>	<u>207</u>	<u>-</u>	<u>63,840</u>

Note: Netting settlement agreement and non-cash financial collaterals are included.

**(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.

2) Capital adequacy ratio

December 31, 2015

Unit: In Thousands of NTD; %

Item	the financial holding company's shareholding in the subsidiary	net eligible capital	statutory capital requirement
Name			
The Company	100 %	253,684,460	270,185,332
Subsidiary BOT	100 %	226,726,439	162,046,964
Subsidiary BTS	100 %	2,510,371	1,008,746
Subsidiary BTLI	100 %	14,504,121	12,454,844
Deducted Amount	-	(282,662,702)	(270,162,702)
Subtotal		214,762,689	175,533,184
The Group Capital Adequacy Ratio (C)=(A)÷(B)			122.35

(Continued)

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

December 31, 2014

Unit: In Thousands of NTD; %

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

Explain: 1. The numbers are accordance with the "Regulations Governing the Consolidated Capital Adequacy of Financial Holding Companies"

2. The term "capital adequacy ratio of a financial holding company calculated on a consolidated basis" shall mean the group's net eligible capital divided by the group's statutory capital requirement.

3. Do not need to prepare the format for the first and third quarters.

3) financial holding company's eligible capital

Unit: In thousands of TWD

December 31, 2015	
Item	Amount
Common stock	90,000,000
Capital instruments with Tier 1 capital	-
Other preferred stock and subordinated bonds	-
Advance receipts for common stock	-
Capital surpluses	111,385,217
Legal reserve	4,857,208
Special reserve	29,770,947
Cumulative gain or loss	5,377,817
Other equity	12,293,276
Reduce : Goodwill and other intangible assets	-
Reduce : Deferred assets	5
Reduce : Treasury stocks	-
Total qualifying capital	253,684,460

(Continued)

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

## Notes to the Consolidated Financial Statements

Unit: In thousands of TWD

December 31, 2014	
Item	Amount
Common stock	90,000,000
Capital instruments with Tier 1 capital	-
Other preferred stock and subordinated bonds	-
Advance receipts for common stock	-
Capital surpluses	111,463,639
Legal reserve	4,175,915
Special reserve	26,558,186
Cumulative gain or loss	7,301,081
Other equity	20,387,719
Reduce : Goodwill and other intangible assets	-
Reduce : Deferred assets	9
Reduce : Treasury stocks	-
Total qualifying capital	259,886,531

Explain: 1. The numbers are accordance with the "Regulations Governing the Consolidated Capital Adequacy of Financial Holding Companies".

2. No need to prepare the format for the first and third quarters.

- 4) Where the aggregate transactions taken place between all subsidiaries of a financial holding company reach the following things: lending; guarantee or endorsement; other transactions for the same natural person or same affiliate, please review the Schedule (a).

**(50) Related-party transactions**

- 1) Name of related party and relationship

Name	Relationship
Hua Nan Financial Holdings Co., Ltd. and its subsidiaries	Investee company of BOT and BTLI under the equity method
Taiwan Life Insurance Co., Ltd.	Investee company of BOT and BTLI under the equity method
Tang Eng Iron Works Co., Ltd.	Investee company of BOT under the equity method
Kaohsiung Ammonium Sulfate Co., Ltd.	Investee company of BOT under the equity method
Tai Yi Real Estate Management Co., Ltd.	Investee company of BOT under the equity method
Taiwan Business Bank Co., Ltd	Related-Party
Land Bank Of Taiwan	Related-Party
The Export-Import Bank of the Republic of China	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 2015 and 2014 were as follows:

	December 31, 2015	December 31, 2014
Short-term employee benefits	\$ 39,627	38,981
Retired benefits	<u>66</u>	<u>2,140</u>
	<u>\$ 39,693</u>	<u>41,121</u>

3) Other related party transactions

1. Placement with banks

Name	December 31, 2015		December 31, 2014	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	\$ <u>25,763</u>	<u>0.02</u>	<u>16,819</u>	<u>0.02</u>

2. Bank deposits

Name	December 31, 2015		December 31, 2014	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	\$ <u>5,685</u>	<u>0.01</u>	<u>182,879</u>	<u>0.48</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, 2015		Interest income
		Ending balance	Interest rate range (%)	
Hua Nan Financial Holdings Co., Ltd.	\$ 23,027,270	<u>657,600</u>	0.03~5.00	<u>13,246</u>

(Continued)

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

## Notes to the Consolidated Financial Statements

		Highest balance	December 31, 2014		Interest rate range (%)	Interest income
			Ending balance			
Hua Nan Financial Holdings Co., Ltd.	\$	21,346,139	<u>4,433,800</u>	0.03~1.50		<u>26,331</u>
4. Call loans from banks						
		Highest balance	December 31, 2015		Interest rate range (%)	Interest income
			Ending balance			
Hua Nan Financial Holdings Co., Ltd.	\$	17,517,100	<u>10,743,050</u>	0.14~9.5		<u>24,248</u>
		Highest balance	December 31, 2014		Interest rate range (%)	Interest income
			Ending balance			
Hua Nan Financial Holdings Co., Ltd.	\$	13,033,740	<u>305,940</u>	0.39~4.05		<u>23,313</u>

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

## 5. Deposits

Name	December 31, 2015		December 31, 2014.	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	\$ 438,928	0.01	693,025	0.02
Taiwan Life Insurance Co., Ltd.	-	-	15,574	-
Kaohsiung Ammonium Sulfate Co., Ltd.	735,999	0.02	42,568	-
Tang Eng Iron Works Co., Ltd.	4,852	-	333	-
Tai Yi Real Estate Management Co., Ltd.	10,966	-	25,885	-
Total	<u>\$ 1,190,745</u>	<u>0.03</u>	<u>777,385</u>	<u>0.02</u>

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

(Continued)

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

6. Available-for-sale financial assets—current

Name	Summary	December 31, 2015	December 31, 2014
Hua Nan Financial Holdings Co., Ltd.	Financial bonds	\$ 913,577	901,280
	Operating securities— underwriting—stocks	-	165,225
		<u>\$ 913,577</u>	<u>1,066,505</u>
	Interest receivable	<u>\$ 1,582</u>	<u>1,587</u>

The interest income for the year ended 2015 and 2014 derived from the BTLI's financial bond investment on related party are \$14,846 thousand dollars and \$14,850 thousand dollars.

7. Loans

December 31, 2015							
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	37	16,189	9,138	9,138	-	None	None
House mortgages	109	655,660	548,130	548,130	-	Land and buildings	None
Long-term secured loans	Tai Yi Real Estate management Co., Ltd.	27,362	3,162	3,162	-	Land and buildings	None
Secured overdrafts loans	Tang Eng Iron Works Co., Ltd.	237,807	237,807	237,807	-	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.	400,000	350,000	350,000	-	Land and factory	None
Short-term secured loans	Tang Eng Iron Works Co., Ltd.	151,482	110,140	110,140	-	Land and factory	None
Medium-term secured loans	Tang Eng Iron Works Co., Ltd.	1,000,000	1,000,000	1,000,000	-	Land and factory	None
Medium-term secured loans	Tang Eng Iron Works Co., Ltd.	800,000	600,000	600,000	-	Land and factory	None

(Continued)

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

## Notes to the Consolidated Financial Statements

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	277,362	-	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.	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

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.

## 8. Short-term borrowings

		December 31, 2015			
		Highest balance	Ending balance	Interest rate range (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$	800,000	-	0.300~1.450	84

		December 31, 2014			
		Highest balance	Ending balance	Interest rate range (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$	440,000	-	0.300~1.320	115

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

Name	Summary	December 31, 2015	December 31, 2014
Hua Nan Financial Holdings Co., Ltd.	Agent fee	\$ 3,389	1,369

(Continued)

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

## 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)

The Company and its subsidiaries derivative transactions in 2015 and 2014 are written off when preparing the consolidated financial report.

## 11. Broker service fee incomes

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

	2015	2014
Hua Nan Financial Holdings Co., Ltd.	\$ <u>-</u>	<u>4</u>

## 12. Commission expenses

Name	Nature	2015	2014
Hua Nan Financial Holdings Co., Ltd.	Agent fee	\$ <u>74,483</u>	<u>2,801</u>

## 13. Service charges

Name	Nature	2015	2014
Hua Nan Financial Holdings Co., Ltd.	Remittance fee and insurance agent fee	\$ <u>10</u>	<u>28</u>

(Continued)

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

## 14. Other operating expenses

Name	Nature	2015	2014
Hua Nan Financial Holdings Co., Ltd.	Service charge and business expense	\$ <u>963</u>	<u>964</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.

The company and its subsidiary have no different in transaction price between related party and non-related party.

