Taiwan Financial Holdings

Stock Code:5868

2016
ANNUAL REPORT

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Spokesperson

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Acting Spokesperson: None

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Tel：+886-2-2349-3456
Website：www.bot.com.tw/english

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Tel：+886-2-2784-9151
Website：www.twfhclife.com.tw

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Website：www.taiwanratings.com

Standard & Poor’s
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Tel: 212-438-2000
Website：www.standardandpoors.com

Moody's Investors Service
7 World Trade Center, 250 Greenwich Street, New York, N.Y. 10007, U.S.A.
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Website：https://www.moodys.com/

The CPA-Auditor of the Financial Report

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Overseas Listing: None

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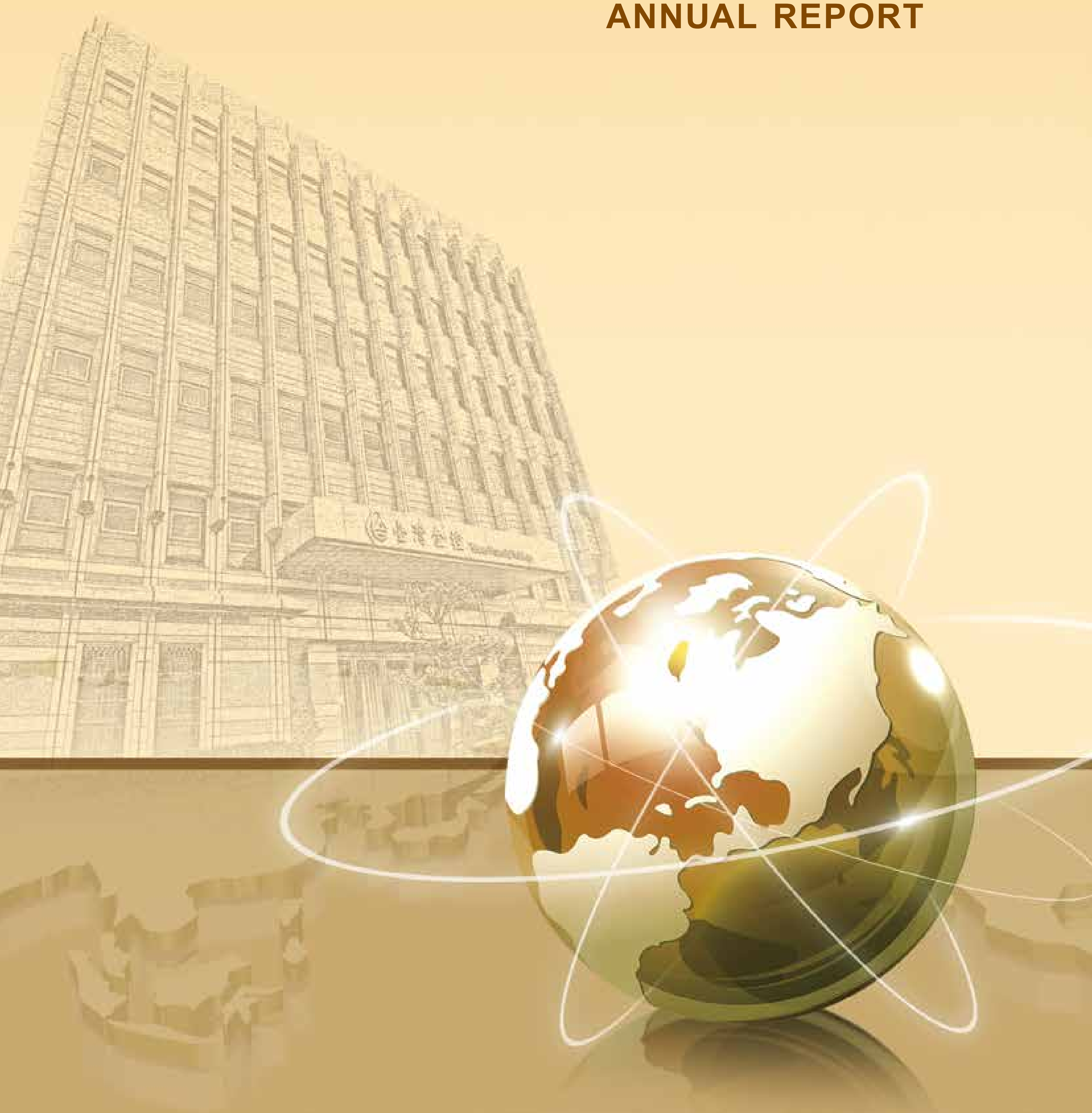

Content

Taiwan Financial Holdings Annual Report

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National Brand

Government Backing translates to
Solid Market Position

I. Letter to Shareholders

Global economic performance fell short of expectations in 2016 due to slow growth in global trade and falling commodity prices. In the United States, where economic fundamentals were relatively strong, a moderate economic expansion continued, and labor markets and wages posted stable growth. In the eurozone, the European Central Bank (ECB) pursued an easy money policy that supported steady economic growth. In Japan, economic activity remained sluggish amidst weak growth in private consumption and corporate investment. In mainland China, where the economy had entered into a period of restructuring, the country was dealing with excess productive capacity, excess corporate debt, and growing uncertainty regarding foreign trade. The economy there faced many different challenges. On the whole, global economic growth was weaker in 2016 than in the previous year.

Taiwan saw its foreign trade decline due to sluggishness in the global economy and the mainland Chinese policy of pursuing supply chain self-sufficiency, which has had the effect of crowding out Taiwan suppliers. Beginning in the latter half of the year, however, exports rebounded each quarter as semiconductor markets perked up and the prices of agricultural and industrial raw materials bottomed out and began climbing once again. In addition, continued moderate growth in private consumption and fixed investment supported overall economic growth. As a result, GDP growth became stronger with each successive quarter in 2016, and the preliminary estimate of the growth rate for the year came to 1.50%, far better than the previous year's figure of 0.72%.

In 2016, the Taiwan Financial Holdings (TFH) Group received a liquidating distribution, and achieved outstanding operating revenues once again thanks to the tremendous efforts of management and staff. The group's consolidated earnings after tax in 2016 totaled NT$14.812 billion, or 251.80% of the target, and consolidated earnings per share (EPS) after tax hit NT$1.65. After factoring out the burden shouldered by the group in supporting government policy, the group actually achieved return on assets (ROA) of 0.48%, and return on equity (ROE) of 8.78%.

The group's core subsidiary, the Bank of Taiwan (BOT), achieved earnings after tax of NT$17.649 billion, exceeding the annual budget target. After factoring out the burden of supporting government policy, BOT achieved ROA of 0.59% and ROE of 9.80%. Performance was excellent

Chairman Jye-Cherng Lyu

President Austin Chan

in every line of business, and BOT remained the industry leader in deposits and loans as well as the gold and trust businesses, and once again was the number one lead arranger and book-runner for syndicated loans in Taiwan. In addition to actively growing its business, the bank also paid close attention to risk management, posting an NPL ratio of 0.26% and a coverage ratio of 552.53%. These figures show that asset quality continues to improve.

BankTaiwan Life Insurance (BTLI) achieved gross premiums of NT$41.1 billion in 2016, or 147.35% of its annual target. However, the company promoted long-term installment-premium products, set aside additional premium deficiency reserves, and suffered commission payouts rose, negative margins and foreign exchange losses. These factors resulted in an after-tax loss of NT$2.603 billion, ROA of -0.73%, and ROE of -23.04%. In order to improve its business operations, BTLI has drawn up measures to rework its product structures and improve capital allocations. In addition, BTLI's 13- and 25-month persistency rates both remained above 98%.

BankTaiwan Securities (BTS) achieved net profit after tax of NT$44 million, ROA of 0.48%, and ROE of 1.25%. Despite a slump in domestic stock markets, BTS continued to work steadily away, establishing a strong position in domestic capital markets. In the midst of adverse conditions, the company's market share in the brokerage and financing businesses actually rose, and its underwriting business developed stably.

TFH worked hard to reap the benefits of synergy, using the Group's integrated marketing platform to have its subsidiaries BOT and BankTaiwan Insurance Brokers Co. (BTIB) vigorously cross-sell the types of insurance products needed to help BTLI adjust its product structure and make up for the shortfall in its reserve against the fair value of insurance liabilities and accelerate the adjustment of its liability structure. The ultimate objective of these actions was to strengthen long-term business and improve profitability.

Regarding the Group's overseas network, in order to support the government's New Southbound Policy and the efforts of Taiwanese companies to build up their global presence, BOT has built an Asia-Pacific regional services network. During the year, BOT established a mainland branch in Fuzhou, actively prepared to open a branch in Sydney, continued to expand room for overseas business and profitability, and signed an MOU for cooperation with the largest private bank in the Philippines. These measures have strengthened international exchange and business cooperation, and built up the Group's ability to conduct business overseas.

Acting on its commitment to stable business management, the TFH Group has long cultivated Taiwan's domestic financial market, and international credit rating agencies give the group high marks for its financial strength and operating performance. In 2016, TFH received long- and short-term credit ratings of twAAA and twA-1+ from Taiwan Ratings Corporation (TRC), and long- and short-term credit ratings of S&P A+ and S&P A-1 from Standard & Poor's (S&P), with a stable outlook in both cases. BOT received long- and short-term credit ratings of twAAA and twA-1+ from TRC, and long- and short-term credit ratings of S&P A+ and S&P A-1 from S&P, with a stable outlook in both cases. BTLI received long-term credit ratings of twAAA and S&P A+ from TRC and S&P, with a stable outlook in both cases. BTS received long- and short-term credit ratings of twAA+ and twA-1+ from TRC, with a stable outlook. All of the TFH group's subsidiaries received the highest credit ratings granted to any firms in their respective industries.

TFH has long devoted itself to the public good. Year in and year out, the Group has carried out numerous community service activities with an eye to "caring for the elderly and supporting the disadvantaged," and has actively supported sports as well as artistic and cultural industries. At the same time, working together with the charity trust which BOT served as a trust institution, providing material and financial support to underprivileged. TFH also integrated Group resources to promote the Guide Dog Affinity Card, which directs a certain percentage of purchases made with the card to the Taiwan Guide Dog Association for use in training guide dogs and creating an endowment for the establishment of a school. Such undertakings strengthen the link between financial services and the public good, and show concern for the disadvantaged through concrete action. In 2017, TFH will elevate its participation in corporate social responsibility to the level of culture by holding a Bank of Taiwan Arts Festival to support Taiwanese artists and collect their works in an effort to strengthen local art and create heightened social values.

The TFH group is guided by a basic business strategy of seeking efficiency and stability, and has won widespread praise for its business success. In fact, by demonstrating the high value of a state-run financial holding company and providing vigorous support for the government's policy of promoting creative industries, TFH was selected by the Financial Supervisory Commission as the top-performing investor in creative industries in the financial holding companies category. Group subsidiary BOT had another banner year for awards in 2016: (a) claimed top market share in Taiwan among lead arrangers and syndicate managers for the fifth consecutive year; (b) for the third consecutive year received the Joint Credit Information Center's Golden Quality Award and Golden Security Award for information security management and credit reporting; (c) received the

Award for Outstanding Assistance to Young Entrepreneurs; and (d) was named by the Financial Supervisory Commission as the financial institution with the second-best in preventing financial scams.

The TFH Group is actively seeking to grow its businesses, and is very serious about properly implementing its internal control and internal audit systems, and about strengthening its integrated risk management mechanisms. The intention is to become a corporate group that is "honest, pragmatic, and down to earth" so that TFH can be a stable and lasting presence in the business community.

In 2017, an improved global economy can be expected to boost Taiwan's exports, and domestic demand should continue to post moderate growth. As a result, economic growth should be better than in 2016. The government is actively pursuing the New Southbound Policy, the DIGI+ project, and the "5+2+2+1" innovative industries project in order to energize the economy and enhance Taiwan's competitive advantages. TFH, for its part, intends to take advantage of an economic rebound to intends to act in accordance with its "5P business management policy" — being people-centered, portfolio-sound, performance-driven, prospection-oriented, and principle-based — as it works to achieve the following five key business strategies: "supporting the government's industrial development policies," "implementing the legal compliance system," "developing innovative financial services," "enhancing professional training," and "fulfilling the Group's corporate social responsibility." TFH will act in line with these points in overseeing the efforts of its subsidiaries to develop their businesses. TFH intends to consolidate the Group's superior brand power, grow the business, and enhance profitability, and ensure the soundness and stability of long-term asset structure and the company's overall health. By doing these things, TFH will achieve its goal of sustainable business.

Chairman

President Austin Chan

II. Company Profile

1. Date of Establishment: 1st January 2008

2. Brief History

(1) M&A and Related Subsidiaries

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

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

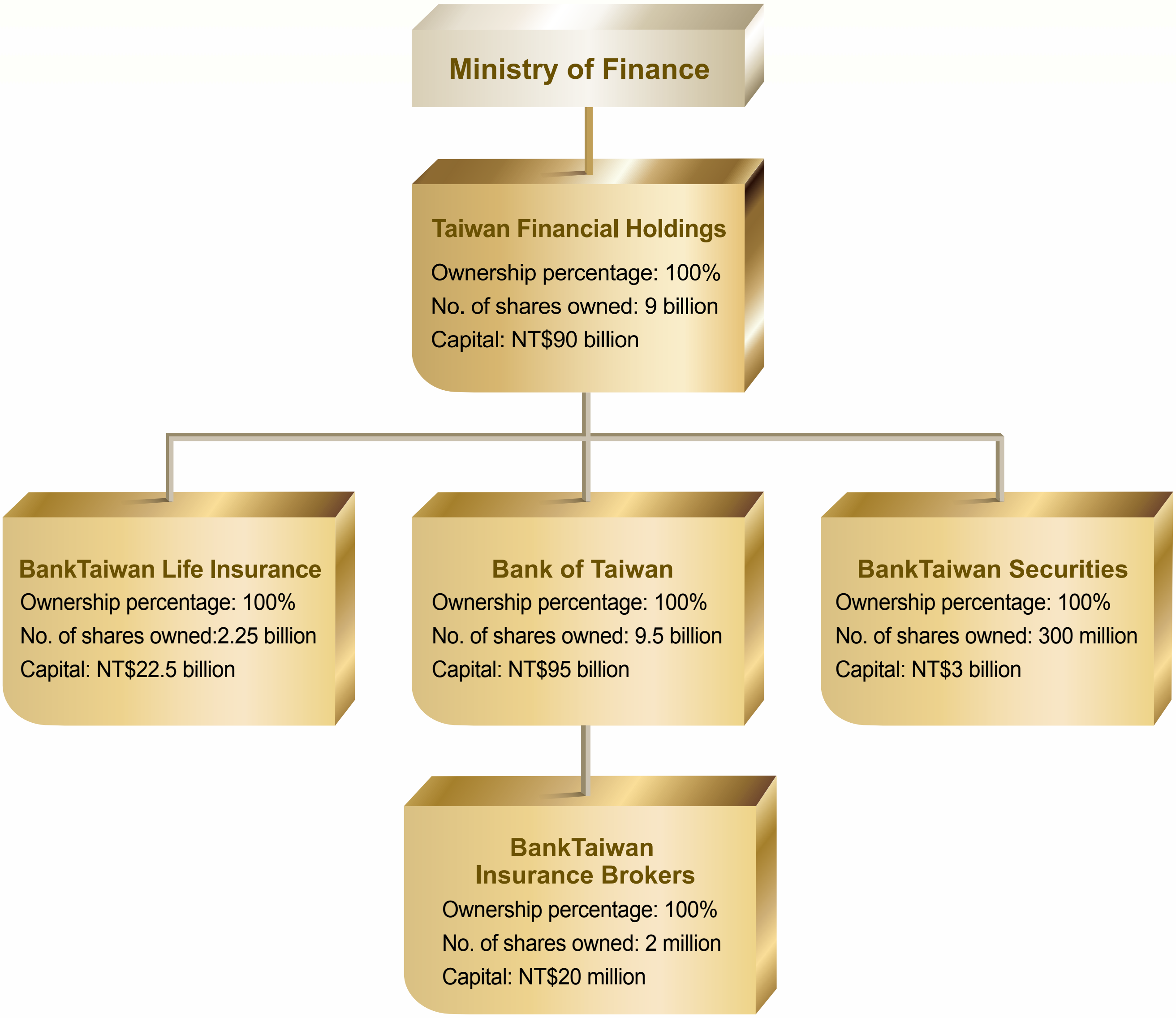
None

1. Chairman Jye-Cherng Lyu
2. President Austin Chan
3. Executive Vice President Hong-Chi Chang
4. Executive Vice President & General Auditor Li-Shieu Tsai
5. Chief Compliance Officer Su-Lan Lin

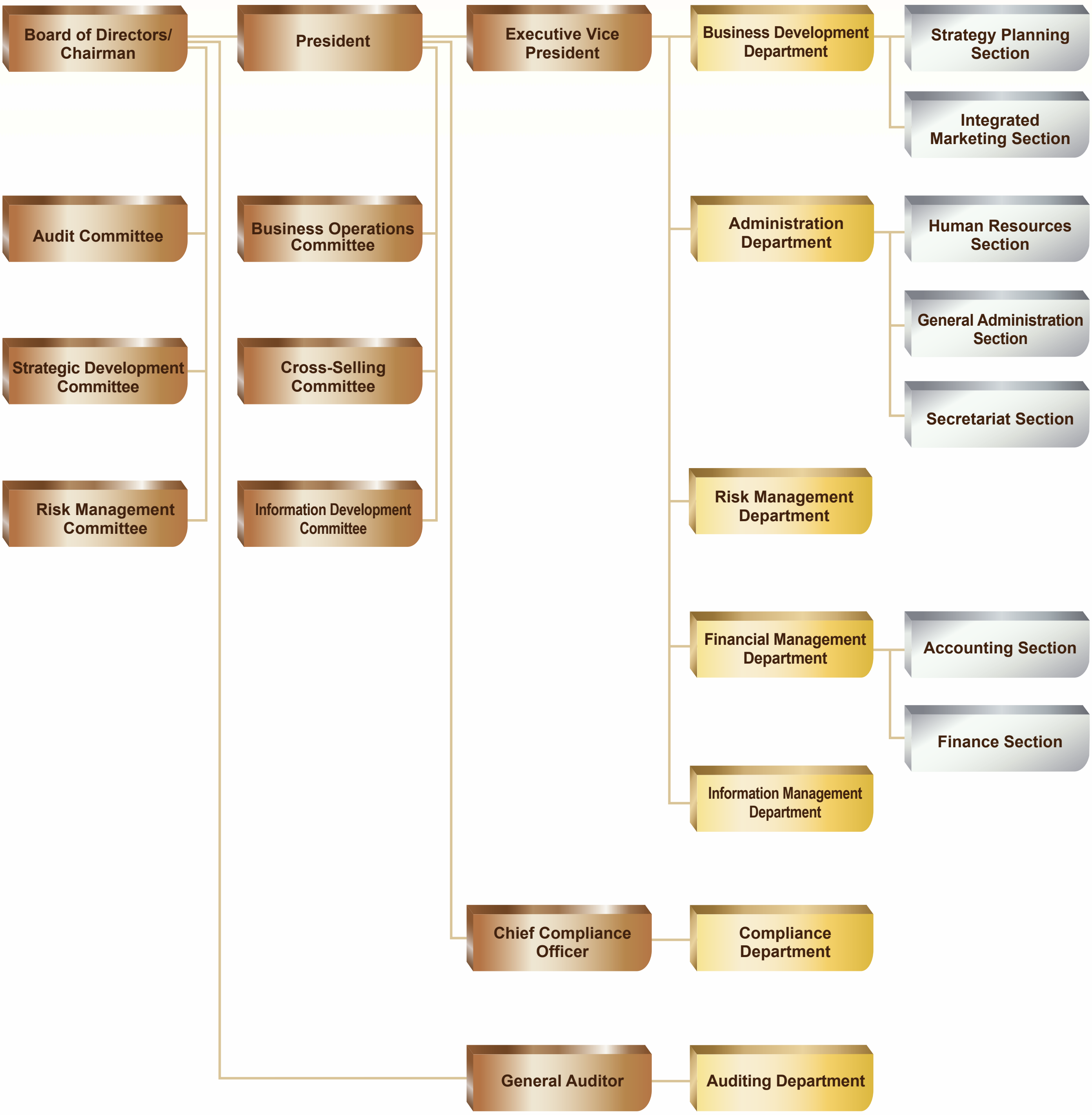
III. Corporate Governance

1. Organization

(1) Chart of Relations within the TFH Group



(2) Organization Chart



(3) Division of Duties

i. **Auditing Department**

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

ii. **Compliance Department**

Plans, administers, and implements legal compliance systems; provides assistance and liaison for the handling of litigious and non-litigious matters; provides liaison support to attorneys retained to handle legal cases, and evaluates their performance; administers the Group's AML/CFT plan.

iii. **Business Development Department**

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

iv. **Administration Department**

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

v. **Risk Management Department**

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

vi. **Financial Management Department**

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

vii. **Information Management Department**

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

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

As of December 31, 2016

Position	Name	Gender	Date of Employment	Education and Career	Position held with other Companies
Chairman	Jye-Cherng Lyu	Male	Aug. 31, 2016	Master of Management, Kellogg School, Northwestern University Minister without Portfolio, Executive Yuan Minister, Ministry of Finance Board of Director, Central Bank of the Republic of China Chairman of the Board, Mega Financial Holdings & Mega International Commercial Bank Chairman of the Board, Bank of Taiwan President & CEO, Land Bank of Taiwan Vice Chairman, State-owned Enterprise Commission, Ministry of Economic Affairs Vice President, Bank of New York, New York Headquarter Chairman, The Bankers Association of the Republic of China Chairman, The Bankers Association of Taiwan Director, Taiwan Stock Exchange Corporation Director, Taiwan Futures Exchange Cooperation Director & Vice President, Chunghwa Telecom Co., Ltd. Director, China Steel Cooperation Emeritus Chair Professor, School of Management, National Sun Yat-Sen University Adjunct Professor, School of Technology Management, National Tsing Hua University	Chairman, Bank of Taiwan Co., Ltd. Chairman, The Bankers Association of the Republic of China Board Director, Taiwan Stock Exchange Corporation (TWSE) Board Director, Taiwan Futures Exchange Corporation (TAIFEX) Board Director, Taiwan External Trade Development Council (TAITRA) Advisors, The Bankers Association of Taipei Adjunct Professor, School of Technology Management, National Tsing Hua University
President	Austin Chan	Male	Aug.31,2016	SJD, National Chengchi University Director General of Banking Bureau, Financial Supervisory Commission Director General of the Bureau of Agriculture Finance, Council of Agriculture, Executive Yuan Chief Secretary, Financial Supervisory Commission Director General, Dept. of Legal Affairs, Financial Supervisory Commission Deputy Director General, Department of Commerce, MOEA Director, Taiwan Cooperative Bank	Assistant professor, National Chengchi University Director, Bank of Taiwan Co.,Ltd.

Position	Name	Gender	Date of Employment	Education and Career	Position held with other Companies
Executive Vice President	Hong-Chi Chang	Male	Sep.17,2012	Master of Agricultural Economics National Chung Hsing University Acting President, Taiwan Financial Holding Co., Ltd. Executive Vice President and General Auditor, Bank of Taiwan Co.,Ltd. Head of Training Institute, Bank of Taiwan Co.,Ltd. SVP & Chief Secretary, Bank of Taiwan Co.,Ltd. SVP & Chief Secretary, Land Bank of Taiwan Co.,Ltd. Deputy General Manager, Department of Credit Management, Land Bank of Taiwan Co.,Ltd. Deputy General Manager, Department of Business, Land Bank of Taiwan Co.,Ltd. Vice President, Department of International Banking, Land Bank of Taiwan Co.,Ltd. Inspector, Commission of Finance, Taiwan Provincial Government Section Head, Commission of Finance, Taiwan Provincial Government Director, Mega Bills Finance Co., Ltd. Supervisor, Taiwan Power Company Director, Taiwan Life Insurance Co., Ltd. Supervisor, BankTaiwan Securities Co., Ltd.	Executive Vice President , Bank of Taiwan Co.,Ltd. Director, Bills Finance Association of the Republic of China Managing Director, Taiwan Business Bank
Executive Vice President & General Auditor	Li-Shieu Tsai	Female	Apr.16,2013	M.A. in Finance, Ming Chuan University SVP & Chief Financial Officer, Taiwan Financial Holding Co., Ltd. Director, BankTaiwan Life Insurance Co., Ltd. Supervisor, BankTaiwan Life Insurance Co., Ltd. SVP & General Manager, Business Development Department, Taiwan Financial Holding Co., Ltd. SVP & Chief Secretary, Taiwan Financial Holding Co., Ltd.	Committee Member, Internal Audit Committee, the Bankers Association of the Republic of China
Chief Compliance Officer	Su-Lan Lin	Female	Apr.29,2015	LL.M., The University of New South Wales LL.M., National Chengchi University SVP & Department Head, Department of Compliance, Bank of Taiwan Co.,Ltd. SVP, Bank of Taiwan Co.,Ltd.	Chief Compliance Officer, Bank of Taiwan Co.,Ltd. Committee, Financial Regulations and Disciplinary Committee, The Bankers Association of the Republic of China
Senior Vice President & Chief Secretary	Chun-Liang Lin	Male	Sep.22,2016	Bachelor of Business Administration, Tamkang College of Arts and Sciences SVP & General Manager, Department of Circulation, Bank of Taiwan Co.,Ltd. SVP & General Manager, Department of Domestic Operations, Bank of Taiwan Co.,Ltd. General Manager, Tun Hwa Branch, Bank of Taiwan Co.,Ltd. General Manager, Yuanshan Branch, Bank of Taiwan Co.,Ltd	Senior Vice President & Chief Secretary, Bank of Taiwan Co.,Ltd.

Position	Name	Gender	Date of Employment	Education and Career	Position held with other Companies
SVP & Chief Strategy Officer	Man-Yi Chu	Female	Jan.16,2015	M.A. in Business Administration, National Taiwan University SVP & Chief Information Officer, Taiwan Financial Holding Co., Ltd. SVP & General Manager, Administrative Department, Taiwan Financial Holding Co., Ltd. Supervisor, BankTaiwan Securities Co., Ltd. SVP & Deputy General Manager, Information Management Office, Bank of Taiwan Co.,Ltd. SVP & General Manager, Department of Information Management, Central Trust of China	Director, BankTaiwan Life Insurance Co., Ltd.
SVP & Chief Risk Officer	Lily Lee	Female	Mar.1,2012	M.A. in International Trade, National Chengchi University SVP & General Manager, Department of Risk Management, Bank of Taiwan Co.,Ltd. Deputy General Manager, Department of Domestic Operations, Bank of Taiwan Co.,Ltd. Deputy General Manager, Department of Risk Management, Bank of Taiwan Co.,Ltd.	Director, BankTaiwan Securities Co., Ltd Teammate of Risk Management, Financial Holding Business Committee, The Bankers Association of The Republic of China
SVP & Chief Administration Officer	Cheng-Teh Chang	Male	Jun.5,2012	Master of Graduate Institute of Chinese Studies, Chinese Culture University Vice Director, Financial Examination Bureau, Financial Supervisory Commission, Executive Yuan, R.O.C. Vice Director, Bureau of Monetary Affairs, Ministry of Finance	
SVP & Chief Financial Officer	Jen-Chieh Pan	Male	Mar.2,2015	B.A. National Chung Hsing University SVP & Department Head, Secretariat, Bank of Taiwan Co.,Ltd. Head of Secretariat, Bank of Taiwan Co.,Ltd. Vice President, Secretariat, Bank of Taiwan Co.,Ltd. Vice President, Taiwan Business Bank, Ltd. General Manager, Taiwan Shin Kong Commercial Bank Co.,Ltd. Supervisor, First Financial Holding Co.,Ltd. Director, China Development Financial Holding Co., Ltd.	SVP & Department Head, Department of Accounting, Bank of Taiwan Co.,Ltd. Executive Secretary, Bankers Association of Taiwan Committee Member, Internal Management Committee, The Bankers Association of The Republic of China Director, BankTaiwan Life Insurance Co., Ltd. Secretary, Financial Research and Training Development Fund Management Committee, The Bankers Association of The Republic of China
SVP & Chief Information Officer	Hsi-Tai Ku	Male	Jan.16,2015	M.B.A., Northrop University	SVP & General Manager, Department of Information, Bank of Taiwan Co.,Ltd. Director, Financial eSolution Co., Ltd. Director, Banking Automation Committee, The Bankers Association of The Republic of China Committee Member, Certificate Policy Management Committee, the Bankers Association of the Republic of China Committee Member, Financial Information Systems Interbank Business in the Executive Committee of the Statute, Financial Information Service Co., Ltd.

