Stock Code:5868

Taiwan Financial Holdings

2015
ANNUAL REPORT

www.twfhc.com.tw
Date of Publication: July 2016

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2015
ANNUAL REPORT

Taiwan Financial Holdings

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Taiwan Financial Holdings Annual Report

Published by: Taiwan Financial Holding Co., Ltd.
Address: No.120, Sec. 1, Chongqing S. Rd., Zhongzheng Dist., Taipei City, Taiwan (R.O.C.)
Tel: +886-2-2349-3456
Website: www.twfhc.com.tw/eng
Date of Publication: July 2016
Date of First Issue: July 2009
Issuing Frequency: Annually
Cost of Production: NTD 1250

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*Soft Copy of TFH's Annual Report is Available at TFH's Official Website: www.twfhc.com.tw/eng

GPN: 2009802894
ISSN: 2078-726X (Hard Copy)
2078-7286 (Soft Copy)

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National Brand

Government Backing Translates to Solid Market Position.

Taiwan Financial Holdings

臺灣金控
Taiwan Financial Holdings

I. Message to Shareholders

II. Company Profile

III. Corporate Governance

1. Organization
2. Chairperson, President, Executive Vice President, and Department Heads

I. Message to Shareholders

Among the world's advanced economies in 2015, economic recovery was sluggish. Crude oil prices remained depressed, and the pace of economic growth declined in mainland China and other developing economies. As a result, global economic performance was lackluster. According to figures released by Global Insight, the global economy grew by 2.5% in 2015, down from 2.7% in 2014. Unstable international financial conditions caused Taiwan's exports to decline. Meanwhile, domestic demand-driven consumption and investments were insufficient. According to the Directorate-General of Budget, Accounting and Statistics (DGBAS), Taiwan's economy grew by 0.75% in 2015, down from 3.92% in 2014.

Despite unstable conditions in the larger economic and financial environment, however, the Taiwan Financial Holdings (TFH) Group still had an outstanding year thanks to the tremendous efforts of management and staff. The group's consolidated earnings after tax in 2015 totaled NT$6.337 billion, or 146.52% of the target, and consolidated earnings per share (EPS) after tax hit NT$0.70. After factoring out the burden shouldered by the group in supporting government policy, the group actually achieved profits of over NT$14.5 billion, EPS of NT$1.62, return on assets (ROA) of 0.32%, and return on equity (ROE) of 5.68%.

The group's core subsidiary, the Bank of Taiwan (BOT), achieved earnings before tax of NT$10.602 billion, the first time it has topped NT$10 billion in recent years and a new high since the founding of TFH. Earnings after tax came to NT$8.872 billion, or NT$17.1 billion after factoring out the burden of supporting government policy. In the meantime, BOT achieved EPS of NT$1.80, ROA of 0.40%, and ROE of 6.73%. Even as its profitability has continually risen to new highs, BOT has also closely managed risks. Its NPL ratio has gone down year after year, the NPL coverage ratio has risen sharply, and loan loss reserves are the highest in the industry. Asset quality has continually improved, and is now at its best ever.

BankTaiwan Life Insurance (BTLI) achieved gross premiums of NT$31.4 billion in 2015, or 130.89% of its annual target. However, conditions in the financial industry were poor, and the company had to set aside additional policy reserves to comply with the government's supervisory policy. In addition, increased commission payouts and negative interest spreads generated losses. These factors resulted in an after-tax loss of NT$2.51 billion, with a loss per share of NT$1.36, ROA of -0.67%, and ROE of -19.89%. Nevertheless, BTLI's 13- and 25-month persistency rates both remained above 98%, among the best in the industry, and customer satisfaction was above 99%, with the company winning strong praise for the quality of its products and services.

Chairperson　Jih-Chu Lee

BankTaiwan Securities (BTS) worked hard in 2015 to expand its business, and the FSC continued pursuing a stock market stimulus policy, which resulted in a stellar performance despite the impact of weaker-than-expected global economic growth. The company achieved after-tax earnings of NT$122 million, EPS of NT$0.41, ROA of 1.17%, and ROE of 3.44%.

In order to increase synergies, the TFH Group continued to enhance its cross-selling mechanisms, expanded the benefits of integration, and actively helped group subsidiaries to adjust their business strategies and product structures while strengthening their organizations. Under the group's integrated resource management, the subsidiaries all worked together on cooperative marketing of BTLI's long-term installment-premium insurance products, which sharply boosted first-year premiums. As a result, first-year premium equivalent as a percentage of first-year premiums (i.e. the FYPE-to-FYP ratio) was far above the industry average. This effectively strengthened the company, reduced its shortfall in reserves, and yielded a big breakthrough in the company's effort to achieve a business transformation.

As for internationalization, to support the global expansion plans of Taiwan-invested enterprises and accelerate moves to build up a stronger presence in the Asia-Pacific region, the BOT increased its overseas business locations from 8 to 12 over the past two years. In 2015, the Bank set up a sub-branch in Jiading (under the Shanghai Branch), a Guangzhou branch (China), and a representative office in Yangon, Myanmar, and is currently working to establish branches in Fuzhou (China) and Sydney (Australia). At the same time, in order to strengthen international exchange and cooperation, BOT has signed MOUs for cooperation with financial services firms in Japan and Myanmar, and with North American Trust, Inc. Such relationships should help BOT develop niche strengths in specific businesses and markets.

As for the Bank 3.0 initiative, BOT moved to seize upon digital banking business opportunities by launching the "Bank of Taiwan Checkout Counter," a platform for online transaction collection and payment services (third-party payments) designed to provide customers with a more convenient and reliable online transaction environment. BOT is the only state-owned bank among the first group of banks to receive a license to operate a third-party electronic payment service as a side business, and was awarded a certificate by the Executive Yuan as an "Outstanding Promoter of Microbusiness Opportunities in Year One of the Electronic Payments Era."

President Chang-Ruey Shiau

In response to the aging of Taiwan's population, TFH continued building out group wide platforms and used the trust business to roll out appropriate financial products and accompanying services. The Group built up its retirement trust business, launched a number of products suited to the needs of an aging society (including health and cancer insurance, as well as pay life endowment insurance), commenced insurance policy conversion services, and studied the possible launch of reverse mortgage products as well as combination products tailored to the needs of senior citizens. The Bank worked hard to establish a brand image as a leading provider of senior-citizen financial products, so as to fulfill its corporate social responsibilities in the course of its business operations.

In addition, the TFH Group has actively assisted the needy and supported community service activities each year, and these efforts have elicited an enthusiastic public response. To ensure that compassion continues uninterrupted, BOT established the Bank of Taiwan Angel Heart Social Welfare Fund in December 2015, thus blazing a new trail for the financial services industry. As the only social welfare fund established with donations from the employees of financial institutions, the Bank of Taiwan Angel Heart Social Welfare Fund makes use of the expertise of financial industry professionals to help people prepare for their old age, take care of the underprivileged, and continue to take a systematic approach to promote corporate social responsibility.

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 2015, BOT 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. BTLI received long-term credit ratings of twAAA from TRC and S&P A+ from 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.

The TFH Group in recent years has developed both innovative capacity and stability, and provided outstanding financial services, earning high praise for its corporate finance, consumer finance, wealth management, electronic banking, and innovation, and in the past two years has won more than 10 awards. BOT hit a historic high in 2015 as a lead arranger by claiming a 36% share of the syndicated loans market, claiming top market share in Taiwan among lead arrangers

and syndicate managers for the fourth consecutive year. The Asia Pacific Loan Market Association (APLMA) selected BOT as Taiwan's Syndicated Loan House of the Year, and BOT won the Joint Credit Information Center's Golden Quality Award and Golden Security Award for information security management and credit reporting, becoming the only company to win these two awards for a second consecutive year. In addition, Global Views Monthly awarded BOT its first "Five Star Award" for Best Wealth Management.

In order to establish a strong foundation for sustainable development, the TFH Group worked actively in 2015 for passage of an amendment to the Act of Taiwan Financial Holding Co., Ltd. and success came with promulgation of an amended act on 6 January 2016. Under the amended provisions, the government is allowed to use real estate as contribution payment for capital increase. This marks a first in Taiwan's banking industry. In addition, the group has also taken many other measures to secure access to stable long-term funding, and considerable success has been achieved. This will help group subsidiary BOT to shore up its capital and strengthen its business capabilities.

In 2016, in order to respond to the trend toward digital financial services and strengthen its competitive advantages, the TFH Group will pursue a number of business strategies designed to seize upon emerging business opportunities, grow the group's businesses, and enhance profitability. Such strategies include: construction of a smart e-building to serve as a second headquarters building; achieving financial innovation; creating a cloud banking environment that integrates the online and brick-and-mortar elements of the business; cultivating personnel with multiple fields of expertise; building up generational wealth management business; actively building a stronger overseas presence; securing stable long-term funding; integrating charitable trust services into the group's businesses; and ensuring stability in the subsidiaries' business operations. The overarching goal is to live up to the core values to which we are rightly committed as a state-owned financial holding company, in hopes of taking our business to new heights of profitability.

Chairperson

President

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

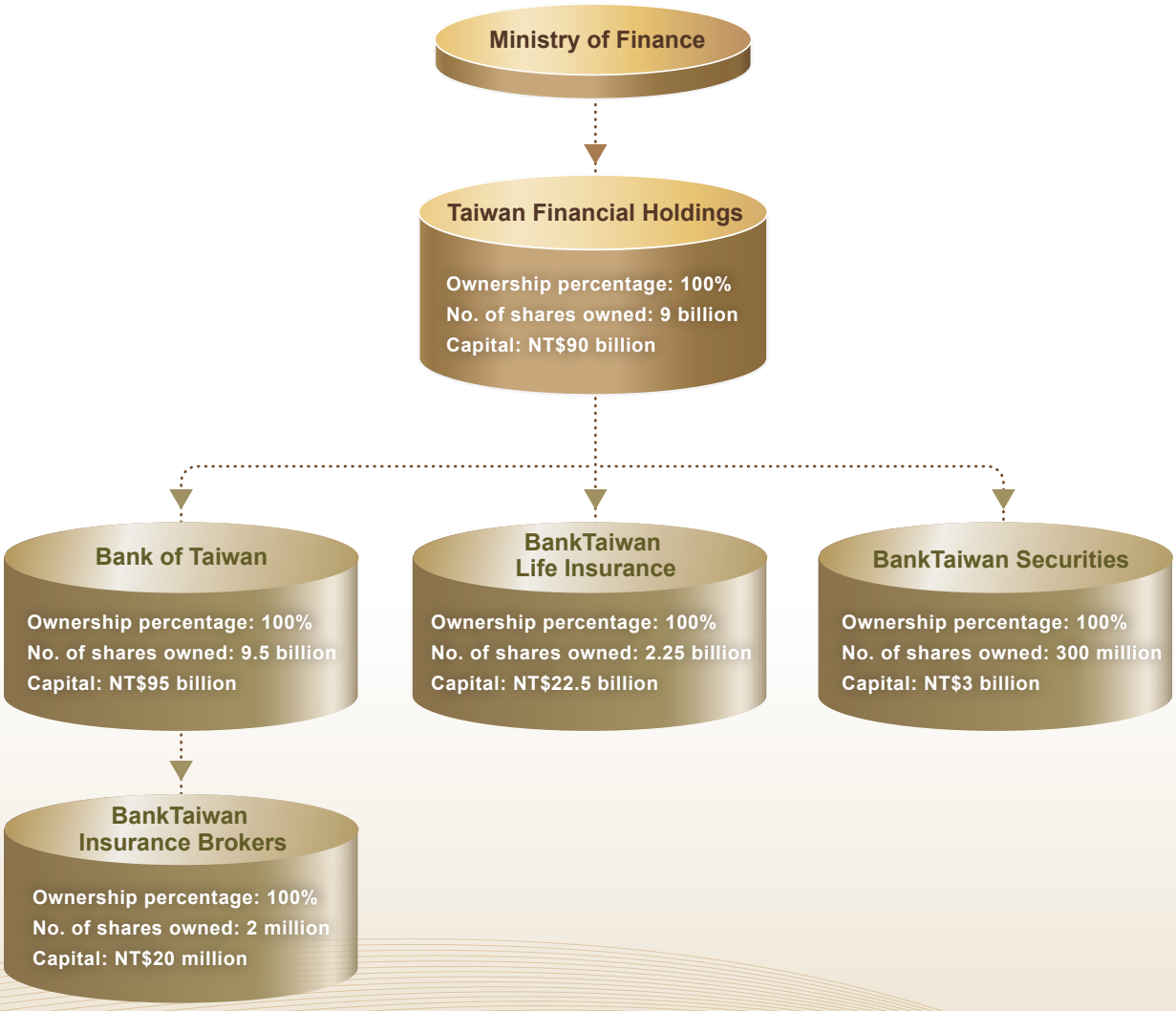
None

1. Chairperson Jih-Chu Lee
2. President Chang-Ruey Shiau
3. Executive Vice President Hong-Chi Chang
4. Executive Vice President Yu-Chih Liu
5. Executive Vice President & General Auditor Li-Shieu Tsai
6. Chief Compliance Officer Su-Lan Lin

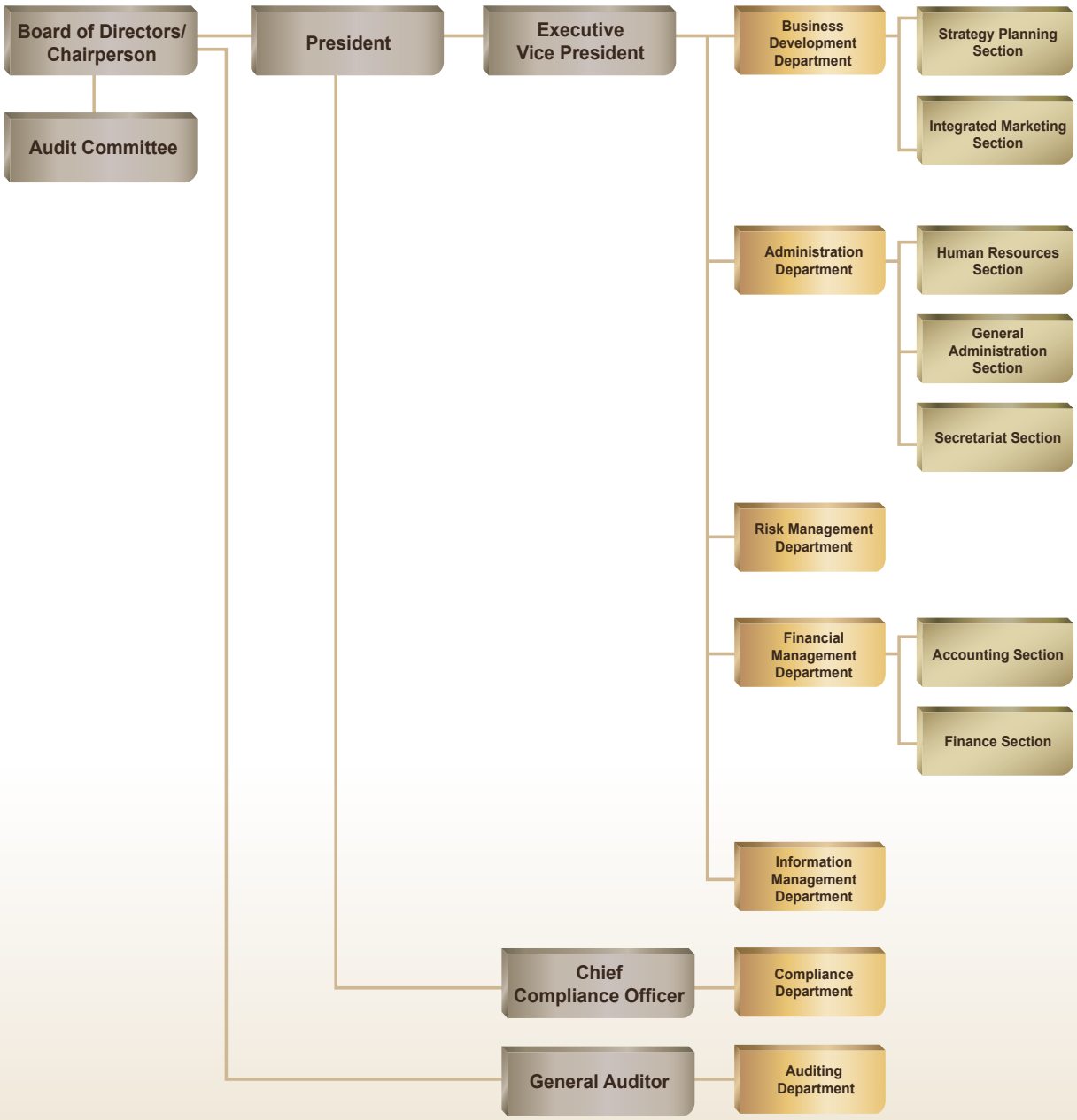
III. Corporate Governance

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.