## 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 and BTLI under the equity method(From October 15, 2015 ,Taiwan Life Insurance Co is not BOT's and BTLI's related party)
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
Land Bank of Taiwan Co., Ltd	Related- Party
The Export-Import Bank of The ROC 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) Other related party transactions

## a) Call loans to banks

		December 31, 2015		
	Highest balance	Ending balance	Interest rate range (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	\$ 23,027,270	<u>657,600</u>	0.03~5.00	<u>13,246</u>

		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>	0.03~1.50	<u>26,331</u>

## b) Receivables

Name	December 31, 2015		December 31, 2014	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holding Co., Ltd	\$ 1,989	-	1,629	-
BankTaiwan Life Insurance Co., Ltd	136,451	0.19	123,314	0.20
BankTaiwan Securities Co., Ltd	14	-	137	-
Total	<u>\$ 138,454</u>	<u>0.19</u>	<u>125,080</u>	<u>0.20</u>

## c) Other assets

Name	December 31, 2015		December 31, 2014	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holdings Co., Ltd	\$ -	-	3,649,926	32.01
BankTaiwan Life Insurance Co., Ltd	6,780	0.09	6,425	0.06
BankTaiwan Securities Co., Ltd	14	-	14	-
Total	<u>\$ 6,794</u>	<u>0.09</u>	<u>3,656,365</u>	<u>32.07</u>

(Continued)

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

## d) Deposits of banks

Name	December 31, 2015		December 31, 2014	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	\$ <u>5,685</u>	<u>0.01</u>	<u>182,879</u>	<u>0.48</u>

## e) Call loans from banks

	Highest balance	December 31, 2015		Interest expense
		Ending balance	Interest rate range (%)	
Hua Nan Financial Holdings Co., Ltd.	\$ 17,517,100	<u>10,743,050</u>	0.14~9.50	<u>24,248</u>

	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>

## f) Deposits

Name	December 31, 2015		December 31, 2014	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holding Co., Ltd.	\$ 256,640	0.01	529,522	0.01
BankTaiwan Life Insurance Co., Ltd.	3,457,654	0.09	10,972,299	0.31
BankTaiwan Securities Co., Ltd.	730,410	0.02	325,409	0.01
Hua Nan Financial Holdings Co., Ltd.	438,928	0.01	693,025	0.02
Taiwan Life Insurance Co., Ltd.	-	-	15,574	-
Kaohsiung Ammonium Sulfate Co., Ltd.	735,999	0.02	42,568	-
Tang Eng Iron Works Co., Ltd.	4,852	-	333	-
Tai Yi Real Estate Management Co., Ltd.	10,966	-	25,885	-
Total	<u>\$ 5,635,449</u>	<u>0.15</u>	<u>12,604,615</u>	<u>0.35</u>

(Continued)

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

## Notes to the Consolidated Financial Statements

## g) Interest income

Name	Amount	2015	Amount	2014
		Percentage of account balance		Percentage of account balance
BankTaiwan Life Insurance Co., Ltd.	\$ 130,308	0.20	118,493	0.18
BankTaiwan Securities Co., Ltd.	2,965	-	2,736	-
Total	<u>\$ 133,273</u>	<u>0.20</u>	<u>121,229</u>	<u>0.18</u>

## h) Interest expense

Name	Amount	2015	Amount	2014
		Percentage of account balance		Percentage of account balance
Taiwan Financial Holding Co., Ltd.	\$ 656	-	519	-
BankTaiwan Life Insurance Co., Ltd.	32,710	0.09	130,721	0.36
BankTaiwan Securities Co., Ltd.	2,140	0.01	2,754	0.01
Total	<u>\$ 35,506</u>	<u>0.10</u>	<u>133,994</u>	<u>0.37</u>

## i) Service fee income

Name	Amount	2015	Amount	2014
		Percentage of account balance		Percentage of account balance
BankTaiwan Life Insurance Co., Ltd.	\$ 990,340	16.40	631,487	10.49
BankTaiwan Securities Co., Ltd.	2,201	0.04	3,297	0.05
Total	<u>\$ 992,541</u>	<u>16.44</u>	<u>634,784</u>	<u>10.54</u>

(Continued)

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

## Notes to the Consolidated Financial Statements

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

Name	2015		2014	
	Amount	Percentage of account balance	Amount	Percentage of account balance
BankTaiwan Life Insurance Co., Ltd.	\$ 35,907	2.40	243,178	1.53
BankTaiwan Securities Co., Ltd.	(2,017)	0.13	(2,032)	0.01
Taiwan Life Insurance Co., Ltd.	-	-	142,239	0.89
Total	<u>\$ 33,890</u>	<u>2.53</u>	<u>383,385</u>	<u>2.43</u>

- k) Other non-interest income (expense)

Name	2015		2014	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Taiwan Financial Holding Co., Ltd.	\$ 26,675	0.30	29,688	0.12
BankTaiwan Life Insurance Co., Ltd.	40,573	0.45	38,806	0.16
BankTaiwan Securities Co., Ltd.	35,579	0.39	34,758	0.14
Total	<u>\$ 102,827</u>	<u>1.14</u>	<u>103,252</u>	<u>0.42</u>

(Continued)

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

1) Loans

December 31, 2015							
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	37	16,189	9,138	9,138	-	None	None
House mortgages	109	655,660	548,130	548,130	-	Land and buildings	None
Long-term secured loans	Tai Yi Real Estate management Co., Ltd.	27,362	3,162	3,162	-	Land and buildings	None
Short-term secured loans	Taiwan financial Holding Co., Ltd.	17,050,000	17,050,000	17,050,000	-	Government (or financial institutions) guarantee	None
Secured overdrafts loans	Tang Eng Iron Works Co., Ltd.	237,807	237,807	237,807	-	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.	400,000	350,000	350,000	-	Land and factory	None
Short-term secured loans	Tang Eng Iron Works Co., Ltd.	151,482	110,140	110,140	-	Land and factory	None
Medium-term secured loans	Tang Eng Iron Works Co., Ltd.	1,000,000	1,000,000	1,000,000	-	Land and factory	None
Medium-term secured loans	Tang Eng Iron Works Co., Ltd.	800,000	600,000	600,000	-	Land and factory	None
Short-term secured loans	BankTaiwan Securities Co., Ltd.	281,579	-	-	-	Real estate and government (or financial institutions) guarantee	None

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 Holding 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.	313,533	313,533	313,533	-	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.

(Continued)

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

m) Derivative instruments

December 31, 2015						
Name of relative party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Balance sheet	
					Account name	Amount
BankTaiwan Life Insurance Co., Ltd.	Swap agreement	2008.04.30~2016.04.26	27,812,257	366,113	Valuation adjustment of financial assets measured at fair value through profit or loss - swap	366,113

  

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	2004.11.06~2015.02.17	19,931,272	489,217	Valuation adjustment of financial assets measured at fair value through profit or loss - forward	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

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(From October 15, 2015 ,Taiwan Life Insurance Co is not BOT's and BTLI's 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) Other related party transactions

a) Bank deposits

The bank deposits in the related banks and the relevant interest revenues on December 31, 2015 and 2014 were as follows:

Name	December 31, 2015		December 31, 2014	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Bank of Taiwan Co., Ltd	\$ 10,674,382	31.77	13,168,831	34.15
Bank of Taiwan Co., Ltd	-	-	3,027,900	13.96
Hua Nan Financial Holdings Co., Ltd	18,632	0.06	9,316	0.02
Total	<u>\$ 10,693,014</u>	<u>31.83</u>	<u>16,206,047</u>	<u>48.13</u>

The relevant interest revenues of the subsidiary, BTLI, in 2015 and 2014 were \$32,722 thousand dollars and \$130,748 thousand dollars, respectively.

b) Current tax assets

Name	Summary	December 31, 2015	December 31, 2014
Taiwan Financial Holdings	Refundable tax	<u>\$ 1,458,837</u>	<u>1,247,634</u>

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, 2015 and 2014, and January 1, 2014 are as follows:

Name	December 31, 2015	December 31, 2014
Real estate secured loans	<u>\$ 307,596</u>	<u>368,080</u>
Interest receivables	<u>\$ 264</u>	<u>312</u>

All interest rate collars on December 31, 2015 and 2014 are 0.96%~1.867% and 1.10%~1.94%, respectively.

(Continued)

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

## d) Available-for-sale financial assets

Name	Summary		December 31, 2015	December 31, 2014
Hua Nan Financial Holdings Co., Ltd.	Financial bonds (recorded in the available-for-sale financial assets)	Cost	\$ 900,000	900,000
	Other receivables reclassified from prepaid dividends	Valuation adjustment	13,577	1,280
	Carrying amount		<u>\$ 913,577</u>	<u>901,280</u>
	Interest receivable		<u>\$ 1,582</u>	<u>1,587</u>

Both of the interest revenues from the aforementioned financial bonds in 2015 and 2014 are \$14,846 and \$14,850 thousand dollars.

## e) Derivatives

December 31, 2015						
Name of relative party	Subject	Agreement period	Notional amounts	Current valuation adjustment	Balance sheet	
					Account name	Amount
Bank of Taiwan Co., Ltd.	Swap agreement	2015.08.18~2016.05.04	USD858,000	(367,895)	Valuation Adjustment on Financial Assets Designated as at Fair Value through Profit or Loss	(367,895)

  

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 on Financial Assets Designated as at Fair Value through Profit or Loss	(1,058,994)

(Continued)

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

## f) Commission fees expense

Name	Summary	December 31, 2015	December 31, 2014
BankTaiwan Insurance Brokers Co., Ltd.	Agent fee	\$ 111,330	93,300
Hua Nan Financial Holdings Co., Ltd.	Agent fee	3,389	1,369
Total		<u>\$ 114,719</u>	<u>94,669</u>

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

Name	Summary	2015	2014
Bank of Taiwan	Gain (loss) on disposal of investment	<u>\$ (1,828,637)</u>	<u>(835,795)</u>

## h) Commission fees expense

Name	Summary	2015	2014
Bank of Taiwan Co., Ltd	Sales charge	\$ 76,939	95,567
BankTaiwan Insurance Brokers Co., Ltd	Agent fee	877,961	499,144
Hua Nan Financial Holdings Co., Ltd.	Agent fee	74,483	2,801
Total		<u>\$ 1,029,383</u>	<u>597,512</u>

## i) Exchange loss (gain)

Name	Summary	2015	2014
Bank of Taiwan Co., Ltd	forward and swap	\$ 1,769,971	(655,964)
BankTaiwan Insurance Brokers Co., Ltd.	Commission	345	(232)
Total		<u>\$ 1,770,316</u>	<u>(656,196)</u>

In 2015 and 2014, the exchange gains (losses) arising from holding foreign currency assets or liabilities was \$1,355,531 thousand dollars and \$6,350,767 thousand dollars.