Note 1: TFH is a state-owned enterprise with its shares 100% owned by MOF. All our directors and supervisors are the Ministry's juristic-person representatives.
Note 2: The nationality of our chairman, president, executive vice president and all the department heads is Republic of China.

Market Leader

Over a Century at the Forefront of Financial Services

IV Capital raised by TFH

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

V An Overview of Operations

1. Business Activities
2. Cross-Selling
3. Employee Profile
4. Corporate Social Responsibility

IV. Capital raised by TFH

1. Capital and Shares

(1) Source of Capital

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

Note: The date of record for the share swap with BOT was 1st January 2008. The transaction was approved by MOF on 30th August 2007 (Letter No. Tai-Cai-Ku 09600381390) and by FSC on 6th December 2007 (Letter No. Jin-Guan-Yin (II) 09620007790).

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

TFH is a state-owned financial holding company, with its shares owned by MOF.

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

Unit: NT dollars, shares

Item			Year: Past Two Fiscal Year 2015	2016
Price Per Share	High		-	-
	Low		-	-
	Average		-	-
Net Worth Per Share	Before Distributions		28.19	30.27
	After Distributions		28.19	30.27
Earnings Per Share	Weighted Average Issued Shares		9,000,000,000	9,000,000,000
	Earnings Per Share(after tax)		0.70	1.65
Dividends Per Share	Cash Dividends		-	-
	Bonus shares	Dividends out of Earnings	-	-
		Dividends out of Capital Reserve	-	-
	Cumulative Undistributed Dividends		-	-
Return Analysis	Price/Earnings Ratio		-	-
	Price-to-Dividend Ratio		-	-
	Cash Dividend Yield		-	-

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

(4) Dividend Policy and its Implementation

i. Dividend Policy

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

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

ii. Dividend Distributions in 2016

The TFH Group's audited after-tax earnings for 2016 were first used to offset a charge to the "Other comprehensive income (loss)" account, which had been made due to a remeasurement loss on defined benefit plans. Part of what remained after this offset was allocated to legal reserve and special reserve, and the rest was retained, per Executive Yuan approval, as undistributed earnings. However, in accordance with Article 51 of Taiwan's Government Auditing Act, the earnings reported in the TFH Group's annual accounts are subject to the final approval of the Ministry of Audit. The TFH Group's annual accounts for 2016 are still under review by the Ministry of Audit, therefore the actual amount to be distributed as cash dividends cannot be determined until after Ministry of Audit has finished its review.

2. Issuance of Corporate Bonds: None

3. Issuance of Preferred Shares: None

4. Issuance of Global Depositary Receipts: None

5. Issuance of Employee Stock Warrants: None

6. Mergers and Acquisitions: None

V. An Overview of Operations

Operations of TFH and its subsidiaries are briefly described as follows:

1. Business Activities

(1) Scope of Business

i. TFH

(A) Main Lines of Business

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

(B) Types of Business

Unit: NT$1,000

Item \ Year	2016	
	Dollar Amount	Share of Total
Share of profit of subsidiaries, associates and joint ventures accounted for using equity method	15,089,806	100%
Other Operating Revenues	2,746	-
Total Revenues and Gains	15,092,552	100%

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

Please refer to 2017 Business Plan.

TFH Chairman Jye-Cherng Lyu delivers remarks at a company gathering marking everyone's return to work after the Chinese New Year.

ii. BOT

(A) Main Lines of Business

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

(B) Types of Business

Year / Item	2016	
	Dollar Amount	Share of Total
Net Interest Income	26,035,482	58.25%
Net Fee Income	5,629,681	12.60%
Financial Assets and Liabilities at Fair Value Through Profit or Loss	16,322,868	36.52%
Realized Gains (Losses) on Available-for-Sale Financial Assets	2,131,822	4.77%
Investment Gains/Losses Recognized Under the Equity Method	16,413,920	36.73%
Foreign Exchange Gains/Losses	-457,893	-1.02%
Schedule of Asset Impairment Losses, and Gains on Reversal of Impairment	27,659	0.06%
Schedule of Other Net Non-Interest Income/Losses	-21,409,687	-47.91%
Net Earnings	44,693,852	100.00%

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

Please refer to 2017 Business Plan.

TFH subsidiary Bank of Taiwan and the Taiwan Guide Dog Association held a community service fair highlighting the importance of guide dogs. The opening ceremony at the fair was conducted by TFH Chairman Jye-Cherng Lyu (center), Taiwan Guide Dog Association President Yun-Ming Hsieh (5th from left), and several other distinguished guests at the event. Shown here at 4th from the left is Deputy Minister of Finance Jain-Rong Su.

iii. BTLI

(A) Main Lines of Business

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

(B) Types of Business

Unit: NT$1,000

Item \ Year	2016	
	Dollar Amount	Share of Total
Personal Life Insurance	38,655,371	93.98%
Personal Injury Insurance	115,501	0.28%
Personal Health Insurance	842,043	2.05%
Personal Annuity Insurance	1,361,032	3.31%
Group Life Insurance	30,667	0.08%
Group Personal Injury Insurance	100,449	0.24%
Group Health Insurance	24,745	0.06%
Reinsurance Assumed	45	-
Gross Premium Income	41,129,853	100.00%

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

Please refer to 2017 Business Plan.

iv. BTS

(A) Main Lines of Business

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

(B) Types of Business

Unit: NT$1,000

Item \ Year	2016	
	Dollar Amount	Share of Total
Securities brokerage and underwrite income	328,064	63.89%
Interest income	148,406	28.90%
Gain from disposal of securities	-33,957	-6.61%
Gain on financial assets or liabilities measured at fair value through profit or loss	25,140	4.89%
Net gains on writing of call (put) warrants	332	0.06%
Dividend income	37,384	7.28%
Net gains (losses) on derivatives	-382	-0.07%
Other operating revenues	8,523	1.66%
Total	513,510	100.00%

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

Please refer to 2017 Business Plan.

(2) 2017 Business Plan

i. TFH

(A) Business development plan: Coordinate with government policies; create more momentum for industrial growth

Help Taiwanese firms seize upon business opportunities connected with the New Southbound Policy and establish a presence in markets that have strong potential; help promote the development of innovative industries, meet related demand for funds, spur transformation and upgrading of domestic industrial structure, and contribute to development of the real economy; promote urban renewal financing and integrate departments in charge of retail banking, corporate finance, credit management, and trust business in order to provide a complete range of financial services; provide a good financial services environment and ample financing for support of youth entrepreneurship and development of small and medium businesses, thereby boosting impetus for innovation in domestic industries.

(B) Legal compliance: Harmonize with international practices; lead the industry in working to strengthen financial order

Abide by domestic and international supervisory regulations, work to cultivate and hire professional compliance personnel, and employ new financial technologies to strengthen our ability to identify and screen for suspicious transactions; use a principle-based approach in treating compliance with universally accepted financial industry values and principles as our guiding philosophy, work with peers in the domestic financial industry to build a collective self-regulatory mechanism, and share related knowledge and resources in order to strengthen financial order while rebuilding and deepening trust within international financial circles in Taiwan's financial services firms.

(C) Innovation of services: Assist the efforts of Taiwanese industries to develop a new blue ocean in economic and trade relations.

Seek innovative development; actively improve digital financial services; continue adding and strengthening push one-time passwords (OTPs) and other mobile banking functions; devise plans for integration of customer-side digital banking services; install 24-hour self-serve smart fee payment devices; adopt centralized branch queuing systems; take a prospection-oriented approach; provide customers with integrated financial services that are forward looking, value-added, and customer-friendly, with an eye to using innovative financial technology to expand the scope of services, and improve service efficiency; take active part in and assist the efforts of Taiwanese industries to develop a new "blue ocean in economic and trade relations."

(D) Personnel Training: People-centered encouragement for continual improvement

Carry out the "People-Centered" concept by using cross-sectional, cross-spatial, and cross-time approaches; make full use of the abundant resources of the BOT Training Center to raise the level of training at each TFH subsidiary, improve the quality of human resources, and reap synergistic benefits through integration of education and training resources; launch a “Young Management Development program” to recruit and retain a new generation of managerial talent, thereby making the Group more competitive.

(E) Corporate social responsibility: Community service activities to provide both charity and cultural enrichment

Implement corporate social responsibility through continued promotion of the Guide Dog Affinity Card, which directs a certain percentage of purchases made with the card to the Taiwan Guide Dog Association for use in training guide dogs and creating an endowment to finance dog training; work together with the charity fund entrusted by BOT, provide long-term sponsorship for social service organizations, and provide material and financial support in a timely manner; elevate the Group's participation in corporate social responsibility to the level of culture by holding a Bank of Taiwan Arts Festival to support Taiwanese artists and collect their works in an effort to strengthen local art and create heightened social values.

ii. BOT

(A) Implement government policy, expand loan business

Coordinate with the government's policy of promoting the development of key innovative industries, the New Southbound Policy, and urban renewal by actively growing the Group's loan business and making policy-driven loans, including preferential loans to cultural and creative firms, loans designed to promote industrial innovation or R&D activity, and small and medium business loans promoted by county and local governments; help companies obtain needed funds, thereby promoting industrial development and boosting economic activity.

(B) Optimize loan structure, strengthen management of credit risks

Build up a strong business in lending to large, high-quality corporate borrowers, step up efforts to promote lending to consumers as well as small and medium businesses; adopt flexible loan pricing practices to reflect the contribution to profitability of different types of borrowers, thereby improving the quality, quantity, and price of loans and earning better returns; realistically carry out pre-loan credit examinations and post-loan management, thereby effectively controlling credit risk and maintaining loan quality.

(C) Expand credit card services, increase operating revenues

Increase credit card customer stickiness, continue cooperating with restaurants, department stores, and hypermarts to provide a diverse range of channels via which credit cards can be used, thereby increasing transaction amounts; promote cloud-based mobile credit card payment services, and develop a diverse range of mobile payment products.

(D) Introduce a diverse range of insurance products to satisfy customer needs

Take a customer-driven approach in introducing a diverse mix of insurance products; provide comprehensive financial services, and use channels of Group subsidiaries to engage in an active effort to grow the insurance business and increase operating revenues.

(E) Make good use of financial instruments, improve returns on assets

Place high priority on improving performance, make flexible use of financial instruments, closely monitor the market's conditions, take timely action to adjust capital allocations, respond to financial conditions and developments, diversify investments of company funds, and seek stable returns.

(F) Promote financial services tailored to the needs of an ageing society, and build up business in the market for senior citizens' business

Respond to population ageing by continuing to develop retirement trusts and reverse mortgages; provide a more diverse range of split insurance products tailored to the needs of senior citizens; work to build a brand image as a leading provider of senior-citizen financial products.

TFH Chairman Jye-Cherng Lyu (2nd from left) conducted a ceremony to mark the launch by TFH subsidiary Bank of Taiwan of a new mobile payments service.

(G) Seize on opportunities connected with the New Southbound Policy, expand the scope and size of overseas business

Act in a timely manner to evaluate the feasibility of establishing new overseas business locations; strengthen the Group's network of overseas channels; increase international syndicated loans and develop offshore banking business; seize upon business opportunities generated by growth in emerging economies; build up the business prowess of the Group's overseas branch banks.

(H) Promote digital banking, improve service efficiency

Install 24-hour self-serve smart fee payment devices; adopt centralized branch queuing systems; devise plans for integration of customer-side digital banking services; provide customers with financial services that are more convenient, more customer-friendly, and more secure.

(I) Improve the quality of the Bank's information services, upgrade information security, and reap increased benefits from information

Establish an anti-money laundering system as well as a diverse range of security control mechanisms for mobile banking and e-banking systems in order to facilitate further development; strengthen information security, improve data leak prevention systems, and ensure information security.

(J) Strengthen wealth management channels, expand the wealth management services

Leverage the Group's brand image as a highly ethical and professional organization; strengthen the functions of wealth management brick-and-mortar distribution channels; improve service quality; step up development of high-net-worth wealth management customers; increase service charge income.

iii. BTLI

(A) Improve asset-liability management

Regularly test asset-liability cash flow matching and report the results to the Assets and Liabilities Management Committee for its future reference in adjusting asset allocations and the product structure, so as to ensure a stable financial structure.

(B) Implement risk management mechanisms

Promote the implementation of risk management in line with the "Risk Management Best-Practice Principles for Insurers," and utilize qualitative and quantitative measurement techniques to ensure the soundness of risk management mechanisms; ensure that all Group employees fully understand and abide by risk management requirements.

(C) Develop demand-driven products

Respond to Taiwan's population ageing and falling birth rate; support the FSC's ongoing promotion of the "Campaign to Promote Protection Products" and the "Long-term Care 2.0

Plan"; develop insurance products that meet the needs of Taiwan's people; step up efforts to promote long-term care insurance (e.g. health insurance to cover such needs as long-term care, care for the disabled, and medical emergencies) to help the government build up the social safety net.

(D) Develop a diverse range of marketing channels

Establish an IC team that excels in terms of both quality and quantity; cultivate insurance expertise and marketing techniques among the Group's bank channel employees; enhance cooperation with large insurance brokers and agencies to expand the breadth and depth of sales channels; improve products and sales training at our correspondence offices to raise the Group's market share in traditional channels; coordinate with the Group's offshore banking development strategy by expanding offshore insurance business.

(E) Improve capital efficiency

Devise an asset allocation plan (on the basis of liability structures, cash flows, and durations within segment assets) in an effort to achieve proper matching of assets and liabilities; build a systematized investment process and a modular stock selection mechanism to strengthen investment decisions, improve capital efficiency, and strengthen risk management.

(F) Cultivate employees with core skills

Conduct training for managerial personnel at all levels and actively cultivate professionals for the company's core businesses (e.g. portfolio investment marketing, actuarial practice, and risk management); add to the content of our professional education and training programs, improve employees' professional expertise, concept of compliance, and business execution abilities; regularly examine and flexibly adjust each company division's manpower demand, raise output per employee, and improve efficiency; establish a "pool of key personnel" to make optimum use of human resources.

(G) Improve information platforms

In the area of information systems development, move toward the use of virtual data centers in order to achieve unlimited and immediate data availability, complete plans for extension of the service life of core systems, and establish risk management mechanisms in order to correctly evaluate data risk and adopt appropriate risk control measures; coordinate with the Internet app development model by establishing rules for the management of model.

(H) Improve the Management and Action Plan

Review execution of the 2016 Management and Action Plan, and review, revise, or add new management elements in response to changing economic and financial industry conditions, the direction of supervisory policy, the development of Group strategies, and business targets for 2017, in order to further improve the efficacy of the Management and Action Plan and improve the Group's ability to achieve its various business targets.

(I) Move forward with Corporate Culture Re-engineering Project

Launch the Corporate Culture Re-engineering Project on the basis of our business targets and developmental direction, and form a corporate culture system and environment that engenders "unity," "self-direction," and "pride," thereby injecting new momentum and creating a managerial cycle characterized by positive energy.

(J) Establish a learning-type organization

Continue to strengthen education and training as well as job rotation in order to enhance professional expertise; establish an internal business database and a knowledge sharing section on our website to promote the sharing of knowledge and information; select key employees to take part in international conferences, bring in outside information on changes in the industry, and develop a cosmopolitan worldview, thereby establishing a learning-type organization and enhance the company's competitive advantages.

iv. BTS

(A) Securities brokerage business

Draw up plans for the conduct of borrowing and lending of funds for unrestricted purposes, to provide customers with quick access to funds; continue working to improve marketing, and actively attend and organize industry roadshows in order to increase interaction with investment and trust firms; continue cooperating with BankTaiwan Insurance Brokers and BTLI to promote insurance business and provide customers with a diverse range of asset allocation options.

(B) Securities underwriting business

Use the Group's integrated marketing platform, collaborate with other group subsidiaries on joint business development, and seek underwriting and related business so as to provide a full range of corporate capital raising services; visit the head offices of overseas Taiwan-invested firms to encourage such firms to raise capital in Taiwan; take advantage of the investment activities of Group subsidiaries and actively participate in the underwriting of Formosa Bonds.

(C) Securities dealing business

Closely watch international financial conditions; step up analytical work, carefully control investment risks, and optimize investment strategies and asset portfolio allocations in order to improve capital efficiency; take a demand-driven approach to the launch of new financial products, provide a diverse range of tailor-made financial products, and strengthen hedging techniques and risk control models in order to reduce risks and earn stable profits; add new types of warrants, and expand the product line.

(D) Internal management

Strengthen corporate governance, legal compliance, risk management, internal audit, and internal control systems; implement employee training, strengthen the functions of information systems, and design and launch a management information system, improve the company's management performance.

(E) Risk management

Continue strengthening the functions of the quantitative risk control information system in order to facilitate quantification of investment risks and take risk management measures in a more timely manner; and improve disclosure of risk management information and continue improving the risk management system's rules and control mechanisms in order to effectively control overall risks.

(3) Industry Overview

i. Financial holdings business

Taiwan's financial industry in recent years has been developing stably, and financial services firm have generally been in strong condition, but comparison baselines from the previous year were high and financial markets were volatile. As a result, Taiwan's 16 financial holding companies in 2016 posted a combined NT$266.956 billion in earnings after tax, down by 11.87% from the previous year, while average ROE was 7.95% and average ROA was 0.56%.

Development of ICT technology throughout the world and the arrival of the Big Data era pose challenges to traditional financial business models and approaches to business. Digitization has become a key factor affecting competitiveness, and rapid change in financial markets is also testing the adaptability of financial holding companies. In order to promote the development of financial markets, the government hopes that financial services firms will support innovative industrial transformation and meet the financial needs of public policy. The government also encourages financial services firms to actively develop innovative financial products and services while accelerating the development of digital banking, so as to expand the size of domestic financial markets and use innovative strategies to make Taiwan's financial industry more competitive. The competent authority has adopted deregulatory measures and continues to ease legal restrictions on the financial industry. At the same time, it is also working to make financial markets more secure and orderly, and has identified AML/CFT as a key focus of supervision. The competent authority intends to spur better implementation of risk management by encouraging financial services firms to use more personnel and resources to improve their compliance, internal audit, internal audit systems. In addition, in response to the government's New Southbound Policy, financial services firms will seize upon related business opportunities, continue strengthening their presence in Southeast Asian markets, take active part in and assist the efforts of Taiwanese firms to develop a new "blue ocean in economic and trade relations," expand the size of Asia-Pacific asset management markets, and improve the international competitiveness of Taiwan's financial industry.

ii. Banking industry

According to statistics from the FSC, the combined earnings before tax of domestic Taiwanese banks as of end-December 2016 stood at NT$300 billion, down slightly from the figure for 2015, the average ROE is 9.24% and ROA is 0.68%. Looking ahead to global economic prospects in 2017, despite the increased probability that the US will continue to raise interest rates, the fact remains that most central banks will still maintain ease money policies while their governments adopt expansionary fiscal spending to stimulate their economies. Accordingly, global economic growth can be expected to return to normal. Based on the IMF economic growth forecasts for 2017, the global economy can be expected to perform better than in 2016. Taiwan's 2017 economic growth rate is forecast to exceed the 2016 growth rate, with Taiwan's Directorate-General of Budget, Accounting and Statistics (DGBAS) calling for growth of 1.92% while the IMF forecasts growth of 1.7%.

To boost the domestic economy, the government will launch the DIGI+ project in 2017 to spur development of the nation's key industries, including the Internet of Things, smart machinery, green energy, and medical care, and the government will also encourage domestic banks to treat key innovative industries as high-priority borrowers while paying due attention to risks. In addition, the government will continue pursuing financial liberalization, digitization, and internationalization in order to help banks actively build up a stronger presence in the markets targeted by the New Southbound Policy. These measures are designed to afford domestic banks greater room for development.

iii. Life insurance industry

Taiwanese insurers faced severe volatility in global financial markets, poor economic conditions, and falling interest rates. As a result, assumed interest rates could not be raised, and sales of traditional insurance policies were sluggish. Faced with fierce market competition and negative interest spreads, life insurers found themselves under tremendous pressure in both their financial and business operations.

In order to discourage life insurers from using the sale of quasi-savings insurance products as a means of quickly ramping up premium income, which would affect their financial soundness, the competent authority lowered the minimum policy reserve interest rate for new business while adjusting the standard for fee adequacy testing and the policy reserve interest rate and the expense loading ratio. These changes, however, may spur insurers to raise premiums for traditional life insurance products or reduce benefits, thus affecting the content and design of insurance products. Life insurance products are still the mainstay of the domestic insurance market, and annuities, long-term care policies, and medical insurance products (which have an important bearing upon the quality of retired living) promise to become a key business development focus of life insurers as geriatric needs come to the fore, the nation moves to respond to population ageing, and the government pursues its policy of encouraging citizens to purchase more protection-type insurance policies. In addition, market expectations for the US Fed to start raising interest rates mean that US Dollar-denominated policies offer advantages in terms of foreign exchange gains, inflation hedging, and higher assumed interest rates. These factors will increase demand for such policies for financial planning or retirement planning purposes.

iv. Securities industry

Domestic economic conditions gradually improved in 2016, and a long-running controversy over a capital gains tax on securities came to an end when the government decided to discontinue the tax. As a result, the TAIEX rose 915 points in 2016, its best performance in recent years. But despite the strong TAIEX performance, turnover and transaction volume both hit new lows as the market was increasingly influenced by high-volume ETFs and foreign investors. Institutional participation in the markets has increased, so it appears that the traditional reliance of securities firms on brokerage fee revenues is likely to become a less tenable business model as time goes by. Looking ahead to 2017, the US will enter into a rising interest rate cycle, and Europe and Japan also appear to have taken accommodative monetary policies about as far as they can go. Uncertainty about the availability of funds is therefore likely to increase. However, the domestic economy is steadily improving, and the FSC is moving toward deregulation by, for example: (a) allowing day trading in all securities that are eligible for margin purchases and short sale transactions; (b) lowering the transaction tax on day trading of fully paid shares; and (c) allowing automatic investment plans for the purchase of individual stocks and ETFs. Policies of this sort will help spur increased market activity and promote healthy development of domestic securities markets.

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

i. TFH

(A) Short-term business development plan

Obtain another amendment to the Act of Taiwan Financial Holding Co. to strengthen the company's capital and establish sound operations; deepen the integrated marketing platform mechanism and spur continued growth of the Group's core subsidiary businesses;

TFH Chairman Jye-Cherng Lyu (4th from right), Minister of Transportation and Communications Chen-Tan Ho (5th from right), Legislative Yuan Vice President Chi-Chang Tsai (5th from left), and Taichung City Mayor Chia-Lung Lin (4th from left) were among those cutting the ribbon at a ceremony marking the launch of the Bank of Taiwan's new branch at Taichung Airport.

encourage Group subsidiaries to develop forward-looking financial services that closely meet the needs of customers; coordinate with government policy by facilitating innovative development of domestic industries; ensure more sound operation of the internal control and legal compliance systems, cultivate a diverse range of professional talent, and fulfill the Group's corporate social responsibility in order to spur solid growth and stably improve business results.

(B) Long-term business development plan

Continue working to achieve better business performance; strengthen the Group's capital base; act in accordance with its "5P business management policy" of being people-centered, portfolio-sound, performance-driven, prospection-oriented, and principle-based; lay out a business policy and strategy; promote sustainable and sound development of the Group; and develop into the nation's flagship financial holding company.

ii. BOT

(A) Short-term business development plan

In order to continue expanding markets and increasing profits, in addition to actively expanding core businesses, BOT, aided by the government's policy encouragement and deregulation, will implement business innovation while building its digital network and mobile banking services, and promote financing business to support urban renewal, the development of key innovative industries, and the New Southbound Policy. At the same time, the Bank will make skillful use of the Group's resource integration and marketing platform to reap the synergies of cross-selling.

TFH Chairman Jye-Cherng Lyu delivers remarks at a ceremony to mark the upgrading of the Bank of Taiwan Training Institute to a level-one unit at the TFH head office.

(B) Long-term business development plan

BOT will continue cooperating with government policy by conducting various types of policy-driven business, and by using the Group's resource integration platform to provide a full range of financial services that meet customer needs. At the same time, BOT will strengthen its presence in Asian markets in order to expand its scope of business and move toward its vision of "building a strong position in Taiwan's financial markets while embarking upon international markets."

iii. BTLI

(A) Short-term business development plan

Guide the company toward greater focus on the essence of what insurance is all about, encourage the design of protection-type lines of insurance; resolve the fair value of insurance liabilities in hopes of successfully completing a test in 2017; improve the appropriateness of the level of debt leveraging to achieve duration matches; help to reduce negative margins in order to ensure the soundness of the company's operations.

(B) Long-term business development plan

Continue pursuing the strategic objectives set out in the BankTaiwan Life Insurance Co. 12-Year Development Blueprint. In phase one (2015-2018), the company will continue working to establish more stable and profitable financial and business operations. In phase two (2019-2022) the objective will be to "move stably forward, and align with international practices," which means to consolidate the company's position in the domestic life insurance market, cultivate personnel with the skills needed for international insurance business, and take preparatory steps to align with international practices. In phase three(2023-2026), the objective will be to "accelerate forward, and embark on international markets," which means to quicken the pace of moves to internationalize the company's business by establishing overseas business locations, for example, or using M&A deals or strategic tie-ups to build up a stronger presence in international insurance markets.

iv. BTS

(A) Short-term business development plan

Work through the TFH cross-selling platform to actively expand the customer base, increase our brokerage business market share, and grow our margin trading business; maintain close contact with industry in order to obtain underwriting business opportunities; coordinate with the bank's corporate finance business and underwriting-related business services to establish relationships with companies and strengthen our ability to win business deals; respond to the competent authority's decision to allow the issuance of Formosa Bonds by taking advantage of the TFH Group's investment businesses to actively win deals to underwrite foreign-denominated bond issues; additionally provide for the issuance of warrants on ETFs in order to facilitate the establishment of a more complete product lineup, thereby improving the company's market share for warrant issues.

(B) Long-term business development plan

Take active part in high-profile deals to win increased name recognition in the markets. Then, after increasing staffing levels, gradually embark upon the IPO market and win more business as lead underwriter for IPO deals, related financial advisory business, and other such investment bank business. Also, support related deregulatory actions or policy easing measures, seek niche markets, and conduct related capital markets business.