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. Chairperson, President, Executive Vice President, and Department Heads

As of March 31, 2016

Position	Nationality	Name	Date of Employment	Shares Held	Education and Career	Positions Held with Other Companies
Chairperson	Republic of China	Jih-Chu Lee	Aug.9, 2013	Shares 100% Owned by MOF	Ph.D. in Economics, National Taiwan University Vice-Chairperson, Financial Supervisory Commission (Cabinet level), R.O.C. Member of Board, Mega Financial Holding Company Member of Supervisory Board, Taiwan Cooperative Bank Chairperson, Chunghwa Post Co., Ltd. Professor, Department of Economics, National Chengchi University Chairperson, Economic Policy Research Center, National Chengchi University Legislator, Legislative Yuan, R.O.C. Chairperson (Minister), National Youth Commission, Executive Yuan (the Cabinet), R.O.C. Member of Board, Chunghwa Telecom Co., Ltd. Visiting Scholar, Department of Economics, Harvard University, U.S.A. Visiting Scholar, Department of Economics, Stanford University, U.S.A. Professor, International Finance Teachers Training Program, Johns Hopkins University, U.S.A. Vice- Chairperson, Financial Reconstruction Fund Management Committee, Executive Yuan, R.O.C. Chairperson, Financial Research and Development Fund, R.O.C. Chairperson, Committee for the Administration of Development of Insurance Business, R.O.C. Advisor, Public Service Pension Fund, Supervisory Board, R.O.C. Committee Member, Mainland Affairs Council, Executive Yuan, R.O.C. Member of Board, Straits Exchange Foundation Member of Board, Commerce Development Research Institute Adviser, Chinese National Association of Industry and Commerce,Taiwan (CNAIC) Adviser, Chung-Hua Institute for Economic Research Jury Member, Panel of New Chinese Economic Leader, World Economic Forum Selection committee member, Principal selection committee, National Central University Committee member, School Development Advisory Committee, National Chengchi University Vice-President, the Harvard University Alumni Club of R.O.C. Supervisor, Eisenhower Fellows Association in R.O.C.	Chairperson, Bank of Taiwan Co., Ltd Chairperson, The Bankers Association Of The Republic Of China. Vice Chairperson, Taiwan Financial Services Roundtable Co Ltd. Committee Advisor, Financial Technology Advisory Committee, Financial Supervisory Committee (Cabinet Level), R.O.C. Member of Board, Taiwan Stock Exchange Corporation (TWSE) Member of Board, Taiwan Futures Exchange Corporation (TAIFEX) Committee Member, Industry Consultation Committee, Ministry of Economic Affairs Member of Board, Joint Credit Information Center (JCIC) Committee Member, Board of Directors, and Member of Board,Training and Research Steering Committee, Taiwan Academy of Banking and Finance Member of Board, Taiwan External Trade Development Council (TAITRA) Vice Chairperson, Monte Jade Science & Technology Association of Taiwan Adjunct Professor, Department of Economics & Department of Business Administration, National Chengchi University Committee member, President reappointed evaluation committee, National Taiwan University Committee Member, National University Consolidation Deliberation Committee, Ministry of Education, Executive Yuan, R.O.C Committee Member , Steering Committee, National Palace Museum Member of Board, Pension Fund Association, R.O.C. Honorary Vice-President, National Association of Young Entrepreneurs, R.O.C.(TAIWAN) Managing Director, General Chamber of Commerce of the Republic of China Vice- President, Ten Outstanding Young Persons Association, R.O.C. Managing Supervisors, Cross-Strait Entrepreneurs Summit Member of Board, The Asian Bankers Association Committee Member, Utilization Team of Long-term Funding, National Development Council, Executive Yuan, R.O.C. Committee Member, Financial Technology Development Fund Committee of Taiwan Financial Services Roundtable (TFSR) Managing Supervisors, Taiwan Mergers & Acquisitions and Private Equity Council Committee Member, Digital Content Industry Committee, Executive Yuan, R.O.C.

Position	Nationality	Name	Date of Employment	Shares Held	Education and Career	Positions Held with Other Companies
President	Republic of China	Chang-Ruey Shiau	Mar.03.2014	Shares 100% Owned by MOF	LL.B National Chung Hsing University Chief of Staff to the Vice President of the Republic of China (Taiwan) Director-General, Department of Fiscal, Statistical and Financial Affairs, Executive Yuan, R.O.C. Counselor and Director, the 4th Department, Executive Yuan, R.O.C. Chief Secretary, Financial Supervisory Commission, R.O.C Deputy Director-General, Banking Bureau, Financial Supervisory Commission, R.O.C Commissioner, Legal Affairs Committee, Executive Yuan, R.O.C. Director, Taiwan Cooperative Financial Holding Co., Ltd.& Taiwan Cooperative Bank	President, Bank of Taiwan Co.,Ltd. Managing Director, Bank of Taiwan Co.,Ltd. Director, Taiwan Small Business Integrated Assistance Center Adviser, The Bankers Association of the Republic of China Director, Taipei Interbank Money Center, The Bankers Association of the Republic of China Adviser, The Bankers Association of Taipei Committee Member, Public Finance and Finance Research Center, National Taipei University
Executive Vice President	Republic of China	Hong-Chi Chang	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	Republic of China	Yu-Chih Liu	Jan.16.2013		B.A. of Business Administration, National Taiwan University SVP & Chief Financial Officer, Taiwan Financial Holding Co., Ltd. Supervisor, BankTaiwan Insurance Brokers Co., Ltd. Director, China Development Financial Holding Co., Ltd. SVP & General Manager, Department of Treasury, Bank of Taiwan Co.,Ltd. SVP & General Manager, Department of Trusts, Bank of Taiwan Co.,Ltd. SVP & General Manager,Department of Trusts, Central Trust of China	Director, Bank of Taiwan Co.,Ltd. Committee, Financial Holding Business Committee ,The Bankers Association of the Republic of China Director of Administration and Training Committee, Trust Association of R.O.C.
Executive Vice President & General Auditor	Republic of China	Li-Shieu Tsai	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	Republic of China	Su-Lan Lin	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

Position	Nationality	Name	Date of Employment	Shares Held	Education and Career	Positions Held with Other Companies
Senior Vice President & Chief Secretary	Republic of China	Rong-Yaw Pan	Jan.22.2015	Shares 100% Owned by MOF	M.A in Public Finance, National Chengchi University SVP & Deputy Chief Secretary, Bank of Taiwan Co.,Ltd. General Manager, Sungchiang Branch, Bank of Taiwan Co.,Ltd. General Manager, Singapore Branch, Bank of Taiwan Co.,Ltd. General Manager, Wugu Branch, Bank of Taiwan Co.,Ltd. Deputy General Manager, Department of Treasury,Bank of Taiwan Co.,Ltd. Vice President; Deputy General Manager; Assistant Vice President and Secretary, Secretariat, Bank of Taiwan Co.,Ltd. Deputy Division and Specialist, Department of Banking, Central Bank of the Republic of China	Senior Vice President & Chief Secretary, Bank of Taiwan Co.,Ltd. Director, BankTaiwan Securities Co., Ltd. Deputy Executive Secretary, Taipei Interbank Money Center, The Bankers Association of The Republic of China
SVP & Chief Strategy Officer	Republic of China	Man-Yi Chu	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	Republic of China	Lily Lee	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	Republic of China	Cheng-The Chang	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	Republic of China	Jen-Chieh Pan	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	Republic of China	Hsi-Tai Ku	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.

Market Leader

Over a Century at the Forefront of Financial Services

Taiwan Financial Holdings

臺灣金控
Taiwan Financial Holdings

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 0960038139) 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 Years	
			2014	2015
Price Per Share	High		-	-
	Low		-	-
	Average		-	-
Net Worth Per Share	Before Distributions		28.86	28.19
	After Distributions		28.49	28.19
Earnings Per Share	Weighted Average Issued Shares		9,000,000,000	9,000,000,000
	Earnings Per Share(after tax)		0.82	0.70
Dividends Per Share	Cash Dividends		0.37	-
	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 capit alization 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 2015

The TFH Group's audited after-tax earnings for 2015, which included the partial reversal of the current-year allocation to special reserve (a special reserve set aside for the first-time adoption of IFRSs; the pro-rata reversal of the allocation was due to a gain that resulted from revaluation of land assets), 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 2015 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	2015	
	Dollar Amount	Share of Total
Share of profit of subsidiaries, associates and joint ventures accounted for using equity method	6,483,831	100%
Other Operating Revenues	2,905	-
Total Revenues and Gains	6,486,736	100%

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

Please refer to 2016 Business Plan.

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

Unit: NT$1,000

Item / Year	2015	
	Dollar Amount	Share of Total
Net Interest Income	28,406,177	80.67%
Net Fee Income	5,459,197	15.50%
Financial Assets and Liabilities at Fair Value Through Profit or Loss	1,494,095	4.24%
Realized Gains (Losses) on Available-for-Sale Financial Assets	1,496,244	4.25%
Investment Gains/Losses Recognized Under the Equity Method	4,108,527	11.67%
Foreign Exchange Gains/Losses	4,714,349	13.39%
Schedule of Asset Impairment Losses, and Gains on Reversal of Impairment	17,323	0.05%
Schedule of Other Net Non-Interest Income/Losses	-10,481,774	-29.77%
Net Earnings	35,214,138	100.00%

(C) Future Development Plan for New Financial Products and Services:
Please refer to 2016 Business Plan.

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	2015	
	Dollar Amount	Share of Total
Personal Life Insurance	24,070,774	76.63%
Personal Injury Insurance	122,332	0.39%
Personal Health Insurance	832,412	2.65%
Personal Annuity Insurance	6,216,904	19.79%
Group Life Insurance	32,690	0.10%
Group Personal Injury Insurance	108,727	0.34%
Group Health Insurance	27,265	0.09%
Reinsurance Assumed	2,436	0.01%
Gross Premium Income	31,413,540	100.00%

(C) Future Development Plan for New Financial Products and Services:
Please refer to 2016 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	2015	
	Dollar Amount	Share of Total
Securities brokerage income	375,017	66.04%
Interest income	172,702	30.41%
Gain from disposal of securities	41,173	7.25%
Gain on financial assets or liabilities measured at fair value through profit or loss	-90,946	-16.02%
Net gains on writing of call (put) warrants	2,614	0.46%
Dividend income	30,617	5.39%
Net gains (losses) on derivatives	31,903	5.62%
Other operating revenues	4,790	0.85%
Total	567,870	100.00%

(C) Financial products and services to be launched in future:

Please refer to 2016 Business Plan.

(2) 2016 Business Plan

i. TFH

(A) A smart e-building—responding to the age of digital financial services

In response to the needs of the digital financial services age, TFH will plan for the construction of a smart e-building to serve as a second headquarters building to house a number of core units currently scattered throughout Taipei City. The new building will facilitate more efficient lateral communications, provide for digitized workflows, and will be equipped to meet the challenges of the digital financial services age.

(B) Financial innovation—comprehensive digital financial services

In response to the Bank 3.0 trend toward digital financial services, TFH will set up smart service counters at its business locations to provide cross-platform, cross-device comprehensive digital interfaces and services. TFH also plans to make active use of Big Data to keep close track of customer needs and carry out innovation in such areas as products, channels, workflows, data analysis, and human resources. The goal is to build up digital financial services as one of the TFH Group's core competencies.

(C) Cloud banking integrates the online and offline phases—business in the digital age

To seize upon the business opportunities afforded by the emergence of innovative new technologies and services, TFH will 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. This simplifies the application process and wins more customers among the up-and-coming digital generation.

(D) Dual-track development of human resources—cultivating personnel with multiple fields of expertise

TFH intends to: step up its hiring of professionals in key fields (e.g. digital financial services, e-commerce, information technology, banking, insurance, trust services, wealth management, legal affairs, and international financial services); cultivate people with dual expertise in the two core specialties of financial services and digital technology; implement the Training Program for International Financial Professionals; push for deregulation to meet business needs; and hire senior professionals with international market experience and extensive relationships within the industry, so as to expand the Group's international business.

(E) Generational wealth management—brand image as a leading provider of senior-citizen financial products

Strengthen the Group's wealth management business to provide comprehensive consulting and services designed to provide for the lifetime financial needs of everyone in the customer's family; work to establish a brand image as a leading provider of senior-citizen financial products in order to help customers prepare for old age, financial needs, and estate planning; continue promoting retirement trusts; and study the possible launch of reverse mortgage products as well as combination insurance products tailored to the needs of senior citizens.

(F) Stronger overseas presence—building an international business network

Accelerate the completion of planned business locations in mainland China and around the Asia-Pacific region, and continue evaluating the possible of further branch units in order to complete the Group's overseas business network; actively search international markets for tie-up partners that offer high visibility or are active in complementary lines of business, with an eye to expanding the business scope of overseas branches and boosting our overseas business capabilities and visibility; and seize upon the internationalization of the RMB to become a premier bank for offshore RMB services.

(G) Stable long-term funding—stronger capital, sound operations

TFH has achieved preliminary success in its effort to alleviate the capital shortfall at BOT, the Group's core subsidiary. In order to continue developing its various lines of business, TFH will continue communicating with the Legislative Yuan and the competent authority to gain permission to reduce or discontinue its contributions to the national treasury, and increase retained earnings. The group will also search for multiple sources of stable long-term funding so as to bolster capital and ensure sound business operations.

(H) Charitable trust services—helping to improve the nursing home system

TFH employees provided donations to fund the establishment of the Bank of Taiwan Angel Heart Social Welfare Fund, which makes use of the expertise of financial industry professionals to help people prepare for their old age, and take care of the underprivileged. In this and other ways, the TFH Group will continue to take a systematic approach to its community service activities with an eye to fulfilling its corporate social responsibility and helping to improve the nursing home system.

(I) Sound management of subsidiaries—stronger companies, better performance

Enhance BOT's competitive advantages, launch innovative new products and services, and continue posting strong profits; help BTLI accelerate its business transformation and optimize business management; help BTS strengthen its core businesses and contribute a larger share of group wide profits; and urge BTIB to take on appropriate new products to help the life insurance business and boost the wealth management business.

(J) Seeking amendments to the Act of Taiwan Financial Holding Company—for a more competitive TFH Group

In order to develop the TFH Group in a sound and sustainable manner, and to strengthen its ongoing ability to shoulder the burden of supporting government policy, TFH will continue to push for further amendments to the Act of Taiwan Financial Holding Company to seek easing of regulatory restrictions on its handling of such matters as human resources, purchasing, and budgets. TFH needs to be able to compete on a level playing field with other privatized financial institutions in which the government continues to hold a controlling or substantial interest, so that it can strengthen the Group's competitiveness, run its businesses more flexibly, and achieve greater groupwide profits.

TFH Chairperson Jih-Chu Lee held press conference on 27 Jan. 2016 with senior executives from the Group's subsidiaries to mark the upcoming Year of the Monkey.

ii. BOT

(A) Reduce time deposits, further improve deposit structure

Actively develop business with both state-owned and private-sector enterprises while seeking more demand deposits in order to improve deposit structure, reduce the cost of funds, and achieve better business performance.

(B) Handle more international syndicated loans, achieve more profitable lending

Measures to improve loan profitability include the following: continue seeking tie-ups with large international banks and expand international syndicated loan business in order to diversify credit risks; place greater stress on lines of business with relatively wide interest margins; and carefully identify and solicit high-quality customers in order to increase interest margins.

(C) Strengthen e-banking business, consolidate the Bank's competitive advantages

In order to build up the digital Bank 3.0 environment, the Bank will actively plan the launch of related online services; will use the concepts of responsive web design and personalized marketing to launch personalized online banking services; and will establish a cloud-based bank that integrates online and offline elements in order ensure competitiveness in digital financial services.

(D) Expand credit card services, become more competitive

Continue to promote acquiring services and increase the number of contracted merchants; continue working with Taiwan Mobile Payments Co. to set up the Bank's own credit card host card emulation (HCE) and tokenization for cloud-based mobile payments systems; provide different types of mobile payments products; and enhance credit card payments services.

(E) Expand the scope of offshore banking unit (OBU) business, raise the share of group profits contributed by the OBU unit

Measures to provide more comprehensive financial services in Taiwan, Hong Kong, and mainland China include the following: capitalize on the advantages afforded by the Bank's highly developed domestic channels; step up efforts to promote various OBU businesses; cooperate with major international banks to handle syndicated loan business; expand provision of credit to offshore Taiwan-invested firms as well as firms with mainland Chinese capital; and attract more deposits.

(F) Strengthen wealth management business, provide a diverse range of financial services

Strengthen wealth management channels, expand the wealth management services network; tap into group synergies through integrated marketing of TFH products, build up a marketing platform for a diversified range of financial products and services; integrate the service personnel in the head office and the many BOT branches, enhance the Bank's ability to use channels for integrated marketing; strengthen training of wealth management professionals;

continue to implement a business advisory mechanism and conduct target management; and respond to the Bank 3.0 trend toward digital banking by developing innovative digital banking services that make it easier for customers to invest and manage their money.

(G) Support the government's "Asia Cup" policy, expand overseas presence

Seize upon the business opportunities arising from the growth of cross-strait financial services, build upon the stable foundation provided by the Bank's existing mainland branch (the Shanghai Branch) by further establishing a sub-branch in Jiading (under the Shanghai Branch) and a Guangzhou branch, and continue preparing for the opening of a Fuzhou branch and a sub-branch at the Shanghai Pilot Free Trade Zone, so as to effectively support the efforts of Taiwan-invested firms to grow their businesses; actively promote the Bank's wealth management and retail banking businesses, provide a more diverse range of financial services; and act via banking subsidiaries to establish more branch units, extend services to locally based enterprises, and expand the Bank's business footprint.

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

Place high priority on improving performance; make proper use of financial instruments; adjust asset allocations in a timely manner; respond to financial conditions and the development of cross-strait financial services; diversify investments of company funds; and seek stable returns.

iii. BTLI

(A) Develop a diverse range of marketing channels

Continue working to obtain better performance from our correspondence offices; solicit the business of large, blue-chip insurance brokerages and agencies; cultivate insurance expertise and marketing techniques among the Group's bank channel employees; and strengthen education and training; improve product marketing performance.

(B) Develop demand-driven products

Respond to business conditions, the state of the economy, and channel needs by actively developing long-term installment-premium products, medical insurance, and insurance policies denominated in a foreign currency; and respond to the ageing of society and dropping birth and marriage rates by promoting long-term care insurance, pay life endowment insurance, and annuity insurance products, so as to provide consumers with a diverse range of high-quality life insurance products.

(C) Improve capital efficiency

Adopt sound investment strategies and optimize asset allocations; reduce positions in cash equivalents; respond to market conditions at home and abroad; act in a timely manner to take bigger positions in real estate, policy loans and fixed income products such as bonds. And flexibly adjust exchange rate hedges as a percentage of our capital allocations in order to reduce hedging costs and raise capital efficiency in a stable manner.

(D) Improve the asset-liability match

Devise an asset allocation plan (on the basis of liability structures, cash flows, and durations within segment assets) to ensure proper matching of assets and liabilities; and regularly test asset-liability cash flows and report the results to the Assets and Liabilities Management Committee for its reference in adjusting asset allocations and the product mix.