(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
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
Others	Directors, supervisors, managers and their relatives up to the second degree, affiliates and so on

(b) Other related party transactions

a) Bank deposits

The bank deposits in the Bank of Taiwan on December 31, 2015 and 2014 were as follows:

	December 31, 2015	December 31, 2014
Cash and cash equivalents	\$ 76,143	59,324
Operation guarantee deposits (recorded in other non-current assets)	230,000	265,000
Amounts awaiting delivery (recorded in other current assets)	54	1,084
Collections for underwriting stock value (recorded in other current assets)	424,213	-
	<u>\$ 730,410</u>	<u>325,408</u>

The bank deposits in the Hua Nan Financial Holdings on December 31, 2015 and 2014 were as follows:

	December 31, 2015	December 31, 2014
Cash and cash equivalents	\$ <u>1,896</u>	<u>1,925</u>

The interest revenues from the deposits in the Bank of Taiwan on December 31, 2015 and 2014 were \$2,140 and \$2,754 thousand dollars, respectively.

(Continued)

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

## b) Available-for-sale financial assets—current

Name	Summary	December 31, 2015	December 31, 2014
Hua Nan Financial Holdings Co., Ltd.	Operating securities—underwriting—stocks	\$ <u>-</u>	<u>165,225</u>

## c) Short-term loans borrowings

Name	December 31, 2015				
	Highest balance	Ending balance	Interest rate range (%)		Interest expense, net
			NTD	Foreign currency	
Bank of Taiwan Co., Ltd	\$ 1,365,760	<u>65,760</u>	1.595	0.550~0.950	<u>2,965</u>
Hua Nan Financial Holdings Co., Ltd.	\$ 800,000	<u>-</u>	0.300~1.450		<u>84</u>

  

Name	December 31, 2014				
	Highest balance	Ending balance	Interest rate range (%)		Interest expense, net
			NTD	Foreign currency	
Bank of Taiwan Co., Ltd	\$ 1,313,553	<u>313,553</u>	1.595		<u>2,736</u>
Hua Nan Financial Holdings Co., Ltd.	\$ 440,000	<u>-</u>	0.300~1.320		<u>115</u>

**(51) Pledged assets**

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

- 1) Parent company-Taiwan Financial Holding Co., Ltd.: None.

(Continued)

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

## Notes to the Consolidated Financial Statements

## 2) The subsidiary, BOT

Pledged assets	Purpose of pledge	December 31, 2015	December 31, 2014
Available-for-sale financial assets—bonds	Guarantee deposit for provisional seizure against defaulted loans and others	\$ 367,900	368,800
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	18,400,000	11,000,000
Available-for-sale financial assets—negotiable certificate of deposit	Payment and settlement systems of Central Bank	29,000,000	36,000,000
		<u>\$ 48,367,900</u>	<u>47,968,800</u>

## 3) The subsidiary, BOT

Pledged assets	Purpose of pledge	December 31, 2015	December 31, 2014
Government bonds (accounted in refundable deposits)	Operating guarantee	\$ 3,518,684	2,693,301
Cash (accounted in refundable deposits)	Lease guarantee and future margin	49,443	46,450
		<u>\$ 3,568,127</u>	<u>2,739,751</u>

## 4) The subsidiary, BTS

Pledged assets	Purpose of pledge	December 31, 2015	December 31, 2014
Property and Equipment—Land	Short-term borrowings	\$ 379,309	379,309
Property and Equipment—Building	Short-term borrowings	85,875	89,640
		<u>\$ 465,184</u>	<u>468,949</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, 2015	December 31, 2014
Consignment collection	\$ 52,812,682	52,183,034
Contract guarantee on behalf of counter parties	1,379,679	1,498,483
Traveler's checks held on consignment	1,253,747	1,269,239
Marketable securities held as custodian	1,662,667,807	1,840,395,253
Letters of credit	30,733,836	29,145,605
Goods held in custody	42,281,496	21,295,601
Issuance of New Taiwan Dollars	1,806,647,559	1,708,743,226
Trustee of behalf of Lenders	873,077,721	921,947,680
Registered government bonds for sale	580,631,100	566,858,100
Registered short term bills for sale	182,643,500	248,507,999
Consigned sales of goods	2,206,661	2,280,236
Trust liabilities	570,833,022	546,438,060
Guarantees	<u>80,330,097</u>	<u>83,521,712</u>
	<u><u>\$ 5,887,498,907</u></u>	<u><u>6,024,084,228</u></u>

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

The contract guarantees on behalf of counter parties of the subsidiary, BTLI, are \$225 thousand and \$1,580 thousand dollars on December 31, 2015 and 2014, and January 1, 2014, 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, 2015	December 31, 2014
Deposits		
Deposits in BOT	\$ 24,287,546	30,455,662
Deposits in other banks	5,788,482	4,240,140
Short term investment		
Investment in funds	175,157,433	178,853,246
Investment in bonds	215,848,838	203,435,186
Common stock investment–marketable securities	43,093,483	40,506,379
Receivables		
Interest receivable	1,790,606	1,516,687
Cash dividend receivable	3,366	3,356
Receivables from trading securities	1,521,948	393,953
Receivables from forward contracts	8,441,462	1,552,508
Prepaid expense	99	40
Real estate		
Land	16,010,620	13,953,770
Buildings	125,026	119,280
Construction in progress	18,912,209	13,581,464
Marketable securities under custody	<u>59,851,904</u>	<u>57,826,390</u>
Total of trust assets	<u><u>\$ 570,833,022</u></u>	<u><u>546,438,061</u></u>

(Continued)

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

Trust liabilities	December 31, 2015	December 31, 2014
Payables		
Payables from trading securities	\$ 180,594	404,081
Payables from forward contracts	8,505,100	1,561,500
Payables from management fee	4,184	3,938
Payables from supervision fee	324	324
Other payables	1,151	862
Tax payable	180	203
Securities held in custody payable	59,851,904	57,826,390
Trust capital		
Money trust	364,450,599	371,939,184
Marketable securities trust	142,701	119,262
Real estate investment trust	40,771,057	35,041,987
Other reserve and accumulated income		
Accumulated loss	57,815,457	43,116,285
Foreign currency translation	14,643,149	10,833,032
Deferred unrealized income	5,665,046	4,258,025
Current income	<u>18,801,576</u>	<u>21,332,988</u>
Total of trust liabilities	<u>\$ 570,833,022</u>	<u>546,438,061</u>

Notes: The funds invested by the OBU branch of the subsidiary, BOT, are included. The amounts as of December 31, 2015 and 2014 are \$345,045 thousand dollars and \$316,436 thousand dollars, respectively.

Details of trust	December 31, 2015	December 31, 2014
Deposits		
Deposits in the Bank	\$ 24,287,546	30,455,662
Deposits in other banks	5,788,482	4,240,140
Short term investment		
Investment in funds	175,157,433	178,853,246
Investment in bonds	215,848,838	203,435,186
Common stock investment– marketable securities	43,093,483	40,506,379
Real estate		
Land	16,010,620	13,953,770
Buildings	125,026	119,280
Construction in progress	18,912,209	13,581,464
Marketable securities under custody	<u>59,851,904</u>	<u>57,826,390</u>
Trust capital	<u>\$ 559,075,541</u>	<u>542,971,517</u>

(Continued)

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

## Notes to the Consolidated Financial Statements

Income statement for assets under trust	2015	2014
Trust revenue		
Capital interest revenue	\$ 10,325,917	10,284,346
Cash dividend revenue	752,049	909,254
Donation revenue	490,863	736,644
Realized capital gain shares	61,186	1,124,155
Realized capital gain fund	1,967,041	3,832,346
Realized exchange gain – bond	1,848,237	1,022,769
Realized foreign exchange gain	529,644	315,459
Realized gain on property exchange	640,818	1,312,929
Income from beneficiary certificates	<u>3,309,256</u>	<u>2,771,898</u>
Total trust revenue	<u>19,925,011</u>	<u>22,309,800</u>
Trust expense		
Capital management fee	495,159	511,283
Tax expense	7,094	5,542
Supervisory fee	337	335
Storage fee	9,216	9,736
Commission fee	32	17
Donation cost	490,417	398,040
Other expense	<u>121,180</u>	<u>51,859</u>
	<u>1,123,435</u>	<u>976,812</u>
Net income	<u>\$ 18,801,576</u>	<u>21,332,988</u>

## (53) Profitability

## 1) The Company

Item		Unit: %	
		December 31, 2015	December 31, 2014
Return on Assets (note 6)	pre-tax	5.29	5.71
	after-tax	5.34	5.73
Return on Equity (Note 8)	pre-tax	5.63	6.06
	after-tax	5.68	6.07
Profit Margin		99.86	98.46

(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, 2015	December 31, 2014
Return on Assets (note 7)	pre-tax	0.35	0.38
	after-tax	0.32	0.35
Return on Equity (note 8)	pre-tax	6.30	6.55
	after-tax	5.68	6.07
Profit Margin		85.50	14.82

## 3) The subsidiary, BOT

Unit: %

Item		December 31, 2015	December 31, 2014
Return on Assets (note 7)	pre-tax	0.44	0.44
	after-tax	0.40	0.41
Return on Equity (note 8)	pre-tax	7.41	7.02
	after-tax	6.73	6.53
Profit Margin		25.19	22.75

## 4) The subsidiary, BTLI

Unit: %

Item		December 31, 2015	December 31, 2014
Return on Assets	pre-tax	(0.67)	(0.21)
	after-tax	(0.67)	(0.20)
Return on Equity	pre-tax	(20.03)	(6.37)
	after-tax	(19.89)	(6.19)
Profit Margin		note 9	note 9

## 5) The subsidiary, BTS

Unit: %

Item		December 31, 2015	December 31, 2014
Return on Assets	pre-tax	1.37	2.36
	after-tax	1.17	2.09
Return on Equity	pre-tax	4.03	7.29
	after-tax	3.44	6.46
Profit Margin		22.38	35.04

(Continued)

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

Note 1:  $\text{Return on assets} = \text{Income before (after) income tax} / \text{Average total assets}$ .