2. Cross-Selling

(1) Cross-selling synergies

i. In line with the strategic objective of tapping into group synergies, TFH actively developed integrated products and services, built up its groupwide joint business development mechanism, set up a platform for integrated marketing among group subsidiaries, and held monthly meetings of the TFH Cross-selling Committee, which uses the "management by objectives" method to monitor implementation. And the Group used its joint business development and performance evaluation systems to bring about healthy competition and cooperation among the Group's subsidiaries, and to spur diversification of their business. The 2016 Plan for Integrated Marketing Among Group Subsidiaries covered the six principal business lines of corporate finance & bulk collections, wealth management, life insurance, investment of life insurance funds, securities brokerage, and securities underwriting. The subsidiaries used the platform to refer business to each other, and engaged in cross-selling of 16 of the Group's cross-sector products, and monitored the achievement of 25 plan targets. Quantifiable items sold via the cross-selling platform contributed NT$1.558 billion to the Group's profits in 2016, up by 30.92% over the figure for 2015.

ii. On 19 February 2016, the FSC amended the "Regulations Governing Cross-selling Among a Financial Holding Company's Subsidiaries," easing restrictions on the scope of securities eligible for cross-selling at a corporate group's business locations. In order to promote a diverse range of business activities and get better results from cross-selling in the securities business, TFH has applied with the FSC and obtained the latter's approval to use BOT cross-selling service counters to accept applications to open margin accounts. This will enable TFH to better integrate Group resources and reap greater benefits of synergy.

(2) Resource integration and cost reductions

TFH continued to promote its groupwide shared operating platforms project; effectively integrated and used logistics resources; and used shared operating platforms for eight major shared business operations (information operations, education and training, legal affairs, property management, community service promotions, purchasing operations, financial and economic information exchange, and human resource exchange) to reap greater benefits from centralized management and professional specialization. TFH continued working in 2016 to make integrated use of the Group's information resources, to upgrade the functionality of the management platform for the Group's basic IT framework, and to carry out leasing and purchasing of out-of-house information sources. Our logistics platform handled 3,223 cross-subsidiary operations in 2016, reducing measurable operating costs over the course of the year by NT$35 million, thus reducing operating costs by tapping into group synergies.

3. Employee Profile

Year	2015	2016
Company	Number of Employees	
TFH	42	42
BOT	7,990	7,982
BTLI	246	246
BTS	133	139
BTIB	34	35
Total	8,445	8,444
Average Age	45.10	45.37
Average Service Year	17.77	17.88
Education Level & Ratio		
Doctor	0.09	0.07
Master	18.29	19.60
University or College	72.30	71.51
Senior High School	8.10	7.68
Below Senior High School	1.22	1.14

4. Corporate Social Responsibility

(1) Social Responsibility: As a state-run financial institution, TFH actively accommodated government policy, helped stabilize the financial order, provided well-designed financial services, participated vigorously in community service activities, fulfilled its responsibility as a corporate citizen, worked to spur Taiwan's national economy, and contributed to the well-being of the nation's people.

(2) CSR disclosure: As a state-run financial holding company that is wholly owned by the Ministry of Finance, all directors are the Ministry's juristic-person representatives, and its key public policy objectives are being pursued in support of the government's efforts to stabilize economic order, social stability, and specific social groups. The TFH Group's core subsidiary, BOT, has consistently been guided by the key aims of optimizing Taiwan's financial industry, supporting economic growth, and developing industrial and commercial enterprises, and in that mode has vigorously supported government policy in order to accomplish its assigned mission. In 2016, TFH Group subsidiaries: (a) continued working on contract to the Central Bank to handle ancillary matters pertaining to the issuance of New Taiwan Dollar notes and coins; (b) acted as agent for the public treasury at all levels of government; (c) provided Government Employees Insurance; (d) conducted government procurement business; (e) offered preferential rates for public service pension deposits; and (f) provided loans for major transportation infrastructure projects, industrial and commercial enterprises loans, post-disaster recovery loans, student

loans, and preferential home loans. BOT also continued to implement a financing and debt relief program for corporations. The aforementioned policy tasks all served to stabilize society and the economy while maximizing the public interest.

(3) In order to fulfill its corporate social responsibility as a state-run financial institution, TFH conducted various types of policy-driven business, information on all of which can be found via links provided on the BOT website. Examples of such business include student loans and public treasury business at all levels, which BOT conducted as an agent for the government. TFH has also established a services network to meet the needs of customers and to enable all stakeholders to understand the content of the Group's policy-driven businesses and look after their respective interests.

(4) Implementation of corporate social responsibility:

(i) Continued to hold "Lighting Christmas Trees" charitable activities

TFH in 2016 once again carried out numerous community service activities with an eye to "caring for the elderly and supporting the disadvantaged"; the head office and affiliates continued care for and visit children's homes as well as senior citizens' nursing homes, and donated holiday gifts and household items; held 11 events that provided opportunities for friendship between young children and the elderly; working together with the Bank of Taiwan Charity Trust, TFH established a charity trust platform to provide material and financial support to underprivileged. In these and other ways, TFH took concrete action to show its concern for the persons in need and build up a positive image for state-run enterprises as entities that care about the public good.

(ii) Continued operating the Group's charity foundation

In order to fulfill corporate social responsibility and show compassion for the needy, the Bank of Taiwan Charity Trust was established on 18 December 2015 with the approval of the Ministry of Health and Welfare. This charity trust makes use of the expertise of financial industry professionals to help arrange nursing home care for the elderly and the underprivileged, and to help people prepare for their old age. BOT, the trustee of the Charity Trust, formed a consultative committee together with various scholars, experts, impartial citizens, and financial industry professionals to oversee the administration and the community service activities of the Charity Trust. BOT duly established a trust supervisor that is subject to the supervision of the competent authority, and continued to act in a planned and systematic manner to conduct community service activities, thus spreading compassion to every corner of the nation.

(iii) Hold donation drives to give back to society and awaken public compassion

(A) In order to encourage financial services firms to fulfill their corporate social responsibility, the FSC retained the Taiwan Financial Services Roundtable to establish the Financial Services Education Charity Fund for the purposes of: (a) helping youth from underprivileged families to complete their studies free of worry; (b) holding financial literacy courses; and (c) implementing industry-academia cooperation, so that students can attain broad financial knowledge that will help them find jobs in the future. In order to fulfill its corporate social responsibility in 2016, TFH continued acting in the spirit of "giving back to the community" by donating NT$2.5 million to the aforementioned Financial Services Education Charity Fund.

(B) In order to show concern for underprivileged groups, TFH and its subsidiary, BOT, jointly donated NT$100,000 to help fund the establishment of the Changhua County Christian Home for Children.

At a ceremony to mark major community service achievement by TFH in 2016, TFH Chairman Jye-Cherng Lyu distributes Christmas gifts to members of a performance by a percussion group organized by the First Social Welfare Foundation.

TFH, BOT, and BTLI held a ceremony for the release of funds raised in a joint public service donation drive. Chairman Jye-Cherng Lyu (front row, center) and members of senior management are shown here in a group photo together with representatives of Renyou Sanatorium and Erhlin Happy Christian Home.

Professionalism

Providing Professional and Conscientious Service

VI Financial Status

1. Condensed Financial Statement for Year 2015 and 2016
2. Financial Analysis for Year 2015 and 2016
3. Consolidated Financial Statements for Year 2016

VI. Financial Status

1. Condensed Financial Statement for Year 2015 and 2016

(1) Condensed Consolidated Balance Sheet

Unit: NT$1,000

Item \ Year	2015	2016
Cash and cash equivalents	148,235,815	136,216,466
Placement with Central Bank and call loans to banks	585,963,772	687,235,976
Financial assets at fair value through profit or loss	176,385,509	213,733,010
Available-for-sale financial assets, net	1,099,519,771	1,072,928,664
Hedging financial assets	15,970	21,221
Bills and bonds purchased under resell agreements	10,792,264	3,939,177
Receivables, net	80,673,391	70,123,711
Current income tax assets	3,215,081	3,483,836
Loans and discounts, net	2,381,326,379	2,267,854,659
Reinsurance assets	11,799	18,624
Held to maturity financial assets, net	300,963,479	356,316,543
Investments under equity method, net	41,733,625	41,160,422
Other financial assets, net	121,178,784	118,368,288
Investments property, net	7,037,870	22,231,247
Property and equipment, net	98,823,229	98,743,775
Intangible assets	869,211	823,948
Deferred tax assets	2,694,045	1,360,026
Other assets	11,558,064	12,487,328
Total Assets	5,070,998,061	5,107,046,921
Deposits of Central Bank and other banks	225,425,517	227,596,814
Financial liabilities measured at fair value through profit or loss	39,952,611	7,670,290
Hedging financial liabilities	243,967	144,195
Bills and bonds sold under repurchase agreements	17,992,102	12,836,136
Commercial paper payables, net	1,459,660	1,159,709
Payables	63,535,537	58,492,724
Current income tax liabilites	463,466	708,065
Deposits and remittances	3,825,858,990	3,865,981,443
Financial bonds payable	24,997,826	24,998,082
Other loan	-	300,000
Provision	588,738,072	608,368,865

Item \ Year			2015	2016
Other financial liabilities			1,798,439	762,102
Deffered tax liabilities			18,756,564	18,303,100
Other liabilities			8,091,466	7,262,617
Total liabilities	Before distribution		4,817,314,217	4,834,584,142
	After distribution		4,817,314,217	4,834,584,142
Equity attributable to stockholders of TFH	Capital stock	Before distribution	90,000,000	90,000,000
		After distribution	90,000,000	90,000,000
	Capital surplus		111,385,217	111,385,217
	Retained earnings	Before distribution	40,005,351	54,001,023
		After distribution	40,005,351	54,001,023
	Other equity		12,293,276	17,076,539
Total equity	Before distribution		253,683,844	272,462,779
	After distribution		253,683,844	272,462,779

(2) Condensed Consolidated Income Statement

Unit: NT$1,000

Item \ Year	2015	2016
Interest income	73,983,770	68,328,335
Less: Interest expense	(36,543,681)	(33,490,982)
Net interest income	37,440,089	34,837,353
Non-interest income, net	(30,028,468)	27,506,508
Net revenue	7,411,621	62,343,861
Bad debt expense and reserve for guarantees	(4,526,947)	(5,172,049)
Provisions for policyholder’s reserve premium	26,556,546	(19,878,537)
Total expenses	(21,505,411)	(21,358,824)
Net income before income tax	7,935,809	15,934,451
Income tax expenses	(1,598,950)	(1,122,840)
Consolidated net income	6,336,859	14,811,611
Other comprehensive income (loss)	(8,987,084)	3,967,324
Total comprehensive income (loss) after tax for the period	(2,650,225)	18,778,935
Consolidated net income attributable to stockholders of TFH	6,336,859	14,811,611
Total comprehensive income (loss) after tax for the period attributable to stockholders of TFH	(2,650,225)	18,778,935
Basic earnings per share	0.70	1.65

(3) Condensed Balance Sheet

Unit: NT$1,000

<table>
<tr><th colspan="3">Year / Item</th><th>2015</th><th>2016</th></tr>
<tr><td colspan="3">Cash and cash equivalents</td><td>256,670</td><td>278,860</td></tr>
<tr><td colspan="3">Receivables, net</td><td>24</td><td>5</td></tr>
<tr><td colspan="3">Current income tax assets</td><td>412,706</td><td>302,139</td></tr>
<tr><td colspan="3">Investments under equity method, net</td><td>270,161,803</td><td>288,727,704</td></tr>
<tr><td colspan="3">Property and equipment, net</td><td>5,938</td><td>5,809</td></tr>
<tr><td colspan="3">Intangible assets, net</td><td>302</td><td>292</td></tr>
<tr><td colspan="3">Other assets, net</td><td>16,372</td><td>22,660</td></tr>
<tr><td colspan="3">Total assets</td><td>270,853,815</td><td>289,337,469</td></tr>
<tr><td colspan="3">Payables</td><td>19,799</td><td>22,193</td></tr>
<tr><td colspan="3">Other loans</td><td>17,050,000</td><td>16,750,000</td></tr>
<tr><td colspan="3">Provision</td><td>99,839</td><td>102,318</td></tr>
<tr><td colspan="3">Other liabilites</td><td>333</td><td>179</td></tr>
<tr><td rowspan="2">Total liabilities</td><td colspan="2">Before distribution</td><td>17,169,971</td><td>16,874,690</td></tr>
<tr><td colspan="2">After distribution</td><td>17,169,971</td><td>16,874,690</td></tr>
<tr><td rowspan="6">Equity attributable to Stockholders of TFH</td><td rowspan="2">Capital stock</td><td>Before distribution</td><td>90,000,000</td><td>90,000,000</td></tr>
<tr><td>After distribution</td><td>90,000,000</td><td>90,000,000</td></tr>
<tr><td colspan="2">Capital surplus</td><td>111,385,217</td><td>111,385,217</td></tr>
<tr><td rowspan="2">Retained earnings</td><td>Before distribution</td><td>40,005,351</td><td>54,001,023</td></tr>
<tr><td>After distribution</td><td>40,005,351</td><td>54,001,023</td></tr>
<tr><td colspan="2">Other equtiy</td><td>12,293,276</td><td>17,076,539</td></tr>
<tr><td rowspan="2">Total equity</td><td colspan="2">Before distribution</td><td>253,683,844</td><td>272,462,779</td></tr>
<tr><td colspan="2">After distribution</td><td>253,683,844</td><td>272,462,779</td></tr>
</table>

(4) Condensed Income Statement

Unit: NT$1,000

Year / Item	2015	2016
Income from equity investments under equity methods	6,482,932	15,089,806
Other gains	2,905	2,746
Operating expenses	(142,118)	(162,772)
Other expenses and losses	(140,521)	(152,885)
Net income before income tax	6,203,198	14,776,895
Income tax benefit	133,661	34,716
Net income	6,336,859	14,811,611
Other comprehensive income (loss) for the period, net of income tax	(8,987,084)	3,967,324
Total comprehensive income (loss) for the period	(2,650,225)	18,778,935
Earnings per share	0.70	1.65

2. Financial Analysis for Year 2015 and 2016

(1) Consolidated Financial Analysis

Unit: NT$1,000

<table>
<tr><th colspan="3">Year / Item</th><th>2015</th><th>2016</th></tr>
<tr><td rowspan="5">Operating ability</td><td colspan="2">Total assets turnover</td><td>0.0015</td><td>0.0123</td></tr>
<tr><td colspan="2">Loans to deposits ratio of banking subsidiary (%)</td><td>62.79</td><td>59.42</td></tr>
<tr><td colspan="2">NPL ratio of banking subsidiary (%)</td><td>0.23</td><td>0.26</td></tr>
<tr><td colspan="2">The group’s average operating revenue per employee</td><td>838</td><td>7,058</td></tr>
<tr><td colspan="2">The group’s average profit per employee</td><td>716</td><td>1,677</td></tr>
<tr><td rowspan="4">Profitability</td><td colspan="2">Return on assets (%)</td><td>0.13</td><td>0.29</td></tr>
<tr><td colspan="2">Return on equity (%)</td><td>2.47</td><td>5.63</td></tr>
<tr><td colspan="2">Net margin (%)</td><td>85.50</td><td>23.76</td></tr>
<tr><td colspan="2">Earnings per share (NT$)</td><td>0.70</td><td>1.65</td></tr>
<tr><td rowspan="3">Financial structure(%)</td><td colspan="2">Debt ratio</td><td>95.00</td><td>94.66</td></tr>
<tr><td colspan="2">Liabilities to net worth ratio</td><td>1,898.94</td><td>1,774.40</td></tr>
<tr><td colspan="2">TFH’s double leverage ratio</td><td colspan="2">Referred to condensed financial analysis</td></tr>
<tr><td rowspan="2">Leverage ratio</td><td colspan="2">Operating leverage ratio</td><td colspan="2" rowspan="2">Referred to condensed financial analysis</td></tr>
<tr><td colspan="2">TFH’s financial leverage ratio</td></tr>
<tr><td rowspan="2">Growth rates</td><td colspan="2">Growth rate of assets</td><td>6.07</td><td>0.71</td></tr>
<tr><td colspan="2">Growth rate of profit</td><td>-7.62</td><td>100.79</td></tr>
<tr><td rowspan="3">Cash flows</td><td colspan="2">Cash flow ratio</td><td colspan="2" rowspan="3">Referred to condensed financial analysis</td></tr>
<tr><td colspan="2">Cash flow adequacy ratio</td></tr>
<tr><td colspan="2">Cash flow reinvestment ratio</td></tr>
<tr><td rowspan="4">Operating scale</td><td colspan="2">Market share by assets</td><td>11.14</td><td>10.62</td></tr>
<tr><td colspan="2">Market share by net worth</td><td>8.10</td><td>8.11</td></tr>
<tr><td colspan="2">Market share of deposits of banking subsidiary</td><td>10.72</td><td>10.36</td></tr>
<tr><td colspan="2">Market share of loans of banking subsidiary</td><td>8.90</td><td>8.29</td></tr>
<tr><td rowspan="4">Capital adequacy</td><td rowspan="3">Capital adequacy ratio</td><td>Bank of Taiwan</td><td>11.19</td><td>12.04</td></tr>
<tr><td>BankTaiwan Life Insurance</td><td>232.91</td><td>189.33</td></tr>
<tr><td>BankTaiwan Securities</td><td>373</td><td>448</td></tr>
<tr><td colspan="2">Group's capital adequacy ratio</td><td>122.35</td><td>121.87</td></tr>
</table>

(2) Condensed Financial Analysis

Unit: NT$1,000

Item	Year	2015	2016
Operating ability	Total assets turnover	0.0232	0.0533
	Average operating revenue per employee	151,079	355,706
	Average profit per employee	150,878	352,657
Profitability	Return on assets(%)	2.32	5.29
	Return on equity(%)	2.47	5.63
	Net margin(%)	99.87	99.14
	Earnings Per Share (NT$)	0.70	1.65
Financial structure(%)	Debt ratio	6.34	5.83
	Liabilities to net worth ratio	6.77	6.19
	TFH's double leverage ratio	106.50	105.97
Leverage ratio	Operating leverage ratio	102.14	100.99
	TFH's financial leverage ratio	102.10	100.97
Growth rates	Growth rate of assets	-1.55	6.82
	Growth rate of profit	-15.48	138.21
Cash flows	Cash flow ratio	-714.91	2,100.17
	Casf flow adequacy ratio	104.30	109.95
	Cash flow reinvestment ratio	-2.57	33,244.65
Operating scale	Market share by assets	7.79	7.74
	Market share by net worth	8.25	8.24

3. Consolidated Financial Statements for Year 2016

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, 2016, 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

Jye-Cherng Lyu
Chairman

March 30, 2017

Independent Auditor's Report

To the Board of Directors of Taiwan Financial Holding Co., Ltd.:

Opinion

We have audited the consolidated financial statements of Taiwan Financial Holding Co., Ltd. ("the Company") and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2016 and 2015, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of other auditors (please refer to Other Matter paragraph), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2016 and 2015, and its consolidated operations and cash flows for the years then ended in accordance with the "Regulations Governing the Praparation of Financial Reports of Financial Holding Companies" and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), International Financial Reporting interpretations ("IFRICS"), and the Standing Interpretations Committee ("SICs") as well as related guidelines endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit in accordance with the"Regulations Governing Auditing and Certification of Financial Statements of Financial Institutions by Certified Public Accountants" and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of Taiwan Financial Holding Co., Ltd. in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained, inclusive of the report from other auditors, is sufficient and appropriate to provide a basis of our opinion.

Emphasis of Matter

In accordance with the Audit Act and other governmental regulations of Taiwan, the financial statements of the Company and its subsidiaries are required to be examined and certified by the Ministry of Audit (the "MoA"). The financial statements of the Company and its subsidiaries as of, and for year ended December 31, 2015 were restated to reflect the adjustments made by the MoA. For further information, please see Note 53 (2).

Other Matter

As stated in Note 14, we have not audited the financial statements of Hua Nan Financial Holdings Co., Ltd. and Tai Yi Real Estate Co., Ltd. The Company and its subsidiaries recognized its investments in Hua Nan Financial Holdings Co., Ltd. and Tai Yi Real Estate Co., Ltd. under equity method amounting to $39,876,361 thousand and $38,393,606 thousand respectively, constituting 0.78% and 0.76% of the consolidated total assets as of December 31, 2016 and 2015, respectively; and its shares of investment profits in associates accounted for using equity method amounting to $3,535,129 thousand and $3,533,636 thousand, respectively, constituting 22.19% and 44.53% of the related consolidated income before income tax for the year ended December 31, 2016 and 2015, respectively. Those financial statements were audited by other auditors, whose reports have been furnished to us, and our review, insofar as it relates to the amounts included for those companies, is based solely on the reports of the other auditors.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. The valuation of financial instruments

   Please refer to Note 3 (6) “Financial instrument” for related accounting policy, Note 4 (1) “The valuation of financial instruments” for the uncertainty of the assumptions and estimations, and Note 46 “The fair value and fair value hierarchy of the financial instruments” for details of the valuation of financial instruments.

   Description of key audit matters

   Of the financial instruments measured at fair value through profit and loss and other comprehensive income held by the Company and its subsidiaries, fair value of the financial instruments, other than those that the fair value can be observed in an open market, shall be calculated via models. The parameters of modeling inputs often involved the exercise of judgment and may have significant impact on the results. The financial assets and liabilities measured at fair value held by the Bank as of December 31, 2016 amounted to $1,698,479,352 thousand and $46,410,805 thousand, respectively. Among them, the financial assets and liabilities measure at fair value, other than those classified as level 1 in the fair value hierarchy, amounted to $1,050,044,671 thousand and $7,813,973 thousand, respectively. The amounts are material to the Company and its subsidiaries. Therefore, the valuation of financial instruments has been identified as a key audit matter in our audit.

   How the matter was addressed in our audit

   Our principal audit procedures included (i) testing the controls over the investment cycle and related financial reporting process, including initial recognition, subsequent measurement and disclosure; (ii) sampling of the financial instruments measured at fair value with an active market to ensure that the prices are appropriate and accurate; (iii) appointing our valuation specialists to assess the reasonableness of the models and parameters the Company and its subsidiaries used to measure their fair value of financial instruments without an active market; (iv) assessing whether the fair value information is disclosed in accordance with the International Financial Reporting Standards.

2. The assessment of impairment of financial assets

   Please refer to Note 3 (16) “Impairment of assets” for related accounting policy, Note 4 (2) “The valuation of financial assets impairments” for the uncertainty of accounting assumptions and estimations, and Note 12 “Available for sale financial assets, net”, Note 13 “Held to maturity financial assets, net” and Note 15 “Other financial assets, net” for details of the valuation of financial assets impairments, respectively.

   Description of key audit matters

   When assessing whether there is any indication that the financial assets other than measured at fair value through profit or loss may be impaired, the Company and its subsidiaries rely on management for considering all kinds of observable data to determine whether objective evidence of impairment exists on the reporting date. If there is such evidence exists, then the Company and its subsidiaries shall calculate the amount of impairment loss by further estimating future cash flow and effective interest rate or current market return. The decision involved the exercise of judgment and the financial assets of $1,480,785,944 thousand should be included in the scope of test of impairment as of December 31, 2016. The amount is material to the Company and its subsidiaries. Therefore, the assessment of impairment of financial assets has been identified as a key audit matter in our audit.

How the matter was addressed in our audit

Our principal audit procedures included (i) inspecting the internal guidelines of impairment assessment and understanding the Company and its subsidiaries' procedures of the assessment of impairment of financial assets ; (ii) assessing the reasonableness of the Company and its subsidiaries' assessment of impairment of financial assets and recognized impairment loss by the understanding of auditors and evidence collected from other audit procedures.

3. The assessment of insurance liability

Please refer to Note 3(20) "Insurance liability" for related accounting polices, Note 4(3) "Insurance liability and reserve of insurance policy with financial instrument nature" for the uncertainty of accounting estimation and assumptions, and Note 30 "Insurance contract and financial products with discretionary participation feature" for the details of the assessment of insurance liability.

Description of key audit matters

The major business activity of Bank Taiwan Life Insurance Co., Ltd.(BTLI) is to provide life insurance. To strengthen its financial structure and the capability of fulfilling future obligation, BTLI is required to set aside various statutory reserves calculated based on each product's characteristic and its undue risk in accordance with the Insurance Act and "Regulations Governing Insurance Enterprises for Setting Aside Various Reserves". The evaluation of the adequacy of insurance liabilities involved the assumptions of morbidity rate, expense rate, discount rate, default rate, future cash flows, etc., which all rely on the judgment and experiences of the management and may cause a significant impact on the recognition of insurance liability. Therefore, the assessment of the insurance liability has been identified as a key audit matter in our audit.

How the matter was addressed in our audit

Our principal audit procedures included (i) testing the internal process of the provision of statutory reserves; (ii) inspecting the related minutes of BTLI's Board of Directors and the committee of asset-liability management; (iii) obtaining BTLI's s liability adequacy test report prepared by a third party and assessing the qualification of the actuaries; (iv) appointing KPMG's actuaries to re-assess the reasonableness of significant assumptions and the conformity of the regulations; (v) assessing whether the disclosures of the reserves of BTLI are in compliance with the relevant accounting standards and guidelines.

4. The assessment of loans impairment

Please refer to Note 3(16) "Impairment of assets" for related accounting policy, Note 4(4) "Assessments of loans impairment" for the uncertainty for accounting estimation and assumptions, Note 11 "Loans and discounts, net" for details of the assessment of loans impairment.

Description of key audit matters

When conducting credit business, Bank of Taiwan(BOT) shall assess whether there is any indication that loans may be impaired because BOT will assume credit risk if the loans are not repaid. BOT first assesses the impairment loss of loans in accordance with IAS 39, and such amount of allowance for doubtful accounts shall not be lower than the amount calculated in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non performing/Non accrual Loans". When BOT, individually or collectively, assesses its impairment loss of loans according to IAS 39, the uses of assumptions, such as effective interest rates, recovery rates and future cash flows, involved the exercise of judgment which usually has significant impacts on the results. In addition, BOT recognized its loans and allowance for doubtful accounts of $2,307,049,291 thousand and $32,812,787 thousand, respectively, as of December 31, 2016. The accounts are material to BOT. Therefore, the assessment of loans impairment has been identified as a key audit matter in our audit.

How the matter was addressed in our audit

Our principal audit procedures included (i) testing the internal control procedures over credit operations, and inspect the meeting minutes of both Board of Directors and the Assets and Liabilities Management Committee regarding credit business; (ii) executing substantive analytical procedure and analyzing the structure and movement of loans; (iii) inspecting whether the process of determining parameters were conducted in accordance with the related internal guidelines, as well as evaluating the reasonableness of adjusting the parameters (iv) executing the retrospective testing of last year's allowance for doubtful accounts which had already been recognized; (v) checking the accuracy of allowance for doubtful accounts calculated in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non performing/Non accrual Loans"; (vi) assessing whether the disclosures appropriately reflected BOT's exposure to credit risk.

5. Insurance Regulatory Compliance

Please refer to Note 47(5) "BTLI's capital management" for the details of the capital management.

Description of key audit matters

As of December 31, 2016, BTLI's capital adequacy ratio was 189.33%, which was lower than 200% regulated in Article 143-4 paragraph 1 of the Insurance Act. Hence, BTLI was categorized as an insurance company without adequate capital according to the Regulations Governing Capital Adequacy of Insurance Companies (hereinafter referred to as the "Regulations"). In accordance with Article 7 paragraph 2 of the Regulations and Article 143-6 of the Insurance Act, the competent authority shall adopt necessary measures, for instance, ordering such company to put forward a plan for capital increase or another corrective action plan for finance or business within the specified period. Among all the measures the competent authority can take, the restriction on the sale of existing products or the launch of new products and the scope of fund utilization may pose a significant impact on BTLI. Therefore, the assessment of insurance regulatory compliance has been identified as a key audit matter in our audit.