(E) Implement risk management mechanisms

Regularly monitor and control capital adequacy ratios and effectively track the degree of changes to facilitate evaluation of the impact thereof and contribute to the preparation of response measures; 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; and build an "own risk and solvency assessment" mechanism and quantitative models to evaluate overall solvency and strengthen capital management.

(F) Cultivate employees with multiple core skills

Actively cultivate persons with skills in such core areas as financial investment, sales & marketing, actuarial practice, and risk management, and continue improving in-house professional training programs; and continue to build up a knowledge management platform and make use of outside training courses to enhance the professional expertise and business execution abilities of company employees.

(G) Improve information platforms

Respond to urgent business development needs by building up a new core information system for life insurance, shortening time-to-market for new insurance products, increasing the efficiency of internal operations, and raising the quality of customer service; and strengthen online functions and provide operating environments that are efficient and user-friendly, so as to enhance the depth and breadth of services.

TFH Chairperson Jih-Chu Lee presided over a ceremony to mark the opening of the BOT Guangzhou Branch.

iv. BTS

(A) Securities brokerage business

Actively educate and train personnel and update computer system software and hardware in order to increase brokerage business volume in order to coordinate with the competent authority's stock market stimulus measures and its easing of restrictions on the cross-border business activities that financial services firms are allowed to conduct; actively develop corporate securities borrowing customers and launch a securities lending business with an eye to increasing brokerage volume; and work together with BTIB and BTLI to promote insurance business and provide customers with a diverse range of asset allocation choices and comprehensive protection.

(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; actively undertake business as advising underwriter for Formosa Bonds; act hand-in-hand with BOT's overseas branches to encourage offshore-based Taiwan-invested enterprises to raise capital in Taiwan; and continue engaging with mainland Chinese banks in an effort to increase cross-strait business opportunities.

(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; and improve the functionality of the options and warrants system, increase issuance of options and warrants, and expand the volume of dealing in convertible bonds.

(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

Despite global economic instability, the overall earnings of Taiwanese financial holding companies (FHCs) grew once again in 2015. The competent authority continued to ease regulatory restrictions, encouraged diversification of financial services, provided assistance for investment in overseas markets, promoted expansion of financial holding companies' scope of business, and improved international competitiveness. While taking liberalization measures, the competent authority also asked financial services firms improve their risk controls and corporate governance, and is making plans to go still further with its policy of differential regulatory treatment. In the future, as we deal with such trends as digitization, demographic ageing, and globalization, financial holding companies need to develop comprehensive digital financial services, launch more financial services geared to the needs of an ageing society and a globalized financial services environment, and should also expand their global service networks in order to achieve stable growth in profits.

ii. Banking industry

According to statistics from the FSC, the combined earnings before tax of domestic Taiwanese banks as of end-December 2015 stood at NT$319.6 billion, down slightly from the figure for 2014. Looking ahead to 2016, market demand is expected to rebound because the world's major economies continue to implement quantitative easing policies and economic stimulus measures. Global economic forecasts call for moderate growth, but it is expected that global economic development will be affected by the raising of interest rates in the US, an ongoing economic slowdown in mainland China, a continued fall in international crude oil prices, continuation of depressed prices for certain commodity prices, and geopolitical conditions in the Middle East. The global economy is expected to perform better in 2016 than in 2015, and this should benefit Taiwan's export-driven economy. Taiwan's financial services firms on the whole have become

1. The Bank of Taiwan signed an MOU for cooperation with the Bank of Tokyo-Mitsubishi UFJ, the largest bank in Japan.
2. TFH Chairperson Jih-Chu Lee attended as a speaker at the International Financial Forum 12th Annual Conference. The only banker from Taiwan to be invited to the conference, Chairperson Lee took full advantage of the occasion to represent Taiwan and establish a higher profile for our financial industry.

stronger in recent years, and profits have continued to rise. The government's accelerated moves to deregulate the financial industry, and its ongoing effort to ease restrictions on cross-strait financial ties, should help financial services firms to provide a more diverse range of financial planning products, strengthen the international competitiveness of their OBU units, and bolster their presence throughout Asia. Such factors will enable banks to increase profitability, and there should also be more room for continued market growth.

iii. Life insurance industry

In 2015, 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. Overall, however, life insurers remained in stable condition, and their premium income continued to grow. In order to respond to demographic ageing, and to strengthen the solvency of life insurers, the FSC continued its campaign to raise the level of insurance protection in Taiwan, and used supervisory policy to prompt insurers to focus more on the essence of insurance, which is to protect against risks. Accordingly, insurers in recent years have been developing more traditional life insurance products—putting their main focus on such items as protection products, annuities, medical insurance, retirement plans, and long-term care insurance—in order to meet the insurance protection needs of an ageing society. In addition, in response to the steady introduction of offshore financial products into the insurance business, life insurers have established offshore insurance units (OIUs). This situation has presented insurers with opportunities to develop innovative new products and launch offshore wealth management businesses.

iv. Securities industry

The TAIEX dropped 10.4% in 2015 due to several factors, including: economy sluggishness, both globally and domestically; the imposition of a capital gains tax on securities; supplementary national health insurance premiums; the halving of the stock dividend tax credit; and a shift in capital flows toward the Shanghai-Hong Kong Stock Connect, a new stock exchange established in late 2014. All of these factors cause capital outflows and depressed stock market trading volume. Questionable prospects for the global economy and uncertainty with respect to international capital flows triggered increased volatility in global equity markets. In the face of a volatile financial environment, and in response to financial liberalization, digitization, and globalization, and in order to make Taiwan's capital markets more internationally competitive, the competent authority has greatly eased regulatory restrictions and proceeded with advanced stock market stimulus measures, which include the following four actions: (a) eased restrictions on the conduct of equity crowdfunding business; (b) permitted securities firms to conduct borrowing and lending of funds for unrestricted purposes; (c) studied the feasibility of allowing mainland Chinese

persons to invest in Taiwan; and (d) coordinated with the decision to allow two-way securities borrowing and lending, by opening more types of instruments for day trading. In addition, steps have also been taken to bring about cross-border trading between the Taiwan Stock Exchange and exchanges in Singapore, Japan, and the United Kingdom. Such tie-ups can be expected to boost market activity and help securities firms achieve better capital efficiency, which would contribute to securities market development.

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

i. TFH

(A) Short-term business development plan

Seize upon business opportunities arising from such trends as globalization, digitization, and demographic ageing; push group subsidiaries to accelerate the expansion of their overseas presence; carry out business innovation; promote digital financial services; develop products suited to the needs of senior citizens; accelerate measures to cultivate personnel with professional expertise in multiple areas; and build up basic infrastructure. These measures will improve the company's business performance.

(B) Long-term business development plan

Continue developing diverse profit sources, consolidate the Group's superior brand power, expand overseas business presence, improve risk management and internal control mechanisms, work for sustained and stable business operations; adopt a groupwide "3C" business strategy (cross selling; cost saving; capital efficiency) by operating in accordance with our development strategy—"establish a strong home base in Taiwan, bring the two sides of the Taiwan Strait together, establish a global presence"—thereby tapping into group synergies and developing into the nation's flagship financial holding company.

Ben Bernanke, the former chairman of the FED, was invited by Business Weekly magazine to deliver an address at the Global Economic Outlook Forum. TFH Chairperson Jih-Chu Lee was also invited to attend and deliver remarks at the event.

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 will also develop cross-strait and cross-border currency settlement and RMB-related derivatives. 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.

(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

Coordinate with government policy, strengthen promotion of long-term installment-premium products and protection products, respond to demographic ageing and help the government build up the social safety net, develop insurance products suited to the needs of senior citizens, step up efforts to promote long-term care insurance (health insurance to cover such needs as care for the disabled, long-term care, medical emergencies, and cancer); tap into the synergies afforded by groupwide integrated marketing, provide customers with diversified financial services; actively establish ties with large high-quality insurance brokers and agents to expand sales; take offshore insurance business as the starting point of an international strategy, and build up international experience.

(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, 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; continue developing underwriting customers and marketing channels, use the Group's channel resources to win customers for the underwriting of foreign-denominated bonds; gradually ease restrictions on the scope of foreign securities in which securities firms are allowed to deal, diversify the range of available investment options, increase the issuance options and warrants, enhance profitability.

(B) Long-term business development plan

Take active part in high-profile deals to win increased name recognition and gradually increase staffing levels in order to win more business as lead underwriter for IPO deals, related financial advisory business, and other such investment bank business.

2. Cross-Selling

(1) Cross-selling synergies

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 2015 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 17 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$1.19 billion to the Group's profits in 2015, up by 35.28% over the figure for 2014.

(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 2015 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 2,763 cross-subsidiary operations in 2015, reducing measurable operating costs over the course of the year by NT$39 million, thus reducing operating costs by tapping into group synergies.

3. Employee Profile

Year	2014	2015
Company	Number of Employees	
TFH	47	42
BOT	7,936	7,990
BTLI	219	246
BTS	133	133
BTIB	30	34
Total	8,365	8,445
Average Age	45.03	45.10
Average Service Year	17.79	17.77
Education Level & Ratio		
Doctor	0.08	0.09
Master	16.75	18.29
University or College	73.18	72.30
Senior High School	8.63	8.10
Below Senior High School	1.36	1.22

4. Corporate Social Responsibility

(1) In 2015, TFH took concrete action to show concern for those in need. Among other actions, the Group: held a "Lighting Christmas Trees" charitable activity and other such events; engaged in discussion of demographic ageing (a topic of considerable social concern); and had the Group's head office and affiliates provide sponsorship throughout Taiwan (including the offshore islands) to children's homes as well as senior citizens' nursing homes that accept physically and mentally disabled persons from middle- and low-income households. Activities carried out in 2015 also included a lot of cultural and artistic elements, and provided opportunities for friendship between young children and the elderly.

(2) In order to fulfill its corporate social responsibility and show compassion for society, the TFH Group established the Bank of Taiwan Angel Heart Social Welfare Fund. This social welfare fund makes use of the expertise of financial industry professionals to help people prepare for their old age, and take care of the underprivileged.

(3) Used the Group's integrated resources to take active part in community service activities; gave back to society through concrete action by organizing blood drives and making donations to support social service groups that help orphans, the elderly, and persons with physical and mental disabilities; engaged in ongoing promotion of basketball events; and supported domestic cultural and creative industries by holding cultural and literary events, as well as economic and financial forums. Through these activities, the Group fulfilled its corporate social responsibility.

(4) Fulfilled the Group's corporate social responsibility by protecting persons with physical and mental disabilities; set an annual target of purchasing no less than 5% of products and services from persons with disabilities—the actual share in 2015 reached 7.22%.

(5) TFH adopted a plan for implementation of the "four conservations" campaign (i.e. conservation of electricity, fuel, water, and paper), and set up a task force to work out specific measures to cut carbon emissions and reduce the environmental impact of the Group's business activities.

(6) TFH has an employees' handbook, bylaws governing rewards and sanctions, and a code of conduct that require personnel at all levels to carry out their duties in an honest and ethical manner, and to avoid conflicts of interest. In addition, employees' ethical conduct is included among the items considered at the time of performance evaluations.

1. TFH Chairperson Jih-Chu Lee and Chief Executive Officer John Sai-hung Tang of the Taiwan Catholic Foundation of Alzheimer's Disease and Related Dementia jointly announced the launch of the Bank of Taiwan Charity Trust.
2. In 2015, TFH held a series of charitable activities and invited senior citizens and children to attend a retrospection and Christmas tree lighting event at the end of the year.

Professionalism

Providing Professional and Conscientious Service

Taiwan Financial Holdings

臺灣金控
Taiwan Financial Holdings

VI. Financial Status

1. Condensed Financial Statement for Year 2014 and 2015
2. Financial Analysis for Year 2014 and 2015
3. Consolidated Financial Statements for Year 2015

VI. Financial Status

1.Condensed Financial Statement for Year 2014 and 2015

(1) Condensed Consolidated Balance Sheet

Unit: NT$1,000

Item / Year	2014	2015
Cash and cash equivalents	175,980,371	148,235,815
Placement with Central Bank and call loans to banks	582,914,021	585,963,772
Financial assets at fair value through profit or loss	208,952,372	176,385,509
Available-for-sale financial assets, net	852,076,122	1,099,519,771
Hedging financial assets	25,613	15,970
Bills and bonds purchased under resell agreements	7,945,387	10,792,264
Receivables, net	71,063,277	80,641,167
Current income tax assets	3,428,447	4,779,047
Loans and discounts, net	2,299,974,231	2,381,326,379
Reinsurance assets	12,528	11,799
Held-to-maturity financial assets, net	270,591,631	300,963,479
Investments under equity method, net	42,914,648	41,734,382
Other financial assets, net	142,602,433	121,178,784
Investments property, net	5,487,465	7,037,870
Property and equipment, net	99,283,101	98,823,229
Intangible assets	958,129	869,211
Deferred tax assets	2,217,173	1,129,314
Other assets	14,152,357	11,558,067
Total Assets	4,780,579,306	5,070,965,829
Deposits of Central Bank and other banks	156,988,830	225,425,517
Financial liabilities measured at fair value through profit or loss	50,111,045	39,952,611

Item \ Year			2014	2015
Hedging financial liabilities			103,024	243,967
Bills and bonds sold under repurchase agreements			39,587,959	17,992,102
Commercial paper payables, net			2,478,382	1,459,660
Payables			66,577,265	63,535,537
Current income tax liabilites			317,794	462,837
Deposits and remittances			3,537,029,089	3,825,858,990
Financial bonds payable			24,997,612	24,997,826
Provision			613,339,379	588,738,072
Other financial liabilities			2,378,613	1,798,439
Deffered tax liabilities			18,563,374	18,756,564
Other liabilities			8,375,679	8,059,242
Total liabilities	Before distribution		4,520,848,039	4,817,281,364
	After distribution		4,520,940,044	4,817,281,364
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		111,463,639	111,385,217
	Retained earnings	Before distribution	37,824,048	40,005,972
		After distribution	34,505,272	40,005,972
	Other equity		20,443,580	12,293,276
Total equity	Before distribution		259,731,267	253,684,465
	After distribution		256,412,491	253,684,465

(2) Condensed Consolidated Income Statement

Unit: NT$1,000

Item / Year	2014	2015
Interest income	75,096,508	73,983,740
Less: Interest expense	(36,573,222)	(36,543,681)
Net interest income	38,523,286	37,440,059
Non-interest income, net	11,246,729	(30,027,704)
Net revenue	49,770,015	7,412,355
Bad debt expense and reserve for guarantees	(7,335,511)	(4,526,947)
Provisions for policyholder's reserve premium	(13,299,953)	26,556,546
Total expenses	(20,543,733)	(21,505,417)
Net income before income tax	8,590,818	7,936,537
Income tax expenses	(1,215,485)	(1,599,057)
Consolidated net income	7,375,333	6,337,480
Other comprehensive income (loss)	2,771,005	(8,987,084)
Total comprehensive income (loss) after tax for the period	10,146,338	(2,649,604)
Consolidated net income attributable to stockholders of TFH	7,375,333	6,337,480
Total comprehensive income (loss) after tax for the period attributable to stockholders of TFH	10,146,338	(2,649,604)
Basic earnings per share	0.82	0.70

(3) Condensed Balance Sheet

Unit: NT$1,000

Item / Year	2014	2015
Cash and cash equivalents	529,552	256,670
Receivables, net	37	24
Current income tax assets	304,521	412,428
Investments under equity method, net	271,038,529	270,162,702
Property and equipment, net	6,618	5,938
Intangible assets	419	302
Other assets, net	3,235,673	16,372
Total assets	275,115,349	270,854,436

Item \ Year			2014	2015
Payables			21,563	19,799
Other loans			11,550,000	17,050,000
Provision			87,356	99,839
Other liabilities			3,725,163	333
Total liabilities	Before distribution		15,384,082	17,169,971
	After distribution		11,776,045	17,169,971
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		111,463,639	111,385,217
	Retained earnings	Before distribution	37,824,048	40,005,972
		After distribution	34,505,272	40,005,972
	other equity		20,443,580	12,293,276
Total equity	Before distribution		259,731,267	253,684,465
	After distribution		256,412,491	253,684,465

(4) Condensed Income Statement

Unit: NT$1,000

Item \ Year	2014	2015
Income from equity investments under equity method	7,609,600	6,483,831
Other gains	3,125	2,905
Operating expenses	(151,079)	(142,118)
Other expenses and losses	(121,973)	(140,521)
Net income before income tax	7,339,673	6,204,097
Income tax benefit	35,660	133,383
Net income	7,375,333	6,337,480
Other comprehensive income (loss) for the period, net of income tax	2,771,005	(8,987,084)
Total comprehensive income (loss) for the period	10,146,338	(2,649,604)
Earnings per share	0.82	0.70

2.Financial Analysis for Year 2014 and 2015

(1) Consolidated Financial Analysis

Unit: NT$1,000; %

Item \ Year			2014	2015
Operating ability	Total assets turnover		0.0106	0.0015
	Loans to deposits ratio of banking subsidiary (%)		65.25	62.79
	NPL ratio of banking subsidiary (%)		0.31	0.23
	The group's average operating revenue per employee		5,672	838
	The group's average profit per employee		840	716
Profitability	Return on assets (%)		0.16	0.13
	Return on equity (%)		2.88	2.47
	Net margin (%)		14.82	85.50
	Earnings per share (NT$)		0.82	0.70
Financial structure (%)	Debt ratio		94.57	95.00
	Liabilities to net worth ratio		1,740.59	1,898.93
	TFH's double leverage ratio		Refer to condensed financial analysis	
Leverage ratio	Operating leverage ratio		Refer to condensed financial analysis	
	TFH's financial leverage ratio			
Growth rates	Growth rate of assets		3.06	6.07
	Growth rate of profit		3.01	-7.62
Cash flows	Cash flow ratio		Refer to condensed financial analysis	
	Cash flow adequacy ratio			
	Cash flow reinvestment ratio			
Operating scale	Market share by assets		11.44	11.14
	Market share by net worth		8.77	8.10
	Market share of deposits of banking subsidiary		10.59	10.72
	Market share of loans of banking subsidiary		8.78	8.90
Capital adequacy	Capital adequacy ratio	Bank of Taiwan	11.30	11.19
		BankTaiwan Life Insurance	284.43	232.52
		BankTaiwan Securities	348	373
	Group's capital adequacy ratio		127.81	122.33

(2) Condensed Financial Analysis

Unit: NT$1,000; %

Item	Year	2014	2015
Operating ability	Total assets turnover	0.0276	0.0232
	Average operating revenue per employee	159,378	151,100
	Average profit per employee	156,922	150,892
Profitability	Return on assets (%)	2.72	2.32
	Return on equity (%)	2.88	2.47
	Net margin (%)	98.46	99.86
	Earnings per share (NT$)	0.82	0.70
Financial structure (%)	Debt ratio	5.59	6.34
	Liabilities to net worth ratio	5.92	6.77
	TFH's double leverage ratio	104.35	106.50
Leverage ratio	Operating leverage ratio	101.87	102.14
	TFH's financial leverage ratio	101.61	102.10
Growth rates	Growth rate of assets	2.61	-1.55
	Growth rate of profit	5.11	-15.47
Cash flows	Cash flow ratio	16,200.12	-717.32
	Cash flow adequacy ratio	99.28	104.30
	Cash flow reinvestment ratio	164,464.78	-2.58
Operating scale	Market share by assets	8.41	7.79
	Market share by net worth	8.94	8.25

3. Consolidated financial statements for year 2015

LETTER OF DECLARATION

The entities that are required to be included in the consolidated financial statements of Taiwan Financial Holding Co., Ltd. as of December 31, 2015, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standards No.10 endorsed by the Financial Supervisory Commission. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Taiwan Financial Holding Co., Ltd. and its subsidiaries do not prepare a separate set of related parties consolidated financial statements.