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

Note 3:  $\text{Profit margin} = \text{Income after income tax} / \text{Net revenues}$ .

Note 4: Income before (after) income tax is the income for the whole year of 2015 and 2014.

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.

Note 9: BankTaiwan Life Insurance December 31, 2015 net profit rate is not expressed because 2015 have a large number of full payment, insurance claims and payment increase due to net profit rate of net income less than zero.

**(54) Losses due to major disasters: None.**

**(55) Subsequent events**

Kaohsiung Ammonium Sulfate Co., Ltd., an investee of the subsidiary Bank of Taiwan under the equity method, has been liquidated on January 15, 2016 and the shareholders' meeting resolved to distribute residual surplus in proportion to its shareholding. The subsidiary Bank of Taiwan expects to receive \$179,000 thousand in cash and land which was estimated to be worth \$15,238,530 thousand by an independent appraisal institution. As of the report date, the legal process is still in the works. land.

**(56) Other**

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

By function	December 31, 2015			December 31, 2014		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
<b>By nature</b>						
Employee benefits						
Salary	70,943	11,032,287	11,103,230	58,952	10,942,263	11,001,215
Labor and health insurance	105,521	534,680	640,201	117,360	591,224	708,584
Pension	3,465	893,786	897,251	2,938	855,407	858,345
Others	1	297,864	297,865	2	226,890	226,892
Depreciation	103,140	805,753	908,893	87,527	878,222	965,749
Amortization	-	362,489	362,489	-	383,572	383,572

The number of employees in 2015 and 2014 were 8,848 and 8,775, respectively.

(Continued)

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

## Notes to the Consolidated Financial Statements

## 2) Government audit adjustments for fiscal year ended 2014 and 2013

The accounting records as at and for the year ended 2014, have been audited and examined by the MoA, and the resulting adjustments were summarized as follows:

## The Company and its subsidiaries

<b>Balance Sheet</b>	<b>As Previously Reported December 31, 2014</b>	<b>Adjustments — Increase (Decrease)</b>	<b>As Audited by the MoA, December 31, 2014</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 175,979,782	589	175,980,371
Accounts receivable, net	71,031,163	32,114	71,063,277
Current income tax assets	4,200,074	(771,627)	3,428,447
Deferred tax assets	1,447,820	769,353	2,217,173
Other assets, net	14,156,169	(3,812)	14,152,357
<b>Liabilities</b>			
Accounts payable	66,577,265	(6)	66,577,259
Current income tax liabilities	259,952	57,842	317,794
Deferred tax liabilities	18,562,701	673	18,563,374
Other liabilities, net	8,343,565	32,114	8,375,679
<b>Stockholders' equity</b>			
Retained earnings	38,035,182	(64,006)	37,971,176
<b>Income statement</b>	<b>As Previously Reported 2014</b>	<b>Adjustments — Increase (Decrease)</b>	<b>As Audited by the MoA, 2014</b>
Interest revenue	\$ 75,096,486	22	75,096,508
Insurance Revenue (Net)	(24,313,619)	(16,628)	(24,330,247)
Realized Gain (loss) on Available-for-sale Financial Assets	2,426,302	(11)	2,426,291
Other miscellaneous income (loss), net	(25,223)	42	(25,181)
Operating expenses	20,573,975	(13,411)	20,560,564
Income tax expense	1,154,643	60,842	1,215,485
Net income	7,422,466	(64,006)	7,358,460

(Continued)

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

## Notes to the Consolidated Financial Statements

## Bank of Taiwan

Government audit adjustments for fiscal year ended December 31, 2014:

Balance Sheet	As Previously Reported December 31, 2014	Adjustments — Increase (Decrease)	As Audited by the MoA, December 31, 2014
Assets			
Current income tax assets	\$ 1,878,465	(2,173)	1,876,292
Other assets, net	11,404,016	(3,223)	11,400,793
Liabilities			
Current income tax liabilities	181,948	58,430	240,378
Stockholders' equity			
Retained earnings	55,169,251	(63,826)	55,105,425
Income statement	As Previously Reported 2014	Adjustments — Increase (Decrease)	As Audited by the MoA, 2014
Interest revenue	\$ 65,232,863	22	65,232,885
Other miscellaneous income (loss), net	210,472	30	210,502
Other General and Administrative Expenses Abstra	6,403,944	3,223	6,407,167
Income tax expense	1,185,145	60,655	1,245,800
Net income	8,248,208	(63,826)	8,184,382

(Continued)

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

Revised entries by the MoA in 2014 were as follows:

Item	Adjustment accounts	Amount revised by the MoA		Explanation of revision by the MoA
1.	Current income tax assets Other miscellaneous income (loss), net	\$ 30	30	Heping Branch revise on a net rental income.
2.	Current income tax assets Interest revenue	22	22	Finance Department to revise the account of net interest income
3.	Current income tax assets Income tax expense Current income liabilities	4,972 53,570	58,542	adjustment for the tax collector's income tax of Singapore Branch.
4.	Other general and administrative expenses abstract Other assets	3,223	3,223	Neihu Branch revise the amortization of rental costs.
5.	Current income tax liabilities Current income assets	82	82	adjustment for the tax collector's income tax of Hong Kong Branch.
6.	Current income tax liabilities Income tax expense Current income assets	30 7,085	7,115	Head department adjustment by Amendments taxable income.
7.	Unappropriated retained earnings Special reserve	744	744	adjustment to timing recognition of the disposal of the land.

**BankTaiwan Life Insurance**

It is no different between finance report and adjustment by MoA, no need to adjust the account.

(Continued)

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

## Notes to the Consolidated Financial Statements

## BankTaiwan Securities

Government audit adjustments for fiscal year ended December 31, 2014:

Balance Sheet	As Previously Reported December 31, 2014	Adjustments — Increase (Decrease)	As Audited by the MoA, December 31, 2014
Assets			
Advance	\$ 61,311	(11,052)	50,259
Other current asset	1,098	11,052	12,150
Liabilities			
Other accounts payable	57,784	(6)	57,778
Other accounts payable—related party	77,915	(589)	77,326
Deferred tax liabilities	91,454	674	92,128
Stockholders' equity			
Special Reserve	271,183	(29,260)	241,923
Unappropriated retained earnings	198,754	29,181	227,935
Income statement	As Previously Reported 2014	Adjustments — Increase (Decrease)	As Audited by the MoA, 2014
Dividend income	\$ 28,595	(11)	28,584
Employee benefit expense	249,552	(6)	249,546
Other operating income	41,460	12	41,472
Income tax expense	29,030	86	29,116
Net income	225,450	(79)	225,371

(Continued)

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

Revised entries by the MoA in 2014 were as follows:

Item	Adjustment accounts	Amount revised by the MoA		Explanation of revision by the MoA
1.	Income tax expense Other accounts payable—related party Deferred tax liabilities	\$ 83 591	674	Income tax expense adjustments
2.	Income tax expense Dividend income Other accounts payable—related party Other operating income	3 11	2 12	Dividend income and Income tax expense adjustments
3.	Other accounts payable Employee benefit expense	6	6	Employee benefits expense adjustments
4.	Other current asset Advance	11,052	11,052	Advance salary adjustments
5.	Special reserve Unappropriated retained earnings	29,260	29,260	Special Reserve adjustments

(Continued)

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

## Notes to the Consolidated Financial Statements

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>Income statement</b>	<b>As Previously Reported 2013</b>	<b>Adjustments — Increase (Decrease)</b>	<b>As Audited by the MoA, 2013</b>
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 2014, 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**

Revised entries by the MoA in 2013 were as follows:

Item	Adjustment accounts	Amount revised by the MoA		Explanation of revision by the MoA
1.	Income tax expense Current income tax liabilities	\$ 305	305	adjustment to the income tax from the South Africa Branch.
2.	Current income tax liabilities Income tax expense	38	38	adjustment for the tax collector's income tax of Hong Kong Branch.
3.	Income tax expense Current income tax liabilities	30	30	adjustment to the withholding tax of lease revenue.
4.	Deferred tax assets Current income tax liabilities Deferred tax liabilities Income tax expense	33,398 19,836	33,398 19,836	adjustment to the taxable income according to the revisions.
5.	Other assets, net Bad debt expense and reserve for guarantees	65,796	65,796	distribution of the held bonds from bad debt accounts.
6.	Deposits and remittances Other financial assets Bad debt expense and reserve for guarantees	6,813	115 6,698	bad debt recovery.
7.	Other assets, net Current income tax assets	131,648	131,648	reclassification by nature.
8.	Payables Current income tax liabilities	10,051	10,051	reclassification by nature.
9.	Payables Current income tax liabilities	44,717	44,717	reclassification by nature.
10.	Unappropriated retained earnings Special reserve	1,275	1,275	adjustment to timing recognition of the disposal of the land.