In order to raise the capital adequacy ratio, BTLI proactively improves its efficiency on its fund utilization. BTLI also sets up countermeasures to prevent itself from being limited on investment and operations to ensure it can adhere with its 2016 asset-liability matching plan. In addition, on November 19, 2016, the parent company Taiwan Financial Holding Co., Ltd., passed a resolution to include a 10 billion capital injection to BTLI into its 2018 budget. The capital injection was also approved by the BTLI's board of directors on February 22, 2017.

How the matter was addressed in our audit

Our principal audit procedures included (i) obtaining BTLI's documents regarding capital adequacy ratio to evaluate the accuracy of calculation; (ii) obtaining the minutes of board of directors meeting, and asset and liability management committee meeting, as well as reviewing the related reports to understand countermeasures, including capital injection; (iii) checking whether the capital injection is included in BTLI's and the Company's 2018 annual budget and approved by the board of directors (the duties and rights of the shareholders' meeting are exercised by the board of directors); (iv) assessing whether the disclosures are sufficient and appropriate.

6. Investments associates accounted for using equity method – the recognition of liquidation surplus of Kaohsiung Ammonium Sulfate Co., Ltd.

Please refer to Note 3 (9) "Investments in associates" and Note 3 (10) "Investment property" for related accounting policy, Note 4 (5) "Fair value of investment property" for the uncertainty of accounting estimation and assumptions, Note 14 "Investments accounted for using equity method – net" for details of investments associates accounted for using equity method — recognition of liquidation profit and loss of Kaohsiung Ammonium Sulfate Co., Ltd., and Note 16 "Investment property" for details of the valuation of investment property.

Description of key audit matters

Kaohsiung Ammonium Sulfate Co., Ltd., one of the associates of BOT under the equity method, resolved to dissolve and liquidate and then distributed its surplus based on its 2016 shareholder' equity ratio. BOT received the allocation of surplus including cash and several pieces of land amounting to $232,412 thousand and $15,238,207 thousand, respectively. The value of the said land was obtained from independent appraisers, wherein its appraisal involved the exercise of judgment and the use of different valuation techniques and assumptions that may generate significant different results. Therefore, the valuation of investment property and the recognition of liquidation surplus have been identified as a key audit matter in our audit.

How the matter was addressed in our audit

Our principal audit procedures included (i) reviewing the minutes of shareholders meeting of Kaohsiung Ammonium Sulfate Co., Ltd. about the liquidation and distribution of its residual property; (ii) acquiring the appraisal reports performed by two independent agencies appointed by Kaohsiung Ammonium Sulfate Co., Ltd. and inspecting whether the valuation approaches and parameters have significant difference between the appraisal reports; (iii) evaluating the independence and competence of the evaluator; (iv) assessing whether the related disclosures are sufficient and appropriate.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the "Budget Law", "Account Settlement Law", "Uniform Regulations on Accounting Systems for Banks Governed by the Ministry of Finance", the "Regulations Governing the Praparation of Financial Reports of Financial Holding Companies" and with the IFRSs, IASs, IFRICs, and SICs as well as related guidelines endorsed by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company and its subsidiaries ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (including members of the Audit Committee or Supervisors) are responsible for overseeing the Company and its subsidiaries' financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditor's report are Yen-Ling Fang and Feng-Hui Lee.

KPMG

Taipei, Taiwan (Republic of China)
March 30, 2017

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2016 and 2015

(expressed in thousands of New Taiwan dollars)

	December 31, 2016		December 31, 2015	
Assets	Amount	%	Amount	%
Cash and Cash Equivalents (note 5 and 46)	$ 136,216,466	3	148,235,818	3
Placement with Central Bank and Call Loans to Banks (note 6,11 and 46)	687,235,976	13	585,963,772	12
Financial Assets Measured at Fair Value through Profit or Loss, Net (note 7 and 46)	213,733,010	4	176,385,509	3
Available-for-Sale Financial Assets, Net (note 12,20 and 46)	1,072,928,664	22	1,099,519,771	22
Hedging Derivative Financial Assets (note 8 and 46)	21,221	-	15,970	-
Bills and Bonds Purchased under Resell Agreements (note 9)	3,939,177	-	10,792,264	-
Receivables, Net (note 10 and 11)	70,123,711	1	80,673,391	2
Current Income Tax Assets	3,483,836	-	3,215,081	-
Loans and Discounts, Net (note 11 and 46)	2,267,854,659	45	2,381,326,379	47
Reinsurance Assets	18,624	-	11,799	-
Held-to-Maturity Financial Assets, Net (note 13,20 and 46)	356,316,543	7	300,963,479	6
Investments under Equity Method, Net (note 14)	41,160,422	1	41,733,625	1
Other Financial Assets, Net (note 10,11,15,20 and 46)	118,368,288	2	121,178,784	2
Investments property, Net (note 16)	22,231,247	-	7,037,870	-
Property and Equipment, Net (note 17,20)	98,743,775	2	98,823,229	2
Intangible Assets (note 18)	823,948	-	869,211	-
Deferred Tax Assets (note 34)	1,360,026	-	2,694,045	-
Other Assets (note 19)	12,487,328	-	11,558,064	-
Total assets	$ 5,107,046,921	100	5,070,998,061	100

	December 31, 2016		December 31, 2015	
Liabilities and Stockholders' Equity	Amount	%	Amount	%
Deposits of Central Bank and Other Banks (note 21)	$ 227,596,814	5	225,425,517	5
Financial Liabilities Measured at Fair Value through Profit or Loss (note 22 and 46)	7,670,290	-	39,952,611	1
Hedging Derivative Financial Liabilities (note 8)	144,195	-	243,967	-
Bills and Bonds Sold under Repurchase Agreements (note 9)	12,836,136	-	17,992,102	-
Commercial Paper Payables, Net (note 23)	1,159,709	-	1,459,660	-
Payables (note 24)	58,492,724	1	63,535,537	1
Current Income Tax Liabilities	708,065	-	463,466	-
Deposits and Remittances (note 25)	3,865,981,443	77	3,825,858,990	76
Financial Bonds Payable (note 26)	24,998,082	-	24,997,826	-
Other borrowings (note 27)	300,000	-	-	-
Provision (note 29,30,31 and 32)	608,368,865	12	588,738,072	12
Other Financial Liabilities (note 28)	762,102	-	1,798,439	-
Deferred Tax Liabilities (note 34)	18,303,100	-	18,756,564	-
Other Liabilities (note 33)	7,262,617	-	8,091,466	-
Total liabilities	4,834,584,142	95	4,817,314,217	95
Equity attributable to shareholders of the parent (note 35):				
Capital Stock	90,000,000	2	90,000,000	2
Capital Surplus	111,385,217	2	111,385,217	2
Retained earnings:				
Legal Reserve	5,392,503	-	4,857,208	-
Special Reserve	32,983,414	1	29,771,643	1
Unappropriated Retained Earnings (note 34)	15,625,106	-	5,376,500	-
Total retained earnings	54,001,023	1	40,005,351	1
Other Equity	17,076,539	-	12,293,276	-
Total equity	272,462,779	5	253,683,844	5
Total liabilities and equity	$ 5,107,046,921	100	5,070,998,061	100

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

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

	2016		2015		Percentage
	Amount	%	Amount	%	Change
Revenue and income :					
Interest income (note 36)	$ 68,328,335	110	73,983,770	998	(8)
Less: Interest expense (note 36)	(33,490,982)	(54)	(36,543,681)	(493)	(8)
Net interest income (note 36)	34,837,353	56	37,440,089	505	(7)
Non-interest income, net					
Service fees, net (note 37)	3,011,277	5	3,490,806	47	(14)
Gain on real estate investment, net (note 16)	92,181	-	140,710	2	(34)
Share of profit (loss) of associates and joint ventures accounted for using equity method (note 14)	16,955,013	27	4,838,523	65	250
Premiums gain (loss) (note 45)	(13,811,493)	(22)	(52,075,858)	(703)	73
Gain on financial assets or liabilities measured at fair value through profit or loss (note 7 and 38)	17,122,608	27	(19,889)	-	86,191
Realized gain on available-for-sale financial assets (note 39)	3,707,986	6	2,365,081	32	57
Realized gain (loss) on held-to-maturity financial assets	242,198	-	37,168	1	552
Foreign exchange gain (loss)	(4,212,373)	(7)	4,290,371	58	(198)
Impairment loss of assets (note 20)	27,659	-	17,323	-	60
Sales income (note 19 and 40)	542,536	1	499,423	7	9
Subsidized income from government (note 40)	13,754,258	22	16,970,331	229	(19)
Other miscellaneous income (note 40)	936,017	2	503,307	7	86
Excess interest expenses (note 10 and 40)	(10,861,359)	(17)	(11,085,764)	(150)	2
Net Revenue	62,343,861	100	7,411,621	100	741
Bad debt expense and reserve for guarantees (note 11)	(5,172,049)	(8)	(4,526,947)	(61)	14
Provisions for policyholder's reserve premium	19,878,537	32	(26,556,546)	(358)	175
Expenses:					
Employee benefits expenses (note 41)	(12,889,507)	(21)	(12,758,618)	(172)	1
Depreciation and amortization expenses (note 42)	(1,158,996)	(2)	(1,168,242)	(16)	(1)
Other general and administrative expenses (note 43)	(7,310,321)	(12)	(7,578,551)	(102)	(4)
Total Expenses	(21,358,824)	(35)	(21,505,411)	(290)	(1)
Net income before income tax	15,934,451	25	7,935,809	107	101
Income Tax Expenses (note 34)	(1,122,840)	(2)	(1,598,950)	(22)	30
Net income	14,811,611	23	6,336,859	85	134
Other comprehensive income (losses):					
Items not to be reclassified into profit or loss					
Remeasurements of the defined benefit plans	(704,403)	(1)	(725,875)	(10)	3
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 14)	(122,321)	-	(46,067)	(1)	(166)
Income tax - items not to be reclassified into profit or loss	(5,288)	-	3,351	-	(258)
Subtotal of items not to be reclassified into profit or loss	(832,012)	(1)	(768,591)	(11)	(8)
Items that may be subsequently reclassified into profit or loss					
Exchange differences on translation of foreign operations	(470,319)	(1)	634,243	9	(174)
Unrealized losses on available-for-sale financial assets	5,685,402	9	(10,339,697)	(140)	155
Share of other comprehensive income of associates and joint ventures accounted for using equity method(note 14)	(367,213)	(1)	1,315,286	18	(128)
Income tax - items that may be reclassified into profit or loss (note 34)	(48,534)	-	171,675	2	(128)
Subtotal of items that may be subsequently reclassified into profit or loss	4,799,336	7	(8,218,493)	(111)	158
Other comprehensive income (losses) for the period, net of income tax	3,967,324	6	(8,987,084)	(122)	144
Total comprehensive income (loss), net of tax for the year	$ 18,778,935	29	(2,650,225)	(37)	809
Basic earnings per share (In dollars) (note 44)	$	1.65		0.70	

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TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2016 and 2015

(expressed in thousands of New Taiwan dollars)

	Total equity attributable to owners of parent										
			Retained earnings				Other equity interests				
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total	Exchange differences on translation of foreign operations	Unrealized gains (losses) on available-for-sale financial instruments	Change in fair value of financial liability attributable to change in credit risk of liability	Total	Total
Balance at January 1, 2015	$ 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	-	-	-	(23,549)	23,549	-	-	-	-	-	-
Net income for the period	-	-	-	-	6,336,859	6,336,859	-	-	-	-	6,336,859
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	-	-	-	-	5,500,079	5,500,079	952,882	(9,073,955)	(29,231)	(8,150,304)	(2,650,225)
Disposal of investment accounted for using equity method	-	(78,422)	-	-	-	-	-	-	-	-	(78,422)
Balance at December 31, 2015	90,000,000	111,385,217	4,857,208	29,771,643	5,376,500	40,005,351	1,263,211	11,003,434	26,631	12,293,276	253,683,844
Appropriation of retained earnings:											
Legal reserve appropriated	-	-	535,295	-	(535,295)	-	-	-	-	-	-
Special reserve appropriated	-	-	-	3,211,771	(3,211,771)	-	-	-	-	-	-
Net income for the period	-	-	-	-	14,811,611	14,811,611	-	-	-	-	14,811,611
Other comprehensive income (losses) for the period	-	-	-	-	(815,939)	(815,939)	(732,723)	5,532,059	(16,073)	4,783,263	3,967,324
Total comprehensive income (losses) for the period	-	-	-	-	13,995,672	13,995,672	(732,723)	5,532,059	(16,073)	4,783,263	18,778,935
Balance at December 31, 2016	$90,000,000	111,385,217	5,392,503	32,983,414	15,625,106	54,001,023	530,488	16,535,493	10,558	17,076,539	272,462,779

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(expressed in thousands of New Taiwan dollars)

	2016	2015
Cash flows from (used in) operating activities :		
Net income before income tax	$ 15,934,451	7,935,809
Adjustments :		
Adjustments to reconcile profit (loss)		
Depreciation expense	897,950	908,893
Amortization expense	367,611	362,489
Provision for bad debt expense	5,219,259	4,553,092
Interest expense	33,490,982	36,543,681
Interest income	(68,328,335)	(73,983,770)
Dividend income	(7,774,544)	(7,955,656)
Provision for guarantee liabilities	(47,210)	(26,145)
Net change in other provisions	19,334,206	(25,712,565)
Share of profit of associates and joint ventures accounted for using equity method	(16,955,013)	(4,838,523)
Loss on disposal of property and equipment	30,690	272,321
Gain on disposal of investments	(242,198)	(37,168)
Reversal of impairment loss on non-financial assets	(27,659)	(17,323)
Others	(3,430)	(13,942)
Total adjustments to reconcile profit (loss)	(34,037,691)	(69,944,616)
Changes in operating assets and liabilities :		
Decrease in placement with Central Bank and call loans to banks	50,356,525	7,386,604
Increase (decrease) in financial assets measured at fair value through profit or loss	(38,060,085)	29,978,045
Decrease (increase) in available-for-sale financial assets	64,031,249	(238,902,462)
Increase (decrease) in hedging derivative financial assets	(5,251)	9,643
Decrease (increase) in bills and bonds purchased under resell agreements	156,043	(17,184)
Decrease (increase) in receivables	6,691,202	(9,930,992)
Decrease (increase) in loans and discounts	108,325,150	(85,857,401)
Increase in held-to-maturity financial assets	(56,090,348)	(25,752,157)
Decrease in other financial assets	2,744,641	19,222,032
Increase (decrease) in other assets	(813,908)	8,140
Increase in deposits of Central Bank and other banks	2,171,297	68,436,687
Decrease in financial liabilities measured at fair value through profit or loss	(32,282,321)	(10,158,434)
Decrease (increase) in hedging derivative financial liabilities	(99,772)	140,943
Decrease in bills and bonds sold under repurchase agreement	(5,155,966)	(21,595,857)
Decrease in payables	(3,518,523)	(4,175,554)
Increase in deposits and remittances	40,122,453	288,829,901
Increase in employee benefit obligations	343,601	1,137,019
(Decrease) increase in other liabilities	(419,779)	51,265
Total adjustments	104,458,517	(51,134,378)
Cash inflow (outflow) generated from operations	120,392,968	(43,198,569)
Interest received	72,170,370	74,209,718
Dividends received	9,342,609	9,573,476
Interest paid	(35,015,222)	(35,409,849)
Income taxes paid	(266,441)	(1,523,594)
Net cash flows from operating activities	166,624,284	3,651,182

	2016	2015
Cash flows (used in) from investing activities :		
Proceeds from disposal of investments accounted for using equity method	187,907	-
Acquisition of property and equipment	(779,748)	(692,784)
Increase in refundable deposits	(118,961)	(626,101)
Acquisition of intangible assets	(322,138)	(273,417)
Acquisition of investments property	-	(1,561,500)
Decrease in other financial assets	-	2,186,636
Net cash flows used in investing activities	(1,032,940)	(967,166)
Cash flows from (used in) financing activities :		
Decrease in commercial papers payable	(300,000)	(1,018,722)
Increase in other borrowings	300,000	-
Decrease in guarantee deposits received	(409,070)	(335,478)
Decrease in other financial liabilities	(1,036,337)	(580,174)
Net cash flows used in from financing activities	(1,445,407)	(1,934,374)
Effect of exchange rate changes on cash and cash equivalents	(734,174)	1,131,843
Net increase in cash and cash equivalents	163,411,763	1,881,485
Cash and cash equivalents at beginning of period	936,182,465	934,300,980
Cash and cash equivalents at end of period	$ 1,099,594,228	936,182,465
Compose of cash and cash equivalents :		
Cash and cash equivalents reported in the statement of financial position	$ 136,216,466	148,235,818
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	318,969,155	167,350,034
Investments qualifying for cash and cash equivalents under the definition of IAS 7	644,408,607	620,596,613
Cash and cash equivalents at end of period	$ 1,099,594,228	936,182,465

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

(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.

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 21, 2017 as well as Board of Directors on March 30, 2017 and then published.

(3) 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, IFRIC Interpretations, and SIC Interpretations endorsed by the Financial Supervisory Committee, ROC.

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 examined by the Ministry of Audit (the MoA) to ensure that the Company and its subsidiary comply 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 2015 was certified by the MoA, and the opening balances of retained earnings of 2016 are the same as those certified in the closing balances of 2015. Please refer to note 53 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 4 for further information.

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

4. Functional currency and presentation currency

   The functional currency of each entity of the Company and its subsidiaries is based on the primary economic environment in which the entity operates. These consolidated financial statements are presented in New Taiwan dollars, which also the functional currency of the Company and its subsidiaries. All financial information represented in New Taiwan dollars has been rounded to the nearest thousand.

3) Basis of consolidation

1. Principle of preparation of the consolidated financial statements

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

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

2. List of subsidiaries in the consolidated financial statements

Name of Investor	Name of Subsidiary	Principal activities	Shareholdings December 31, 2016	Shareholdings December 31, 2015
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.

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 planed 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.

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.

(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.

(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 though 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.

(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 un-capitalized interest expenses are presented as interest expense in profit/loss in the consolidated statement of comprehensive income.

(d) The derecognition of financial liabilities

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

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

(e) Offsetting the financial assets and financial liabilities

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

(f) Financial guarantee contract

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

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

a) the amount determined in accordance with IAS 37 “Provision, Contingent Liabilities and Contingent Assets”; and

b) the amount initially recognized, less, when appropriate, cumulative amortization recognized in accordance with revenue accounting policy.

3. Derivative financial instruments and hedge accounting

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

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

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

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

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

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

7) Pecuniary and securities financing and refinancing

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

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

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

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

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

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

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

9) Investments in associates

Associate refers to an entity in which the Company and its subsidiaries have hold 20% of the voting power or less than 20% of the voting power but have significant influence. If the Company and its subsidiary have rights on the finance and operating policy decisions but not control or joint control these decisions, it is presumed that the company and its subsidiary have significant influence.

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

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

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

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

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 including costs and expenses are directly attributed to the acquisition of the investment property 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.

11) Property, plant and equipment

1. Recognition and measurement

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

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

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

2. Reclassification to investment property

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

3. Subsequent cost

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

4. Depreciation

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

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

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

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

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

12) Reinsurance assets

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

The insurance subsidiaries have the following rights over reinsurer: 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.

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.

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

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 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.

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 assassin 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 aforementioned 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.

To improve domestic banks' control and affordability of credit risk exposure in order to mortgage on land and loans to institutions in Mainland Area, FSC issued the letters No. 10300329440 and 10410001840 to require the banks that have business activities in Mainland Area to maintain a loan loss coverage ratio of at least 1.5%.

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:

(a) the sum of 0.5% of the first category (other than insurance loans, premium loans and loans to ROC government), 2% of the second category, 10% of the third category, 50% of the forth category and 100% of the fifth category.

(b) 1% of the sum of all credit loans, less, insurance loans, premium loans and loans to ROC government.

(c) the total unsecured portions of 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.

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.

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.

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.

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 polices 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.

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.

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.

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.

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.

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 the employee's monthly wage (depending on the employee's 'salary point' and service period before the Labor Standards Act was applied) and the contributions made by the employee at the rate of 3% of his or her monthly wage under Article 9 and Article 8, respectively, of the aforementioned regulations. (The Bank ceased to continue the contributions mentioned above after the Labor Standards Act was applied.) The Bank also contributed 3% of the total amount of the wages as reserve. ;b) the contributions calculated based on the employee's monthly wage and service period (after May 1, 1997) in accordance with Article 41.1 and the related regulations set forth in the 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.

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.

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 deductable 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.

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.

(4) 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, and the International Financial Reporting Standards, the International Accounting Standards and IFRS interpretation endorsed by the Financial Supervisory Commission R.O.C. ("FSC"), requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The management continued to monitor the accounting assumptions, estimates and judgments. It recognized the changes in the accounting estimates during the period and the impact of the changes in the accounting estimates in the next period.

Determination of the book value of the assets and the liabilities were influenced by the accounting estimations and judgments that have the most significant effects on the amounts recognized in the consolidated financial statements. Actual results may significantly differ from the followings due to the changes in accounting assumptions and judgments.

1) The valuation of financial instruments

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

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

Please refer to note 46 relating to the fair value of financial instruments content description for the above the estimated fair value of financial instruments.

2) The valuation of financial assets impairments

1. 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.

2. Financial assets carried at amortized cost

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

   (a) Significant financial difficulty of the issuer/obligor.

   (b) Default or breach of contract such as a default or delinquency in interest or principal payments.

(c) Granting of a concession by the lender.

(d) Bankruptcy or financial reorganization of the borrower.

(e) Disappearance of an active market for the assets concerned.

(f) Adverse effects of changes in technological, market, economic or legal environment, in which the issuer operates.

(g) Significant or prolonged decline in the fair value of an investment in the equity instrument.

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

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

(a) The actual result in the market 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 its related assets due to the changes in condition in the future.

3) 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 30 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.

4) 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 11.

5) Fair value of investment property

At the initial recognition, the fair value of investment property was calculated via valuation techniques, including comparative approach and land analysis approach. The changes in the assumptions used in these approaches may have a material impact on the fair value of investment property.

For the Fair value of investment property, please see note 16.

In addition to the aforementioned policies which may have a material impact on the amounts recognized by the Company and its subsidiary, there are other accounting policies that also involved significant judgment.

1. 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.

2. 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.

3. 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.

4. 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.

(5) Cash and Cash Equivalents

	December 31, 2016	December 31, 2015
Cash on hand	$ 12,456,306	12,147,326
Foreign currency on hand	11,813,908	9,387,186
Bank deposits	13,807,772	12,813,370
Notes and checks for clearing	10,860,257	5,039,875
Placement with banks	87,268,215	108,848,061
Cash equivalents	10,008	-
Total	$ 136,216,466	148,235,818

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

	December 31, 2016	December 31, 2015
Cash and cash equivalents in consolidated balance sheets	$ 136,216,466	148,235,818
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	318,969,155	167,350,034
Investments qualifying cash and cash equivalents under the definition of IAS 7	644,408,607	620,596,613
Total	$ 1,099,594,228	936,182,465

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

	December 31, 2016	December 31, 2015
Call loans to banks	$ 220,021,403	154,125,778
Less: allowance for doubtful accounts－call loans to banks	(45,819)	(55,427)
Deposit reserve－account A and account B	104,699,725	85,185,155
Deposit reserve－foreign－currency deposits	470,500	576,860
Deposits in Central Bank－oversea branches	6,828,487	3,322,191
Deposits in Central Bank	355,261,680	342,809,215
Total	$ 687,235,976	585,963,772

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, 2016 and 2015, 60% of the reserve deposits collected by the subsidiary, BOT, on behalf of a government institution amounting to $4,362,710 thousand dollars and $4,728,694 thousand dollars, respectively, were deposited in the Central Bank and their use is restricted according to the regulations.

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

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

	December 31, 2016	December 31, 2015
Financial assets held for trading	$ 171,892,398	143,589,902
Add: Valuation adjustment	23,770,314	19,364,632
Subtotal	195,662,712	162,954,534
Financial assets designated at fair value through profit or loss	18,004,143	13,334,634
Add: Valuation adjustment	66,155	96,341
Subtotal	18,070,298	13,430,975
Total	$ 213,733,010	176,385,509

2) For details of the valuation of the financial assets measured at fair value through profit or loss, please see note 46, "The Fair Value and Fair Value Hierarchy of the Financial Instruments".

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

	December 31, 2016	December 31, 2015
Commercial papers	$ 16,139,250	9,993,145
Government bonds	183,242	493,311
Stocks and beneficiary certificates	132,071,798	121,816,782
Treasury bills	1,994,714	3,405,242
Exchange Traded Funds	312,260	-
Domestic convertible bonds	439,526	1,255,886
Corporate and financial bonds	283,453	14,230
Foreign government bonds	2,218,242	2,077,970
Foreign exchange call options	18,619	20,574
Structured time deposits	-	1,509,129
Value of asset swap IRS contracts	6,833	7,622
Asset swap options	762	211
Negotiable certificates of deposits	18,223,699	2,995,800
Add: Valuation adjustment		
Non derivative financial instruments	13,452,008	5,477,302
Cross currency swaps	27,086	689,329
Swaps	9,428,518	13,017,046
Interest rate swaps	179,791	38,632
Forward foreign exchange	555,059	126,247
Fixed rate commercial papers	4,488	11,338
Asset swaps (note)	127,837	6,991
Structured time deposits	-	232
Foreign exchange call options	(3,712)	610
Value of asset swap IRS contracts	(2,573)	(2,900)
Asset swap	(71)	(195)
Exchange Traded Funds	1,883	-
Total	$ 195,662,712	162,954,534

Note: The fix rate of financial bonds issued by BOT converted interest rate swaps of floating interest rate.

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

	December 31, 2016	December 31, 2015
Foreign government bonds, corporate bonds, financial bonds and others	$ 18,004,143	13,334,634
Add: Valuation adjustment	66,155	96,341
Total	$ 18,070,298	13,430,975

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

	December 31, 2016	December 31, 2015
Foreign exchange call options	$ 2,321,240	3,566,272
Swaps	634,508,377	607,465,777
Interest rate swaps	16,673,850	17,294,607
Forward foreign exchange	20,733,429	12,630,323
Fixed rate commercial paper	415,650	1,500,000
Structured time deposit	-	1,509,129
Asset swaps (note)	2,190,960	3,419,520
Cross currency swaps	1,323,220	6,849,000
Value of asset swap IRS contract	209,100	225,500
Asset swap options	3,000	3,000
Total	$ 678,378,826	654,463,128

Note: The fix rate of financial bonds issued by BOT converted interest rate swaps of floating interest rate.

(8) Hedging Derivative Financial Instruments

The content of hedging asset is as follows:

	December 31, 2016	December 31, 2015
Fair value hedges :		
Interest rate swap	$ 21,221	15,970

The content of hedging liability is as follows:

	December 31, 2016	December 31, 2015
Fair value hedges :		
Interest rate swap	$ 144,195	243,967

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.