Truthfully yours,

TAIWAN FINANCIAL HOLDING CO., LTD.

By

Jih-Chu Lee

Chairperson

March 24, 2016

Independent Auditors' Report

The Board of Directors
TAIWAN FINANCIAL HOLDING CO., LTD.:

We have audited the consolidated financial statements of Taiwan Financial Holding Co., Ltd (the Company) and its subsidiaries, which comprise the consolidated balance sheet as of December 31, 2015 and 2014, and January 1, 2014 the related consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows for the years then ended. The management of the Company is responsible for the preparation of these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit. As stated in note 14 of the consolidated financial statements, we did not audit the financial statements of investments in associates accounted for using equity method of Taiwan Financial Holding Co., Ltd and its subsidiary amounting to NT$38,394,363 thousand, NT$36,104,191 thousand, NT$34,025,918 thousand as of December 31, 2015 and 2014 , and January 1, 2014, respectively, constituting 0.76%, 0.76% and 0.73% of the related consolidated total assets; nor the related shares of investment profit in associates accounted for using equity method of NT$3,534,393 thousand and NT$3,295,373 thousand for the years then ended, respectively, constituting 44.53% and 38.36% of the related consolidated net income before tax. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts includes above, is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the audit of the other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial performance of the Company and its subsidiaries as of December 31, 2015 and 2014, and January 1,2014, and the results of its operations and its cash flows for the years then ended, in conformity with the "Regulations Governing the Preparation of Financial Reports of Financial Holding Companies", the International Financial Reporting Standards, the International Accounting Standards and IFRS interpretation endorsed by the Financial Supervisory Commission.

In accordance with the auditing regulations in Taiwan, the financial statements of Taiwan Financial Holdings are required to be audited by the National Audit Office, known as the Ministry of Audit. The financial statement for the financial year ended 2014 and 2013 have been audited and approved by the Ministry of Audit. The adjustments made by the MoA are reflected in the financial statement. For further information, please see note 53 (2).

KPMG

March 24, 2016

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2015 and 2014

(expressed in thousands of New Taiwan dollars)

		December 31, 2015		December 31, 2014	
	Assets	**Amount**	**%**	**Amount**	**%**
11000	Cash and Cash Equivalents	$ 148,235,815	3	175,980,371	4
11500	Placement with Central Bank and Call Loans to Banks	585,963,772	12	582,914,021	12
12000	Financial Assets Measured at Fair Value through Profit or Loss, Net	176,385,509	3	208,952,372	4
12100	Available-for-Sale Financial Assets, Net	1,099,519,771	22	852,076,122	18
12300	Hedging Derivative Financial Assets	15,970	-	25,613	-
12500	Bills and Bonds Purchased under Resell Agreements	10,792,264	-	7,945,387	-
13000	Receivables, Net	80,641,167	2	71,063,277	2
13200	Current Income Tax Assets	4,779,047	-	3,428,447	-
13500	Loans and Discounts, Net	2,381,326,379	47	2,299,974,231	48
13700	Reinsurance Assets	11,799	-	12,528	-
14500	Held-to-Maturity Financial Assets, Net	300,963,479	6	270,591,631	6
15000	Investments under Equity Method, Net	41,734,382	1	42,914,648	1
15500	Other Financial Assets, Net	121,178,784	2	142,602,433	3
18000	Investments property, Net	7,037,870	-	5,487,465	-
18500	Property and Equipment, Net	98,823,229	2	99,283,101	2
19000	Intangible Assets	869,211	-	958,129	-
19300	Deferred Tax Assets	1,129,314	-	2,217,173	-
19500	Other Assets	11,558,067	-	14,152,357	-
	Total assets	**$ 5,070,965,829**	**100**	**4,780,579,306**	**100**

		December 31, 2015		December 31, 2014	
	Liabilities and Stockholders' Equity	**Amount**	**%**	**Amount**	**%**
21000	Deposits of Central Bank and Other Banks	$ 225,425,517	4	156,988,830	3
22000	Financial Liabilities Measured at Fair Value through Profit or Loss	39,952,611	1	50,111,045	1
22300	Hedging Derivative Financial Liabilities	243,967	-	103,024	-
22500	Bills and Bonds Sold under Repurchase Agreements	17,992,102	-	39,587,959	1
22600	Commercial Paper Payables, Net	1,459,660	-	2,478,382	-
23000	Payables	63,535,537	1	66,577,259	2
23200	Current Income Tax Liabilities	462,837	-	317,794	-
23500	Deposits and Remittances	3,825,858,990	76	3,537,029,089	74
24000	Financial Bonds Payable	24,997,826	-	24,997,612	1
24600	Provision	588,738,072	13	613,339,379	13
25500	Other Financial Liabilities	1,798,439	-	2,378,613	-
29300	Deferred Tax Liabilities	18,756,564	-	18,563,374	-
29500	Other Liabilities	8,059,242	-	8,375,679	-
	Total liabilities	4,817,281,364	95	4,520,848,039	95
	Equity attributable to shareholders of the parent :				
31101	Capital Stock	90,000,000	2	90,000,000	2
31500	Capital Surplus	111,385,217	2	111,463,639	2
	Retained earnings:				
32001	Legal Reserve	4,857,208	-	4,175,915	-
32003	Special Reserve	29,770,947	1	26,558,186	1
32011	Unappropriated Retained Earnings	5,377,817	-	7,089,947	-
	Total retained earnings	40,005,972	1	37,824,048	1
32500	Other Equity	12,293,276	-	20,443,580	-
	Total equity	253,684,465	5	259,731,267	5
	Total liabilities and equity	**$ 5,070,965,829**	**100**	**4,780,579,306**	**100**

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
Consolidated Statements of Comprehensive Income

For the year ended December 31, 2015 and 2014

(expressed in thousands of New Taiwan dollars)

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

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2015 and 2014

(expressed in thousands of New Taiwan dollars)

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

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the year ended December 31, 2015 and 2014

(expressed in thousands of New Taiwan dollars)

	2015	2014
Cash flows from (used in) operating activities :		
Net income before income tax	$ 7,936,537	8,590,818
Adjustments :		
Adjustments to reconcile profit (loss)		
Depreciation expense	908,893	965,749
Amortization expense	362,489	383,572
Provision for bad debt expense	4,553,092	6,798,218
Interest expense	36,543,681	36,573,222
Interest income	(73,983,740)	(75,096,508)
Provision for guarantee liabilities	(25,761)	538,460
Net change in other provisions	(25,712,565)	14,514,567
Share of profit of associates and joint ventures accounted for using equity method	(4,839,280)	(3,590,721)
Gain on disposal of property and equipment	(411,269)	(170,378)
Impairment loss on financial assets	-	2,301
Reversal of impairment loss on non-financial assets	(17,323)	(616)
Others	(13,942)	(1,351)
Total adjustments to reconcile profit (loss)	(62,635,725)	(19,083,485)
Changes in operating assets and liabilities :		
Decrease (increase) in placement with Central Bank and call loans to banks	7,386,604	(16,662,249)
Decrease (increase) in financial assets measured at fair value through profit or loss	29,978,045	(60,045,190)
Increase in available-for-sale financial assets	(246,825,371)	(6,123,766)
Decrease (increase) in hedging derivative financial assets	9,643	(20,170)
(Increase) decrease in bills and bonds purchased under resell agreements	(17,184)	332,077
(Increase) decrease in receivables	(9,807,338)	22,842,586
Increase in loans and discounts	(85,857,401)	(66,382,800)
(Increase) decrease in held-to-maturity financial assets	(25,789,325)	5,254,077
Decrease in other financial assets	19,222,032	23,954,532
Decrease (increase) in other assets	7,547	(2,020,380)
Increase (decrease) in deposits of Central Bank and other banks	68,436,687	(95,749,414)
(Decrease) increase in financial liabilities measured at fair value through profit or loss	(10,158,434)	45,694,578
Increase (decrease) in hedging derivative financial liabilities	140,943	(122,782)
(Decrease) increase in bills and bonds sold under repurchase agreement	(21,595,857)	18,689,473
Decrease in payables	(4,175,554)	(5,600,608)
Increase in deposits and remittances	288,829,901	145,527,074
Increase in employee benefit obligations	1,137,019	563,449
Increase in other liabilities	19,041	749,159
Total adjustments	(51,694,727)	(8,203,839)
Cash (outflow) generated from operations	(43,758,190)	386,979
Interest received	74,209,688	72,303,267
Dividends received	9,540,729	7,452,947
Interest paid	(35,409,849)	(35,260,599)
Income taxes paid	(1,523,565)	(1,270,587)
Net cash flows from (used in) operating activities	3,058,813	43,612,007

	2015	2014
Cash flows (used in) from investing activities :		
Acquisition of property and equipment	(692,784)	(626,978)
Increase in refundable deposits	(626,101)	(378,007)
Acquisition of intangible assets	(272,827)	(279,148)
Acquisition of investments property	(1,561,500)	(337,611)
Increase in other financial assets	-	(7,100)
Decrease in other financial assets	2,186,636	-
Net cash flows (used in) investing activities	(966,576)	(1,628,844)
Cash flows from (used in) financing activities :		
Increase in commercial papers payable	-	978,677
Decrease in commercial papers payable	(1,018,722)	-
Proceeds from issuing financial bonds	-	8,999,372
Decrease in guarantee deposits received	(335,478)	(376,768)
Decrease in other financial liabilities	(580,174)	(1,341,909)
Cash dividends paid	-	(1,229,425)
Net cash flows (used in) from financing activities	(1,934,374)	7,029,947
Effect of exchange rate changes on cash and cash equivalents	1,723,619	(931,887)
Net increase in cash and cash equivalents	1,881,482	48,081,223
Cash and cash equivalents at beginning of period	934,300,980	886,219,757
Cash and cash equivalents at end of period	$ 936,182,462	934,300,980
Compose of cash and cash equivalents :		
Cash and cash equivalents reported in the statement of financial position	$ 148,235,815	175,980,371
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	167,350,034	156,883,746
Investments qualifying for cash and cash equivalents under the definition of IAS 7	620,596,613	601,436,863
Cash and cash equivalents at end of period	$ 936,182,462	934,300,980

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

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

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

(1) Organization and business scope

1) Taiwan Financial Holdings

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

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

2) Subsidiaries' activities

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

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

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

The assets of BOT have continuously increased through revaluations of its legal and special reserve over the period since the Government provided the capital for the establishment of BOT. After the currency revolution in June 1949, the Government approved $5 million as the Bank's capital in May 1950; $100 million in May 1954; $300 million in August 1963; $600 million in September 1967; $1 billion in May 1973; $2 billion in September 1977; $4 billion in September 1980; $8 billion in November 1982; $12 billion in May 1990; $16 billion in April 1992; $22 billion in December 1994; $32 billion in August 1998; $48 billion in September 2002; $53 billion in July 2007; $45 billion in January 2008; $70 billion in November 2010 and $95 billion in October 2014.

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

BankTaiwan Life Insurance Co., Ltd. (BTLI) was the life insurance department of BOT and separated from BOT on January 2, 2008, with net assets $5 billion yield by BOT as its owner's equity. BTLI have increased its capital by 2 billion, 4 billion, 6 billion and 5.5 billion on June 30, 2009, June 30, 2010, June 28, 2013 and September 30, 2015, respectively. BTLI became a public company on November 18, 2013. Its main businesses are life insurance and related businesses.

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

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

(2) Financial statements authorization date and authorization process

The consolidated financial statements were approved by the Audit Committee on March 18, 2016 as well as Board of Directors on March 24, 2016 and then published.

(3) Significant accounting policies

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

1) Statement of compliance

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

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

The financial statements of 2014 and 2013 were approved by the MOA, and the opening balances of retained earnings of 2015 and 2014 are the same as the approved closing balances of 2014 and 2013, respectively.

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, 2015	Shareholdings December 31, 2014
The Company	Bank of Taiwan (BOT)	Banking	100%	100%
The Company	BankTaiwan Life Insurance (BTLI)	Life Insurance	100%	100%
The Company	BankTaiwan Securities (BTS)	Broker	100%	100%
Bank of Taiwan	BankTaiwan Insurance Brokers (BTIB)	Life and Property insurance broker	100%	100%

4) Foreign currency

1. Foreign currency transactions

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

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

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

(a) available-for-sale equity investment;

(b) a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or

(c) qualifying cash flow hedges to the extent the hedge is effective.

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 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 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 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

The 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.

The 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.

The Subsidiary, BTS:

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

1. Brokerage commissions, profit or loss from the sale of securities, and the relevant charges are recognized on the trade date.
2. Interest income or expenses of margin loans, securities financing and refinancing and bonds purchased under agreement to resell and sold under agreement to repurchase are recognized during the transaction periods on an accrual basis.
3. Consulting revenue and underwriting business revenue and expense are recognized according to agreements on an accrual basis.
4. While offering future exchange supporting business, the future commission revenues received from futures commission merchants are recognized during transaction period on accrual basis.
5. The disposal profit and loss of equity investments measured through fair value are recognized on transaction date.
6. Profit or loss of future: The future margin is recognized at cost. Futures are measured through market price method every day. The valuation and disposal profit or loss shall be recognized in the income statement. The related brokerage fees shall be recognized at the trading date.
7. The profit or loss of options: The margin is recorded at cost. Options are evaluated using market price method every month before they are exercised. The valuation profit or loss and the disposal profit or loss shall be recognized in the income statement.
8. Interest revenue is calculated using the effective interest rate method.
9. Revenue and expense that relate to the same transaction or other event are recognized simultaneously; this process is commonly referred to as the matching of revenue and expense.

24) Employee benefit

1. Short-term employee benefit

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

2. Pension

   (a) Employee pension:

   The grant of employees' pension compromise: a) the contributions made by the Bank at the rate from 4% to 8.5% of an employee's monthly wage, depending on an employee's 'salary point' and service period before the Labor Standards Act was applied and the contributions made by an employee at the rate of 3% of his or her monthly wage under Article 9 and Article 8 of the aforementioned regulations, respectively. (These two kinds of contributions were ceased when the Labor Standards Act was applied.) The Bank also contributed 3% of the total amount of wages as reserve. ;b) the contributions calculated based on an

employee's monthly wage and service period (after May 1, 1997) in accordance with Article 41.1 and the related regulations set forth in Labor Standards Act. All the contributions are made to the fund managed by the Pension Supervision Committee for future payments.

(b) Labor pension:

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

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

(d) For the definite benefit plan, the independent actuary uses the projected unit credit method to calculate the present value of the defined benefit obligation and the current service cost. The present value of the defined benefit obligation is the projected future cash flow discounted by the market yields at the end of the reporting period on the bonds that have maturity dates approximating the terms of the obligation and that are denominated in the same currency in which the benefits are expected to be paid. The actuarial gains and losses are recognized in the other comprehensive income when they occur. Prior period servicing costs should recognize in profit or loss immediately. The prior period's service costs which are due to the modification of retirement plan are currently recognized as personnel expenses in profit or loss.

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

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, the Regulations Governing the Preparation of Financial Reports by Securities Issuers, the International Financial Reporting Standards the International Accounting Standards and IFRS interpretation endorsed by the Financial Supervisory Commission requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

1) Impairment loss on loans

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

2) Fair value of financial instruments

1. Fair value

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

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

2. Impairment

(a) Available-for-sale securities

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

(b) Financial assets carried at amortized cost

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

a) Significant financial difficulty of the issuer/obligor

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

c) Granting of a concession by the lender.

d) Bankruptcy or financial reorganization of the borrower

e) Disappearance of an active market for the assets concerned

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

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

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

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

(a) The actual result in the market may differ from the expectation,

(b) The event and the condition may change in the future and differ from the original estimations and assumptions, or

(c) The Company and its subsidiaries may decide to sell the related assets due to the changes in condition in the future.

3) Income tax

The Company and its subsidiaries need to pay income tax for various countries. When estimating the globe income tax, the Company and its subsidiaries rely on significant accounting estimations. Determine the final tax amount need to go through numerous transactions and calculations. The additional recognition of income tax liability which is related to the tax issue is based on deliberate

evaluation of the affection by the issue. The difference between the amount of original estimation and the final amount will affect current income tax and deferred tax.

4) Payments to defined contribution retirement benefit plans

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

5) Classification of insurance policy and significant risk transfer test

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

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

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

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

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

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

Unearned premium reserves are calculated by each insurance unexpired risk. The methods of reserve provision are determined by actuaries about each insurance characteristic.