(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:

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

Revised entries by the MoA in 2013 were as follows:

Item	Adjustment accounts	Amount revised by the MoA		Explanation of revision by the MoA
1.	Income tax revenue	\$ 1,044		Adjust income tax according to the Amendments.
	Allowance for deferred tax assets	69		
	Deferred tax assets		1,113	

**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:

Balance Sheet	As Previously Reported December 31, 2013	Adjustments — Increase (Decrease)	As Audited by the MoA, December 31, 2013
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

Revised entries by the MoA in 2013 were as follows:

Item	Adjustment accounts	Amount revised by the MoA		Explanation of revision by the MoA
1.	Income tax expense	\$ 6		Employee benefits expense and income tax adjustments.
	Deferred tax assets	31		
	Other accounts payable	4		
	Other accounts payable—related party		37	
	Employee benefit expense		4	

3) Supplementary information for government employees' insurance department

1. Balance sheets

	Government employees' insurance department	
	December 31, 2015	December 31, 2014
Cash and cash equivalents	\$ 32,774,199	29,643,920
Financial assets measured at fair value through profit or loss	126,556,389	139,064,547
Receivables, net	18,670,370	12,744,906
Held-to-maturity financial assets	63,168,922	49,845,846
Property and equipment, net	9,613	9,488
Intangible assets, net	3,070	2,906
Other assets, net	5,054,709	9,621,079
Total assets	<u>\$ 246,237,272</u>	<u>240,932,692</u>

(Continued)

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

## Notes to the Consolidated Financial Statements

	Government employees' insurance department	
	December 31, 2015	December 31, 2014
Payables	\$ 239,502	464,029
Provisions	245,997,636	240,468,607
Other liabilities	134	56
Total liabilities	<u>\$ 246,237,272</u>	<u>240,932,692</u>

## 2. Income statement

	Government employees' insurance department	
	December 31, 2015	December 31, 2014
Net interest income	\$ 1,635,156	1,582,659
Service fee expenses	(6,680)	(24,106)
Gain (loss) on financial assets and liabilities at fair value through profit or loss	(1,857,901)	10,426,444
Foreign exchange gain (loss)	852,232	2,592,250
Premium income	20,918,139	20,948,956
Government subsidy	16,970,330	12,946,954
Insurance payments	(32,810,111)	(24,452,013)
Recovered premium reserve	-	-
Provision for insurance premium reserve	(5,529,029)	(23,874,056)
Miscellaneous expense	(92,675)	(91,790)
Miscellaneous revenue	<u>57,432</u>	<u>84,701</u>
Net revenue	<u>136,893</u>	<u>139,999</u>
Bad debt expenses and reserve for guarantees	(219)	-
Employee benefits	119,336	122,054
Depreciation and amortization expenses	3,633	3,796
Other general and administrative expenses	<u>14,143</u>	<u>14,149</u>
	<u>136,893</u>	<u>139,999</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.

(Continued)

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

## Notes to the Consolidated Financial Statements

## 4) Financial information classified by business type

December 31, 2015

Items	Businesses	Banking business	Insurance business	Securities business	Government insurance	Other operations	Total
Net interest income		26,673,255	8,987,785	143,863	1,635,156	-	37,440,059
Non-interest income, net		12,702,196	(41,634,600)	412,926	(1,498,263)	(9,963)	(30,027,704)
Net revenue		39,375,451	(32,646,815)	556,789	136,893	(9,963)	7,412,355
Bad debt expense		(4,404,686)	(122,480)	-	219	-	(4,526,947)
Provisions		(5,529,029)	32,085,575	-	-	-	26,556,546
Operating expenses		(20,029,230)	(848,618)	(375,013)	(137,112)	(115,444)	(21,505,417)
Net income before income tax		9,412,506	(1,532,338)	181,776	-	(125,407)	7,936,537
Income tax expenses		(1,730,138)	18,689	(20,992)	-	133,384	(1,599,057)
Net income		7,682,368	(1,513,649)	160,784	-	7,977	6,337,480

December 31, 2014

Items	Businesses	Banking business	Insurance business	Securities business	Government insurance	Other operations	Total
Net interest income		27,209,503	9,584,615	146,509	1,582,659	-	38,523,286
Non-interest income, net		7,718,997	(19,409,934)	509,268	22,431,396	(2,999)	11,246,728
Net revenue		34,928,500	(9,825,319)	655,777	24,014,055	(2,999)	49,770,014
Bad debt expense		(7,284,809)	(50,702)	-	-	-	(7,335,511)
Provisions		-	10,574,103	-	(23,874,056)	-	(13,299,953)
Operating expenses		(19,125,395)	(794,166)	(362,772)	(139,999)	(121,401)	(20,543,733)
Net income before income tax		8,518,296	(96,084)	293,005	-	(124,400)	8,590,817
Income tax expenses		(1,245,801)	23,772	(29,116)	-	35,660	(1,215,485)
Net income		7,272,495	(72,312)	263,889	-	(88,740)	7,375,332

5) 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 10 for further information.

## 6) Internal control of corporate governance

1. The board of directors: The board of directors complies with laws, regulations, articles of incorporation, and the resolutions of the shareholders' meetings of the company. In addition, they supervises and the management of the company, and are responsible for the Company's overall operations. In accordance with Article 26-3 of the "Securities and Exchange Act," and Article 2 of the "Regulations Governing Procedure for Board of Directors Meetings of Public Companies", the Company's establishes its own "Rules and Procedures for the Meeting of the Board of Directors". The agenda of the board meetings, operational procedures, required content of meeting minutes, public announcements, and other compliance requirements shall be handled in accordance with the aforementioned rules. The board of directors of company shall meet at least once every month. Board members shall be concerned with protecting the rights and interests of shareholders, conduct corporate affairs faithfully and act with the care of a good administrator, exercising their powers with a high degree of prudence and self-discipline.

(Continued)

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

2. **Audit committees:** The main function of the Audit Committee is to supervise the following matters: fair presentation of the financial reports of this Corporation; the hiring (and dismissal), independence and the performance of certificated public accountants; the effective implementation of the internal control system; compliance with relevant laws and regulations; management of the existing or potential risks of this Corporation. Moreover, the audit committee charter is established by referring to the "Regulations Governing the Exercise of Powers by Audit Committees of Public Companies" to improve operating efficiency and corporate governance. The audit committees of the Company shall meet at least once every quarter to ensure the credibility of corporate governance and information transparency.
3. In order to establish a good system of corporate governance, fulfill the responsibility of business operation and protect the legitimate rights and interests of shareholders and other parties, the Company considered its organizational structure and operating activities and referred to Article 51 of the "Financial Holding Company Act" and Article 4 of the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries" to establish the internal control system.
  - (a) **Internal controls:** The basic objectives of internal controls of a financial holding company or banking business are to promote sound operations and, through joint compliance by the board of directors, management, and all personnel, to reasonably ensure that the following objectives are achieved:
    - a) Effectiveness and efficiency of operations;
    - b) Reliability, timeliness, transparency and compliance of reporting; and
    - c) Compliance with applicable rules and regulations.
  - (b) **Internal audit:** the Company sets up an internal audit unit that is directly subsidiary to the board of directors. The unit is required to report its audit business to the board of directors or audit committee at a minimum period of every six months.
  - (c) **Legal compliance:** the Company sets up a compliance unit under the General President to take charge of the planning, management, and execution of the regulatory compliance system. Another high level manager shall also be assigned to act as the chief compliance officer for the head office to conduct the compliance affairs. The officer should make a report to the board of directors or the audit committee at least semiannually.
  - (d) **Risk Management Mechanism:** the Company formulates adequate risk management policies and procedures and establishes operationally independent and effective risk management mechanisms, by which to assess and monitor the respective risk-bearing capacity, and current status of risks already incurred, and to determine their compliance with the risk response strategies and risk management procedures.