	Hedging Investments Fair Value		
Hedged Item	Designated Hedging Instruments	December 31, 2016	December 31, 2015
USD financial bonds	interest rate swap	$ (18,069)	(59,348)
USD corporate debts	〃	2,098	(7,780)
USD government debts	〃	(107,003)	(160,859)

The net losses of above hedging instruments in 2016 and 2015 are $37,095 thousand dollars and $359,402 thousand dollars, respectively. The net gains (losses) of hedged items embedded in hedging instrument in 2016 and 2015 are $(111,645) thousand dollars and $152,609 thousand dollars, respectively.

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

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

	December 31, 2016	December 31, 2015
Bills and bonds purchased under resell agreements:		
Negotiable certificates of deposit	$ 1,704,703	3,051,608
Commercial paper	1,843,893	7,143,992
Government bonds	40,500	194,311
Corporate bonds	350,081	402,353
Total	$ 3,939,177	10,792,264

	December 31, 2016	December 31, 2015
Bills and bonds sold under repurchase agreements:		
Commercial papers	$ 549,382	139,917
Government bonds	10,411,842	16,391,273
Corporate bonds	1,255,908	1,360,893
Financial bonds	150,137	100,019
Treasury bill	468,867	-
Total	$ 12,836,136	17,992,102

(10) Receivables, Net

	December 31, 2016	December 31, 2015
Accounts receivable	$ 1,419,656	945,086
Long-term receivables－payment on behalf of the government	17,054,885	21,521,114
Accrued incomes	544,006	832,746
Interests receivable	14,865,931	18,707,967
Premiums receivable	114,148	122,412
Notes receivable and acceptance notes receivable	2,537,380	2,170,441
Accounts receivable factoring without recourse	9,414,652	9,973,985
Margin loans receivable	2,993,359	2,735,682
Accounts receivable for settlement	1,273,748	1,985,279
Accounts receivable－others	84	224
Others－settlement prices	317,451	-
Others－replenishment of national treasury	16,910,332	17,738,453
Others－undelivered spot exchange	4,813	698
Other－ATM temporary receipts, payments and interbank difference	1,589,410	1,698,101
Others－FX Swaps	49,673	39,637
Others	1,162,493	3,520,764
Subtotal	70,252,021	81,992,589
Less: allowance for doubtful accounts	128,310	1,319,198
Total	$ 70,123,711	80,673,391

In accordance with Executive Yuan Tai-79-JEN-Cheng-SZU-tsu No. 14525, and regulations of Retired Civil Servants Lump-sum Retirement Payment and Old-age Benefits and Preferential Interest Deposits which excess preferential interest expenses recognized as Excess interest expenses of Non-interest income, net were $8,284,655 thousand dollars and $8,245,628 thousand dollars in 2016 and 2015, respectively, due to executing the government premium savings policy.

As of the year ended December 31, 2016 and 2015, the subsidiary, BOT, had paid the following premium savings interest expenses on behalf the government:

	December 31, 2016	December 31, 2015
Long-term receivables	$ 17,054,885	21,521,114
Short-term advances (booked under other financial assets, net)	48,703,199	51,284,809
Total	$ 65,758,084	72,805,923

(11) Loans and Discounts, Net

	December 31, 2016	December 31, 2015
Discounts and export / import bills negotiations	$ 3,872,121	4,562,863
Short-term loans and overdrafts	356,315,237	424,130,489
Short-term secured loans and secured overdrafts	91,034,002	90,450,672
Life insurance loans	5,676,245	5,856,111
Accounts receivable financing	235,309	416,348
Accounts receivable secured financing	5,201	5,733
Medium-term loans	550,638,619	615,794,231
Medium-term secured loans	247,694,164	260,183,469
Long-term loans	176,933,311	174,758,213
Long-term secured loans	863,563,543	828,713,453
Overdue loans	4,772,500	4,431,686
Subtotal	2,300,740,252	2,409,303,268
Less: allowance for doubtful accounts	32,885,593	27,976,889
	$ 2,267,854,659	2,381,326,379

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

	2016	2015
Loans:		
Beginning balance	$ 27,976,889	26,138,879
Allowance for doubtful accounts	5,146,570	4,504,773
Write-off	(2,634,547)	(4,153,575)
Recovery from written-off	2,403,571	1,430,148
Effects of exchange rate changes and others	(6,890)	56,664
Ending balance	$ 32,885,593	27,976,889

		2016	2015
Receivables (including call loans to banks and other financial assets):			
Beginning balance	$	1,446,103	377,639
Allowacne for doubtful accounts (reversal)		72,689	48,319
Write-off (note)		(1,185,890)	(20,223)
Recovery from written-off		13,335	15,295
Effects of exchange rate changes and others*		(34,775)	1,025,073
Ending balance	$	311,462	1,446,103
Total	$	33,197,055	29,422,992

Note:The bond-badced security 2007-1 No.B-1 issued by E. SUN Bank and held by BOT amounting to $995,505 thousand dollars which was overdue and confirmed defaulted in 2016. The write-off was approved by the board of directors of Bank of Taiwan on February 26, 2016.

Details of allowance for doubtful accounts were as follows:

		December 31, 2016	December 31, 2015
Call loans to bank	$	45,819	55,427
Receivables		128,310	1,319,198
Loans and discounts		32,885,593	27,976,889
Other financial assets		137,333	71,478
Total	$	33,197,055	29,422,992

Details of bad debt expense and provisions for guarantee liabilities were as follows:

		2016	2015
Bad debts	$	5,219,259	4,553,092
Provisions for guarantee liabilities		(47,210)	(26,145)
Total	$	5,172,049	4,526,947

As of December 31, 2016 and 2015, the amounts of loans and receivables on which the interests stopped to accrue were $4,872,177 thousand dollars and $4,456,007 thousand dollars, respectively, which were booked under loans and discounts-non-performing loans and other financial assets-overdue receivables. As of December 31, 2016 and 2015, the estimation of non-accrued interests were $337,301 thousand dollars and $343,454 thousand dollars, respectively.

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

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

		December 31, 2016	December 31, 2015
Negotiable certificates of deposit	$	847,664,916	888,310,000
Government bonds		37,742,856	35,702,178
Financial bonds		12,628,685	4,015,920
Corporate bonds		28,142,301	32,942,820
Financial asset securitization investments		6,113,337	6,067,571

	December 31, 2016	December 31, 2015
TSEC and OTC stocks and certificates	46,970,073	53,980,235
Real estate securitization	932,056	865,101
Exchange traded funds	521,060	3,112,468
Foreign bonds	64,655,480	51,621,999
Foreign exchange traded funds	9,373,726	10,387,587
Foreign stocks	1,368,453	1,397,442
Add: Adjustment valuation	16,815,721	11,116,450
Total	$ 1,072,928,664	1,099,519,771

1) Please see note 46 "The Fair Value and Fair Value Hierarchy of the Financial Instruments", for valuation of available-for-sale financial assets.
2) Please see note 39 for realized gain (loss) on available-for-sale financial assets.

(13) Held-to maturity Financial Assets, Net

	December 31, 2016	December 31, 2015
Domestic:		
Financial bonds	$ 40,490,937	42,581,906
Corporate bonds	25,283,618	34,049,988
Negotiable certificates of deposits	2,605,284	2,503,296
Commercial papers	9,494,908	18,132,757
Government bonds	102,230,164	75,304,748
	180,104,911	172,572,695
Foreign:		
Bonds	173,442,133	126,790,614
Negotiable certificates of deposits	1,543,860	1,600,170
Treasury bills	1,225,639	-
	176,211,632	128,390,784
Total	$ 356,316,543	300,963,479

BTLI recognizes impairment loss for the held to maturity financial assets having an objective evidence of impairment. As of December 31, 2016 and 2015, no impairment loss was recognized.

BTLI disposed its held-to-maturity financial assets due to the changes of military insurance regulations and the future cash demand of Ministry of National Defense. The amounts of disposals and the gains (losses) on disposals of the held-to-maturity financial assets during 2016 and 2015, respectively, were as follows:

	2016	2015
Carrying amount	3,611,479	18,068,542
Gains (losses) on disposal	242,198	37,168

The amount of disposals of held-to-maturity financial assets was 1.93% of its ending balance as of December 31, 2015.

(14) Investments under Equity Method, Net

	December 31, 2016		December 31, 2015	
	Percentage of Ownership (%)	Amount	Percentage of Ownership (%)	Amount
Hua Nan Financial Holdings Co., Ltd.	25.07	$ 39,856,719	25.07	38,374,097
Kaohsiung Ammonium Sulfate Co., Ltd.	-	-	91.86	2,158,300
Tang Eng Iron Works Co., Ltd.	21.37	1,284,061	21.37	1,181,719
Tai Yi Real Estate Management Co., Ltd.	30.00	19,642	30.00	19,509
Total		$ 41,160,422		41,733,625

1) The Company and its subsidiary use equity method for investments in associates and the other comprehensive income:

	2016	2015
Hua Nan Financial Holdings Co., Ltd.	$ (484,311)	208,586
Taiwan Life Insurance Co., Ltd.	-	1,057,758
Tang Eng Iron Works Co., Ltd.	(5,223)	2,875
Total	$ (489,534)	1,269,219

2) The Company and its subsidiary use equity method for investments in associates, and Investment gains and losses recognized in the following table:

	2016	2015
Hua Nan Financial Holdings Co., Ltd.	$ 3,531,785	3,530,225
Taiwan Life Insurance Co., Ltd.	-	1,539,178
Kaohsiung Ammonium Sulfate Co., Ltd.	13,312,318	(35,452)
Tang Eng Iron Works Co., Ltd.	107,566	(198,839)
Tai Yi Real Estate Management Co., Ltd.	3,344	3,411
Total	$ 16,955,013	4,838,523

3) Individually significant associate(s)

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

			The proportion of ownership interest and voting rights	
Aassociates Company	The relations between the Combined company	Business place/ registration country	December 31, 2016	December 31, 2015
Hua Nan Financial Holdings Co., Ltd.	Followed the FHC to investment, such as banking, finance bills industry	Taiwan	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, 2016	December 31, 2015
Hua Nan Financial Holdings Co., Ltd.	$ 42,865,775	37,879,361

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

	December 31, 2016	December 31, 2015
Total Assets	$ 2,545,941,962	2,350,288,574
Total Liabilities	(2,386,958,692)	(2,197,219,247)
Net Assets	$ 158,983,270	153,069,327
The Company holding shares	$ 39,856,719	38,374,097

	2016	2015
Net income	$ 14,086,800	14,080,661
Other comprehensive income	(1,931,831)	831,014
Total comprehensive income	$ 12,154,969	14,911,675
The Company holding shares		
Investment income	$ 3,531,785	3,530,225
Other comprehensive income	(484,311)	208,586

2. 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.
3. 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.
4. Hua Nan Financial Holdings Co., Ltd.'s financial statements is audited by other auditors. The related investment gains is $3,531,785 thousand dollars and $3,530,225 thousand dollars in 2016 and 2015, respectively.

4) Maturity associate enterprise

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

	December 31, 2016	December 31, 2015
Total investment in book value	$ 1,303,703	3,359,528

	2016	2015
Investment income	$ 13,423,228	1,308,298
Other comprehensive income	(5,223)	1,060,633
Total comprehensive income	$ 13,418,005	2,368,931

2. Some invested company were accounted for using the equity method and have not audited by auditors. The related investment loss is $35,452 thousand dollars in 2015 .
3. Kaohsiung Ammonium Sulfate Co., Ltd. is one of the associates of BOT under the equity method, resolved to liquidate and dissolve on January 15, 2016. The shareholders' meetings of Kaohsiung Ammonium Sulfate Co., Ltd. held on February 4 2016 then resolved to distribute the surplus

based on shareholding equity ratio. BOT received an allocation of the surplus, including $232,412 thousand in cash and $15,238,207 thousand worth of land (recognized as investment property) whose value was evaluated by independent appraisers. BOT also recognized a gain amounting to $13,312,318 thousand dollars.

4. 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 border 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 back 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 was18.2 per share on the baseline date.

5) Collateral

   No investment in associates was used as collateral of December 31, 2016.

(15) Other Financial Assets, Net

	December 31, 2016	December 31, 2015
Short-term advances	$ 52,253,321	54,833,878
Less: allowance for doubtful accounts－Short-term advances	(32,088)	(34,816)
Debt investments without quoted price in active markets	42,955,960	53,997,677
Financial assets carried at cost	8,599,826	8,599,826
Less: cumulative impairment－financial assets carried at cost	(15,049)	(15,049)
Remittances purchased	5,765	7,739
Less: allowance for doubtful accounts－remittances purchased	(58)	(77)
Overdue receivables	123,106	47,879
Less: allowance for doubtful accounts－overdue receivables	(105,187)	(36,585)
Separate account insurance product assets	13,247	13,009
Time deposits over three months	14,550,000	3,746,150
Others	19,445	19,153
Total	$ 118,368,288	121,178,784

1) Please see note 46, "The 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, 2016 and 2015.

2) Concerning for the payment of excess interest for the government, booked under "short term payment" for December 31, 2016 and 2015, please refer to note 10 for further information.

3) BOT hold 250 million shares of Taiwan High Speed Rail Corporation for the repurchase of convertible preferred stocks. The above mentioned had a par value of $10, NT$2.5 billion totally, and recognized as financial assets carried at cost. The Company announced that recovered preferred stocks by par value on July 6, 2015. And the Bank received the shares on August 7, 2015.

(16) Investment property

1) The movement of investment property were as follows:

	Land and improvements	Buildings	Total
Cost or deemed cost:			
Balance at January 1, 2016	$ 4,767,779	2,538,131	7,305,910
Additions	15,238,207	-	15,238,207
Reclassification from property and equipment	12,902	4,803	17,705
Balance at December 31, 2016	$ 20,018,888	2,542,934	22,561,822
Balance at January 1, 2015	$ 3,556,036	2,133,431	5,689,467
Additions	1,180,567	380,933	1,561,500
Reclassification from property and equipment	31,176	23,767	54,943
Balance at December 31, 2015	$ 4,767,779	2,538,131	7,305,910
Depreciation:			
Balance at January 1, 2016	$ -	268,040	268,040
Depreciation	-	61,335	61,335
Reclassificassion from property and equipment	-	1,200	1,200
Balance at December 31, 2016	$ -	330,575	330,575
Balance at January 1, 2015	$ -	202,002	202,002
Depreciation	-	60,220	60,220
Reclassification from property and equipment	-	5,818	5,818
Balance at December 31, 2015	$ -	268,040	268,040
Carrying amounts:			
December 31, 2016	$ 20,018,888	2,212,359	22,231,247
January 1, 2015	$ 3,556,036	1,931,429	5,487,465
December 31, 2015	$ 4,767,779	2,270,091	7,037,870

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

	December 31, 2016	December 31, 2015
Fair value of investment properties	$ 25,160,432	9,812,066

The fair value of investment properties (as measured or disclosed in the financial statements) was based on a valuation by a qualified independent appraiser who has recent valuation experience in the location and category of the investment property being valued. The inputs of levels of fair value hierarchy in determining the fair value is classified to Level 3.

(17) 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 2016 and 2015 were as follows:

	Land and Land improvements	Buildings	Machinery and equipment	Transportatio n equipment	Miscellaneous equipment	Leasehold improvements	Construction in progress and prepayment for equipment	Total
Cost:								
Balance at January 1, 2016	$ 87,569,510	15,540,548	6,611,591	1,071,823	1,027,900	785,271	474,409	113,081,052
Additions	-	14,418	408,248	29,152	30,199	12,479	285,252	779,748
Disposals	-	(11,800)	(374,451)	(46,570)	(35,951)	(52)	-	(468,824)
Reclassification	(12,902)	38,678	22,628	35,668	990	32,789	(135,679)	(17,828)
Effect of change in exchange rates	-	-	(927)	(435)	(447)	(2,117)	-	(3,926)
Balance at December 31, 2016	$ 87,556,608	15,581,844	6,667,089	1,089,638	1,022,691	828,370	623,982	113,370,222
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	$ 87,569,511	15,540,547	6,611,594	1,071,822	1,027,899	785,270	474,409	113,081,052
Accumulated depreciation:								
Balance at January 1, 2016	$ 14,423	6,717,415	5,046,986	888,438	833,929	683,036	-	14,184,227
Depreciation	362	298,691	422,410	43,579	35,431	36,142	-	836,615
Disposal	-	(12,994)	(347,175)	(45,129)	(32,784)	(52)	-	(438,134)
Reclassification	-	-	95	-	(38)	(93)	-	(36)
Effect of change in exchange rates	-	-	(396)	(218)	(326)	(1,222)	-	(2,162)
Balance at December 31, 2016	$ 14,785	7,003,112	5,121,920	886,670	836,212	717,811	-	14,580,510
Balance at December 31, 2016	$ 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	$ 14,424	6,717,414	5,046,988	888,478	833,928	682,995	-	14,184,227
Accumulated impairment:								
Balance at January 1, 2016	$ 73,596	-	-	-	-	-	-	73,596
Impairment loss	(27,659)	-	-	-	-	-	-	(27,659)
Balance at December 31, 2016	$ 45,937	-	-	-	-	-	-	45,937
Balance at December 31, 2016	$ 90,919	-	-	-	-	-	-	90,919
Impairment loss	(17,323)	-	-	-	-	-	-	(17,323)
Balance at December 31, 2015	$ 73,596	-	-	-	-	-	-	73,596
Carrying amounts:								
December 31, 2016	$ 87,495,886	8,578,732	1,545,169	202,968	186,479	110,559	623,982	98,743,775
January 1, 2015	$ 87,670,774	9,199,418	1,636,105	184,877	203,631	77,343	310,953	99,283,101
December 31, 2015	$ 87,481,491	8,823,133	1,564,606	183,344	193,971	102,275	474,409	98,823,229

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, 2016 and 2015, the total revaluation increments for land were $82,119,093 thousand dollars. The total revaluation increments for Buildings were $154,628 thousand dollars and $155,372 thousand dollars.

As of December 31, 2016, the Company and its subsidiaries' property and equipment neither served as a guarantee or collateral, nor were they pledged, please refer to note 48.

(18) Intangible Assets

Changes in the costs, amortization, and impairment loss of intangible assets of the Company and its subsidiaries for the year ended 2016 and 2015 were as follows:

		Computer software
Costs:		
Balance at January 1, 2016	$	2,969,406
Additions		322,138
Balance at December 31, 2016	$	3,291,544
Balance at January 1, 2015	$	2,696,930
Additions		273,417
Reclassification		(70)
Balance at December 31, 2015	$	2,970,277
Amortization and Impairment loss:		
Balance at January 1, 2016	$	2,100,195
Amortization for the year		367,401
Balance at December 31, 2016	$	2,467,596
Balance at January 1, 2015	$	1,738,801
Amortization for the year		362,335
Reclassification		(70)
Balance at December 31, 2015	$	2,101,066
Carrying value:		
Balance at December 31, 2016	$	823,948
Balance at January 1, 2015	$	958,129
Balance at December 31, 2015	$	869,211

(19) Other Assets

		December 31, 2016	December 31, 2015
Foreclosed collaterals and residuals taken over, net	$	1,076,959	1,076,959
Advance payments		5,785,130	5,479,379
Operating guarantee deposits and settlement funds		107,617	101,625
Refundable deposits		3,984,217	3,865,256
Temporary payments and suspense accounts		368,224	288,344
Inventories		1,163,603	746,112
Others		1,578	389
Total	$	12,487,328	11,558,064

1) Foreclosed collaterals and residuals taken over, net

	December 31, 2016	December 31, 2015
Foreclosed collaterals and residuals taken over	$ 1,076,959	1,076,959

2) Advance payment

	December 31, 2016	December 31, 2015
Prepaid expenses	$ 314,778	355,012
Prepaid interests	5,434	11,871
Business tax paid	170	-
Business tax carry forward	699	775
Other prepayment－Interbank Fund Transfer Special Accounts	5,350,068	5,001,812
Other prepayment－other	113,981	109,909
Total	$ 5,785,130	5,479,379

3) Inventories

	December 31, 2016	December 31, 2015
Inventories	$ 1,163,603	749,542
Less: allowance for inventory valuation	-	(3,430)
Total	$ 1,163,603	746,112

The effects on the cost of goods sold derived from the inventory write-off or reversal for the year ended 2016 and 2015 were as follows:

	2016	2015
Sale gain	$ 3,430	13,942

(20) Impairment

For the year ended 2016 and 2015, the movements of the accumulated impairment were as follows:

	December 31, 2016	December 31, 2015
Beginning balance	$ 88,645	1,260,085
Reversal of impairment loss for the current period	(27,659)	(17,323)
Write-off (Note)	-	(1,158,875)
Effect of foreign exchange rate changes and others	-	4,758
Ending balance	$ 60,986	88,645

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, 2016	December 31, 2015
Other financial assets	$ 15,049	15,049
Property and equipment	45,937	73,596
Ending balance	$ 60,986	88,645

(21) Deposits of Central Bank and other banks

	December 31, 2016	December 31, 2015
Deposits from Central Bank	$ 11,350,048	10,108,456
Deposits from banks－others	49,661,259	43,422,012
Postal deposits transferred	1,001,178	1,213,859
Bank overdrafts	778,312	787,631
Call loans from bank	164,806,017	169,893,559
Total	$ 227,596,814	225,425,517

(22) 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, 2016	December 31, 2015
Financial liabilities held for trading	$ 50,002	87,736
Add: Valuation adjustment	7,620,288	6,589,471
Subtotal	7,670,290	6,677,207
Financial liabilities designated at fair value through profit or loss	-	33,537,600
Add: Valuation adjustment	-	(262,196)
Subtotal	-	33,275,404
Total	$ 7,670,290	39,952,611

2) For valuation of financial liabilities measured at fair value through profit or loss, please refer to note 46 “The Fair Value and Fair Value Hierarchy of the Financial Instruments”.

3) Financial liabilities held for trading

	December 31, 2016	December 31, 2015
Foreign exchange options premium	$ 25,709	33,763
Asset swaps options	23,849	38,359
Value of asset swap IRS contract	224	184
Issuing warrants	(869)	15,430
Commodity option	1,089	-
Add: Valuation adjustment		
Foreign exchange options premium	(8,409)	2,419
Swaps	6,693,957	5,615,491
Cross currency swaps	266,770	105,644
Interest rate swaps	173,441	128,911
Forward foreign exchanges	384,692	526,736
Issuing Warrants	1,380	(12,430)
Asset swaps	104,798	227,492
Asset swaps options	3,801	(4,792)
Value of asset swaps IRS contract	10	-
Commodity option	(152)	-
Total	$ 7,670,290	6,677,207

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

	December 31, 2016	December 31, 2015
Financial bonds	$ -	33,537,600
Add: Valuation adjustment	-	(262,196)
Total	$ -	33,275,404

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:

	Conditions				Bond		
Name of bond	Beginning date	Maturity date	Coupon rate	Face value	Type	Amount	
						December 31, 2016	December 31, 2015
2014-2 Senior unsecured financial bonds-A	2014/11/26	2034/11/26	0%	USD $100 million	Senior unsecured financial bond	$ -	3,288,000
2014-2 Senior unsecured financial bonds-B	2014/11/26	2044/11/26	0%	USD $480 million	Senior unsecured financial bond	-	15,782,400
2014-2 Senior unsecured financial bonds-C	2014/12/01	2044/12/01	0%	USD $440 million	Senior unsecured financial bond	-	14,467,200
				Valuation adjustment		-	(262,196)
						$ -	33,275,404

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. BOT exercised the call options to buy back all its financial bonds on November 28 and December 1, 2016.

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

	December 31, 2016	December 31, 2015
Foreign exchange options premium	$ 3,163,326	3,799,753
Swaps	516,889,589	547,759,691
Cross currency swaps	3,234,820	2,597,800
Interest rate swaps	16,454,661	9,933,676
Forward foreign exchanges	28,700,130	25,000,759
Asset swaps	1,288,800	32,207,933
Asset swaps options	13,000	25,000
Warrants	85,776	722
Total	$ 569,830,102	621,325,334

(23) Commercial paper payable, net

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

December 31, 2016

	Guarantee or acceptance institution	Range of interest rates	Amount
Commercial paper payable	International Bills Finance Corporation	0.428%~0.868%	$ 420,000
	Taishin International Bank	0.438%~0.818%	740,000
			1,160,000
Less: discount			(291)
Total			$ 1,159,709

December 31, 2015

	Guarantee or acceptance institution	Range of interest rates	Amount
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

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

(24) Payables

	December 31, 2016	December 31, 2015
Accounts payable	$ 11,887,529	5,954,001
Collection payable	1,056,890	1,316,211
Accrued expense	2,808,208	2,831,416
Other tax payable	459,148	541,311
Accrued interests	11,567,850	13,092,140
Banker's acceptance payable	2,508,820	2,143,698
Payables to representative organizations	14,898,326	17,811,159
Construction payable	15,204	14,244
Commission payable	181,747	202,633
Other payables－collection bills	1,271,059	2,319,808
Other payables－payments awaiting transfer	6,471,553	5,783,459
Other payables –ATM temporary receipts, payments and inter branch difference	1,753,455	1,722,094
Other payables－foreign exchange awaiting transfer	556,826	500,296
Other payables – non-recourse factoring	347,180	316,680
Other payables – amounts awaiting settlement	82,543	5,209,447
Other payables－settlement accounts payable	1,601,373	1,115,273
Other payables－settlement prices	-	883,055

	December 31, 2016	December 31, 2015
Other payables－overdue accounts	164,970	168,143
Other payables－check deposit	122,373	122,753
Other payables－collections	29,931	-
Other payables－others	707,739	1,487,716
Total	$ 58,492,724	63,535,537

(25) Deposits and Remittances

	December 31, 2016	December 31, 2015
Check deposits	$ 36,101,134	32,868,515
Government deposits	258,655,614	247,463,233
Demand deposits	386,074,882	374,288,214
Time deposits	616,357,574	661,571,152
Remittances	676,407	587,182
Savings account deposits:		
Demand savings deposits	835,507,981	807,918,761
Staff accounts	24,761,970	24,230,401
Club saving deposits	918,514	1,009,183
Non-drawing time savings deposits	382,729,099	346,590,130
Interest withdrawal on principal deposited	860,048,514	865,905,386
Preferential Interest deposits	464,149,754	463,426,833
Total	$ 3,865,981,443	3,825,858,990

(26) Financial Bonds Payable

	Condition			Bond		
Name of bond	Beginning date	Maturity date	Interest rate	Type	Amount	
					December 31, 2016	December 31, 2015
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		(1,918)	(2,174)
Total					$ 24,998,082	24,997,826

(27) Borrowings

As of December 31, 2016 and 2015, the credit loan and guarantee loan were 300,000 thousand dollars, and 0 thousand dollar, respectively, and the short term borrowings which were not utilized by the Company's subsidiary, BankTaiwan Securities, were 17,344,400 thousand dollars, and 16,263,040 thousand dollars, respectively.