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

Liability Adequacy Test is estimated based on "Code of Conduct of Actuarial Practice Under the Statements of Financial Accounting Standards No 40 - Contracts Classification and Liability Adequacy Test" announced by the Actuarial Institute of the Republic of China. BTLI evaluates liability adequacy test using future insurance benefits, premiums, related fees and other reasonable estimates for the current estimates of future cash flows under its insurance contracts.

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

7) Reinsurance reserves

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

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

(5) Cash and Cash Equivalents

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

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

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

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

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

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

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

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

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

	December 31, 2015	December 31, 2014
Commercial papers	$ 9,993,145	23,778,638
Government bonds	493,311	619,935
Stocks and beneficiary certificates	121,816,782	126,186,393
Treasury bills	3,405,242	1,997,506
Domestic convertible bonds	1,255,886	1,069,223
Corporate and financial bonds	14,230	17,655
Foreign government bonds	2,077,970	2,225,868
Foreign exchange call options	20,574	10,365
Structured time deposits	1,509,129	985,292
Contract value of asset swap IRS	7,622	5,182
Contract value of asset swap option	211	-
Negotiable certificates of deposits	2,995,800	-
Add: Valuation adjustment		
Non derivative financial instruments	5,477,302	11,297,368
Cross currency swaps	689,329	397,589
Swaps	13,017,046	20,393,825
Interest rate swaps	38,632	48,782
Forward foreign exchange	126,247	398,423
Fixed rate commercial papers	11,338	(3,130)
Asset swaps	6,991	14,125
Structured time deposits	232	239
Foreign exchange call options	610	11,893
Contract value of asset swap IRS	(2,900)	-
Foreign exchange call options	(195)	-
Total	$ 162,954,534	189,455,171

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

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

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

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

(8) Hedging Derivative Financial Instruments

The content of hedging asset is as follows:

	December 31, 2015	December 31, 2014
Fair value hedges :		
Interest rate swap	$ 15,970	25,613

The content of hedging liability is as follows:

	December 31, 2015	December 31, 2014
Fair value hedges :		
Interest rate swap	$ 243,967	103,024

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, 2015	December 31, 2014
USD subordinated bonds	interest rate swap	$ -	(12,593)
USD financial bonds	〃	(59,358)	(43,904)
USD corporate debts	〃	(7,780)	(23,451)
USD government debts	〃	(160,859)	2,537

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

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

(10) Receivables, Net

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

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

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

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

(11) Loans and Discounts, Net

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

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

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

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

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

Details of allowance for doubtful accounts were as follows:

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

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

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

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

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

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

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

(13) Held-to maturity Financial Assets, Net

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

(14) Investments under Equity Method, Net

	December 31, 2015		December 31, 2014	
	Percentage of Ownership (%)	Amount	Percentage of Ownership (%)	Amount
Hua Nan Financial Holdings Co., Ltd.	25.07	$ 38,374,097	25.07	36,085,393
Taiwan Life Insurance Co., Ltd.	-	-	20.26	3,239,021
Kaohsiung Ammonium Sulfate Co., Ltd.	91.86	2,158,300	91.86	2,193,752
Tang Eng Iron Works Co., Ltd.	21.37	1,181,719	21.37	1,377,684
Tai Yi Real Estate Management Co., Ltd.	30.00	20,266	30.00	18,798
Total		$ 41,734,382		42,914,648

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

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

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

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

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:

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

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

	December 31, 2015	December 31, 2014
Hua Nan Financial Holdings Co., Ltd.	$ 37,879,361	41,515,153

1. Summarized of Financial Information

   Hua Nan Financial Holding Co., Ltd.

	December 31, 2015	December 31, 2014
Total Assets	$ 2,350,288,574	2,259,951,646
Total Liabilities	(2,197,219,247)	(2,116,011,599)
Net Assets	$ 153,069,327	143,940,047
The Company holding shares	$ 38,374,097	36,085,393

	2015	2014
Net income	$ 14,080,661	13,131,187
other comprehensive income	832,014	1,491,746
Total comprehensive income	$ 14,912,675	14,622,933
The Company holding shares		
Investment income	$ 3,530,225	3,292,215
other comprehensive income	208,586	373,979

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 $3,530,225 thousand and $3,292,215 thousand in 2015 and 2014, respectively.

4) All other non-individually-significant associate(s)

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

	December 31, 2015	December 31, 2014
Total investment in book value	$ 3,360,285	6,829,255

	2015	2014
Investment income	$ 1,309,055	298,506
other comprehensive income	1,060,633	187,546

2. Some invested company were accounted for using the equity method and have not audited by auditors. The related investment gains (loss) is $(35,452) thousand and $(134,880) thousand in 2015 and 2014.

3. Kaohsiung Ammonium Sulfate Co., Ltd., one of the associates accounted for using the equity method is in process of liquidation. The Bank has no control over it since the liquidators and supervisors are both assigned by the Ministry of Economic Affairs.
4. Taiwan Life Insurance Co., Ltd., one of the associates accounted for using the equity method, issued new shares on March 6, 2014 due to the maturity of its unsecured subordinated convertible bonds conducted in a private placement. The shareholding of the Company and its subsidiaries from 20.48% dropped to 20.26% as the Company and its subsidiaries did not recognize new shares proportionally by original shareholding percentage.
5. Taiwan Life Insurance Co., Ltd. agreed to be acquired as a subsidiary of CTBC Financial Holding Co., Ltd. ('CTBC') through swapping shares and both of these two companies have obtained approval from their 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, 2015.

(15) Other Financial Assets, Net

	December 31, 2015	December 31, 2014
Short-term advances	$ 54,833,878	56,675,763
Less: allowance for doubtful accounts - Short-term advances	(34,816)	(33,467)
Debt investments without quoted price in active markets	53,997,677	55,871,570
Financial assets carried at cost	8,599,826	10,786,462
Less: cumulative impairment - financial assets carried at cost	(15,049)	(15,049)
Remittances purchased	7,739	10,448
Less: allowance for doubtful accounts - remittances purchased	(77)	(105)
Overdue receivables	47,879	31,726
Less: allowance for doubtful accounts - overdue receivables	(36,585)	(22,925)
Separate account insurance product assets	13,009	621,659
Time deposits over three months	3,746,150	18,657,721
Others	19,153	18,630
Total	$ 121,178,784	142,602,433

1) Concerning for the payment of excess interest for the government, booked under "short term payment" for December 31, 2015 and 2014, please refer to note 9 for further information.

2) BOT received $2.5 billion from Taiwan High Speed Rail Corporation for the repurchase of convertile preferred stocks (recognized as financial assets carried at cost) as part of capital reduction on Auguest 7, 2015.

(16) Investment property

		Land and improvements	Buildings	Total
Cost or deemed cost:				
Balance at January 1, 2015	$	3,556,036	2,133,431	5,689,467
Additions		1,180,567	380,933	1,561,500
Reclassification to property and equipment		31,176	23,767	54,943
Balance at December 31, 2015	$	4,767,779	2,538,131	7,305,910
Balance at January 1, 2014	$	3,598,287	2,072,494	5,670,781
Additions		209,140	128,471	337,611
Reclassification to property and equipment		(251,391)	(67,534)	(318,925)
Balance at December 31, 2014	$	3,556,036	2,133,431	5,689,467
Depreciation:				
Balance at January 1, 2015	$	-	202,002	202,002
Depreciation		-	60,220	60,220
Transferred from property and equipment		-	5,818	5,818
Balance at December 31, 2015	$	-	268,040	268,040
Balance at January 1, 2014	$	-	158,222	158,222
Depreciation		-	48,974	48,974
Reclassification to property and equipment		-	(5,194)	(5,194)
Balance at December 31, 2014	$	-	202,002	202,002
Carrying amounts:				
December 31, 2015	$	4,767,779	2,270,091	7,037,870
January 1, 2014	$	3,598,287	1,914,272	5,512,559
December 31, 2014	$	3,556,036	1,931,429	5,487,465

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

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

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

	December 31, 2015	December 31, 2014
Fair value of investment properties	$ 9,812,066	8,036,252

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

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

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

(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 2015 and 2014 were as follows:

	Land and Land improvements	Buildings	Machinery and equipment	Transportation equipment	Miscellaneous equipment	Leasehold improvements	Construction in progress and prepayment for equipment	Total
Cost:								
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
Balance at January 1, 2014	$ 87,619,640	15,563,237	6,403,582	1,102,602	1,032,997	696,279	248,131	112,666,468
Additions	175	15,303	265,422	20,051	34,360	1,695	289,972	626,978
Disposals	(95,451)	-	(189,916)	(37,835)	(34,504)	(685)	-	(358,391)
Reclassification	251,391	109,832	144,479	5,190	6,028	29,155	(227,150)	318,925
Effect of change in exchange rates	-	-	318	390	845	2,483	-	4,036
Balance at December 31, 2014	$ 87,775,755	15,688,372	6,623,885	1,090,398	1,039,726	728,927	310,953	113,258,016

	Land and Land improvements	Buildings	Machinery and equipment	Transportation equipment	Miscellaneous equipment	Leasehold improvements	Construction in progress and prepayment for equipment	Total
Accumulated depreciation:								
Balance at January 1, 2015	$ 14,062	6,488,954	4,987,780	905,521	836,095	651,584	-	13,883,996
Depreciation	362	306,125	430,915	44,442	37,323	29,506	-	848,673
Disposal	-	(71,847)	(371,082)	(61,126)	(39,550)	(41)	-	(543,646)
Reclassification	-	(5,818)	-	-	-	-	-	(5,818)
Effect of change in exchange rates	-	-	(625)	(359)	60	1,946	-	1,022
Balance at December 31, 2015	$ 14,424	6,717,414	5,046,988	888,478	833,928	682,995	-	14,184,227
Balance at January 1, 2014	$ 13,699	6,161,615	4,692,424	895,548	827,215	614,786	-	13,205,287
Depreciation	363	322,145	471,068	46,950	40,054	36,195	-	916,775
Disposal	-	-	(175,999)	(37,201)	(32,005)	(685)	-	(245,890)
Reclassification	-	5,194	-	-	-	-	-	5,194
Effect of change in exchange rates	-	-	287	224	831	1,288	-	2,630
Balance at December 31, 2014	$ 14,062	6,488,954	4,987,780	905,521	836,095	651,584	-	13,883,996
Accumulated impairment:								
Balance at January 1, 2015	$ 90,919	-	-	-	-	-	-	90,919
Impairment loss	(17,323)	-	-	-	-	-	-	(17,323)
Balance at December 31, 2015	$ 73,596	-	-	-	-	-	-	73,596
Balance at January 1, 2014	$ 91,535	-	-	-	-	-	-	91,535
Impairment loss	(616)	-	-	-	-	-	-	(616)
Balance at December 31, 2014	$ 90,919	-	-	-	-	-	-	90,919
Carrying amounts:								
December 31, 2015	$ 87,481,491	8,823,133	1,564,606	183,344	193,971	102,275	474,409	98,823,229
January 1, 2014	$ 87,514,406	9,401,622	1,711,158	207,054	205,782	81,493	248,131	99,369,646
December 31, 2014	$ 87,670,774	9,199,418	1,636,105	184,877	203,631	77,343	310,953	99,283,101

The Company and its subsidiaries have conducted a few revaluations of land and buildings for many times over these years, and the latest was in December, 2011. As of December 31, 2015 and 2014, the total revaluation increments for land were $82,119,093 thousand and $82,286,879 thousand, respectively. The total revaluation increments for Buildings were $155,372 thousand and $160,553 thousand.

As of December 31, 2015, the Company and its subsidiaries' property and equipment neither served as a guarantee or collateral, nor were they pledged, please refer to note 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 2015 and 2014 were as follows:

	Computer software
Costs:	
Balance at January 1, 2015	$ 2,696,930
Additions	273,417
Reclassification	(70)
Balance at December 31, 2015	$ 2,970,277

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

(19) Other Assets

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

1) Foreclosed collaterals and residuals taken over, net

		December 31, 2015	December 31, 2014
Foreclosed collaterals and residuals taken over	$	1,076,959	1,076,959

2) Advance payment

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

3) Inventories

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

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

	2015	2014
Sale gain	$ 13,942	1,351

(20) Impairment

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

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

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

Details of accumulated impairment were as follows:

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

(21) Deposits of Central Bank and other banks

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

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

2) Financial liabilities held for trading

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

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

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

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, 2015	December 31, 2014
2014-2 Senior unsecured financial bonds-A	2014/11/26	2034/11/26	0%	USD $100 million	Senior unsecured financial bond	$ 3,288,000	3,167,000
2014-2 Senior unsecured financial bonds-B	2014/11/26	2044/11/26	0%	USD $480 million	Senior unsecured financial bond	15,782,400	15,201,600
2014-2 Senior unsecured financial bonds-C	2014/12/01	2044/12/01	0%	USD $440 million	Senior unsecured financial bond	14,467,200	13,934,800
				Valuation adjustment		(262,196)	(563,457)
						$ 33,275,404	31,739,943

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.

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

	December 31, 2015	December 31, 2014
Foreign exchange options premium	$ 3,799,753	3,283,323
Swaps	547,759,691	619,665,305
Cross currency swaps	2,597,800	1,495,600
Interest rate swaps	9,933,676	23,921,204
Forward foreign exchanges	25,000,759	18,216,271
Asset swaps	32,207,933	31,477,085
Asset swaps-options	25,000	190,500
Credit default swaps	-	192,700
Warrants	722	200
Total	$ 621,325,334	698,442,188

(23) Commercial paper payable, net

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

	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

	December 31, 2014		
	Guarantee or acceptance institution	Range of interest rates	Amount
Commercial paper payable	International Bills Finance Corporation	0.998%~1.068%	$ 1,280,000
	China Bills Finance Corporation	0.988%~1.148%	1,200,000
			2,480,000
Less: discount			(1,618)
Total			$ 2,478,382

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

(24) Payables

	December 31, 2015	December 31, 2014
Accounts payable	$ 5,954,001	7,724,170
Receipts under custody	1,316,211	1,152,674
Accrued expense	2,831,416	2,786,713
Other tax payable	541,311	569,891
Interest payable	13,092,140	11,958,308
Banker's acceptance payable	2,143,698	2,552,753
Payables to representative organizations	17,811,159	21,167,952
Construction payable	14,244	7,949
Commission payable	202,633	217,627
Other payables - collection bills	2,319,808	2,459,106
Other payables - payments awaiting transfer	5,783,459	5,476,557
Other payables –ATM temporary receipts, payments and inter branch difference	1,722,094	1,715,625
Other payables - foreign exchange awaiting transfer	500,296	320,889
Other payables – non-recourse factoring	316,680	338,219
Other payables – amounts awaiting settlement	5,209,447	3,307,611

	December 31, 2015	December 31, 2014
Other payables - settlement accounts payable	1,115,273	1,533,401
Other payables - settlement prices	883,055	925,083
Other payables - overdue accounts	168,143	424,423
Other payables - check deposit	122,753	109,184
Other payables - others	1,487,716	1,829,124
Total	$ 63,535,537	66,577,259

(25) Deposits and Remittances

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

(26) Financial Bonds Payable

	Condition			Bond		
Name of bond	Beginning date	Maturity date	Interest rate	Type	Amount	
					December 31, 2015	December 31, 2014
2013-1 TWD subordinated unsecured financial bond	2013/12/2	2023/12/2	The BOT listed annual interest rate of time deposits plus 0.15%	Subordinated unsecured financial bond	$ 16,000,000	16,000,000
2014-1 TWD subordinated unsecured financial bonds-A	2014/6/25	2024/6/25	TAIBOR 3M plus 0.3%.	Subordinated unsecured financial bond	5,500,000	5,500,000
2014-1 TWD subordinated unsecured financial bonds-B	2014/6/27	2024/6/27	1.70%	Subordinated unsecured financial bond	2,000,000	2,000,000
2014-1 TWD subordinated unsecured financial bonds-C	2014/6/27	2024/6/27	The BOT listed annual interest rate of time deposits plus 0.15%.	Subordinated unsecured financial bond	1,500,000	1,500,000
			Unamortized discount amount		(2,174)	(2,388)
Total					$ 24,997,826	24,997,612

(27) Borrowings

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

December 31, 2015

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

December 31, 2014

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

(28) Other Financial Liabilities

	December 31, 2015	December 31, 2014
Appropriated loan funds	$ 64,900	99,410
Liability of insurance product-separate account	13,009	621,659
Principal from structured products	1,720,530	1,657,544
Total	$ 1,798,439	2,378,613

(29) Provision

	December 31, 2015	December 31, 2014
Reserve for unearned premiums	$ 420,430	417,355
Claims reserve	77,337	76,037
Liability reserve	319,274,456	351,525,857
Special reserve	228,097	317,003
Reserve for premium deficiency	2,683,251	991,750
Foreign exchange volatility reserve	869,492	1,376,324
Employee benefit obligations	18,068,169	17,021,481
Guarantee reserve	1,119,204	1,144,965
Reserve for government employees insurance	245,997,636	240,468,607
Total	$ 588,738,072	613,339,379

(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, 2015 and 2014 were as follows:

1) Details of reserve for unearned premium:

	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

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

The reconciliations of reserve for unearned premium were listed below:

	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

	2014		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2014	$ 417,432	5,735	423,167
Provision	411,071	3,732	414,803
Reclaim	(414,821)	(5,735)	(420,556)
Other	(59)	-	(59)
Balance at December 31, 2014	413,623	3,732	417,355

	2014		
	Insurance Contract	Financial products with discretionary participation feature	Total
Deduction of reserve for unearned premium outward			
Balance at January 1, 2014, net	11,621	109	11,730
Provision	9,652	84	9,736
Reclaim	(11,621)	(109)	(11,730)
Balance at December 31, 2014, net	9,652	84	9,736
Total	$ 403,971	3,648	407,619

2) Details of claims reserve:

	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

	December 31, 2014		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life Insurance			
Reported but not paid	$ 4,573	1,103	5,676
Not reported and not paid	476	734	1,210
Personal injury insurance			
Reported but not paid	1,012	-	1,012
Not reported and not paid	7,455	-	7,455
Personal health insurance			
Reported but not paid	1,660	-	1,660
Not reported and not paid	17,623	-	17,623
Group insurance			
Reported but not paid	1,588	-	1,588
Not reported and not paid	39,813	-	39,813
Total	74,200	1,837	76,037
Deduction of claims reserve-outward:			
Personal life Insurance	35	5	40
Personal injury insurance	701	-	701
Personal health insurance	14	-	14
Group insurance	633	-	633
Total	1,383	5	1,388
Net	$ 72,817	1,832	74,649

The reconciliations of claims reserve were listed below:

	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

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

3) Details of liability reserve：

	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

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

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

	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

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

4) Details of special reserve:

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

	December 31, 2014		
	Insurance Contract	Financial products with discretionary participation feature	Total
Provision for dividend policy	$ 317,003	-	317,003

The movements of special reserve were listed below:

	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

	2014		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance at January 1, 2014	$ 267,493	-	267,493
Provision of dividend policy	150,629	-	150,629
Recovery of dividend policy	(101,119)	-	(101,119)
Balance at December 31, 2014	$ 317,003	-	317,003

5) Reserve for premium deficiency:

	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

	December 31, 2014		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	$ 991,598	-	991,598
Personal health insurance	152	-	152
Total	$ 991,750	-	991,750

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

	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

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

6) Details of provision for liability adequacy:

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

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

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

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

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

		December 31, 2015	December 31, 2014
Claim and reserve within a year	$	92,090	218,320
Less: Premium not received within a year		3,138	56,917
Subtotal	$	88,952	161,403
Unearned premium reserve	$	229,584	399,970
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, 2015	December 31, 2014
Test Method	Long term insurance : gross premium evaluation method: Short term insurance (including inward reinsurance) : loss evaluation method	Long term insurance : gross premium evaluation method: Short term insurance (including inward reinsurance) : loss evaluation method
Group	Test long and short term insurance separately	Test long and short term insurance separately
Significant assumption	Based on the newest composed of asset on the time of evaluating and the level of risk free interest rate, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2014 (with steady state assumption for discount rates after 30 year).	Based on the newest composed of asset on the time of evaluating and the level of risk free interest rate, discount rates are calculated using the best estimated scenario investment return based on actuary report of 2013 (with steady state assumption for discount rates after 30 year).