(Continued)

## Balance Sheet

December 31, 2015 and 2014, and January 1, 2014

(expressed in thousands of New Taiwan dollars)

[illegible]

## TAIWAN FINANCIAL HOLDING CO., LTD.

## Statements of Comprehensive Income

For the years ended December 31, 2015 and 2014

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

	2015 Amount	%	2014 Amount	%	Percentage change
<b>Revenue :</b>					
Share of profit of subsidiaries, associates and joint ventures accounted for using equity method	\$ 6,483,831	100	7,609,600	100	(15)
Other gains	<u>2,905</u>	<u>-</u>	<u>3,125</u>	<u>-</u>	(7)
	<u>6,486,736</u>	<u>100</u>	<u>7,612,725</u>	<u>100</u>	(15)
<b>Expense :</b>					
Operating expenses	(142,118)	(2)	(151,079)	(2)	(6)
Other expenses and losses	<u>(140,521)</u>	<u>(2)</u>	<u>(121,973)</u>	<u>(2)</u>	15
	<u>(282,639)</u>	<u>(4)</u>	<u>(273,052)</u>	<u>(4)</u>	4
Net income before income tax	6,204,097	96	7,339,673	96	(15)
Income tax expense	<u>133,383</u>	<u>2</u>	<u>35,660</u>	<u>-</u>	274
Net income	<u>6,337,480</u>	<u>98</u>	<u>7,375,333</u>	<u>96</u>	(14)
<b>Other comprehensive income (losses):</b>					
<b>Components of other comprehensive income that will not be reclassified to profit or loss</b>					
Gains (losses) on remeasurements of defined benefit plans	(4,243)	-	15,180	-	(128)
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(764,348)	(12)	(560,703)	(7)	(36)
Income tax related to items Components that will not be reclassified to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	-
<b>Total items that will not be reclassified to profit or loss</b>	<u>(768,591)</u>	<u>(12)</u>	<u>(545,523)</u>	<u>(7)</u>	(41)
<b>Components of other comprehensive income that will be reclassified to profit or loss</b>					
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(8,218,493)	(127)	3,316,528	44	(348)
Income tax related to items Components that will not be reclassified to profit or loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	-
<b>Total items that will be reclassified to profit or loss</b>	<u>(8,218,493)</u>	<u>(127)</u>	<u>3,316,528</u>	<u>44</u>	(348)
<b>Other comprehensive income (losses) for the period, net of income tax</b>	<u>(8,987,084)</u>	<u>(139)</u>	<u>2,771,005</u>	<u>37</u>	(424)
<b>Total comprehensive (losses) income for the period</b>	<u>\$ (2,649,604)</u>	<u>(41)</u>	<u>10,146,338</u>	<u>133</u>	(126)
<b>Earnings per share (in New Taiwan Dollars)</b>	<u>\$ 0.70</u>		<u>0.82</u>		

(expressed in thousands of New Taiwan dollars)

<b>Balance at January 1, 2014</b>	
Effects of retrospective application and retrospective restatement	
Equity at beginning of period after adjustments	
Appropriation and distribution of retained earnings:	
Legal reserve appropriated	
Special reserve appropriated	
Cash dividends	
Reversal of special reserve—sale of land	
Recovery of special reserve	
Changes in equity of associates and joint ventures accounted for using equity method	
<b>Net income for the period</b>	
Other comprehensive income (losses) for the period	
<b>Total comprehensive income (losses) for the period</b>	
<b>Balance at December 31, 2014</b>	
Appropriation of retained earnings:	
Legal reserve appropriated	
Special reserve appropriated	
Cash dividends	
Reversal of special reserve—sale of land	
Changes in equity of associates and joint ventures accounted for using equity method	
<b>Net income for the period</b>	
Other comprehensive income (losses) for the period	
<b>Total comprehensive income (losses) for the period</b>	
<b>Balance at December 31, 2015</b>	

## TAIWAN FINANCIAL HOLDING CO., LTD.

## Statements of Cash Flows

For the years ended December 31, 2015 and 2014

(expressed in thousands of New Taiwan dollars)

	2015	2014
<b>Cash flows from (used in) operating activities:</b>		
Net income before income tax	\$ 6,204,097	7,339,673
<b>Adjustments :</b>		
Loss (income) of non-cash activities		
Depreciation	1,713	1,615
Amortization	121	108
Interest expense	130,307	118,493
Interest income	(656)	(519)
Share of profit of subsidiaries, associates and joint ventures	(6,483,831)	(7,609,600)
Subtotal of loss (income) of non-cash activities	(6,352,346)	(7,489,903)
<b>Change in operating assets and liabilities :</b>		
Change in operating assets :		
Decrease in receivables	2	16
(Increase) decrease in other assets	(1,125)	499
Subtotal of change in operating assets	(1,123)	515
Change in operating liabilities :		
Decrease in payables	(27,033)	(115,408)
Increase in employee benefit obligations	8,241	3,543
Subtotal of change in operating liabilities	(18,792)	(111,865)
Subtotal of change in operating assets and liabilities	(19,915)	(111,350)
Subtotal of all adjustments	(6,372,261)	(7,601,253)
Cash (used in) provided by operating activities	(168,164)	(261,580)
Interest received	667	501
Dividends received	-	3,751,079
Income taxes returned	25,475	3,232
<b>Net cash flow from (used in) operating activities</b>	<b>(142,022)</b>	<b>3,493,232</b>
<b>Cash flows from (used in) investing activities :</b>		
Acquisition of equity-accounted investees	(5,500,000)	-
Acquisition of property, plant and equipment	(1,511)	(1,959)
Proceeds from disposal of property, plant and equipment	478	-
Acquisition of intangible assets	-	(165)
<b>Net cash flows (used in) investing activities</b>	<b>(5,501,033)</b>	<b>(2,124)</b>
<b>Cash flows from financing activities:</b>		
Increase (decrease) in short-term borrowings	5,500,000	(50,000)
Increase (decrease) in guarantee deposits received	121	(146)
Cash dividends paid	-	(3,053,877)
Interests paid	(129,948)	(118,157)
<b>Net cash flow from (used in) financing activities</b>	<b>5,370,173</b>	<b>(3,222,180)</b>
Net increase (decrease) in cash and cash equivalents	(272,882)	268,928
Cash and cash equivalents at the opening of period	529,552	260,624
Cash and cash equivalents at the end of period	<u>\$ 256,670</u>	<u>529,552</u>
<b>Components of cash and cash equivalents:</b>		
Cash and cash equivalents recognized in balance sheet	<u>\$ 256,670</u>	<u>529,552</u>

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

8) The balance sheets and income statements of the subsidiaries

1. Balance sheets

	<b>Bank of Taiwan (Individual)</b>	
	<b>December 31,</b>	<b>December 31,</b>
	<b>2015</b>	<b>2014</b>
Cash and cash equivalents	\$ 135,422,418	155,902,567
Placement with Central Bank and call loans to banks	585,963,772	582,914,021
Financial assets measured at fair value through profit or loss	173,005,205	208,646,968
Hedging derivative financial assets, net	15,970	25,613
Bills and bonds purchased under resell agreements	50,040	1,956,563
Receivables, net	72,046,562	62,547,115
Current income tax assets	1,343,594	1,876,292
Loans and discounts, net	2,386,598,795	2,298,237,964
Available-for-sale financial assets, net	1,053,598,710	797,692,802
Held-to-maturity financial assets, net	113,786,391	77,372,697
Investments under equity method, net	36,178,998	37,241,461
Other financial assets, net	68,891,471	68,466,496
Property and equipment, net	96,728,064	97,103,753
Intangible assets, net	853,571	940,987
Deferred tax assets	472,085	357,844
Other assets, net	7,817,258	11,396,056
<b>Total assets</b>	<b>\$ 4,732,772,904</b>	<b>4,402,679,199</b>

(Continued)

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

## Notes to the Consolidated Financial Statements

	<b>Bank of Taiwan (Individual)</b>	
	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Deposits of Central Bank and other banks	\$ 225,425,517	156,988,830
Financial liabilities measured at fair value through profit or loss	39,224,475	47,915,342
Hedging derivative financial liabilities, net	243,967	103,024
Bills and bonds sold under repurchase agreements	16,336,619	38,018,153
Payables	42,195,648	41,013,062
Current tax liabilities	367,898	213,270
Deposits and remittances	3,837,851,868	3,554,349,701
Financial bonds payable	24,997,826	24,997,612
Other financial liabilities	1,785,430	1,756,954
Provisions	264,199,252	257,745,112
Deferred tax liabilities	18,340,284	18,348,772
Other liabilities	<u>6,955,368</u>	<u>7,202,842</u>
<b>Total liabilities</b>	<u>4,477,924,152</u>	<u>4,148,652,674</u>
Capital stock	95,000,000	95,000,000
Capital surplus	80,453,034	80,521,742
Retained earnings		
Legal reserve	31,822,306	29,526,951
Special reserve	19,513,499	17,503,142
Unappropriated retained earnings	<u>7,955,912</u>	<u>7,936,904</u>
	<u>59,291,717</u>	<u>54,966,997</u>
Other equity	<u>20,104,001</u>	<u>23,537,786</u>
<b>Total equity</b>	<u>254,848,752</u>	<u>254,026,525</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$ 4,732,772,904</u>	<u>4,402,679,199</u>

(Continued)

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

	<b>Bank</b>	<b>Taiwan Life Insurance</b>
	<b>December 31,</b>	<b>December 31,</b>
	<b>2015</b>	<b>2014</b>
Cash and cash equivalents	\$ 33,595,006	38,564,185
Receivables	3,894,709	2,351,669
Current income tax assets	1,458,837	1,247,634
Financial assets measured at fair value through profit or loss	2,544,003	31,893
Available-for-sale financial assets	44,179,000	52,517,885
Debt investments without quoted price in an active market	48,590,962	54,856,557
Held-to-maturity financial assets	187,177,088	193,218,934
Investments under equity method, net	5,877,804	5,925,323
Other financial assets, net	3,746,150	21,685,621
Real estate investments	7,616,578	6,076,383
Loans	11,777,584	13,599,820
Reinsurance assets	12,023	12,528
Property and equipment	1,010,475	1,080,136
Intangible assets	9,837	12,324
Deferred tax assets	2,212,903	1,852,844
Other assets	3,625,943	3,078,094
Separate account-insurance assets	13,009	621,659
<b>Total assets</b>	<b>\$ <u>357,341,911</u></b>	<b><u>396,733,489</u></b>

(Continued)