December 31, 2016

Bank	Nature	Total amount	Interest rate
Hua Nan Bank	Short-term loans	1,000,000	Itemized bargaining
	Overdrafts		0.30%
	Guaranteed loans		0.50%
Yuanta Bank	Short-term loans	1,000,000	Itemized bargaining
	Guaranteed loans		0.25%
Taiwan Cooperative Bank	Short-term loans	5,000,000	Itemized bargaining
	Guaranteed loans		0.40%
Chinatrust Commercial Bank	Short-term loans	1,000,000	Itemized bargaining
	Overdrafts		0.18%
Bank Sinopac.	Short-term loans	1,000,000	Itemized bargaining
	Overdrafts		0.40%
	Guaranteed loans		0.40%

December 31, 2015

Bank	Nature	Total amount	Interest rate
Hua Nan Bank	Short-term loans	1,000,000	1.43~1.45%
	Overdrafts		0.30%
	Guaranteed loans		0.50%
Yuanta Bank	Short-term loans	1,000,000	Itemized bargaining
	Guaranteed loans		0.25%
Taiwan Cooperative Bank	Short-term loans	5,000,000	1.35%
	Guaranteed loans		0.30~0.40%
Chinatrust Commercial Bank	Short-term loans	1,000,000	1.02~1.03%
	Overdrafts		0.18%

(28) Other Financial Liabilities

	December 31, 2016	December 31, 2015
Appropriated loan funds	$ 52,626	64,900
Liability of insurance product-separate account	13,247	13,009
Principal from structured products	696,229	1,720,530
Total	$ 762,102	1,798,439

For hedged derivative financial liabilities, please refer to note 46 "The Fair Value and Fair Value Hierarchy of the Financial Instruments".

(29) Provision

	December 31, 2016	December 31, 2015
Reserve for unearned premiums	$ 393,944	420,430
Claims reserve	91,070	77,337
Liability reserve	317,976,340	319,274,456
Special reserve	227,341	228,097
Reserve for premium deficiency	4,930,707	2,683,251
Foreign exchange volatility reserve	425,059	869,492
Employee benefit obligations	18,411,770	18,068,169
Guarantee reserve	1,071,798	1,119,204
Reserve for government employees insurance	264,840,836	245,997,636
Total	$ 608,368,865	588,738,072

(30) 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, 2016 and 2015 were as follows:

1) Details of reserve for unearned premium:

	December 31, 2016		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	$ 14,567	1,249	15,816
Personal injury insurance	66,555	-	66,555
Personal health insurance	119,842	-	119,842
Group insurance	191,683	-	191,683
Investment-linked insurance	48	-	48
Total	392,695	1,249	393,944
Deduction of reserve for unearned premium outward:			
Personal life insurance	908	33	941
Personal injury insurance	4,259	-	4,259
Group insurance	6,114	-	6,114
Investment-linked insurance	1	-	1
Total	11,282	33	11,315
Net	$ 381,413	1,216	382,629

	December 31, 2015		
	Insurance Contract	Financial products with discretionary participation feature	Total
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	58	-	58
Total	418,195	2,235	420,430
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	1	-	1
Total	9,295	62	9,357
Net	$ 408,900	2,173	411,073

The reconciliations of reserve for unearned premium were listed below:

	2016		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2016	$ 418,195	2,235	420,430
Provision	378,755	1,249	380,004
Reclaim	(404,240)	(2,235)	(406,475)
Other	(15)	-	(15)
Balance at December 31, 2016	392,695	1,249	393,944
Deduction of reserve for unearned premium outward:			
Balance at January 1, 2016, net	9,295	62	9,357
Provision	11,282	33	11,315
Reclaim	(9,295)	(62)	(9,357)
Balance at December 31, 2016, net	11,282	33	11,315
Total	$ 381,413	1,216	382,629

	2015		
	Insurance Contract	Financial 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	(9)	-	(9)
Balance at December 31, 2015	418,195	2,235	420,430
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	(9,652)	(84)	(9,736)
Balance at December 31, 2015, net	9,295	62	9,357
Total	$ 408,900	2,173	411,073

2) Details of claims reserve:

	December 31, 2016		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life Insurance			
Reported but not paid	$ 12,817	818	13,635
Not reported and not paid	4,214	265	4,479
Personal injury insurance			
Reported but not paid	163	-	163
Not reported and not paid	9,713	-	9,713
Personal health insurance			
Reported but not paid	3,216	-	3,216
Not reported and not paid	17,742	-	17,742
Group insurance			
Reported but not paid	1,925	-	1,925
Not reported and not paid	40,197	-	40,197
Total	89,987	1,083	91,070
Deduction of claims reserve-outward:			
Personal life Insurance	$ 1	37	38
Personal injury insurance	436	-	436
Personal health insurance	2,616	-	2,616
Group insurance	837	-	837
Total	3,890	37	3,927
Net	$ 86,097	1,046	87,143

	December 31, 2015		
	Insurance Contract	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	34,147	-	34,147
Total	73,636	3,701	77,337
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	$ 71,583	3,700	75,283

The reconciliations of claims reserve were listed below:

	2016		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2016	$ 73,636	3,701	77,337
Provision	300,114	2,509	302,623
Recovery	(283,763)	(5,127)	(288,890)
Balance at December 31, 2016	89,987	1,083	91,070
Deduction of claims reserve-outward:			
Balance at January 1, 2016, net	2,053	1	2,054
Provision	8,582	80	8,662
Recovery	(6,745)	(44)	(6,789)
Balance at December 31, 2016, net	3,890	37	3,927
Closing balance	$ 86,097	1,046	87,143

	2015		
	Insurance Contract	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	(278,582)	(3,622)	(282,204)
Balance at December 31, 2015	73,636	3,701	77,337
Deduction of claims reserve-outward:			
Balance at January 1, 2015, net	1,383	5	1,388
Provision	6,363	2	6,365
Recovery	(5,693)	(6)	(5,699)
Balance at December 31, 2015, net	2,053	1	2,054
Closing balance	$ 71,583	3,700	75,283

3) Details of liability reserve：

	December 31, 2016		
	Insurance Contract	Financial products with discretionary participation feature	Total
Life insurance	$ 234,091,634	32,828,613	266,920,247
Health insurance	6,579,463	-	6,579,463
Annuity insurance	47,608	43,120,952	43,168,560
Reclaim of reserve for major accidents	2,429	-	2,429
Strengthen increasing reserve	1,160,000	-	1,160,000
Reserve for life insurance – reduce sales tax (the accumulated unwritten-off allocation of 3% of sales)	145,641	-	145,641
Total	$ 242,026,775	75,949,565	317,976,340

	December 31, 2015		
	Insurance Contract	Financial products with discretionary participation feature	Total
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	$ 226,109,825	93,164,631	319,274,456

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

	2016		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2016	$ 226,109,825	93,164,631	319,274,456
Provision	43,577,354	3,009,209	46,586,563
Reclaim	(27,047,433)	(20,199,763)	(47,247,196)
Gain from cancellation of insurance	(65,887)	(24,512)	(90,399)
Effect of changes in exchange rates	(547,084)	-	(547,084)
Balance at December 31, 2016	$ 242,026,775	75,949,565	317,976,340

	2015		
	Insurance Contract	Financial products with discretionary participation feature	Total
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	$ 226,109,825	93,164,631	319,274,456

4) Details of special reserve:

	December 31, 2016		
	Insurance Contract	Financial products with discretionary participation feature	Total
Provision for dividend policy	$ 227,341	-	227,341

	December 31, 2015		
	Insurance Contract	Financial products with discretionary participation feature	Total
Provision for dividend policy	$ 228,097	-	228,097

The movements of special reserve were listed below:

	2016		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2016	$ 228,097	-	228,097
Provision of dividend policy	36,678	-	36,678
Recovery of dividend policy	(37,434)	-	(37,434)
Balance at December 31, 2016	$ 227,341	-	227,341

	2015		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2015	$ 317,003	-	317,003
Provision of dividend policy	4,639	-	4,639
Recovery of dividend policy	(93,545)	-	(93,545)
Balance at December 31, 2015	$ 228,097	-	228,097

5) Reserve for premium deficiency:

	December 31, 2016		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	$ 4,929,870	-	4,929,870
Personal health insurance	837	-	837
Total	$ 4,930,707	-	4,930,707

	December 31, 2015		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	$ 2,682,579	-	2,682,579
Personal health insurance	672	-	672
Total	$ 2,683,251	-	2,683,251

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

	2016		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2016	$ 2,683,251	-	2,683,251
Provision	2,427,093	-	2,427,093
Reclaim	(178,952)	-	(178,952)
Effect of changes in exchange rates	(685)	-	(685)
Balance at December 31, 2016	$ 4,930,707	-	4,930,707

	2015		
	Insurance Contract	Financial products with discretionary participation feature	Total
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	1,890	-	1,890
Balance at December 31, 2015	$ 2,683,251	-	2,683,251

6) Details of provision for liability adequacy:

1. Information on provision for liability adequacy of the subsidiary, BTLI, as of December 31, 2016 and 2015 was as follows:

	December 31, 2016	December 31, 2015
Liability reserve	$ 317,867,943	319,163,286
Reserve for unearned premium	185,382	189,628
Special reserve	227,341	228,097
Reserve for premium deficiency	4,930,707	2,683,251
Book value of insurance liability	$ 323,211,373	322,264,262
Estimate of present cash flow	$ 278,394,562	290,677,124

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, 2016 and 2015, the short-term insurance of liability adequacy reserve of the Company is summarized as follows:

	December 31, 2016	December 31, 2015
Claim and reserve within a year	$ 87,408	92,090
Less: Premium not received within a year	2,543	3,138
Subtotal	$ 84,865	88,952
Unearned premium reserve	$ 208,539	229,584
Liability adequacy reserve	$ -	-

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.

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

	December 31, 2016	December 31, 2015
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 2015 (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 2014 (with steady state assumption for discount rates after 30 year).

(31) 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, 2016 and 2015, the primary foreign exchange exposures were USD assets, amounting $52,553,858 thousand dollars and $27,800,944 thousand dollars, respectively.

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

		2016	2015
Balance as at 1 January, 2016	$	869,492	1,376,324
Current provision:			
Compulsory provision		297,894	159,627
Additional provision		602,108	924,088
Subtotal		900,002	1,083,715
Current write-off		(1,344,435)	(1,590,547)
Balance as at 31 December, 2016	$	425,059	869,492

3) Comparisons table shows the effects on profit/loss, liability, equity and earnings per share due to not applying this rule was as follow:

Items		Amount not applied	Amount applied	Changes
Liability and equity				
December 31, 2016				
Reserve for foreign exchange valuation	$	-	425,059	(425,059)
Equity		272,815,578	272,462,779	352,799
December 31, 2015				
Reserve for foreign exchange valuation		-	869,492	(869,492)
Equity		254,405,522	253,683,844	721,678

Items		Amount not applied	Amount applied	Changes
Income (loss) after tax and earnings (loss) per share				
2016				
Income (loss) after tax	$	14,442,732	14,811,611	(368,879)
Earnings (loss) per share		1.60	1.65	(0.05)
2015				
Income (loss) after tax		5,916,188	6,336,859	(420,671)
Earnings (loss) per share		0.66	0.70	(0.04)

(32) Employee benefit obligations

		December 31, 2016	December 31, 2015
Recognized in Consolidated Balance Sheet:			
—Defined benefit plans	$	10,197,199	9,564,733
—Employees preferential interest deposits		8,170,364	8,209,886
—Three Chinese festival bonus		176	256,441
—Civil servant and teacher insurance excess annuity benefit plans		44,031	37,109
Total	$	18,411,770	18,068,169

(33) Other Liabilities

		December 31, 2016	December 31, 2015
Advance collections	$	2,098,432	2,406,164
Guarantee deposits received		2,913,911	3,322,981
Temporary receipt awaiting suspense accounts		970,868	665,066
Other liabilities to be settled		8,239	8,239
Compensation arising from land revaluation		1,264,803	1,264,803
Collections for underwriting stock value		6,364	424,213
Total	$	7,262,617	8,091,466

(34) Income Tax Expenses

1) Income tax expenses (benefit)

The income tax expenses for 2016 and 2015 were as follows:

		2016	2015
Current income tax expense	$	438,948	1,707,606
Deferred tax expenses (benefit)		683,892	(108,656)
Income tax expenses	$	1,122,840	1,598,950

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

		2016	2015
Exchange differences on translation of foreign operations	$	(358)	-
Unrealized (gain) loss on available-for-sale financial assets		48,892	(171,675)
Actuarial gain (loss) on defined benefit plans		5,288	(3,351)
	$	53,822	(175,026)

Reconciliations of income tax expense (benefit) and profit before tax for 2016 and 2015 were as follows:

		2016	2015
Profit before tax	$	15,934,451	7,935,809
Income tax based on domestic tax rate		2,708,857	1,349,088
Income basic tax		21,110	-
Income tax expense of overseas branches		789,611	636,074
Changes in deferred tax assets and liabilities		831,510	(108,656)
Tax-exempt income		(2,962,466)	(1,246,299)
Others		(265,782)	968,743
Total	$	1,122,840	1,598,950

2) Deferred Tax Assets and Liabilities

1. Unrecognized deferred tax assets

Unrecognized deferred tax assets are as follows:

	December 31, 2016	December 31, 2015
Deductible temporary difference	$ 4,996,300	3,928,256

2. Recognized deferred tax assets and liabilities

Changes in deferred tax assets and liabilities for 2016 and 2015 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, 2016	$ 62,888	771,032	247	1,859,878	2,694,045
Recognized in profit or loss	78,476	(39,829)	501,555	(1,795,604)	(1,255,402)
Recognized in other comprehensive income	(5,288)	(73,687)	358	-	(78,617)
Balance at December 31, 2016	$ 136,076	657,516	502,160	64,274	1,360,026
Balance at January 1, 2015	$ 41,755	881,319	88	1,294,011	2,217,173
Recognized in profit or loss	17,782	(310,202)	159	565,867	273,606
Recognized in other comprehensive income	3,351	199,915	-	-	203,266
Balance at December 31, 2015	$ 62,888	771,032	247	1,859,878	2,694,045

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, 2016	$ 6,446	18,226,204	138,419	290,593	94,902	18,756,564
Recognized in profit or loss	4,253	-	(47,427)	(290,593)	(94,902)	(428,669)
Recognized in other comprehensive income	-	-	(24,795)	-	-	(24,795)
Balance at December 31, 2016	$ 10,699	18,226,204	66,197	-	5,780	18,303,100
Balance at January 1, 2015	$ -	18,262,442	110,179	91,343	99,410	18,563,374
Recognized in profit or loss	6,446	(36,238)	-	199,250	(4,508)	164,950
Recognized in other comprehensive income	-	-	28,240	-	-	28,240
Balance at December 31, 2015	$ 6,446	18,226,204	138,419	290,593	94,902	18,756,564

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

	December 31, 2016	December 31, 2015
Unappropriated earnings of 1998 and after	$ 15,625,106	5,376,500

	December 31, 2016	December 31, 2015
Balance of deductible tax account	$ 58,443	662

	2016(Projected)	2015(Actual)
Imputed tax creditable ratio for appropriating net income	3.55%	11.71%

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

(35) Equity

1) Capital stock

On 1 January 2008 TFH was established by the Bank of Taiwan in a share swap, the capital from share exchange were 9,000,000 thousand shares, and capital stock had a par value of $10. As of December 31, 2016 and 2015, the Company's authorized capital and issued capital were $90,000,000 thousands.

2) Capital surplus

	December 31, 2016	December 31, 2015
Equity premium	$ 111,385,217	111,385,217

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 god 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 form cash premium on capital stock.

3) Legal reserve

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

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) 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, 2016	$ 1,263,211	11,003,434	26,631	12,293,276
Exchange differences arising on translation of foreign operations	(732,723)	-	-	(732,723)
Unrealized gain (loss) on available-for-sale financial assets	-	5,532,059	-	5,532,059
Change in fair value of financial liability attributable to change in credit risk of liability	-	-	(16,073)	(16,073)
Balance at December 31, 2016	$ 530,488	16,535,493	10,558	17,076,539

	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	$ 1,263,211	11,003,434	26,631	12,293,276

(36) Net interest income

	2016	2015
Interest income:		
Loans and discounts	$ 39,687,442	44,158,073
Placement with Central Bank and call loans to banks	8,165,323	9,109,597
Securities investment	19,376,731	19,384,960
Credit cards	29,085	30,693
Bonds purchased under resell agreements	24,891	36,002
Others	1,044,863	1,264,445
Subtotal	68,328,335	73,983,770
Interest expense:		
Deposits from customers	$ 30,750,261	33,744,507
Deposits of Central Banks and other banks	2,175,375	2,032,233
Bonds sold under repurchased agreements	58,015	152,285
Financial bonds	322,410	364,053
Structured deposits	15,616	27,345
Others	169,305	223,258
Subtotal	33,490,982	36,543,681
Total	$ 34,837,353	37,440,089

(37) Service fees, net

		2016	2015
Service fees revenue:			
Bank business	$	4,920,347	5,044,810
Insurance business		95,839	107,703
Securities business		335,542	379,042
Subtotal		5,351,728	5,531,555
Service fees expense:			
Bank business		622,033	578,156
Insurance business		1,697,389	1,438,076
Securities business		21,029	24,517
Subtotal		2,340,451	2,040,749
Total	$	3,011,277	3,490,806

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.

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

		2016	2015
Gain (loss) on financial assets or liabilities measured at fair value through profit or loss:			
Dividend income	$	3,946,347	3,877,014
Net interest income		(562,055)	(499,686)
Net gain on disposal		4,818,958	1,789,589
		8,203,250	5,166,917
Gain (loss) on financial assets or liabilities measured at fair value through profit or loss－valuation:			
Net gain on valuation		8,919,358	(5,186,806)
Total	$	17,122,608	(19,889)

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

		2016	2015
Dividend income	$	3,546,796	3,845,783
Gain (loss) on disposal		161,190	(1,480,702)
Total	$	3,707,986	2,365,081

(40) Other non-interest income (expenses)

		2016	2015
Sales revenue, net	$	542,536	499,423
Subsidized income from government (Note)		13,754,258	16,970,331
Others		936,017	503,307
Excess preferential interest expenses		(10,861,359)	(11,085,764)
Total	$	4,371,452	6,887,297

Note: According to Government Employees and School Insurance Act, if GESSI experiences a loss, the loss before May 30, 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.

(41) Employee benefits expenses

		2016	2015
Salaries	$	11,131,362	11,032,287
Labor and health insurances		548,890	534,680
Pensions		917,679	893,786
Others		291,576	297,865
Total	$	12,889,507	12,758,618

(42) Depreciation and amortization expenses

		2016	2015
Depreciation expenses	$	791,385	805,753
Amortization expenses		367,611	362,489
Total	$	1,158,996	1,168,242

(43) Other general and administrative expenses

		2016	2015
Taxes	$	3,350,671	3,671,035
Rental expenses		706,652	690,871
Insurance expenses		935,231	892,789
Postage and phone / fax expenses		247,769	239,681
Utilities		207,926	225,541
Supplies expense		169,357	174,478
Repair and maintenance expenses		409,901	417,267
Marketing expenses		425,512	433,758
Professional service fees		407,343	402,191
Others		449,959	430,940
Total	$	7,310,321	7,578,551

(44) 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 2016 and 2015 are $14,811,611 thousand dollars and $6,336,859 thousand dollars, respectively. The weighted average outstanding shares are 9,000,000 thousand.

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

	2016	2015
Consolidated net income	$ 14,811,611	6,336,859
Weighted average outstanding shares	9,000,000	9,000,000
Basic earnings per share (In dollars)	$ 1.65	0.70

(45) Insurance income, net

	2016		
	BOT government employees' insurance department	BTLI	Total
Premium income	$ 22,779,133	41,129,853	63,908,986
Amortized reinsurance claims payment	-	25,081	25,081
Income on insurance product-separated account	-	1,552	1,552
Insurance business income	22,779,133	41,156,486	63,935,619
Reinsurance expense	-	90,911	90,911
Direct business expenses	-	741	741
Insurance claims payment	29,871,353	47,701,170	77,572,523
Disbursement toward industry stability	-	81,385	81,385
Disbursement on insurance product separated account	-	1,552	1,552
Insurance business expenses	29,871,353	47,875,759	77,747,112
Net income from insurance business	$ (7,092,220)	(6,719,273)	(13,811,493)

	2015		
	BOT government employees' insurance department	BTLI	Total
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	20,918,139	31,415,324	52,333,463
Reinsurance expenses	-	81,444	81,444
Direct business expenses	-	1,093	1,093

	2016		
	BOT government employees' insurance department	BTLI	Total
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	32,810,111	71,599,210	104,409,321
Net income from insurance business	$ (11,891,972)	(40,183,886)	(52,075,858)

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

1) Retained earned premiums

	2016		
	Insurance Contract	Financial products with discretionary participation feature	Total
Direct written premium	$ 39,769,357	1,360,451	41,129,808
Reinsurance premium	45	-	45
Premium income	39,769,402	1,360,451	41,129,853
Less: Reinsurance premium ceded	90,844	67	90,911
Net change in unearned premium reserve	(27,486)	(958)	(28,444)
	63,358	(891)	62,467
Retained earned premium	$ 39,706,044	1,361,342	41,067,386

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

2) Retained benefits and claims paid

	2016		
	Insurance Contract	Financial products with discretionary participation feature	Total
Claims payment incurred	$ 27,503,867	20,196,870	47,700,737
Reinsurance claims	433	-	433
Insurance claims payment	27,504,300	20,196,870	47,701,170
Less: Claims payment recovered from reinsures	24,921	160	25,081
Retained benefits and claims paid	$ 27,479,379	20,196,710	47,676,089

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

(46) 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.
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 form 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

Inputs are quoted prices of same financial instruments in an active market. An active market indicates the market that is in conformity with all the following conditions: (i) the products in the market are identical; (ii) it is easy to find a willing party; (iii) the price information is attainable for the public. The equity investments, beneficiary certificates, certain Taiwan government bonds, and derivatives with quoted prices in an active market are classified as level 1.

(b) Level 2

Inputs are those that are observable for asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices), other than quoted prices included within Level 1. The non popular government bonds, corporate bonds, financial bonds, convertible bonds, most of the derivatives, and financial bonds issued by the Bank and its subsidiary are classified as level 2.

(c) Level 3

Inputs are not based on observable market data (unobservable inputs parameters), i.e., historical volatility which cannot represent an expected value of all the market participators but is used as a model for the calculation of options. Certain derivatives and equity investments without a non-active market belong to level 3.

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.

	December 31, 2016			
Financial instruments measured at fair value	**Total**	**Level 1**	**Level 2**	**Level 3**
Non-derivative financial instruments				
Assets:				
Financial assets measured at fair value through profit or loss	203,579,322	148,448,554	55,130,768	-
Financial assets held for trading	185,509,024	148,448,554	37,060,470	
Investment in stocks	78,456,868	78,264,004	192,864	-
Investment in bonds	3,197,654	2,706,662	490,992	-
Others	103,854,502	67,477,888	36,376,614	-
Financial assets designated at fair value measured through profit or loss	18,070,298	-	18,070,298	-
Available-for-sale financial assets	1,072,928,664	88,189,670	984,738,994	
Investments in stocks	80,648,600	80,648,600	-	-
Investment in bonds	140,581,177	6,866,690	133,714,487	-
Others	851,698,887	674,380	851,024,507	-
Derivative financial instruments				
Assets:				
Financial assets measured at fair value through profit or loss	10,153,688	-	10,153,688	-
Hedging derivative financial assets	21,221	-	21,221	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	7,670,290	512	7,669,778	-
Hedging derivative financial liabilities	144,195	-	144,195	-

	December 31, 2015			
Financial instruments measured at fair value	**Total**	**Level 1**	**Level 2**	**Level 3**
Non-derivative financial instruments				
Assets:				
Financial assets measured at fair value through profit or loss	161,004,557	129,626,933	31,377,624	-
Financial assets held for trading	147,573,582	129,626,933	17,946,649	

Financial instruments measured at fair value	December 31, 2015 Total	Level 1	Level 2	Level 3
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 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	
Investment 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	-
Derivative financial instruments				
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	-

2. 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.

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

   There were no financial instruments categorized in level 3 as of December 31, 2016 and 2015.

4. The process of fair value measurements in Level 3

   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.

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

   The Company and its subsidiaries considers the valuation techniques used by the Company and its subsidiaries 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, 2016 and 2015. 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 Company and its subsidiaries' 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.

Item		Book value	Fair value
December 31, 2016			
Financial assets:			
Held-to-maturity financial assets	$	356,316,543	343,861,398
Other financial assets – Debt investments without quoted price in active markets		42,955,960	42,303,533
December 31, 2015			
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

2. Fair value hierarchy

	December 31, 2016				
Assets and liabilities item		Total	Quoted prices in active markets for identical asset (Level1)	Significant other observable inputs (Level2)	Significant observable inputs (Level3)
Financial Assets:					
Held-to-maturity financial assets	$	343,861,398	105,626,496	238,234,902	-
Other financial assets – Debt investments without quoted price in active markets		42,303,533	2,116,012	40,187,521	-

Assets and liabilities item	Total		December 31, 2015 Quoted prices in active markets for identical asset (Level1)	Significant other observable inputs (Level2)	Significant observable inputs (Level3)
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	-

(47) Capital management

1) The capital management objectives and processes

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

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

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

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

2) Capital adequacy ratio

December 31, 2016

Unit: in thousands of NTD; %

Item / Name	the financial holding company's shareholding in the subsidiary	net eligible capital	statutory capital requirement
The Company	100%	272,462,778	288,756,469
Subsidiary BOT	100%	240,967,261	172,594,143
Subsidiary BTS	100%	2,572,896	862,052
Subsidiary BTLI	100%	11,675,786	12,333,702
Deducted Amount	-	(301,227,704)	(288,727,704)
Subtotal		226,451,017	185,818,662
The Group Capital Adequacy Ratio (C)＝(A)÷(B)			121.87

December 31, 2015

Unit: in thousands of NTD; %

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

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 NTD; %

December 31, 2016	
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	5,392,503
Special reserve	32,983,414
Cumulative gain or loss	15,625,106
Other equity	17,076,539
Reduce：Goodwill and other intangible assets	-
Reduce：Deferred assets	1
Reduce：Treasury stocks	-
Total qualifying capital	272,462,778

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

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).

5) The major objectives of BTLI are to safeguard the interests of the policy holders, to support the sustainable development of BTLI, and to protect the interests of its shareholders and stakeholders. BTLI is also subject to external capital requirement, such as setting aside legal reserve or special reserve.

In accordance with the Article 143-4 of the Insurance Act, the ratio of the risk based capital, divided by the total adjusted net capital of BTLI, shall not be lower than 200%. Besides, according to the Regulations Governing Capital Adequacy of Insurance Companies and other requirements from the authorities, BTLI shall calculate its capital adequacy ratio and evaluate the future level of its capital adequacy at least once semiannually to ensure that BTLI is able to continually comply with the regulations.

As of December 31, 2016, BTLI's capital adequacy ratio was 189.33%, which was lower than 200%, regulated in Article 143-4 paragraph 1 of the Insurance Act. To raise its capital adequacy ratio, BTLI proactively improves its efficiency on its fund utilization. BTLI also sets up countermeasures to prevent itself from being limited on investment and operations to ensure it can adhere with its 2017 asset-liability matching plan.

In addition, on November 19, 2016, the parent company, Taiwan Financial Holding Co., Ltd., approved a resolution to include a 10 billion capital injection to BTLI into its 2018 budget. The capital injection was also approved by the BTLI's board of directors on February 22, 2017.

(48) 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.