(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, 2015 and 2014, the primary foreign exchange exposures were USD assets, amounting $27,800,944 thousand dollars and $40,071,903 thousand dollars, respectively.

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

	2015	2014
Balance as at 1 January, 2014	$ 1,376,324	439,970
Current provision:		
Compulsory provision	159,627	213,090
Additional provision	924,088	1,172,821
Subtotal	1,083,715	1,385,911
Current write-off	(1,590,547)	(449,557)
Balance as at 31 December, 2014	$ 869,492	1,376,324

3) Effect of foreign exchange volatility reserve:

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

Item	2015		
	Unapplied amount	Applied amount	Effected amount
Net income before income tax	$ 7,429,705	7,936,537	(506,832)
Net income after income tax	5,916,809	6,337,480	(420,671)
Earnings per share before tax	0.83	0.88	-
Earnings per share after tax	0.66	0.70	-
Net increase on Provision for foreign exchange (book under net change in insurance liabilities)	-	(506,832)	(506,832) (Note)
Special provisions - major accident (under Provisions)	203,856	101,928	(101,928)
Special provisions - variation of risk (under Provisions)	137,584	68,792	(68,792)
Provision for foreign exchange volatility (under Provisions)	-	869,492	869,492 (Note)
Owner's equity	253,263,848	253,684,465	(420,617)

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

Item	2014		
	Unapplied amount	Applied amount	Effected amount
Net income before income tax	$ 9,527,172	8,590,818	936,354
Net income after income tax	8,152,507	7,375,333	777,174
Earnings per share before tax	1.06	0.95	-
Earnings per share after tax	0.91	0.82	-
Net increase on Provision for foreign exchange (book under net change in insurance liabilities)	-	936,354	936,354 (Note)
Special provisions - major accident (booked under Provisions)	203,856	101,928	(101,928)
Special provisions - variation of risk (booked under Provisions)	137,584	68,792	(68,792)
Provision for foreign exchange volatility (booked under Provisions)	-	1,376,324	1,376,324 (Note)
Owner's equity	260,508,441	259,731,267	777,174

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

(32) Employee benefit obligations

	December 31, 2015	December 31, 2014
Recognized in Consolidated Balance Sheet:		
- Defined benefit plans	$ 9,564,733	8,920,887
- Employees preferential interest deposits	8,209,886	7,863,789
- Three Chinese festival bonus	256,441	236,805
- Civil servant and teacher insurance excess annuity benefit plans	37,109	-
Total	$ 18,068,169	17,021,481

(33) Other Liabilities

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

(34) Income Tax Expenses

1) Income tax expenses (benefit)

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

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

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

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

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

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

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

1. Unrecognized deferred tax assets

Unrecognized deferred tax assets are as follows:

	December 31, 2015	December 31, 2014
Deductible temporary difference	$ 3,928,256	3,166,398

2. Recognized deferred tax assets and liabilities

Changes in deferred tax assets and liabilities for 2015 and 2014 were as follows:

Deferred Tax Assets:

	Defined Benefit Plans	Fair Value Gains	Unrealized Gain or Loss on Foreign Exchange	Other	Total
Balance at January 1, 2015	$ 41,755	881,319	88	1,294,011	2,217,173
Recognized in profit or loss	17,116	(310,202)	159	(998,198)	(1,291,125)
Recognized in other comprehensive income	3,351	199,915	-	-	203,266
Balance at December 31, 2015	$ 62,222	771,032	247	295,813	1,129,314
Balance at January 1, 2014	$ 24,310	427,932	137	1,592,379	2,044,758
Recognized in profit or loss	13,330	560,031	(41)	(298,376)	274,944
Recognized in other comprehensive income	4,115	(106,644)	-	-	(102,529)
Balance at December 31, 2014	$ 41,755	881,319	96	1,294,003	2,217,173

Deferred Tax Liabilities:

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

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

	December 31, 2015	December 31, 2014
Unappropriated earnings of 1998 and after	$ 5,377,817	7,089,947

	December 31, 2015	December 31, 2014
Balance of deductible tax account	$ 844	515,932

	2015(Projected)	2014(Actual)
Imputed tax creditable ratio for appropriating net income	11.72%	20.48%

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

(35) Equity

1) Capital stock

As of December 31, 2015 and 2014, the Company's authorized capital and issued capital were $90,000,000 thousand. The above mentioned capital stock had a par value of $10.

2) Capital surplus

	December 31, 2015	December 31, 2014
Changes in capital surplus-associates and joint ventures accounted using equity method	$ -	78,422
Equity premium	111,385,217	111,385,217
Total	$ 111,385,217	111,463,639

According to the ROC Company Act prior to the new amendment on January 4, 2012, capital surplus can only be used to increase share capital by using the realized capital surplus after making good the deficit. Capital surplus cannot be used for distribution of cash dividends. According to the new amendment of the ROC Company Act, the Company can declare dividend with capital surplus when which without loss and resolution by the shareholders. The aforementioned realized capital surplus includes the income derived from the issuance of new shares at a premium and the income from endowment received by the Company. The share capital capitalized in any one year may not exceed a certain percentage for the Company's increasing share capital under the Regulations Governing the Offering and Issuance of Securities by Securities Issuers. The Company may only increase its capital reserve out of the share capital from cash premium on capital stock once a year. The additional capital reserve from the share capital may not be increased during the same fiscal year as the additional share capital 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. to appropriate dividends

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

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

5) Other equity

	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
Balance at January 1, 2014	$ (306,784)	17,378,040	-	17,071,256
Exchange differences arising on translation of foreign operations	617,113	-	-	617,113
Unrealized gain (loss) on available-for-sale financial assets	-	2,699,349	-	2,699,349
Change in fair value of financial liability attributable to change in credit risk of liability	-	-	55,862	55,862
Balance at December 31, 2014	$ 310,329	20,077,389	55,862	20,443,580

(36) Net interest income

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

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

(37) Service fees, net

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

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

	2015	2014
Gain (loss) on financial assets or liabilities measured at fair value through profit or loss:		
Dividend income	$ 3,877,014	3,010,659
Net interest income	(499,686)	820,962
Net gain on disposal	1,789,589	2,595,626
	5,166,917	6,427,247

	2015	2014
Gain (loss) on financial assets or liabilities measured at fair value through profit or loss - valuation:		
Net gain on valuation	(5,186,806)	4,281,855
Total	$ (19,889)	10,709,102

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

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

(40) Other non-interest income (expenses)

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

Note: According to Government Employees and School Insurance Act, if GESSI experiences a loss, the loss before May 31, 1999, would be covered by the Ministry of Finance; and the loss after that date would be covered by an adjustment of the insurance premium.

(41) Employee benefits expenses

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

(42) Depreciation and amortization expenses

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

(43) Other general and administrative expenses

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

(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 2015 and 2014 are $6,337,480 and $7,375,333, respectively. The weighted average outstanding shares are 9,000,000 thousand.

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

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

(45) Insurance income, net

	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 expense	-	81,444	81,444
Direct business expenses	-	1,093	1,093
Insurance claims payment	32,810,111	71,497,665	104,307,776
Disbursement toward industry stability	-	45,980	45,980
Disbursement on insurance product separated account	-	(26,972)	(26,972)
Insurance business expenses	32,810,111	71,599,210	104,409,321
Net income from insurance business	$ (11,891,972)	(40,183,886)	(52,075,858)

	2014		
	BOT government employees' insurance department	BTLI	Total
Premium income	$ 20,948,956	34,983,993	55,932,949
Amortized reinsurance claims payment	-	15,156	15,156
Income on insurance product-separated account	-	145,195	145,195
Insurance business income	20,948,956	35,144,344	56,093,300
Reinsurance expenses	-	68,931	68,931
Direct business expenses	-	469	469
Insurance claims payment	24,452,013	55,700,173	80,152,186
Disbursement toward industry stability	-	56,766	56,766
Disbursement on insurance product separated account	-	145,195	145,195
Insurance business expenses	24,452,013	55,971,534	80,423,547
Net income from insurance business	$ (3,503,057)	(20,827,190)	(24,330,247)

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

1) Retained earned premiums

	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

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

2) Retained benefits and claims paid

	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

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

(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

It refers to the quoted price of similar financial instruments in an active market. An active market indicates the market that is in conformity with all the following conditions. The products in the market have homophily; it is easy to find a willing party; the price information is attainable for the public.

(b) Level 2

The observable prices include directly (such as prices) or indirectly (such as those inferred from the prices) observable input parameters attained from an active market except the quoted prices in an active market. For example:

a) The quoted price of a similar financial instrument in an active market. The fair value of held financial instruments is inferred from the recent trading price of similar financial instruments. Similar financial instruments are judged according to their characteristics and trading conditions. Fair value of financial instruments should be priced using the observable prices adjusted over time, trading conditions, and the impact of related parties and its observable trading prices and associated nature of the product.

b) Quoted prices of similar financial instruments in a non-active market.

c) Fair value price using valuation models. The input parameters of the valuation model (i.e., interest rates, yield curves and volatility...etc) are based on the available date in the market, such as input parameters, which is an estimated figure derived from public data. The price of financial instruments is estimated by using the parameters which could reflect the expectation of the market participants.

d) The majority of the input parameters are derived from observable market data or its relevance can be validated by the observable market data.

(c) Level 3

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

3) Fair value measurement

1. The fair value hierarchy

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

	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	
Investment in stocks	61,255,180	61,208,199	46,981	-
Investment in bonds	3,941,891	2,475,965	1,465,926	-
Others	82,376,511	65,942,769	16,433,742	-
Financial assets designated at fair value measured through profit or loss	13,430,975	-	13,430,975	-
Available-for-sale financial assets	1,099,519,771	95,036,715	1,004,483,056	
Investments in stocks	85,188,823	85,188,823	-	-
Investment in bonds	123,322,093	8,825,687	114,496,406	-
Others	891,008,855	1,022,205	889,986,650	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	33,275,404	-	33,275,404	-
Financial liabilities designated at fair value through profit or loss	33,275,404	-	33,275,404	-

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

Financial instruments measured at fair value	December 31, 2014 Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets:				
Financial assets measured at fair value through profit or loss	186,689,787	141,688,559	45,001,228	-
Financial assets held for trading	167,192,586	140,423,169	26,769,417	
Investment in stocks	74,888,839	74,878,237	10,602	-
Investment in bonds	4,172,269	3,186,536	985,733	-
Others	88,131,478	62,358,396	25,773,082	-
Financial assets designated at fair value through profit or loss	19,497,201	1,265,390	18,231,811	-
Available-for-sale financial assets	852,076,122	91,919,441	760,156,681	
Investment in stocks	83,140,464	83,140,464	-	-
Investment in bonds	105,985,002	6,217,750	99,767,252	-
Others	662,950,656	2,561,227	660,389,429	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	31,739,999	-	31,739,999	-
Financial liabilities designated at fair value through profit or loss	31,739,999	-	31,739,999	-
Derivative financial instruments				
Assets:				
Financial assets measured at fair value through profit or loss	22,262,585	-	22,262,585	-
Hedging derivative financial assets	25,613	-	25,613	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	18,371,046	9,112	18,361,934	-
Hedging derivative financial liabilities	103,024	-	103,024	-

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

Unit: In Thousands of NTD

December 31, 2014								
		Evaluation of gains and losses	Increase		Decrease			
Account	Balance on January 1, 2014	profit or loss or the amount of equity	Buy, issue or discount	Transferred to level 3	Sale, disposal or settle at premium	Transferred from level 3	Effect of exchange rate change	Balance on December 31, 2014
Financial assets measured at fair value through profit or loss								
Financial assets designated at fair value through profit or loss	$ 297,056	744	18,900	-	316,700	-	-	-

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

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

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

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

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

1. Fair value information

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

Item	Book value	Fair value
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
December 31, 2014		
Financial assets:		
Held-to-maturity financial assets	$ 270,591,631	271,062,112
Other financial assets – Debt investments without quoted price in active markets	55,871,570	56,261,559

2. Fair value hierarchy

Assets and liabilities item		December 31, 2015 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	$	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	-

Assets and liabilities item		December 31, 2014 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	$	271,062,112	109,387,819	161,674,293	-
Other financial assets – Debt investments without quoted price in active markets		56,261,559	1,564,367	54,697,192	-

(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, 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

December 31, 2014

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%	259,886,531	271,209,667
Subsidiary BOT	100%	223,721,961	158,453,187
Subsidiary BTS	100%	2,279,926	983,477
Subsidiary BTLI	100%	15,748,873	11,074,016
Deducted Amount	-	(283,693,701)	(271,193,701)
Subtotal		217,943,590	170,526,646
The Group Capital Adequacy Ratio (C) = (A)÷(B)			127.81

Explain: 1. The numbers are accordance with the "Regulations Governing the Consolidated Capital Adequacy of Financial Holding Companies"
2. The term "capital adequacy ratio of a financial holding company calculated on a consolidated basis" shall mean the group's net eligible capital divided by the group's statutory capital requirement.
3. Do not need to prepare the format for the first and third quarters.

3) financial holding company's eligible capital

Unit: In Thousands of NTD

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

Unit: In Thousands of NTD

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

Explain: 1.The numbers are accordance with the "Regulations Governing the Consolidated Capital Adequacy of Financial Holding Companies".
2. No need to prepare the format for the first and third quarters.

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

(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, 2015	December 31, 2014
Available-for-sale financial assets - bonds	Guarantee deposit for provisional seizure against defaulted loans and others	$ 367,900	368,800
Available-for-sale financial assets - bonds	Operating deposit for securities investment trust and consulting	150,000	150,000
Available-for-sale financial assets - bonds	Guarantee deposits for trust business compensation reserve	50,000	50,000
Held-to-maturity financial assets – government bonds	Guarantee deposits for trust business compensation reserve	400,000	400,000
Deposit in Central Bank – time deposits	Payment and settlement systems of Central Bank	18,400,000	11,000,000
Available-for-sale financial assets – negotiable certificate of deposit	Payment and settlement systems of Central Bank	29,000,000	36,000,000
		$ 48,367,900	47,968,800

3) The subsidiary, BTLI

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

4) The subsidiary, BTS

Pledged assets	Purpose of pledge	December 31, 2015	December 31, 2014
Property and Equipment - Land	Short-term borrowings	$ 379,309	379,309
Property and Equipment - Building	Short-term borrowings	85,875	89,640
		$ 465,184	468,949

(49) Commitments and contingencies

1) Commitments and contingencies

1. Commitments and contingencies of the subsidiary, BOT

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

2. Commitments and contingencies of the subsidiary, BTLI

The contract guarantees on behalf of counter parties of the subsidiary, BTLI, are $225 thousand and $1,580 thousand dollars on December 31, 2015 and 2014, and January 1,2014, respectively.

3. Commitments and contingencies of the subsidiary, BTS

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

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

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

Trust liabilities		December 31, 2015	December 31, 2014
Payables			
Payables from trading securities	$	180,594	404,081
Payables from forward contracts		8,505,100	1,561,500
Payables from management fee		4,184	3,938
Payables from supervision fee		324	324
Other payables		1,151	862
Tax payable		180	203
Securities held in custody payable		59,851,904	57,826,390
Trust capital			
Money trust		364,450,599	371,939,184
Marketable securities trust		142,701	119,262
Real estate investment trust		40,771,057	35,041,987
Other reserve and accumulated income			
Accumulated loss		57,815,457	43,116,285
Foreign currency translation		14,643,149	10,833,032
Deferred unrealized income		5,665,046	4,258,025
Current income		18,801,576	21,332,988
Total of trust liabilities	$	570,833,022	546,438,061

Notes: The funds invested by the OBU branch of the subsidiary, BOT, are included. The amounts as of December 31, 2015 and 2014 are $345,045 thousand dollars and $316,436 thousand dollars, respectively.