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

## Notes to the Consolidated Financial Statements

	BankTaiwan Life Insurance	
	December 31, 2015	December 31, 2014
Payables	\$ 19,136,265	22,835,523
Current tax liabilities	-	89
Financial liabilities measured at fair value through profit or loss	1,059,280	3,190,594
Insurance liabilities	322,683,571	353,328,002
Foreign exchange volatility reserves	869,492	1,376,324
Provisions	775,512	666,433
Deferred tax liabilities	319,926	122,475
Other liabilities	685,137	1,146,843
Separate account-insurance liabilities	<u>13,009</u>	<u>621,659</u>
<b>Total liabilities</b>	<u>345,542,192</u>	<u>383,287,942</u>
Capital stock	22,500,000	17,000,000
Capital surplus	360,000	369,713
Retained earnings		
Legal reserve	96,557	96,557
Special reserve	781,706	653,160
Unappropriated retained earnings	<u>(4,198,135)</u>	<u>(1,526,213)</u>
	<u>(3,319,872)</u>	<u>(776,496)</u>
Other equity	<u>(7,740,409)</u>	<u>(3,147,670)</u>
<b>Total equity</b>	<u>11,799,719</u>	<u>13,445,547</u>
<b>Total liabilities and equity</b>	<u>\$ 357,341,911</u>	<u>396,733,489</u>

(Continued)

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

## Notes to the Consolidated Financial Statements

	BankTaiwan Securities	
	December 31, 2015	December 31, 2014
Current assets	\$ 8,910,587	10,264,350
Property and equipment	494,887	498,644
Intangible assets	5,127	3,969
Deferred tax assets	4,558	2,531
Other non-current assets	324,152	352,341
<b>Total assets</b>	<b>\$ 9,739,311</b>	<b>11,121,835</b>
Current liabilities	\$ 6,012,452	7,322,112
Liabilities reserves	110,406	136,152
Deferred tax liabilities	96,355	92,128
Other non-current liabilities	5,866	4,986
<b>Total liabilities</b>	<b>6,225,079</b>	<b>7,555,378</b>
Capital stock	3,000,000	3,000,000
Legal reserve	65,673	43,136
Special reserve	286,997	241,923
Unappropriated retained earnings	231,878	227,935
	584,548	512,994
Other equity	(70,316)	53,463
<b>Total equity</b>	<b>3,514,232</b>	<b>3,566,457</b>
<b>Total liabilities and equity</b>	<b>\$ 9,739,311</b>	<b>11,121,835</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,</b>	<b>December 31,</b>
	<b>2015</b>	<b>2014</b>
Cash and cash equivalents	\$ 331,482	268,009
Receivables	118,866	96,155
Property and equipment	5,157	5,032
Intangible asset	375	430
Deferred tax assets	3,955	3,955
Other assets	3,764	5,425
<b>Total assets</b>	<b>\$ 463,599</b>	<b>379,006</b>
Payables	\$ 114,115	99,692
Current tax liabilities	26,977	27,109
Other liabilities	88	69
<b>Total liabilities</b>	<b>141,180</b>	<b>126,870</b>
Capital stock	20,000	20,000
Legal reserve	33,562	12,936
Special reserve	33,562	12,936
Unappropriated retained earnings	235,295	206,264
	<u>302,419</u>	<u>232,136</u>
<b>Total equity</b>	<b>322,419</b>	<b>252,136</b>
<b>Total liabilities and equity</b>	<b>\$ 463,599</b>	<b>379,006</b>

(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>2015</b>	<b>2014</b>
Interest income	\$ 64,758,332	65,232,885
Less: interest expense	(36,352,682)	(36,453,834)
Net interest income	28,405,650	28,779,051
Other non-interest income	6,651,342	7,111,700
Net revenue	35,056,992	35,890,751
Bad debt expense and reserve for guarantees	(4,404,468)	(7,284,809)
Operating expenses	(20,098,410)	(19,201,141)
Net income before income tax	10,554,114	9,404,801
Income tax expense	(1,681,944)	(1,203,553)
Net income	8,872,170	8,201,248
Other comprehensive income	(4,235,860)	1,432,360
Total comprehensive income (loss) after tax for the period	4,636,310	9,633,608
Basic earnings per share (In dollars)	0.93	0.86

  

	<b>BankTaiwan Life Insurance</b>	
	<b>2015</b>	<b>2014</b>
Operating income	\$ 41,040,339	46,604,664
Operating cost	(42,543,564)	(46,522,525)
Operating expense	(1,000,140)	(872,041)
Operating loss	(2,503,365)	(789,902)
Non operating income (expense)	(25,501)	(50,890)
Net income (loss) before income tax	(2,528,866)	(840,792)
Income tax benefit	18,689	23,772
Net income (loss)	(2,510,177)	(817,020)
Other comprehensive income	(4,625,938)	1,299,431
Total comprehensive income (loss) after tax for the period	(7,136,115)	482,411
Basic earnings per share (In dollars)	(1.36)	(0.48)

(Continued)

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

## Notes to the Consolidated Financial Statements

		<b>BankTaiwan Securities</b>	
		<b>2015</b>	<b>2014</b>
Revenue	\$	567,870	684,641
Cost and expense		(478,400)	(471,626)
Net operating income		89,470	213,015
Non operating income		53,360	41,472
Net income before income tax		142,830	254,487
Income tax expense		(20,992)	(29,116)
Net income		121,838	225,371
Other comprehensive income		(121,042)	24,035
Total comprehensive income after tax for the period		796	249,406
Basic earnings per share (In dollars)		0.41	0.75

		<b>BankTaiwan Insurance Brokers</b>	
		<b>2015</b>	<b>2014</b>
Operating income	\$	1,876,443	1,664,026
Operating cost		(1,467,370)	(1,282,982)
Operating expense		(120,420)	(132,119)
Non operating expense		(165)	(413)
Net income before income tax		283,488	248,512
Income tax expense		(48,193)	(42,247)
Net income		235,295	206,265
Basic earnings per share (In dollars)		117.65	103.13

(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:

Unit: In thousands of TWD

Name of company	Name of assets	Original purchase date	Amount	Actual payments	Counterparty	Relationship	If the counterparty is the related party, the last time transfer information are as follows:				Determine method	Purpose	Others
							Owner	Relationship	Transfer date	Amount			
Bank Taiwan Life Insurance	Han-Wei Information Building	2015.01.21	1,561,500	1,561,500	Mega International Commercial Bank	Non-related party				-	valuation report	Real estate investment	

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

Unit: Thousand NTD

Name of company	Name of assets	Date	Original purchase date	Book value	Amount	Detail of receiving payment	Gain (loss) on disposal of assets	Transaction person	Relation with transaction person	Purpose of disposal assets	Determine method	Others
Bank of Taiwan	26 land about No.516-1, Shuanglian St., Datong Dist., Taipei City 103, Taiwan (R.O.C.)	2015.5.20	1947.5.1	128,387	500,461	A bidder should submit at least 10% of the minimum bidding price when tendering a bidding proposal, and the bidder who wins the bid should submit the final price in full within 30 days starting from the day the payment notice is received	372,074	Zhisheng Real Estate Co., Ltd.	None	Budget execution	The final minimum bidding price of the building and land amounting to \$500,460 thousand was determined by the following procedures: (1)The procurement department proposed a minimum bidding price by referring to the appraisal value and then submitted it to the commissioners (who are responsible for reviewing the reasonableness of the price) and the General Manager for further discussion. (2)The General Manager approved the final minimum bidding price after consulting the commissioners. The Department of Internal Audit was required to oversee the independence and integrity of all the individuals involved during the procedures.	

(Continued)

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

## Notes to the Consolidated Financial Statements

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: None.
    - (a) Selling non-performing loans: Note.
    - (b) 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

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	Taipei	Financial Holding	25.07%	25.07%	38,374,097	-	2,483,892,519	-	2,483,892,519	25.07%	
Tang Eng Iron Works Co., Ltd.	Kaohsiung	Iron Industry	21.37%	21.37%	1,181,719	-	74,802,414	-	74,802,414	21.37%	
Kaohsiung Ammonium Sulfate Co., Ltd.	Kaohsiung	Liquidation	91.86%	91.86%	2,158,300	-	303,131,576	-	303,131,576	91.86%	
Tai Yi Real Estate Management Co., Ltd.	Taipei	Real Estate Service	30.00%	30.00%	20,266	-	1,500,000	-	1,500,000	30.00%	
Bank of Taiwan	Taipei	Banking	100.00%	100.00%	254,848,752	-	9,500,000,000	-	9,500,000,000	100.00%	note 4
BankTaiwan Life Insurance	Taipei	Life insurance	100.00%	100.00%	11,799,719	-	2,250,000,000	-	2,250,000,000	100.00%	note 4
BankTaiwan Securities	Taipei	Securities	100.00%	100.00%	3,514,232	-	300,000,000	-	300,000,000	100.00%	note 4
BankTaiwan Insurance Brokers	Taipei	Insurance broker	100.00%	100.00%	322,419	-	2,000,000	-	2,000,000	100.00%	note 4

Note 1: The investee's shares or pro-forma shares held by the Company's board of directors, supervisors, general manager, vice general managers and affiliates conforming to the Company Act should be included.

Note 2: (1) Pro-forma shares are the "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.

Note 3: The table do not need to disclosure in the financial statement at first and third quarter.

Note 4: This transaction had been written off when preparation the consolidated financial statements.