2) The subsidiary, BOT

Pledged assets	Purpose of pledge	December 31, 2016	December 31, 2015
Available-for-sale financial assets－bonds	Guarantee deposit for provisional seizure against defaulted loans and others	$ 458,600	367,900
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	20,000,000	18,400,000
Available-for-sale financial assets – negotiable certificate of deposit	Payment and settlement systems of Central Bank	27,435,000	29,000,000
		$ 48,493,600	48,367,900

3) The subsidiary, BOT

Pledged assets	Purpose of pledge	December 31, 2016	December 31, 2015
Government bonds (accounted in refundable deposits)	Operating guarantee	$ 3,495,065	3,518,684
Cash (accounted in refundable deposits)	Lease and futures exchange guarantee	40,610	49,443
		$ 3,535,675	3,568,127

4) The subsidiary, BTS

Pledged assets	Purpose of pledge	December 31, 2016	December 31, 2015
Property and Equipment－Land	Short-term borrowings	$ 379,309	379,309
Property and Equipment－Building	Short-term borrowings	82,105	85,875
		$ 461,414	465,184

(49) Commitments and contingencies

1) Commitments and contingencies

1. Commitments and contingencies of the subsidiary, BOT

	December 31, 2016	December 31, 2015
Consignment collection	$ 52,942,935	52,812,682
Contract guarantee on behalf of counter parties	1,194,372	1,379,679
Traveler's checks held on consignment	1,065,827	1,253,747
Marketable securities held as custodian	1,795,341,745	1,662,667,807
Letters of credit	28,935,428	30,733,836
Goods held in custody	40,812,620	42,281,496
Issuance of New Taiwan Dollars	1,940,153,805	1,806,647,559
Trustee of behalf of Lenders	856,509,331	873,077,721
Registered government bonds for sale	726,985,400	580,631,100
Registered short term bills for sale	242,241,487	182,643,500
Consigned sales of goods	1,753,281	2,206,661
Trust liabilities	606,784,770	570,833,022
Guarantees	75,683,983	80,330,097
	$ 6,370,404,984	5,887,498,907

2. Commitments and contingencies of the subsidiary, BTLI

The contract guarantees on behalf of counter parties of the subsidiary, BTLI, are $248 thousand and $225 thousand on December 31, 2016 and 2015, 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.

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

Trust assets	December 31, 2016	December 31, 2015
Deposits		
Deposits in BOT	$ 30,143,837	24,287,546
Deposits in other banks	3,551,648	5,788,482
Short term investment		
Investment in funds	169,839,348	175,157,433
Investment in bonds	239,092,992	215,848,838
Common stock investment–marketable securities	49,446,789	43,093,483

Trust assets	December 31, 2016	December 31, 2015
Receivables		
Interest receivable	1,724,011	1,790,606
Cash dividend receivable	2,813	3,366
Receivables from trading securities	266,618	1,521,948
Receivables from forward contracts	8,767,532	8,441,462
Prepaid expense	823	99
Real estate		
Land	16,646,162	16,010,620
Buildings	101,832	125,026
Construction in progress	19,336,087	18,912,209
Marketable securities under custody	67,864,278	59,851,904
Total of trust assets	$ 606,784,770	570,833,022

Trust liabilities	December 31, 2016	December 31, 2015
Payables		
Payables from trading securities	$ 180,652	180,594
Payables from forward contracts	8,604,839	8,505,100
Payables from management fee	2,681	4,184
Payables from supervision fee	327	324
Other payables	1,327	1,151
Tax payable	392	180
Securities held in custody payable	67,864,278	59,851,904
Trust capital		
Money trust	382,320,418	364,450,599
Marketable securities trust	142,543	142,701
Real estate investment trust	40,602,282	40,771,057
Other reserve and accumulated income		
Accumulated loss	72,754,445	57,815,457
Foreign currency translation	7,796,843	14,643,149
Deferred unrealized income	11,937,642	5,665,046
Current income	14,576,101	18,801,576
Total of trust liabilities	$ 606,784,770	570,833,022

Notes: The funds invested by the OBU branch of the subsidiary, BOT, are included. The amounts as of December 31, 2016 and 2015 are $318,007 thousand dollars and $345,045 thousand dollars, respectively.

Details of trust	December 31, 2016	December 31, 2015
Deposits		
Deposits in the Bank	$ 30,143,837	24,287,546
Deposits in other banks	3,551,648	5,788,482
Short term investment		
Investment in funds	169,839,348	175,157,433
Investment in bonds	239,092,992	215,848,838
Common stock investment– marketable securities	49,446,789	43,093,483

Details of trust	December 31, 2016	December 31, 2015
Real estate		
Land	16,646,162	16,010,620
Buildings	101,832	125,026
Construction in progress	19,336,087	18,912,209
Marketable securities under custody	67,864,278	59,851,904
Trust capital	$ 596,022,973	559,075,541

Income statement for assets under trust	2016	2015
Trust revenue		
Capital interest revenue	$ 10,513,381	10,325,917
Cash dividend revenue	1,461,112	752,049
Donation revenue	326,737	490,863
Realized capital gain shares	17,819	61,186
Realized capital gain fund	73,787	1,967,041
Realized exchange gain – bond	774,069	1,848,237
Realized foreign exchange gain	-	529,644
Realized gain on property exchange	-	640,818
Income from beneficiary certificates	3,230,082	3,309,256
Total trust revenue	16,396,987	19,925,011
Trust expense		
Capital management fee	391,517	495,159
Tax expense	10,883	7,094
Supervisory fee	348	337
Storage fee	8,775	9,216
Commission fee	9	32
Donation cost	498,511	490,417
Realized loss from property transactions	459,778	-
Realized foreign exchange losses	337,662	-
Other expense	113,403	121,180
	1,820,886	1,123,435
Net income	$ 14,576,101	18,801,576

(50) Profitability

1) The Company

Unit: %

Item		December 31, 2016	December 31, 2015
Return on Assets (note 6)	pre-tax	8.23	5.29
	after-tax	8.25	5.34
Return on Equity (Note 8)	pre-tax	8.77	5.63
	after-tax	8.78	5.68
Profit Margin		99.14	99.87

2) The Company and its subsidiaries

Unit: %

Item		December 31, 2016	December 31, 2015
Return on Assets (note 7)	pre-tax	0.51	0.35
	after-tax	0.48	0.32
Return on Equity (note 8)	pre-tax	9.21	6.30
	after-tax	8.78	5.68
Profit Margin		23.76	85.50

3) The subsidiary, BOT

Unit: %

Item		December 31, 2016	December 31, 2015
Return on Assets (note 7)	pre-tax	0.63	0.44
	after-tax	0.59	0.40
Return on Equity (note 8)	pre-tax	10.47	7.41
	after-tax	9.80	6.73
Profit Margin		39.49	25.19

4) The subsidiary, BTLI

Unit: %

Item		December 31, 2016	December 31, 2015
Return on Assets	pre-tax	(0.91)	(0.67)
	after-tax	(0.73)	(0.67)
Return on Equity	pre-tax	(28.72)	(20.03)
	after-tax	(23.04)	(19.88)
Profit Margin		note 9	note 9

5) The subsidiary, BTS

Unit: %

Item		December 31, 2016	December 31, 2015
Return on Assets	pre-tax	0.62	1.37
	after-tax	0.48	1.17
Return on Equity	pre-tax	1.62	4.03
	after-tax	1.25	3.44
Profit Margin		10.03	22.38

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

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

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

Note 4: Income before (after) income tax is the income for the whole year of 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, 2016 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.

(51) Losses due to major disasters: None

(52) Subsequent events: None

(53) Other

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

By function / By nature	December 31, 2016			December 31, 2015		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	68,921	11,131,362	11,200,283	70,943	11,032,287	11,103,230
Labor and health insurance	99,746	548,890	648,636	105,521	534,680	640,201
Pension	3,315	917,679	920,994	3,465	893,786	897,251
Others	-	291,576	291,576	-	297,865	297,865
Depreciation	106,565	791,385	897,950	103,140	805,753	908,893
Amortization	-	367,611	367,611	-	362,489	362,489

The number of employees in 2016 and 2015 were 8,833 and 8,848, respectively.

2) Government audit adjustments for fiscal year ended 2015

The accounting records as at and for the year ended 2015, 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, 2015	Adjustments －Increase (Decrease)	As Audited by the MoA, December 31, 2015
Assets			
Cash and cash equivalents	$ 148,235,815	3	148,235,818
Accounts receivable, net	80,641,167	32,224	80,673,391
Current income tax assets	4,779,047	(1,563,966)	3,215,081
Investments accounted for using equity method, net	41,734,382	(757)	41,733,625
Deferred tax assets	1,129,314	1,564,731	2,694,045
Other assets, net	11,558,067	(3)	11,558,064
Liabilities			
Current income tax liabilities	462,837	629	463,466
Other liabilities, net	8,059,242	32,224	8,091,466
Stockholders' equity			
Retained earnings	40,005,972	(621)	40,005,351

Income statement	As Previously Reported 2014	Adjustments －Increase (Decrease)	As Audited by the MoA, 2014
Interest revenue	$ 37,440,059	30	37,440,089
Share of profit of associates and joint ventures accounted for using equity method	4,839,280	(757)	4,838,523
Other non interest gain (loss)	6,887,304	(7)	6,887,297
Operating expenses	(21,505,417)	6	(21,505,411)
Income tax expense	(1,599,057)	107	(1,598,950)
Net income	6,337,480	(621)	6,336,859

Bank of Taiwan

Government audit adjustments for fiscal year ended December 31, 2015:

Balance Sheet	As Previously Reported December 31, 2015	Adjustments －Increase (Decrease)	As Audited by the MoA, December 31, 2015
Assets			
Current income tax assets	$ 1,343,594	(86)	1,343,508
Investments accounted for using equity method, net	35,856,579	(757)	35,855,822
Liabilities			
Current income tax liabilities	394,875	629	395,504
Stockholders' equity			
Retained earnings	59,291,717	(1,472)	59,290,245

Income statement	As Previously Reported 2015	Adjustments －Increase (Decrease)	As Audited by the MoA, 2015
Share of profit of associates and joint ventures accounted for using equity method	$ 4,108,527	(757)	4,107,770
Income tax expense	1,730,137	715	1,730,852
Net income	8,872,170	(1,472)	8,870,698

BankTaiwan Life Insurance

The accounting records as at and for the year ended 2015, have been auditred and examined by the MoA, and the resulting adjustments were summarized as follows:

Government audit adjustments for fiscal year ended December 31, 2015:

Balance Sheet	As Previously Reported December 31, 2015	Adjustments －Increase (Decrease)	As Audited by the MoA, December 31, 2015
Assets			
Current income tax assets	$ 1,458,837	29	1,458,866
Deferred tax assets	2,212,903	545	2,213,448
Stockholders' equity			
Accumulated deficit	(4,150,704)	574	(4,150,130)

Income statement	As Previously Reported 2015	Adjustments －Increase (Decrease)	As Audited by the MoA, 2015
Income tax expense (benefit)	$ (18,689)	(574)	(19,263)
Net income (loss)	(2,510,177)	574	(2,509,603)

BankTaiwan Securities

There is no different between finance report and adjustment by MoA, no need to adjust the account.

3) Financial information classified by business type

December 31, 2016

Businesses / Items	Banking business	Insurance business	Securities business	Government insurance	Other operations	Total
Net interest income	24,258,285	8,783,358	125,058	1,670,627	25	34,837,353
Non-interest income, net	37,805,776	(9,074,858)	320,820	(1,535,989)	(9,241)	27,506,508
Net revenue	62,064,061	(291,500)	445,878	134,638	(9,216)	62,343,861
Bad debt expense	(5,183,736)	11,687	-	-	-	(5,172,049)
Provisions	(18,843,200)	(1,035,337)	-	-	-	(19,878,537)
Operating expenses	(19,900,416)	(832,906)	(355,165)	(134,638)	(135,699)	(21,358,824)
Net income before income tax	18,136,709	(2,148,056)	90,713	-	(144,915)	15,934,451
Income tax expenses	(1,785,645)	641,320	(13,231)	-	34,716	(1,122,840)
Net income	16,351,064	(1,506,736)	77,482	-	(110,199)	14,811,611

December 31, 2015

Items \ Businesses	Banking business	Insurance business	Securities business	Government insurance	Other operations	Total
Net interest income	26,673,255	8,987,815	143,863	1,635,156	-	37,440,089
Non-interest income, net	12,701,439	(41,634,600)	412,919	(1,498,263)	(9,963)	(30,028,468)
Net revenue	39,374,694	(32,646,785)	556,782	136,893	(9,963)	7,411,621
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)	(375,007)	(137,112)	(115,444)	(21,505,411)
Net income before income tax	9,411,749	(1,532,308)	181,775	-	(125,407)	7,935,809
Income tax expenses	(1,730,852)	19,233	(20,992)	-	133,661	(1,598,950)
Net income	7,680,897	(1,513,075)	160,783	-	8,254	6,336,859

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

TAIWAN FINANCIAL HOLDING CO., LTD.
Balance Sheet

December 31, 2016 and 2015

(expressed in thousands of New Taiwan dollars)

	December 31, 2016		December 31, 2015 (Restated)	
Assets	**Amount**	**%**	**Amount**	**%**
Cash and cash equivalents	$ 278,860	-	256,670	-
Receivables, net	5	-	24	-
Current tax assets	302,139	-	412,706	-
Investments under equity method, net	288,727,704	100	270,161,803	100
Property and equipment, net	5,809	-	5,938	-
Intangible assets	292	-	302	-
Other assets, net	22,660	-	16,372	-
Total assets	$ 289,337,469	100	270,853,815	100

	December 31, 2016		December 31, 2015 (Restated)	
Liabilities and Equity	**Amount**	**%**	**Amount**	**%**
Liabilities:				
Payables	$ 22,193	-	19,799	-
Other borrowings	16,750,000	6	17,050,000	7
Provision	102,318	-	99,839	-
Other liabilities	179	-	333	-
Total liabilities	16,874,690	6	17,169,971	7
Equity :				
Capital stock	90,000,000	31	90,000,000	33
Capital surplus	111,385,217	39	111,385,217	41
Retained earnings:				
Legal reserve	5,392,503	2	4,857,208	2
Special reserve	32,983,414	11	29,771,643	11
Unapporpriated retained earnings	15,625,106	5	5,376,500	2
Total retained earnings	54,001,023	18	40,005,351	15
Other equity	17,076,539	6	12,293,276	4
Total equity	272,462,779	94	253,683,844	93
Total liabilities and equity	$ 289,337,469	100	270,853,815	100

TAIWAN FINANCIAL HOLDING CO., LTD.

Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

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

	2016		2015		Percentage
	Amount	%	Amount	%	change
Revenue :					
Share of profit of subsidiaries, associates and joint ventures accounted for using equity method	$ 15,089,806	100	6,482,932	100	133
Other gains	2,746	-	2,905	-	(5)
	15,092,552	100	6,485,837	100	133
Expense :					
Operating expenses	(162,772)	1	(142,118)	2	15
Other expenses and losses	(152,885)	1	(140,521)	2	9
	(315,657)	(2)	(282,639)	(4)	12
Net income before income tax	14,776,895	98	6,203,198	96	138
Income tax expense	34,716	-	133,661	2	(74)
Net income	14,811,611	98	6,336,859	98	134
Other comprehensive income (losses):					
Components of other comprehensive income that will not be reclassified to profit or loss					
Gains (losses) on remeasurements of defined benefit plans	3,207	-	(4,243)	-	176
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(835,219)	(6)	(764,348)	(12)	(9)
Income tax related to items Components that will not be reclassified to profit or loss	-	-	-	-	-
Total items that will not be reclassified to profitt or loss	(832,012)	(6)	(768,591)	(12)	(8)
Components of other comprehensive income that will be reclassified to profit or loss					
Share of other comprehensive income of associates and joint ventures accounted for using equity method	4,799,336	32	(8,218,493)	(127)	158
Income tax related to items Components that will not be reclassified to profit or loss	-	-	-	-	-
Total items that will be reclassified to profitt or loss	4,799,336	32	(8,218,493)	(127)	158
Other comprehensive income (losses) for the period, net of income tax	3,967,324	26	(8,987,084)	(139)	144
Total comprehensive (losses) income for the period	$ 18,778,935	124	(2,650,225)	(41)	809
Earnings per share (in New Taiwan Dollars)	$ 1.65		0.70		

TAIWAN FINANCIAL HOLDING CO., LTD.

Statements of Changes in Equity

For the years ended December 31, 2016 and 2015

(expressed in thousands of New Taiwan dollars)

			Retained earnings				Other equity interests				
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total	Exchange differences on translation of foreign operations	Unrealized gains(losses) on available-for-sale financial instruments	Change in fair value of financial liability attributable to change in credit risk of liability	Total	Total
Balance at January 1, 2015	$ 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 and distribution 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	-	-	-	(23,549)	23,549	-	-	-	-	-	-
Net income for the period	-	-	-	-	6,336,859	6,336,859	-	-	-	-	6,336,859
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	-	-	-	-	5,500,079	5,500,079	952,882	(9,073,955)	(29,231)	(8,150,304)	(2,650,225)
Disposal of investment accounted for using equity method	-	(78,422)	-	-	-	-	-	-	-	-	(78,422)
Balance at December 31, 2015	90,000,000	111,385,217	4,857,208	29,771,643	5,376,500	40,005,351	1,263,211	11,003,434	26,631	12,293,276	253,683,844
Appropriation of retained earnings:											
Legal reserve appropriated	-	-	535,295	-	(535,295)	-	-	-	-	-	-
Special reserve appropriated	-	-	-	3,211,771	(3,211,771)	-	-	-	-	-	-
Net income for the period	-	-	-	-	14,811,611	14,811,611	-	-	-	-	14,811,611
Other comprehensive income (losses) for the period	-	-	-	-	(815,939)	(815,939)	(732,723)	5,532,059	(16,073)	4,783,263	3,967,324
	-	-	-	-	13,995,672	13,995,672	(732,723)	5,532,059	(16,073)	4,783,263	18,778,935
Balance at December 31, 2016	$ 90,000,000	111,385,217	5,392,503	32,983,414	15,625,106	54,001,023	530,488	16,535,493	10,558	17,076,539	272,462,779

TAIWAN FINANCIAL HOLDING CO., LTD.

Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(expressed in thousands of New Taiwan dollars)

		2016	2015
Cash flows from (used in) operating activities:			
Net income before income tax	$	14,776,895	6,203,198
Adjustments：			
Loss (income) of non-cash activities			
Depreciation		1,413	1,713
Amortization		129	121
Interest expense		143,325	130,308
Interest income		(507)	(656)
Share of profit of subsidiaries, associates and joint ventures		(15,089,806)	(6,482,932)
Loss on disposal and write-off of property, plant and equipment		4	478
Subtotal of loss (income) of non-cash activities		(14,945,442)	(6,350,968)
Change in operating assets and liabilities :			
Change in operating assets :			
(Increase) decrease in receivables		(1)	1
Increase in other assets		(6,293)	(99,479)
Subtotal of change in operating assets		(6,294)	(99,478)
Change in operating liabilities :			
Increase (decrease) in payables		1,412	(27,034)
Increase in employee benefit obligations		5,685	8,240
Increase in other liabilities		1	-
Subtotal of change in operating liabilities		7,098	(18,794)
Subtotal of change in operating assets and liabilities		804	(118,272)
Subtotal of all adjustments		(14,944,638)	(6,469,240)
Cash (used in) provided by operating activities		(167,743)	(266,042)
Interest received		527	667
Dividends received		488,024	98,355
Income taxes returned		145,282	25,475
Net cash flow from (used in) operating activities		466,090	(141,545)
Cash flows from (used in) investing activities :			
Acquisition of equity-accounted investees		-	(5,500,000)
Acquisition of property, plant and equipment		(1,288)	(1,511)
Acquisition of intangible assets		(114)	-
Net cash flows (used in) investing activities		(1,402)	(5,501,511)
Cash flows from financing activities:			
Increase in short-term borrowings		-	5,500,000
Decrease in short-term borrowings		(300,000)	-
Increase in guarantee deposits received		-	122
Decrease increase in guarantee deposits received		(155)	-
Interests paid		(142,343)	(129,948)
Net cash flow from (used in) financing activities		(442,498)	5,370,174
Net increase (decrease) in cash and cash equivalents		22,190	(272,882)
Cash and cash equivalents at the opening of period		256,670	529,552
Cash and cash equivalents at the end of period	$	278,860	256,670
Components of cash and cash equivalents:			
Cash and cash equivalents recognized in balance sheet	$	278,860	256,670

5) The balance sheets and income statements of the subsidiaries

1. Balance sheets

	Bank of Taiwan (Individual)	
	December 31, 2016	December 31, 2015
Cash and cash equivalents	$ 122,398,626	135,422,418
Placement with Central Bank and call loans to banks	687,235,976	585,963,772
Financial assets measured at fair value through profit or loss	212,560,998	173,005,205
Hedging derivative financial assets, net	21,221	15,970
Bills and bonds purchased under resell agreements	-	50,040
Receivables, net	63,288,567	72,046,562
Current income tax assets	761,630	1,343,508
Loans and discounts, net	2,274,236,504	2,386,598,795
Available-for-sale financial assets, net	1,037,841,339	1,053,598,710
Held-to-maturity financial assets, net	138,812,328	113,786,391
Investments under equity method, net	35,497,450	36,178,241
Other financial assets, net	76,578,794	68,891,471
Property and equipment, net	96,691,099	96,728,064
Investment property, net	15,238,207	-
Intangible assets, net	802,989	853,571
Deferred tax assets	293,925	472,085
Other assets, net	8,742,952	7,817,258
Total assets	$ 4,771,002,605	4,732,772,061
Deposits of Central Bank and other banks	$ 227,596,814	225,425,517
Financial liabilities measured at fair value through profit or loss	6,709,063	39,224,475
Hedging derivative financial liabilities, net	144,195	243,967
Bills and bonds sold under repurchase agreements	11,337,914	16,336,619
Payables	41,495,209	42,195,648
Current tax liabilities	615,264	368,527
Deposits and remittances	3,874,447,418	3,837,851,868
Financial bonds payable	24,998,082	24,997,826
Other financial liabilities	748,855	1,785,430
Provisions	283,367,966	264,199,252
Deferred tax liabilities	18,173,159	18,340,284
Other liabilities	6,924,444	6,955,368
Total liabilities	4,496,558,383	4,477,924,781
Capital stock	95,000,000	95,000,000
Capital surplus	80,453,034	80,453,034

	Bank of Taiwan (Individual)	
	December 31, 2016	December 31, 2015
Retained earnings		
Legal reserve	34,201,365	31,822,306
Special reserve	22,686,273	19,514,195
Unappropriated retained earnings	18,815,254	7,953,744
	75,702,892	59,290,245
Other equity	23,288,296	20,104,001
Total equity	274,444,222	254,847,280
Total liabilities and stockholders' equity	$ 4,771,002,605	4,732,772,061

	BankTaiwan Life Insurance	
	December 31, 2016	December 31, 2015
Cash and cash equivalents	$ 24,752,046	33,595,006
Receivables	2,152,607	3,894,709
Current income tax assets	1,052,158	1,458,866
Financial assets measured at fair value through profit or loss	503,093	2,544,003
Available-for-sale financial assets	33,494,243	44,179,000
Debt investments without quoted price in an active market	27,223,295	48,590,962
Held-to-maturity financial assets	217,504,215	187,177,088
Investments under equity method, net	6,104,898	5,877,804
Other financial assets, net	14,550,000	3,746,150
Real estate investments	7,561,829	7,616,578
Loans	10,368,155	11,777,584
Reinsurance assets	18,708	12,023
Property and equipment	984,364	1,010,475
Intangible assets	7,763	9,837
Deferred tax assets	2,423,034	2,213,448
Other assets	3,572,289	3,625,943
Separate account-insurance assets	13,247	13,009
Total assets	$ 352,285,944	357,342,485
Payables	$ 15,176,504	19,136,265
Financial liabilities measured at fair value through profit or loss	1,150,137	1,059,280
Insurance liabilities	323,619,402	322,683,571
Foreign exchange volatility reserves	425,059	869,492
Provisions	735,644	775,512
Deferred tax liabilities	35,901	319,926
Other liabilities	338,042	685,137
Separate account-insurance liabilities	13,247	13,009
Total liabilities	341,493,936	345,542,192

	BankTaiwan Life Insurance	
	December 31, 2016	December 31, 2015
Capital stock	22,500,000	22,500,000
Capital surplus	360,000	360,000
Retained earnings		
Legal reserve	96,557	96,557
Special reserve	787,059	734,275
Unappropriated retained earnings	(6,794,213)	(4,150,130)
	(5,910,597)	(3,319,298)
Other equity	(6,157,395)	(7,740,409)
Total equity	10,792,008	11,800,293
Total liabilities and equity	$ 352,285,944	357,342,485

	BankTaiwan Securities	
	December 31, 2016	December 31, 2015
Current assets	$ 7,744,139	8,910,587
Property and equipment	489,488	494,887
Intangible assets	12,667	5,127
Deferred tax assets	7,021	4,558
Other non-current assets	330,144	324,152
Total assets	$ 8,583,459	9,739,311
Current liabilities	$ 4,875,276	6,012,452
Liabilities reserves	118,476	110,406
Deferred tax liabilities	94,040	96,355
Other non-current liabilities	4,193	5,866
Total liabilities	5,091,985	6,225,079
Capital stock	3,000,000	3,000,000
Legal reserve	77,857	65,673
Special reserve	311,365	286,997
Unappropriated retained earnings	156,615	231,878
	545,837	584,548
Other equity	(54,363)	(70,316)
Total equity	3,491,474	3,514,232
Total liabilities and equity	$ 8,583,459	9,739,311

	BankTaiwan Insurance Broker	
	December 31, 2016	**December 31, 2015**
Cash and cash equivalents	$ 464,685	331,482
Receivables	104,092	118,866
Property and equipment	4,227	5,157
Intangible asset	236	375
Deferred tax assets	3,955	3,955
Other assets	3,779	3,764
Total assets	$ 580,974	463,599
Payables	$ 99,784	114,115
Current tax liabilities	38,927	26,977
Other liabilities	337	88
Total liabilities	139,048	141,180
Capital stock	20,000	20,000
Legal reserve	57,092	33,562
Special reserve	57,092	33,562
Unappropriated retained earnings	307,742	235,295
	421,926	302,419
Total equity	441,926	322,419
Total liabilities and equity	$ 580,974	463,599

2. Income statements

	Bank of Taiwan (Individual)	
	2016	**2015**
Interest income	$ 59,402,785	64,758,332
Less: interest expense	(33,367,745)	(36,352,682)
Net interest income	26,035,040	28,405,650
Other non-interest income	18,478,694	6,650,585
Net revenue	44,513,734	35,056,235
Bad debt expense and reserve for guarantees	(5,183,736)	(4,404,468)
Operating expenses	(19,958,435)	(20,098,410)
Net income before income tax	19,371,563	10,553,357
Income tax expense	(1,722,592)	(1,682,659)
Net income	17,648,971	8,870,698
Other comprehensive income	2,347,971	(4,235,860)
Total comprehensive income (loss) after tax for the period	19,996,942	4,634,838
Basic earnings per share (In dollars)	1.86	0.93

	BankTaiwan Life Insurance	
	2016	2015
Operating income	$ 50,124,464	41,040,368
Operating cost	(52,442,031)	(42,543,564)
Operating expense	(869,502)	(1,000,140)
Operating loss	(3,187,069)	(2,503,336)
Non operating income (expense)	(57,066)	(25,501)
Net income (loss) before income tax	(3,244,135)	(2,528,837)
Income tax benefit	641,320	19,234
Net income (loss)	(2,602,815)	(2,509,603)
Other comprehensive income	1,594,530	(4,625,938)
Total comprehensive income (loss) after tax for the period	(1,008,285)	(7,135,541)
Basic earnings per share (In dollars)	(1.16)	(1.36)

	BankTaiwan Securities	
	2016	2015
Revenue	$ 513,510	567,870
Cost and expense	(446,326)	(478,400)
Net operating income	67,184	89,470
Non operating income	(10,303)	53,360
Net income before income tax	56,881	142,830
Income tax expense	(13,231)	(20,992)
Net income	43,650	121,838
Other comprehensive income	21,615	(121,042)
Total comprehensive income after tax for the period	65,265	796
Basic earnings per share (In dollars)	0.15	0.41

	BankTaiwan Insurance Brokers	
	2016	2015
Operating income	$ 2,342,832	1,876,443
Operating cost	(1,836,883)	(1,467,370)
Operating expense	(134,206)	(120,420)
Non operating expense	(948)	(165)
Net income before income tax	370,795	283,488
Income tax expense	(63,052)	(48,193)
Net income	307,743	235,295
Basic earnings per share (In dollars)	153.87	117.65

(54) 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 NTD

Name of company	Name of property	Transaction date	Transaction amount	Status of payment	Counter-party	Relationship with the Company	If the counter party is a related party, disclose the previous transfer information				References for determining price	Purpose of acquisition and current condition	Others
							Owner	Relationship with the Company	Date of transfer	Amount			
The bank	Ten pieces of Lands located at No34、35 of Xiande section and No620 1、626、654、666、671、2763 2 of Aiqun section, Qianzhen District and No885、932 of Beijin section, Qianjin District, Kaohsiung City, etc.	2016.04	15,238,207	Investee of distribution of surplus property	Kaohsiung Ammonium Sulfate Co., Ltd.	Related party	-	-	-	-	Referred to appraisal reports.	Real estate investment	None

3. Information on the disposal of real estate for which the sale amount exceeded NT$300 million or 10% of the Bank's paid-in capital: None.
4. Information regarding discounted processing fees on transactions with related parties for which the amount exceeded $5 million: None.
5. Information regarding receivables from related parties for which the amount exceeded $300 million or 10% of the Company's paid-in capital: None.
6. Information regarding selling non-performing loans: 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:

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%	39,856,719	3,531,785	2,637,893,854	2,637,893,854	25.07%	
Tang Eng Iron Works Co., Ltd.	Kaohsiung	Iron Industry	21.37%	21.37%	1,284,061	107,566	74,802,414	74,802,414	21.37%	
Kaohsiung Ammonium Sulfate Co., Ltd.	Kaohsiung	Liquidation	-%	91.86%	-	13,312,318	-	-	-%	
Tai Yi Real Estate Management Co., Ltd	Taipei	Real Estate Service	30.00%	30.00%	19,642	3,344	1,500,000	1,500,000	30.00%	
Bank of Taiwan	Taipei	Banking	100.00%	100.00%	274,444,222	17,648,971	9,500,000,000	9,500,000,000	100.00%	note 4
BankTaiwan Life Insurance	Taipei	Life insurance	100.00%	100.00%	10,792,008	(2,602,815)	2,250,000,000	2,250,000,000	100.00%	note 4
BankTaiwan Securities	Taipei	Securities	100.00%	100.00%	3,491,474	43,650	300,000,000	300,000,000	100.00%	note 4
BankTaiwan Insurance Brokers	Taipei	Insurance broker	100.00%	100.00%	411,926	307,743	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.