Details of trust		December 31, 2015	December 31, 2014
Deposits			
Deposits in the Bank	$	24,287,546	30,455,662
Deposits in other banks		5,788,482	4,240,140
Short term investment			
Investment in funds		175,157,433	178,853,246
Investment in bonds		215,848,838	203,435,186
Common stock investment– marketable securities		43,093,483	40,506,379
Real estate			
Land		16,010,620	13,953,770
Buildings		125,026	119,280
Construction in progress		18,912,209	13,581,464
Marketable securities under custody		59,851,904	57,826,390
Trust capital	$	559,075,541	542,971,517

Income statement for assets under trust		2015	2014
Trust revenue			
Capital interest revenue	$	10,325,917	10,284,346
Cash dividend revenue		752,049	909,254
Donation revenue		490,863	736,644
Realized capital gain shares		61,186	1,124,155
Realized capital gain fund		1,967,041	3,832,346
Realized exchange gain – bond		1,848,237	1,022,769
Realized foreign exchange gain		529,644	315,459
Realized gain on property exchange		640,818	1,312,929
Income from beneficiary certificates		3,309,256	2,771,898
Total trust revenue		19,925,011	22,309,800
Trust expense			
Capital management fee		495,159	511,283
Tax expense		7,094	5,542
Supervisory fee		337	335
Storage fee		9,216	9,736
Commission fee		32	17
Donation cost		490,417	398,040
Other expense		121,180	51,859
		1,123,435	976,812
Net income	$	18,801,576	21,332,988

(50) Profitability

1) The Company

Unit: %

Item		December 31, 2015	December 31, 2014
Return on Assets(note 6)	pre-tax	5.29	5.71
	after-tax	5.34	5.73
Return on Equity(note 8)	pre-tax	5.63	6.06
	after-tax	5.68	6.07
Profit Margin		99.86	98.46

2) The Company and its subsidiaries

Unit: %

Item		December 31, 2015	December 31, 2014
Return on Assets(note 7)	pre-tax	0.35	0.38
	after-tax	0.32	0.35
Return on Equity(note 8)	pre-tax	6.30	6.55
	after-tax	5.68	6.07
Profit Margin		85.50	14.82

3) The subsidiary, BOT

Unit: %

Item		December 31, 2015	December 31, 2014
Return on Assets (note 7)	pre-tax	0.44	0.44
	after-tax	0.40	0.41
Return on Equity (note 8)	pre-tax	7.41	7.02
	after-tax	6.73	6.53
Profit Margin		25.19	22.75

4) The subsidiary, BTLI

Unit: %

Item		December 31, 2015	December 31, 2014
Return on Assets	pre-tax	(0.67)	(0.21)
	after-tax	(0.67)	(0.20)
Return on Equity	pre-tax	(20.03)	(6.37)
	after-tax	(19.89)	(6.19)
Profit Margin		note 9	note 9

5) The subsidiary, BTS

Unit: %

Item		December 31, 2015	December 31, 2014
Return on Assets	pre-tax	1.37	2.36
	after-tax	1.17	2.09
Return on Equity	pre-tax	4.03	7.29
	after-tax	3.44	6.46
Profit Margin		22.38	35.04

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, 2015 net profit rate is not expressed because 2015 have a large number of full payment, insurance claims and payment increase due to net profit rate of net income less than zero.

(51) Losses due to major disasters: None.

(52) Subsequent events

Kaohsiung Ammonium Sulfate Co., Ltd., an investee of the subsidiary Bank of Taiwan under the equity method, has been liquidated on January 15, 2016 and the shareholders' meeting resolved to distribute residual surplus in proportion to its shareholding. The subsidiary Bank of Taiwan expects to receive $179,000 thousand in cash and land which was estimated to be worth $15,238,530 thousand by an independent appraisal institution. As of the report date, the legal process is still in the works. land.

(53) Other

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

By function / By nature	December 31, 2015			December 31, 2014		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	70,943	11,032,287	11,103,230	58,952	10,942,263	11,001,215
Labor and health insurance	105,521	534,680	640,201	117,360	591,224	708,584
Pension	3,465	893,786	897,251	2,938	855,407	858,345
Others	1	297,864	297,865	2	226,890	226,892
Depreciation	103,140	805,753	908,893	87,527	878,222	965,749
Amortization	-	362,489	362,489	-	383,572	383,572

The number of employees in 2015 and 2014 were 8,848 and 8,775, respectively.

2) Government audit adjustments for fiscal year ended 2014

The accounting records as at and for the year ended 2014, have been audited and examined by the MoA, and the resulting adjustments were summarized as follows:

The Company and its subsidiaries

Balance Sheet	As Previously Reported December 31, 2014	Adjustments - Increase (Decrease)	As Audited by the MoA, December 31, 2014
Assets			
Cash and cash equivalents	$ 175,979,782	589	175,980,371
Accounts receivable, net	71,031,163	32,114	71,063,277
Current income tax assets	4,200,074	(771,627)	3,428,447
Deferred tax assets	1,447,820	769,353	2,217,173
Other assets, net	14,156,169	(3,812)	14,152,357
Liabilities			
Accounts payable	66,577,265	(6)	66,577,259
Current income tax liabilities	259,952	57,842	317,794
Deferred tax liabilities	18,562,701	673	18,563,374
Other liabilities, net	8,343,565	32,114	8,375,679
Stockholders' equity			
Retained earnings	38,035,182	(64,006)	37,971,176

Income statement	As Previously Reported 2014	Adjustments - Increase (Decrease)	As Audited by the MoA, 2014
Interest revenue	$ 75,096,486	22	75,096,508
Insurance Revenue (Net)	(24,313,619)	(16,628)	(24,330,247)
Realized Gain (loss) on Available-for-sale Financial Assets	2,426,302	(11)	2,426,291
Other miscellaneous income (loss), net	(25,223)	42	(25,181)
Operating expenses	20,573,975	(13,411)	20,560,564
Income tax expense	1,154,643	60,842	1,215,485
Net income	7,422,466	(64,006)	7,358,460

The Subsidiary, BOT

Government audit adjustments for fiscal year ended December 31, 2014:

Balance Sheet	As Previously Reported December 31, 2014	Adjustments - Increase Decrease)	As Audited by the MoA, December 31, 2014
Assets			
Current income tax assets	$ 1,878,465	(2,173)	1,876,292
Other assets, net	11,404,016	(3,223)	11,400,793
Liabilities			
Current income tax liabilities	181,948	58,430	240,378
Stockholders' equity			
Retained earnings	55,169,251	(63,826)	55,105,425

Income statement	As Previously Reported 2014	Adjustments - Increase (Decrease)	As Audited by the MoA, 2014
Interest revenue	$ 65,232,863	22	65,232,885
Other miscellaneous income (loss), net	210,472	30	210,502
Other General and Administrative Expenses Abstra	6,403,944	3,223	6,407,167
Income tax expense	1,185,145	60,655	1,245,800
Net income	8,248,208	(63,826)	8,184,382

The Subsidiary, BTLI

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

The Subsidiary, BTS

Government audit adjustments for fiscal year ended December 31, 2014:

Balance Sheet	As Previously Reported December 31, 2014	Adjustments - Increase (Decrease)	As Audited by the MoA, December 31, 2014
Assets			
Advance	$ 61,311	(11,052)	50,259
Other current asset	1,098	11,052	12,150
Liabilities			
Other accounts payble	57,784	(6)	57,778
Other accounts payble - related party	77,915	(589)	77,326
Deferred tax liabilities	91,454	674	92,128
Stockholders' equity			
Special Reserve	271,183	(29,260)	241,923
Unappropriated retained earnings	198,754	29,181	227,935

Income statement	As Previously Reported 2014	Adjustments - Increase (Decrease)	As Audited by the MoA, 2014
Dividend income	$ 28,595	(11)	28,584
Employee benefit expense	249,552	(6)	249,546
Other operating income	41,460	12	41,472
Income tax expense	29,030	86	29,116
Net income	225,450	(79)	225,371

3) Financial information classified by business type

December 31, 2015

Businesses / Items	Banking business	Insurance business	Securities business	Government insurance	Other operations	Total
Net interest income	26,673,255	8,987,785	143,863	1,635,156	-	37,440,059
Non-interest income, net	12,702,196	(41,634,600)	412,926	(1,498,263)	(9,963)	(30,027,704)
Net revenue	39,375,451	(32,646,815)	556,789	136,893	(9,963)	7,412,355
Bad debt expense	(4,404,686)	(122,480)	-	219	-	(4,526,947)
Provisions	(5,529,029)	32,085,575	-	-	-	26,556,546
Operating expenses	(20,029,230)	(848,618)	(375,013)	(137,112)	(115,444)	(21,505,417)
Net income before income tax	9,412,506	(1,532,338)	181,776	-	(125,407)	7,936,537
Income tax expenses	(1,730,138)	18,689	(20,992)	-	133,384	(1,599,057)
Net income	7,682,368	(1,513,649)	160,784	-	7,977	6,337,480

December 31, 2014

Items / Businesses	Banking business	Insurance business	Securities business	Government insurance	Other operations	Total
Net interest income	27,209,503	9,584,615	146,509	1,582,659	-	38,523,286
Non-interest income, net	7,718,997	(19,409,934)	509,268	22,431,396	(2,999)	11,246,728
Net revenue	34,928,500	(9,825,319)	655,777	24,014,055	(2,999)	49,770,014
Bad debt expense	(7,284,809)	(50,702)	-	-	-	(7,335,511)
Provisions	-	10,574,103	-	(23,874,056)	-	(13,299,953)
Operating expenses	(19,125,395)	(794,166)	(362,772)	(139,999)	(121,401)	(20,543,733)
Net income before income tax	8,518,296	(96,084)	293,005	-	(124,400)	8,590,817
Income tax expenses	(1,245,801)	23,772	(29,116)	-	35,660	(1,215,485)
Net income	7,272,495	(72,312)	263,889	-	(88,740)	7,375,332

4) The balance sheets and income statements of the subsidiaries

1. Balance sheets

	Bank of Taiwan (Individual)	
	December 31, 2015	December 31, 2014
Cash and cash equivalents	$ 135,422,418	155,902,567
Placement with Central Bank and call loans to banks	585,963,772	582,914,021
Financial assets measured at fair value through profit or loss	173,005,205	208,646,968
Hedging derivative financial assets, net	15,970	25,613
Bills and bonds purchased under resell agreements	50,040	1,956,563
Receivables, net	72,046,562	62,547,115
Current income tax assets	1,343,594	1,876,292
Loans and discounts, net	2,386,598,795	2,298,237,964
Available-for-sale financial assets, net	1,053,598,710	797,692,802
Held-to-maturity financial assets, net	113,786,391	77,372,697
Investments under equity method, net	36,178,998	37,241,461
Other financial assets, net	68,891,471	68,466,496
Property and equipment, net	96,728,064	97,103,753
Intangible assets, net	853,571	940,987
Deferred tax assets	472,085	357,844
Other assets, net	7,817,258	11,396,056
Total assets	**$ 4,732,772,904**	**4,402,679,199**
Deposits of Central Bank and other banks	$ 225,425,517	156,988,830
Financial liabilities measured at fair value through profit or loss	39,224,475	47,915,342
Hedging derivative financial liabilities, net	243,967	103,024
Bills and bonds sold under repurchase agreements	16,336,619	38,018,153
Payables	42,195,648	41,013,062
Current tax liabilities	367,898	213,270
Deposits and remittances	3,837,851,868	3,554,349,701
Financial bonds payable	24,997,826	24,997,612

	Bank of Taiwan (Individual)	
	December 31, 2015	December 31, 2014
Other financial liabilities	1,785,430	1,756,954
Provisions	264,199,252	257,745,112
Deferred tax liabilities	18,340,284	18,348,772
Other liabilities	6,955,368	7,202,842
Total liabilities	4,477,924,152	4,148,652,674
Capital stock	95,000,000	95,000,000
Capital surplus	80,453,034	80,521,742
Retained earnings		
Legal reserve	31,822,306	29,526,951
Special reserve	19,513,499	17,503,142
Unappropriated retained earnings	7,955,912	7,936,904
	59,291,717	54,966,997
Other equity	20,104,001	23,537,786
Total equity	254,848,752	254,026,525
Total liabilities and stockholders' equity	$ 4,732,772,904	4,402,679,199

	BankTaiwan Life Insurance	
	December 31, 2015	December 31, 2014
Cash and cash equivalents	$ 33,595,006	38,564,185
Receivables	3,894,709	2,351,669
Current income tax assets	1,458,837	1,247,634
Financial assets measured at fair value through profit or loss	2,544,003	31,893
Available-for-sale financial assets	44,179,000	52,517,885
Debt investments without quoted price in an active market	48,590,962	54,856,557
Held-to-maturity financial assets	187,177,088	193,218,934
Investments under equity method, net	5,877,804	5,925,323
Other financial assets, net	3,746,150	21,685,621
Real estate investments	7,616,578	6,076,383
Loans	11,777,584	13,599,820
Reinsurance assets	12,023	12,528
Property and equipment	1,010,475	1,080,136
Intangible assets	9,837	12,324
Deferred tax assets	2,212,903	1,852,844
Other assets	3,625,943	3,078,094
Separate account-insurance assets	13,009	621,659
Total assets	$ 357,341,911	396,733,489
Payables	$ 19,136,265	22,835,523
Current tax liabilities	-	89
Financial liabilities measured at fair value through profit or loss	1,059,280	3,190,594
Insurance liabilities	322,683,571	353,328,002
Foreign exchange volatility reserves	869,492	1,376,324

	BankTaiwan Life Insurance	
	December 31, 2015	December 31, 2014
Provisions	775,512	666,433
Deferred tax liabilities	319,926	122,475
Other liabilities	685,137	1,146,843
Separate account-insurance liabilities	13,009	621,659
Total liabilities	345,542,192	383,287,942
Capital stock	22,500,000	17,000,000
Capital surplus	360,000	369,713
Retained earnings		
Legal reserve	96,557	96,557
Special reserve	781,706	653,160
Unappropriated retained earnings	(4,198,135)	(1,526,213)
	(3,319,872)	(776,496)
Other equity	(7,740,409)	(3,147,670)
Total equity	11,799,719	13,445,547
Total liabilities and equity	$ 357,341,911	396,733,489

	BankTaiwan Securities	
	December 31, 2015	December 31, 2014
Current assets	$ 8,910,587	10,264,350
Property and equipment	494,887	498,644
Intangible assets	5,127	3,969
Deferred tax assets	4,558	2,531
Other non-current assets	324,152	352,341
Total assets	$ 9,739,311	11,121,835
Current liabilities	$ 6,012,452	7,322,112
Liabilities reserves	110,406	136,152
Deferred tax liabilities	96,355	92,128
Other non-current liabilities	5,866	4,986
Total liabilities	6,225,079	7,555,378
Capital stock	3,000,000	3,000,000
Legal reserve	65,673	43,136
Special reserve	286,997	241,923
Unappropriated retained earnings	231,878	227,935
	584,548	512,994
Other equity	(70,316)	53,463
Total equity	3,514,232	3,566,457
Total liabilities and equity	$ 9,739,311	11,121,835

	BankTaiwan Insurance Broker	
	December 31, 2015	December 31, 2014
Cash and cash equivalents	$ 331,482	268,009
Receivables	118,866	96,155
Property and equipment	5,157	5,032
Intangible asset	375	430
Deferred tax assets	3,955	3,955
Other assets	3,764	5,425
Total assets	**$ 463,599**	**379,006**
Payables	$ 114,115	99,692
Current tax liabilities	26,977	27,109
Other liabilities	88	69
Total liabilities	141,180	126,870
Capital stock	20,000	20,000
Legal reserve	33,562	12,936
Special reserve	33,562	12,936
Unappropriated retained earnings	235,295	206,264
	302,419	232,136
Total equity	322,419	252,136
Total liabilities and equity	**$ 463,599**	**379,006**

2. Income statements

	Bank of Taiwan (Individual)	
	2015	2014
Interest income	$ 64,758,332	65,232,885
Less: interest expense	(36,352,682)	(36,453,834)
Net interest income	28,405,650	28,779,051
Other non-interest income	6,651,342	7,111,700
Net revenue	35,056,992	35,890,751
Bad debt expense and reserve for guarantees	(4,404,468)	(7,284,809)
Operating expenses	(20,098,410)	(19,201,141)
Net income before income tax	10,554,114	9,404,801
Income tax expense	(1,681,944)	(1,203,553)
Net income	8,872,170	8,201,248
Other comprehensive income	(4,235,860)	1,432,360
Total comprehensive income (loss) after tax for the period	4,636,310	9,633,608
Basic earnings per share (In dollars)	0.93	0.86

	BankTaiwan Life Insurance	
	2015	2014
Operating income	$ 41,040,339	46,604,664
Operating cost	(42,543,564)	(46,522,525)
Operating expense	(1,000,140)	(872,041)
Operating loss	(2,503,365)	(789,902)
Non operating income (expense)	(25,501)	(50,890)

	BankTaiwan Life Insurance	
	2015	2014
Net income (loss) before income tax	(2,528,866)	(840,792)
Income tax benefit	18,689	23,772
Net income (loss)	(2,510,177)	(817,020)
Other comprehensive income	(4,625,938)	1,299,431
Total comprehensive income (loss) after tax for the period	(7,136,115)	482,411
Basic earnings per share (In dollars)	(1.36)	(0.48)

	BankTaiwan Securities	
	2015	2014
Revenue	$ 567,870	684,641
Cost and expense	(478,400)	(471,626)
Net operating income	89,470	213,015
Non operating income	53,360	41,472
Net income before income tax	142,830	254,487
Income tax expense	(20,992)	(29,116)
Net income	121,838	225,371
Other comprehensive income	(121,042)	24,035
Total comprehensive income after tax for the period	796	249,406
Basic earnings per share (In dollars)	0.41	0.75

	BankTaiwan Insurance Brokers	
	2015	2014
Operating income	$ 1,876,443	1,664,026
Operating cost	(1,467,370)	(1,282,982)
Operating expense	(120,420)	(132,119)
Non operating expense	(165)	(413)
Net income before income tax	283,488	248,512
Income tax expense	(48,193)	(42,247)
Net income	235,295	206,265
Basic earnings per share (In dollars)	117.65	103.13

(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 assets	Original purchase date	Amount	Actual payments	Counterparty	Relationship	If the counterparty is the related party, the last time transfer information are as follows:				Determine method	Purpose	Others
							Owner	Relationship	Transfer date	Amount			
BankTaiwan Life Insurance	Han-Wei Information Building	2015.01.21	1,561,500	1,561,500	Mega International Commercial Bank	Non-related party				-	valuation report	Real estate investment	

3. Information on the disposal of real estate for which the sale amount exceeded NT$300 million or 10% of the Bank's paid-in capital:

Unit: In Thousands of NTD

Name of company	Name of assets	Date	Original purchase date	Book value	Amount	Detail of receiving payment	Gain (loss) on disposal of assets	Transaction person	Relation with transaction person	Purpose of disposal assets	Determine method	Others
Bank of Taiwan	26 land about No.516-1, Shuanglian St., Datong Dist., Taipei City 103, Taiwan (R.O.C.)	2015.5.20	1947.5.1	128,387	500,461	A bidder should submit at least 10% of the minimum bidding price when tendering a bidding proposal, and the bidder who wins the bid should submit the final price in full within 30 days staring from the day the payment notice is received	372,074	Zhisheng Real Estate Co., Ltd.	None	Budget execution	The final minimum bidding price of the building and land amounting to $500,460 thousand was determined by the following procedures: (1)The procurement department proposed a minimum bidding price by referring to the appraisal value and then submitted it to the commissioners (who are responsible for reviewing the reasonableness of the price) and the General Manger for further discussion. (2)The General Manager approved the final minimum bidding price after consulting the commissioners. The Department of Internal Audit was required to oversee the independence and integrity of all the individuals involved during the procedures.	