(Continued)

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

## Notes to the Consolidated Financial Statements

## 3) Information regarding investment in China:

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

Unit: In thousands of NTD

Investee Company	Main Business	Total Amount of Paid-in Capital	Investment types (Note 1)	Accumulated outflow of Investment from Taiwan as of January 1, 2015	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2015	Net income from investee	% of shares	Equity in the Earnings (gains)	Carrying value as of December 31, 2015	Accumulated inward remittance of earnings as of December 31, 2015
					Outflow	Regain						
Bank of Taiwan, Shanghai Branch	Banking business	4,993,000 CNY1,000,000	(3)	4,993,000 CNY1,000,000	-	-	4,993,000 CNY1,000,000	-	-	(145,324)	5,743,136	-
Bank of Taiwan, Guangzhou Branch	Banking business	4,993,000 CNY1,000,000	(3)	-	4,993,000 CNY1,000,000	-	4,993,000 CNY1,000,000	-	-	(200,136)	5,179,007	-

Note 1: Three types as follows of investments:

- 1) Direct investment in Mainland China.
- 2) Investment in Mainland China through a company set up in a third region.
- 3) Others through overseas branches.

Note 2: Equity in the earnings for the year:

- 1) If a subsidiary has no income or loss during the period, the parent company should disclose all the related information.
- 2) A Company can recognize the investment income by obtaining the followings:
  - a) Financial statements audited or reviewed by an international accounting firm which has a member firm in Taiwan.
  - b) Financial statements audited or reviewed by the auditor of the parent company.
  - c) Others.
- 3) If the information regarding a subsidiary's current profit and loss is not available, the parent company should disclose it.

Note 3: Numbers in this table are shown in thousands of TWD.

## 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
9,986,000	9,986,000	152,909,251

## 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, BTLI 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

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	256,640	Same as regular transaction	0.01 %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Receivables, net	25	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Other assets-net	2,708	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Short-term borrowings	17,050,000	"	0.34 %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Payables	1,989	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Interest income	656	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Other non-interest income	848	"	- %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Other general and administrative expenses	26,675	"	0.36 %
0	Taiwan Financial Holdings	Bank of Taiwan	1	Interest expense	130,308	"	1.76 %
0	Taiwan Financial Holdings	BankTaiwan Life Insurance	1	Other non-interest income	576	"	- %
0	Taiwan Financial Holdings	BankTaiwan Securities	1	Other non-interest income	576	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Deposits and remittances	256,640	"	0.01 %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Payables	25	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Other liabilities	2,708	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Loans and discounts, net	17,050,000	"	0.34 %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Receivables, net	1,989	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Interest expense	656	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Employee benefits expenses	848	"	- %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Other non-interest income	26,675	"	0.36 %
1	Bank of Taiwan	Taiwan Financial Holdings	2	Interest income	130,308	"	1.76 %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Financial assets measured at fair value through profit or loss	367,895	"	- %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Receivables, net	25,121	"	- %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Other assets, net	6,780	"	- %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Payables	1,063	"	- %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Deposits and remittances	10,674,376	"	0.21 %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Services fee, net	112,719	"	1.52 %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Gain (loss) on financial assets or liabilities measured at fair value through profit or loss	37,689	"	5.08 %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Other non-interest income	40,573	"	0.55 %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Interest expense	32,710	"	0.44 %
1	Bank of Taiwan	BankTaiwan Life Insurance	3	Other general and administrative expenses	40,087	"	0.54 %
1	Bank of Taiwan	BankTaiwan Securities	3	Other assets, net	14	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Receivables, net	14	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Payables	76	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Deposits and remittance	730,410	"	0.01 %
1	Bank of Taiwan	BankTaiwan Securities	3	Other Financial Assets	65,760	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Other liabilities	1,664	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Interest income	1,965	"	0.04 %
1	Bank of Taiwan	BankTaiwan Securities	3	Service fee, net	79	"	- %
1	Bank of Taiwan	BankTaiwan Securities	3	Other non-interest income	35,431	"	0.48 %
1	Bank of Taiwan	BankTaiwan Securities	3	Interest expense	2,140	"	0.03 %
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	Account name	Amount	Terms of trading	Percentage of the total consolidated revenues or total assets
2	BankTaiwan Life Insurance	Taiwan Financial Holdings	2	Employee benefits expenses	576	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Payables	25,121	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Other liabilities	6,780	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Receivables, net	1,063	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Financial liabilities measured at fair value through profit or loss	367,895	"	- %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Cash and cash equivalents	10,674,376	"	0.21 %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Service fee, net	(113,395)	"	(1.53) %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Foreign exchange gain	1,769,971	"	23.89 %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Gain (loss) on financial assets or liabilities measured at fair value through profit or loss	(1,806,984)	"	24.38 %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Gain on real estate investment, net	40,087	"	0.54 %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Interest income	32,710	"	0.44 %
2	BankTaiwan Life Insurance	Bank of Taiwan	3	Other general and administrative expenses	40,573	"	0.55 %
2	BankTaiwan Life Insurance	BankTaiwan Insurance Brokers	3	Payables	90,000	"	- %
2	BankTaiwan Life Insurance	BankTaiwan Insurance Brokers	3	Foreign exchange loss	(345)	"	- %
2	BankTaiwan Life Insurance	BankTaiwan Insurance Brokers	3	Service fee, net	877,966	"	11.84 %
3	BankTaiwan Securities	Taiwan Financial Holdings	2	Employee benefits expenses	576	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Other liabilities	14	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Receivables, net	76	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Other assets-net	231,699	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Cash and cash equivalents	106,691	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Payables	14	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Short-term borrowings	65,760	"	- %
3	BankTaiwan Securities	Bank of Taiwan	3	Interest expense	2,965	"	0.04 %
3	BankTaiwan Securities	Bank of Taiwan	3	Service fee, net	(9,479)	"	(0.13) %
3	BankTaiwan Securities	Bank of Taiwan	3	Other general and administrative expenses	26,031	"	0.35 %
3	BankTaiwan Securities	Bank of Taiwan	3	Interest income	2,140	"	0.03 %
3	BankTaiwan Securities	Bank of Taiwan	3	Other non-interest income	86	"	- %
3	BankTaiwan Securities	BankTaiwan Insurance Brokers	3	Receivables, net	549	"	- %
4	BankTaiwan Insurance Brokers	BankTaiwan Life Insurance	3	Receivables, net	111,330	"	- %
4	BankTaiwan Insurance Brokers	BankTaiwan Life Insurance	3	Service fee, net	877,966	"	11.84 %
4	BankTaiwan Insurance Brokers	BankTaiwan Securities	3	Payables	549	"	- %

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:

	2015								
	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	\$ 63,122,782	1,635,156	80	314	9,220,180	173,352	1,184	(169,308)	73,983,740
Less: interest expense	(36,352,683)	-	-	-	(199,684)	(30,314)	(130,308)	(169,308)	(36,543,681)
Interest income, net	26,770,099	1,635,156	80	314	9,020,496	143,038	(129,124)	-	37,440,059
Non-interest income, net	7,481,720	4,030,766	264,657	403,221	(42,634,796)	401,413	400,418	(375,103)	(30,027,704)
Net revenue	34,251,819	5,665,922	264,737	403,535	(33,614,300)	544,451	271,294	(375,103)	7,412,355
Bad debt expenses and reserve for guarantees	(4,404,687)	(5,528,810)	-	-	31,963,095	-	-	1	22,029,599
Operating costs	(19,768,189)	(137,112)	(107,779)	(85,330)	(877,661)	(401,621)	(267,539)	139,814	(21,505,417)
Continuing operating income before income tax	\$ 10,078,943	-	156,958	318,205	(2,528,866)	142,830	3,755	(235,288)	7,936,537
Continuing operating income after income tax	\$ 8,397,001	-	156,459	318,205	(2,510,178)	121,839	6,355,333	(6,501,179)	6,337,480
Total assets	\$ 4,489,796,397	246,237,272	2,063,483	1,531,741	357,341,911	9,739,311	271,318,034	(307,062,320)	5,070,965,829
Total Liabilities	\$ 4,235,422,815	246,237,272	1,906,525	1,213,536	345,542,191	6,225,079	17,311,151	(36,577,205)	4,817,281,364

(Continued)

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

	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	(255,548)	75,096,508
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)	22	38,523,286
Non-interest income, net	7,897,892	22,431,397	265,509	390,897	(20,274,818)	496,725	379,411	(340,284)	11,246,729
Net revenue	35,094,149	24,014,056	265,587	390,932	(10,559,483)	643,253	261,783	(340,262)	49,770,015
Bad debt expenses and reserve for guarantees	(7,284,809)	(23,874,057)	-	-	10,523,402	-	-	-	(20,635,464)
Operating costs	(18,881,425)	(139,999)	(111,303)	(82,023)	(804,711)	(388,766)	(283,198)	147,692	(20,543,733)
Continuing operating income before income tax	\$ 8,927,915	-	154,284	308,909	(840,792)	254,487	(21,415)	(192,570)	8,590,818
Continuing operating income after income tax	\$ 7,785,015	-	154,284	308,909	(817,021)	225,371	7,628,631	(7,909,856)	7,375,333
Total assets	\$ 4,169,419,470	240,932,692	2,587,268	1,090,015	396,733,489	11,121,835	275,649,627	(316,955,090)	4,780,579,306
Total Liabilities	\$ 3,915,856,137	240,932,692	2,432,985	781,106	383,287,942	7,555,378	15,510,952	(45,509,153)	4,520,848,039