3) Information regarding investment in China:

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

Investee Company	Main Business	Total Amount of Paid-in Capital	Investment types (Note 1)	Accumulated outflow of Investment from Taiwan as of January 1, 2016	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2016	Net income from investee	% of shares	Equity in the Earnings (gains)	Carrying value as of December 31, 2016	Accumulated inward remittance of earnings as of December 31, 2016
					Outflow	Regain						
Bank of Taiwan, Shanghai Branch	Banking business	4,624,000 CNY1,000,000	(3)	4,624,000 CNY1,000,000	-	-	4,624,000 CNY1,000,000	-	-%	(115,550)	5,547,796	-
Bank of Taiwan, Guangzhou Branch	Banking business	4,624,000 CNY1,000,000	(3)	4,624,000 CNY1,000,000	-	-	4,624,000 CNY1,000,000	-	-%	(172,966)	4,899,430	-
Bank of Taiwan, Fuzhou Branch	Banking business	4,624,000 CNY1,000,000	(3)	-	4,624,000 CNY1,000,000	-	4,624,000 CNY1,000,000	-	-%	(179,823)	4,782,951	-

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 thousands 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
13,872,000	13,872,000	164,666,533

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, 2016, 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.

(55) 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:

2016

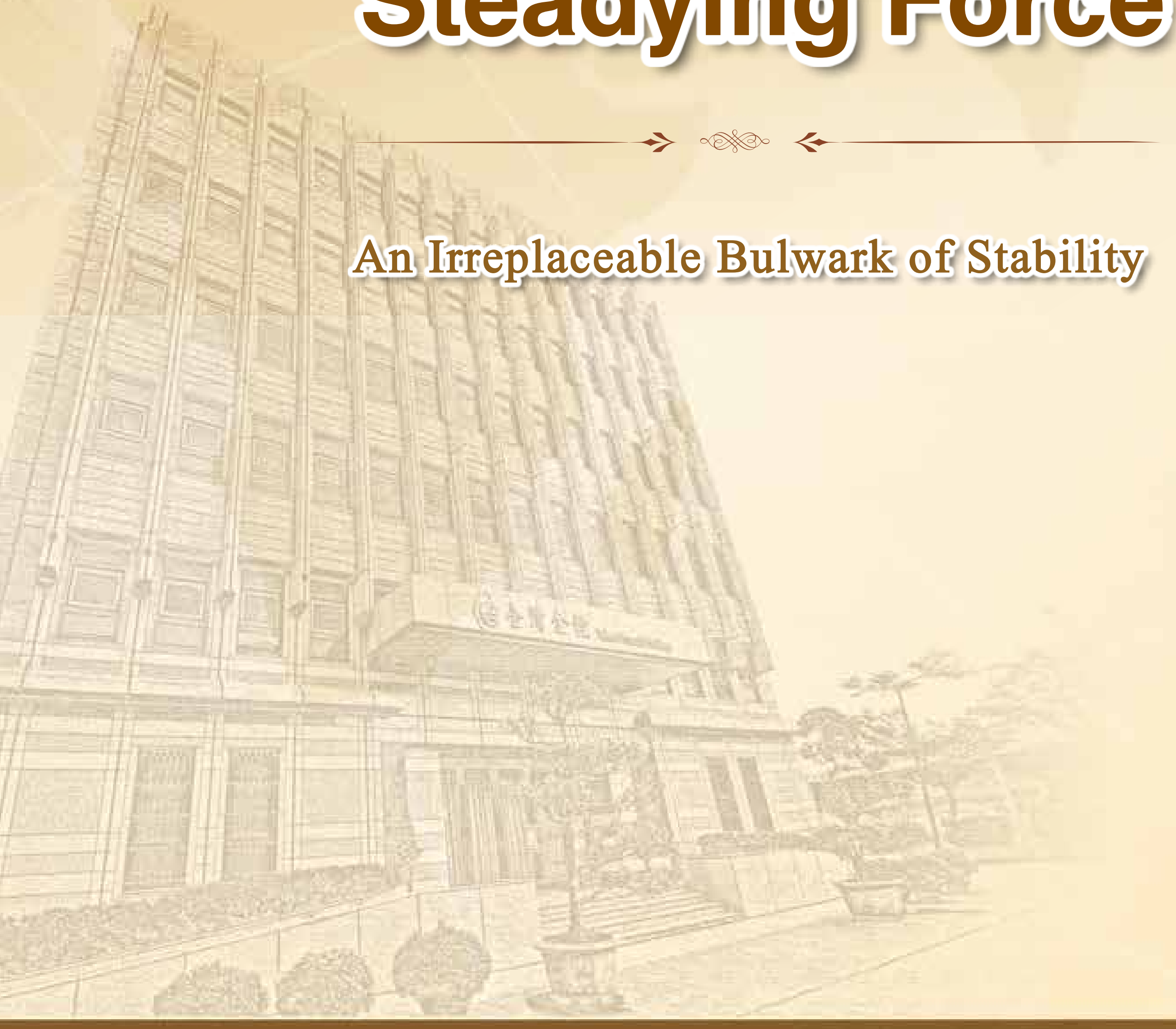
	Bank department	Department of Government Employees' Insurance	Department of Procurement	Department of Precious Metals	Insurance Business	Securities Business	Other business	Reconciliation and elimination	Total
Interest income	$ 57,731,311	1,670,627	86	761	8,964,695	142,193	948	(182,286)	68,328,335
Less: interest expense	(33,367,744)	-	-	-	(145,583)	(16,616)	(143,325)	(182,286)	(33,490,982)
Interest income, net	24,363,567	1,670,627	86	761	8,819,112	125,577	(142,377)	-	34,837,353
Non-interest income, net	19,319,094	(1,535,989)	246,552	449,037	(10,178,576)	309,670	15,587,045	3,309,675	27,506,508
Net revenue	43,682,661	134,638	246,638	449,798	(1,359,464)	435,247	15,444,668	3,309,675	62,343,861
Bad debt expenses and reserve for guarantees	(5,183,736)	-	-	-	(1,023,651)	-	-	(18,843,199)	(25,050,586)
Operating costs	(19,625,638)	(134,638)	(110,134)	(88,026)	(861,020)	(378,366)	(296,975)	135,973	(21,358,824)
Continuing operating income before income tax	$ 18,873,287	-	136,504	361,772	(3,244,135)	56,881	15,147,693	(15,397,551)	15,934,451
Continuing operating income after income tax	$ 17,070,050	-	136,504	361,772	(2,602,816)	43,650	15,088,616	(15,286,165)	14,811,611
Total assets	$4,506,782,319	264,873,580	2,032,309	1,908,219	352,285,944	8,583,459	289,918,443	(319,337,352)	5,107,046,921
Total Liabilities	$4,232,836,373	264,873,580	1,895,805	1,546,447	341,493,936	5,091,985	17,013,738	(30,167,722)	4,834,584,142

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	9,220,210	173,352	1,184	(169,308)	73,983,770
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	9,020,526	143,038	(129,124)	-	37,440,089
Non-interest income, net	7,480,963	4,030,766	264,657	403,221	(42,634,796)	401,406	400,418	(375,103)	(30,028,468)
Net revenue	34,251,062	5,665,922	264,737	403,535	(33,614,270)	544,444	271,294	(375,103)	7,411,621
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)	(267,533)	139,814	(21,505,411)
Continuing operating income before income tax	$ 10,078,186	-	156,958	318,205	(2,528,836)	142,823	3,761	(235,288)	7,935,809
Continuing operating income after income tax	$ 8,395,528	-	156,459	318,205	(2,509,604)	121,839	6,355,611	(6,501,179)	6,336,859
Total assets	$4,489,795,554	246,237,272	2,063,483	1,531,741	357,342,485	9,739,311	271,318,312	(307,030,097)	5,070,998,061
Total Liabilities	$4,235,423,437	246,237,272	1,906,525	1,213,536	345,542,192	6,225,079	17,311,151	(36,544,975)	4,817,314,217

Steadying Force

An Irreplaceable Bulwark of Stability



VII Financial Status, Financial Performance, and Risk Management

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VII. Financial Status, Financial Performance, and Risk Management

1. Financial Status

Unit: NT$1,000

Item \ Year	2016	2015	Difference	
			Amount	%
Cash and cash equivalents	278,860	256,670	22,190	8.65
Receivables-net	5	24	-19	-79.17
Current tax Assets	302,139	412,706	-110,567	-26.79
Investment at equity recognized under equity method-net	288,727,704	270,161,803	18,565,901	6.87
Fixed assets-net	5,809	5,938	-129	-2.17
Intangible assets-net	292	302	-10	-3.31
Other assets-net	22,660	16,372	6,288	38.41
Total assets	289,337,469	270,853,815	18,483,654	6.82
Payables	22,193	19,799	2,394	12.09
Other loans	16,750,000	17,050,000	-300,000	-1.76
Debt reserves	102,318	99,839	2,479	2.48
Other debt	179	333	-154	-46.25
Total debt	16,874,690	17,169,971	-295,281	-1.72
Capital	90,000,000	90,000,000	0	0
Additional paid-in Capital	111,385,217	111,385,217	0	0
Retained earnings	54,001,023	40,005,351	13,995,672	34.98
Other items of shareholders' equity	17,076,539	12,293,276	4,783,263	38.91
Total shareholders' equity	272,462,779	253,683,844	18,778,935	7.40

2. Financial Performance

Unit: NT$1,000

Item \ Year	2016	2015	Difference	
			Amount	%
Investment Income Recognized Under Equity Method	15,089,806	6,482,932	8,606,874	132.76
Other Income	2,746	2,905	-159	-5.47
Operating Expenses	-162,772	-142,118	-20,654	14.53
Other Expenses & Losses	-152,885	-140,521	-12,364	8.8
Net Income Before Income Tax	14,776,895	6,203,198	8,573,697	138.21
Income tax benefits	34,716	133,661	-98,945	-74.03
Consolidated Net Income	14,811,611	6,336,859	8,474,752	133.74
Other Comprehensive Income (Loss) for the Period	3,967,324	-8,987,084	12,954,408	-
Total Comprehensive Income(Loss) After Tax for the Period	18,778,935	-2,650,225	21,429,160	-

3. Cash Flows

(1) Analysis of Cash Flow Changes in 2016

Item \ Year	2016	2015	Change(%)
Cash flow ratio	2,100.17	-714.91	-
Cash flow adequacy ratio	109.95	104.30	5.42
Cash flow satisfied ratio	33,244.65	-2.57	-

(2) Cash Liquidity in the Coming Year

Unit: NT$1,000

Beginning cash balance	Net cash flow from operating activities for entire year	Net cash outflows for entire year	Cash surplus(or deficit)	Measures to make up for cash deficit
278,860	-253,741	371,464	396,583	None

4. Impact of Material Capital Expenditures on Financial and Operating Condition in 2016: None

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

(1) Policy on 2016 Strategic Investments

Acting in line with the Group's development roadmap, TFH intends to tap into group synergies, enhance the core competencies of its subsidiaries, continue working to put the Group on stronger financial footing, consolidate the Group's competitive advantages, take advantage of business opportunities generated by the government's fiscal and economic policies, and act in a timely manner to build up the Group's business network in countries targeted by the New Southbound Policy, thereby creating impetus for growth.

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

TFH continued to integrate group resources while tapping into the synergies of cross-selling, cost reductions, and capital efficiency. Among our three wholly owned subsidiaries, BOT and BTS were profitable in 2016. BOT, in particular, achieved its best profitability since the establishment of the TFH Group. BTLI suffered foreign exchange losses that forced it to set aside additional policy reserves, and it also made a concerted effort to sell more long-term installment-premium products. These factors eroded first-year earnings, resulting in losses. The company has already drawn up measures to rework its product structure and improve capital allocations to make up for negative margins and work toward achieving the goal of improving profitability.

(3) 2017 Investment Plan

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

6. Risk Management

(1) Risk Management Structure and Policy

i. Risk Management Structure

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

(A) The Board of Directors is TFH's highest risk management unit, and bears ultimate responsibility for the overall level of risk borne by the group.

(B) The Risk Management Committee reports to the Board of Directors, implements the risk management decisions adopted by the Board, and acts as a liaison between group members on risk management matters.

(C) The Department of Risk Management is an independent risk management unit. It is in overall charge of all risk management matters, monitors the implementation of risk management decisions and directives adopted by the Board of Directors and the Risk Management Committee, and reports to them on the findings of its monitoring operations.

(D) At each Group subsidiary, the Board of Directors is the highest risk management unit, and bears ultimate responsibility for the company's overall risks. Each subsidiary has a risk management committee and an independent risk management unit that is responsible for monitoring and controlling of risks.

(E) Each TFH subsidiary is expected to: identify, assess, and control risks connected with the businesses it runs and any new-type business or new-type product associated therewith; adopt risk management rules; enforce and review those rules; and cooperate with the efforts of the Risk Management Department to implement risk controls.

(F) The risk management unit at TFH and each of its subsidiaries reports regularly to the Board of Directors and the Risk Management Committee on the status of risk management in the areas it is responsible for, so that we can be aware of whether our risks are within acceptable bounds.

ii. Risk Management Policy

To strictly implement legal compliance and spur sound business practices throughout the group, TFH and its subsidiaries are paying close attention to the full range of risks, both on and off the balance sheet. In addition to complying with the requirements of the competent authority, each company in the group has also adopted risk management bylaws and procedures appropriate for the nature and size of its business.

(2) Methods for measuring and controlling risks, and exposure quantification information

i. Guidelines for management of credit risks

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

(B) In order to better control credit risks, TFH subsidiaries mitigate or transfer risks by, for example, demanding collateral or guarantees, entering into bilateral or multilateral netting agreements, including early termination clauses in contracts, and using credit derivatives or other risk transfer instruments.

(C) TFH subsidiaries have established credit risk information management systems, and take internal historical information on credit risks and retain it on file, as their internal rules require.

(D) In response to macroeconomic conditions, and in line with the characteristics of different customers and transactions, TFH subsidiaries identify and measure credit risks, and carry out appropriate monitoring and control. Group subsidiaries have adopted risk exposure and concentration limits for counterparties from different industries, and these are adjusted in response to changing economic conditions and evolving business strategies.

ii. Guidelines for management of market risks

(A) TFH subsidiaries regularly carry out market assessments for their investment positions in order to effectively control market risks.

(B) TFH subsidiaries are gradually setting up market risk information management systems, and taking internal historical information on market risks and retaining it on file. For different categories of products, revenues, risk exposures, and transaction amounts, group subsidiaries carry out assessments and make regular updates.

(C) The risk factors (e.g. interest rates, exchange rates, and price volatility) monitored by the market risk management systems of TFH subsidiaries are identified and measured as on-balance sheet and off-balance sheet market risks, and are considered in their totality by the subsidiaries when they adopt risk limits, transaction caps, authorized trading amounts, and stop loss requirements. In addition, possible adjustments are considered from time to time in response to changing economic and financial conditions.

iii. Guidelines for management of liquidity risks

(A) TFH and its subsidiaries have adopted liquidity risk management rules (including an emergency response plans, strategies, and measures) appropriate to their respective businesses, and maintain suitable liquidity ratios and duration gaps. In addition, they have multiple funding sources to ensure a sufficient level of diversity.

(B) In order to reduce the adverse impact of insufficient liquidity, and to respond to changing economic and financial conditions, TFH and its subsidiaries have adopted liquidity risk indicators and limits, and they carry out analyses to predict the state of liquidity and funds under different situations, so as to develop response strategies. Possible amendments to related company by-laws are considered in a timely manner.

iv. Guidelines for management of operational risks

(A) For each line of business, TFH and its subsidiaries have adopted operating procedures, established schemes for the segregation of authority and duties, and set up internal checks and balances. These measures are intended to reduce the occurrence of errors and malfeasance.

(B) TFH and its subsidiaries collect information on losses stemming from operational risks and retain the information on file, as required under the companies' internal rules. In addition, they analyze operational risk losses in order to provide a basis of reference for efforts to improve internal control procedures.

(C) When losses occur, TFH and its subsidiaries handle them in accordance with their internal rules. When a material loss occurs, they report it to the appropriate government authority, which then escalates the matter within the organization and notifies the TFH Risk Management Department to deal with it. In addition, such a matter will, if necessary, be reported to local law enforcement bodies or another appropriate authority to seek emergency remedy.

v. Rules governing capital adequacy

(A) TFH and its subsidiaries effectively manage capital adequacy in accordance with the competent authority's capital adequacy regulations and related requirements in order to improve capital efficiency and strengthen their ability to respond to financial and economic conditions.

(B) TFH and its subsidiaries cannot let their capital adequacy ratios fall below the competent authority's required minimum, and they must regularly report information on their capital adequacy ratios to the competent authority.

(C) In order to maintain the Group's capital adequacy, TFH and its subsidiaries have adopted capital adequacy target ratios and warning ratios, and have submitted these to the TFH Risk Management Committee for its reference. When a capital adequacy ratio approaches or breaks below the warning ratio, the company in question must take timely action to address the problem.

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

i. The competent authority amended AML/CFT rules for banks, insurers, and securities firms, and re-examined the FATF 40 Recommendations with an eye to toughening Taiwan's AML/CFT regulations and implementing them more thoroughly. These measures will help to improve internal control and internal audit systems.

ii. The Financial Supervisory Commission amended the "Directions Governing Limitations on Types and Amounts of the Securities in which a Commercial Bank May Invest" to ease restrictions on the amount that a domestic bank is allowed to invest in domestic OTC stocks. This amendment has made it possible to for Group subsidiary BOT to invest more flexibly in securities and achieve better capital efficiency.

iii. The FSC amended the "Regulations Governing Foreign Investments by Insurance Companies," adding new provisions which: (a) allow an insurer to invest in bonds issued or guaranteed by overseas local governments, or in foreign-currency negotiable certificates of deposit issued by a Taiwan branch (including an offshore banking unit) of a domestic bank, a mainland bank, or a foreign bank; and (b) set out requirements regarding investment conditions and investment limits. The amended provisions have effectively expanded the range of capital allocation options.

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

Respond to the trend toward digital financial services by pushing for innovation of products, channels, workflows, data analysis, and human resources; build up customer-driven online/offline channels and mobile services platforms to provide customers with comprehensive digital financial services; set up smart service counters at business locations in order to improve service quality and reduce staffing requirements; implement forward-looking services; actively integrate the Group's domestic and overseas Fintech patents, and expand the range of mobile services to meet the demands of the touch-screen generation; and launch a pre-application procedure for customers seeking student loans (under this procedure, a loan seeker first accesses an application form online and fills it out, then goes to a service counter for offline confirmation of identity) to simplify the application process and wins more customers among the up-and-coming digital generation.

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

The TFH group is guided by a "customer first" philosophy. It continues to take active part in community service activities, supports social service groups and the disadvantaged, and provides financial sponsorship for many types of cultural, artistic and sports events in a concerted effort to give back to society. TFH was selected by the Financial Supervisory Commission as the top-performing investor in creative industries in the financial holding companies category. BOT had another banner year for awards in 2016: (a) received its eleventh consecutive gold award and in the Reader's Digest Trusted Brands survey; (b) claimed top market share in Taiwan among lead arrangers and syndicate managers for the fifth consecutive year; (c) for the third consecutive year received the Joint Credit Information Center's Golden Quality Award and Golden Security Award for information security management and credit reporting; (d) was the number one financial holding company or bank on Cheers magazine's list of the "most admired companies in the new age" for the third consecutive year; (e) received Superior Government Service Quality Awards from the Ministry of Finance, one in the "front line financial services firms" category, and one in the "services planning firms" category, was recognized by the Ministry of Finance as a "Top-Performing Financial Institution for Export Insurance Referrals," and received a "Human Resources Organization Performance Evaluations Award" from the Ministry of Finance, which named TFH number one in the Business Organizations category; (f) received the "Award for Outstanding Assistance to Young Entrepreneurs"; (g) received a 2nd place award from the Financial Supervisory Commission for "Financial Institutions with the Best Performance in Preventing Financial Scams"; (h) received the "Award for Best Trust Services" at the awards for financial industry excellence of the Taiwan Academy of Banking and Finance; (i) Wealth magazine handed BOT a prize for excellence in its "Best Digital Bank" category;(j) was awarded a "Best Business Development Award" and an "Award for Innovative Excellence" by the Financial Information Service Corporation, and was named a "stellar enterprise" in the Corporate Social Responsibility YearBook 2016 published by Economic Daily News. BTLI received public recognition from the FSC for its excellent performance in promoting sales of microinsurance, while the Risk Management, Insurance & Finance Foundation recognized the company in its "Insurance Excellence Awards," and Excellence magazine gave BTLI a "Sustainability Award" in its ratings of Taiwan's best insurers.

(6) Expected benefits of any mergers or acquisitions, as well as possible risks and any response measures being or to be taken: None.

(7) Concentration Risks and Response Measures

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

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

None. (TFH is a state-owned enterprise with its shares 100% owned by MOF. All our directors and supervisors are the Ministry's juristic-person representatives.)

(9) Effect upon and risk to company associated with any change in governance personnel or top management, and response measures being or to be taken

None. (TFH is a state-owned enterprise with its shares 100% owned by MOF. There has been no change in top management.)

(10) Litigious and non-litigious matters

Lawsuit filed by BOT to terminate contract with Tang Eng Iron Works Co., Ltd. for collaborative construction project:

1. Matter at issue: In 1984, BOT exercised a lien on a textile factory in Taoyuan belonging to the former Fu Hsin Textile Company and listed the property on its books as "foreclosed collateral." On 15 November 1993, BOT and Tang Eng Iron Works Co., Ltd. ("Tang Eng") entered into a "Collaborative Development Contract to Use the Land at the Taoyuan Factory of the Former Fu Hsin Textile Company for the Construction of a Building." A dispute subsequently arose between the two parties over the question of whether the contract had entered into force, and multiple discussions between BOT and Tang Eng failed to yield a resolution. For this reason, a resolution was adopted at the 2nd meeting of the 3rd BOT Board of Directors on 24 November 2006 that the company would file a lawsuit against Tang Eng seeking termination of contract.
2. Value of the claim: Approximately NT$4.37 billion, said figure representing the 2016 announced current value of the property at issue
3. Date of commencement of proceedings: 2 March 2007.
4. Main parties: BOT and Tang Eng.
5. Current status of the proceedings: BOT received a favorable judgment of first instance, and an unfavorable judgment of second instance. After an appeal to the court of third instance, the Supreme Court ruled on 20 June 2012 that the appeal had merit, and therefore vacated the judgment of second instance and remanded the case for a retrial by the Kaohsiung Branch Court of the Taiwan High Court (hereinafter, "Kaohsiung High Court"). The Kaohsiung High Court issued a judgment on 18 February 2014 (Ref.: Judgment Chong-Shang-Geng (1) Zi No. 13) that: (a) upheld the judgment of first instance, which had found that the contract for a collaborative construction project had been lawfully terminated by BOT; and (b) dismissed the appeal of Tang Eng. Tang Eng objected to this judgement and appealed once again to the Supreme Court. On 2 April 2015, the Supreme Court issued a judgement (Ref.: Judgment Tai-Shang Zi No. 555) that: (a) found the appeal had merit; (b) vacated the judgment of first instance, which had been favorable to BOT; and (c) remanded the case for a retrial by the Kaohsiung High Court. The second retrial of the case is still ongoing at the Kaohsiung High Court.

7. Crisis Management Mechanism

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

VIII. Miscellaneous

1. TFH Affiliates

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

Name	Date Founded	Address	Paid-in Capital	Main Businesses
BOT	May 20, 1946	No. 120, Sec.1, Chongqing S. Rd., Taipei City, Taiwan	NT$95 billion	Banking
BTLI	Jan 2, 2008	6F., No.69, Sec.2, Dunhua S. Rd., Taipei City, Taiwan	NT$22.5 billion	Life Insurance
BTS	Jan 2, 2008	4-9F., No.58, Sec.1, Chongqing S. Rd., Taipei City, Taiwan	NT$3 billion	Securities
BTIB	Jan 23, 2013	4F., No.49, Sec.1, Wuchang St., Taipei City, Taiwan	NT$20 million	Insurance Brokerage

2. Domestic and Overseas Branches of BOT

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

3. Domestic Branches of BTLI

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

4. Domestic Branches of BTS

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

5. Domestic Service Units of BTIB

Please refer to BTIB website: www. botib.com.tw

Taiwan Financial Holdings

Chairman

Taiwan
Financial
Holdings

臺灣金控
Taiwan Financial Holdings

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