4. Information regarding discounted processing fees on transactions with related parties for which the amount exceeded $5 million: None.
5. Information regarding receivables from related parties for which the amount exceeded $300 million or 10% of the Company's paid-in capital: None.
6. Information regarding selling non-performing loans: None.
   (a) Selling non-performing loans: Note.
   (b) Selling non-performing loans for which the amount exceeded $1 billion: None.
7. Approved securitization instrument types and related information according to "asset backed securitization" or "mortgage backed securitization": None.
8. Other material transaction items which were significant to people who use the information in the financial statements: None.

2) Information on investees:

The followings are the information on investees:

Unit: In Thousands of NTD

Name of the investee	Investee Location	Major Operation	% of shares	Highest holding ratio for the period	Original investment cost	Gain(Loss) recognized during the period	Held by the company and related party at year-end				Notes
							Shares	Proforma shares	Subtotal		
									Shares	% of Shares	
Hua Nan Financial Holdings Co., Ltd. and its subsidiaries	Taipei	Financial Holding	25.07%	25.07%	38,374,097	-	2,483,892,519	-	2,483,892,519	25.07%	
Tang Eng Iron Works Co., Ltd.	Kaohsiung	Iron Industry	21.37%	21.37%	1,181,719	-	74,802,414	-	74,802,414	21.37%	
Kaohsiung Ammonium Sulfate Co., Ltd.	Kaohsiung	Liquidation	91.86%	91.86%	2,158,300	-	303,131,576	-	303,131,576	91.86%	
Tai Yi Real Estate Management Co., Ltd	Taipei	Real Estate Service	30.00%	30.00%	20,266	-	1,500,000	-	1,500,000	30.00%	
Bank of Taiwan	Taipei	Banking	100.00%	100.00%	254,848,752	-	9,500,000,000	-	9,500,000,000	100.00%	note 4
BankTaiwan Life Insurance	Taipei	Life insurance	100.00%	100.00%	11,799,719	-	2,250,000,000	-	2,250,000,000	100.00%	note 4
BankTaiwan Securities	Taipei	Securities	100.00%	100.00%	3,514,232	-	300,000,000	-	300,000,000	100.00%	note 4
BankTaiwan Insurance Brokers	Taipei	Insurance broker	100.00%	100.00%	322,419	-	2,000,000	-	2,000,000	100.00%	note 4

Note 1: The investee's shares or pro-forma shares held by the Company's board of directors, supervisors, general manager, vice general managers and affiliates conforming to the Company Act should be included.

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

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

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

Note 3: The table do not need to disclosure in the financial statement at first and third quarter.

Note 4: This transaction had been written off when preparation the consolidated financial statements.

3) Information regarding investment in China:

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

Unit: In Thousands of NTD

Investee Company	Main Business	Total Amount of Paid-in Capital	Investment types (Note 1)	Accumulated outflow of Investment from Taiwan as of January 1, 2015	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2015	Net income from investee	% of shares	Equity in the Earnings (gains)	Carrying value as of December 31, 2015	Accumulated inward remittance of earnings as of December 31, 2015
					Outflow	Regain						
Bank of Taiwan, Shanghai Branch	Banking business	4,993,000 CNY1,000,000	(3)	4,993,000 CNY1,000,000	-	-	4,993,000 CNY1,000,000	-	-%	(145,324)	5,743,136	-
Bank of Taiwan, Guangzhou Branch	Banking business	4,993,000 CNY1,000,000	(3)	-	4,993,000 CNY1,000,000	-	4,993,000 CNY1,000,000	-	-%	(200,136)	5,179,007	-

Note 1: Three types as follows of investments:

1) Direct investment in Mainland China.

2) Investment in Mainland China through a company set up in a third region.

3) Others through overseas branches.

Note 2: Equity in the earnings for the year:

1) If a subsidiary has no income or loss during the period, the parent company should disclose all the related information.

2) A Company can recognize the investment income by obtaining the followings:

a) Financial statements audited or reviewed by an international accounting firm which has a member firm in Taiwan.

b) Financial statements audited or reviewed by the auditor of the parent company.

c) Others.

3) If the information regarding a subsidiary's current profit and loss is not available, the parent company should disclose it.

Note 3: Numbers in this table are shown in thousands of NTD.

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
9,986,000	9,986,000	152,909,251

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

4) Subsidiaries lending to other parties, guarantees and endorsements for other parties, securities held as of December 31, 2014, securities for which purchase or sale amount for the period exceed $300 million or 10% of the Company's paid-in capital, and trading in derivative financial instruments: BOT, BTLI and BTS are banking industry, insurance industry and securities industry and their main operations include the above activities; hence it is not necessary to disclose the related information. The BankTaiwan Insurance Brokers does not have those transactions.

(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:

	2015								
	Bank department	Department of Government Employees' Insurance	Department of Procurement	Department of Precious Metals	Insurance Business	Securities Business	Other business	Reconciliation and elimination	Total
Interest income	$ 63,122,782	1,635,156	80	314	9,220,180	173,352	1,184	(169,308)	73,983,740
Less: interest expense	(36,352,683)	-	-	-	(199,684)	(30,314)	(130,308)	(169,308)	(36,543,681)
Interest income, net	26,770,099	1,635,156	80	314	9,020,496	143,038	(129,124)	-	37,440,059
Non-interest income, net	7,481,720	4,030,766	264,657	403,221	(42,634,796)	401,413	400,418	(375,103)	(30,027,704)
Net revenue	34,251,819	5,665,922	264,737	403,535	(33,614,300)	544,451	271,294	(375,103)	7,412,355
Bad debt expenses and reserve for guarantees	(4,404,687)	(5,528,810)	-	-	31,963,095	-	-	1	22,029,599
Operating costs	(19,768,189)	(137,112)	(107,779)	(85,330)	(877,661)	(401,621)	(267,539)	139,814	(21,505,417)
Continuing operating income before income tax	$ 10,078,943	-	156,958	318,205	(2,528,866)	142,830	3,755	(235,288)	7,936,537
Continuing operating income after income tax	$ 8,397,001	-	156,459	318,205	(2,510,178)	121,839	6,355,333	(6,501,179)	6,337,480
Total assets	$ 4,489,796,397	246,237,272	2,063,483	1,531,741	357,341,911	9,739,311	271,318,034	(307,062,320)	5,070,965,829
Total Liabilities	$ 4,235,422,815	246,237,272	1,906,525	1,213,536	345,542,191	6,225,079	17,311,151	(36,577,205)	4,817,281,364

	2014								
	Bank department	Department of Government Employees' Insurance	Department of Procurement	Department of Precious Metals	Insurance Business	Securities Business	Other business	Reconciliation and elimination	Total
Interest income	$ 63,650,091	1,582,659	78	35	9,938,637	179,691	865	(255,548)	75,096,508
Less: interest expense	(36,453,834)	-	-	-	(223,302)	(33,163)	(118,493)	(255,570)	(36,573,222)
Interest income, net	27,196,257	1,582,659	78	35	9,715,335	146,528	(117,628)	22	38,523,286
Non-interest income, net	7,897,892	22,431,397	265,509	390,897	(20,274,818)	496,725	379,411	(340,284)	11,246,729
Net revenue	35,094,149	24,014,056	265,587	390,932	(10,559,483)	643,253	261,783	(340,262)	49,770,015
Bad debt expenses and reserve for guarantees	(7,284,809)	(23,874,057)	-	-	10,523,402	-	-	-	(20,635,464)
Operating costs	(18,881,425)	(139,999)	(111,303)	(82,023)	(804,711)	(388,766)	(283,198)	147,692	(20,543,733)
Continuing operating income before income tax	$ 8,927,915	-	154,284	308,909	(840,792)	254,487	(21,415)	(192,570)	8,590,818
Continuing operating income after income tax	$ 7,785,015	-	154,284	308,909	(817,021)	225,371	7,628,631	(7,909,856)	7,375,333
Total assets	$ 4,169,419,470	240,932,692	2,587,268	1,090,015	396,733,489	11,121,835	275,649,627	(316,955,090)	4,780,579,306
Total Liabilities	$ 3,915,856,137	240,932,692	2,432,985	781,106	383,287,942	7,555,378	15,510,952	(45,509,153)	4,520,848,039

Steadying Force

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Taiwan Financial Holdings

VII. Financial Status, Financial Performance, and Risk Management

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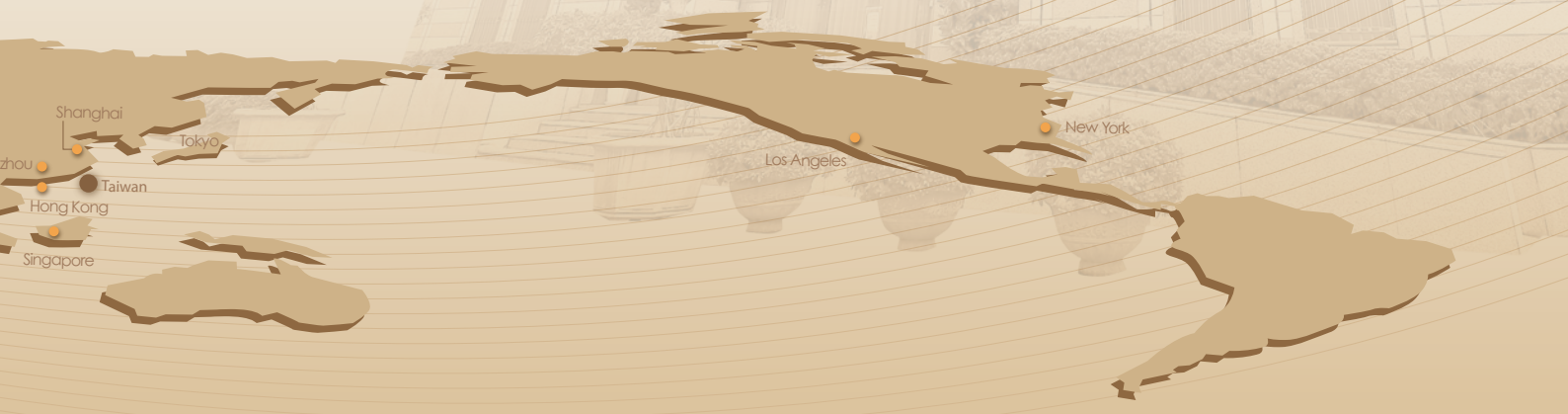

VII. Financial Status, Financial Performance, and Risk Management

1. Financial Status

Unit: NT$1,000

Item / Year	2015	2014	Difference	
			Amount	%
Cash and Cash Equivalents	256,670	529,552	-272,882	-51.53
Receivables-Net	24	37	-13	-35.14
Current Tax Assets	412,428	304,622	107,806	35.39
Long-Term Investment at Equity-Net	270,162,702	271,038,529	-875,827	-0.32
Fixed Assets-Net	5,938	6,618	-680	-10.28
Intangible Assets-Net	302	419	-117	-27.92
Other Assets-Net	16,372	3,235,673	-3,219,301	-99.49
Total Assets	270,854,436	275,115,349	-4,260,913	-1.55
Payables	19,799	21,563	-1,764	-8.18
Other loans	17,050,000	11,550,000	5,500,000	47.62
Debt Reserves	99,839	87,356	12,483	14.29
Other Debt	333	3,725,163	-3,724,830	-99.99
Total Debt	17,169,971	15,384,082	1,785,889	11.61
Capital	90,000,000	90,000,000	-	-
Additional Paid-In Capital	111,385,217	111,463,639	-78,422	-0.07
Retained Earnings	40,005,972	37,824,048	2,181,924	5.77
Other Items of Shareholders' Equity	12,293,276	20,443,580	-8,150,304	-39.87
Total Shareholders' Equity	253,684,465	259,731,267	-6,046,802	-2.33

2. Financial Performance

Unit: NT$1,000

Item / Year	2015	2014	Difference	
			Amount	%
Investment Income Recognized Under Equity Method	6,483,831	7,609,600	-1,125,769	-14.79
Other Income	2,905	3,125	-220	-7.04
Operating Expenses	-142,118	-151,079	8,961	-5.93
Other Expenses & Losses	-140,521	-121,973	-18,548	15.21
Net Income Before Income Tax	6,204,097	7,339,673	-1,135,576	-15.47
Consolidated Net Income	6,337,480	7,375,333	-1,037,853	-14.07
Other Comprehensive Income (Loss) for the Period	-8,987,084	2,771,005	-11,758,089	-424.33
Total Comprehensive Income(Loss) After Tax for the Period	-2,649,604	10,146,338	-12,795,942	-126.11

3. Cash Flows

(1) Analysis of Cash Flow Changes in 2014

Item / Year	2015	2014	Change(%)
Cash flow ratio	-717.32	16,200.12	-104.43
Cash flow adequacy ratio	104.30	99.28	5.06
Cash flow satisfied ratio	-2.58	164,464.78	-100.00

(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
256,670	-215,622	-18,128	22,920	None

4. Impact of Material Capital Expenditures on Financial and Operating Condition in 2015: None

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

(1) Policy on 2015 Strategic Investments

Acting in line with the Group's development roadmap, TFH worked to expand its core lines of business, took advantage of market opportunities as they arose, took timely action to accelerate its expansion strategy, and sought policy support for efforts to grow its business and build a more solid business foundation.

(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 in 2015 posted its highest profits since the establishment of TFH, and BTS also performed extremely well, but BTLI posted a loss because it had to set aside additional premium deficiency reserves, commissions expenses increased, and negative interest spreads generated losses. To improve BTLI's financial structure and afford it greater flexibility in its business operations, TFH increased the company's capital by NT$5.5 billion in September 2015. BTLI will continue to aggressively pursue better business performance; in addition to stepping up its efforts to promote long-term installment-premium life insurance products and accelerating its business transformation, the company also intends to improve capital allocations by establishing a better match between assets and liabilities.

(3) 2016 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. It used to be that the cap on a commercial bank's total investments and investments in non-financial enterprises were calculated on the basis of paid-in capital less accumulated deficit, but in the wake of the FSC's 2015 amendment of the Banking Act, these limits are now based instead on net worth. This change has raised the caps on investments by BOT and effectively boosted its capital efficiency.

ii. The FSC amended the Regulations Governing Foreign Investments by Insurance Companies, adding new provisions which: (a) allow an insurer to make foreign currency loans only in its capacity as a participating underwriter in a syndicated loan; and (b) set out requirements regarding the credit ratings of syndicated loan lead arrangers, the types of eligible collateral, transaction terms and conditions, loan limits, and the setting aside of loan loss provisions. The amended provisions have effectively expanded the range of capital allocation options.

iii. The competent authority issued new or amended versions of the Act Governing Electronic Payment Institutions, the Banking Act, the Offshore Banking Act, the Insurance Act, the Financial Consumer Protection Act, the Financial Holding Company Act, the Regulations Governing Cross-selling Among a Financial Holding Company's Subsidiaries, and the Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries. The new and amended legislation sets out provisions regarding the protection of financial consumers, legal compliance, and many other matters. They provide for more meticulous supervision by the competent authority, will help to improve internal control and internal audit systems, and ensure stronger consumer protection.

(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; actively build up a Big Data system and utilize off-the-shelf analysis tools to closely track customer needs and carry out precision marketing; 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. BOT had another banner year for awards in 2015: (a) received the Award for Outstanding Assistance to Young Entrepreneurs from the Small and Medium Enterprise Credit Guarantee Fund of Taiwan; (b) for the second consecutive year received the Joint Credit Information Center's Golden Quality Award and Golden Security Award for information security management and

credit reporting; (c) a BOT mobile banking app occupied the top spot on the Institute for Information Industry's list of Taiwan's top 100 apps; (d) received its ninth consecutive gold award in the Reader's Digest Trusted Brands survey; (e) received two gold awards from Wealth News magazine in its "consumer finance brand" category (best domestic bank; best bank image); and (f) was selected by Global Views Monthly for its top prizes in the categories of "Bank With Best Overall Image" and "Bank With the Most Highly Recommended Wealth Management Services." 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." BTIB, meanwhile, posted excellent business results, and these were recognized at the Insurance Faith, Hope & Love Awards in the categories of "Best Channel Strategy" and "Best Insurance Professionalism."

(6) 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.

(7) 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 wholly owned by the government, with its shares owned by MOF. All our directors and supervisors are the Ministry's juristic-person representatives.)

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

Chairperson

臺灣金控
Taiwan Financial Holdings

ISSN:2078-726-X
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tEL: +886-2-2349-3456
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ISSN: 2078-726X (Hard Copy)
ISSN: 2078-7286 (Soft Copy)
GPN: 2009802894
Cost of Production：NTD 1250