

Stock Code: 5868



Taiwan Financial Holdings

2014

2014 ANNUAL REPORT



www.twfhc.com.tw

Date of Publication: July 2015

■ Spokesperson

Name : Yu-Chih Liu
Title : Executive Vice President
Tel : +886-2-2349-3503
E-mail : bessieliu@twfhc.com.tw

■ Acting Spokesperson

Name : Hong-Chi Chang
Title : Executive Vice President
Tel : +886-2-2349-3024
E-mail : david.chang@mail.bot.com.tw

■ Taiwan Financial Holdings and Subsidiaries

Taiwan Financial Holding Co., Ltd.

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

Bank of Taiwan Co., Ltd.

No.120, Sec. 1, Chongqing S. Rd., Zhongzheng Dist., Taipei City, Taiwan (R.O.C.)
Tel : +886-2-2349-3456
Website : www.bot.com.tw/english

BankTaiwan Life Insurance Co., Ltd.

6F., No.69, Sec. 2, Dunhua S. Rd., Da-An Dist., Taipei City, Taiwan (R.O.C.)
Tel : +886-2-2784-9151
Website : www.twfhclife.com.tw

BankTaiwan Securities Co., Ltd.

6-9F., No.58, Sec. 1, Chongqing S. Rd., Zhongzheng Dist., Taipei City, Taiwan (R.O.C.)
Tel : +886-2-2388-2188
Website : www.twfhcsec.com.tw

BankTaiwan Insurance Brokers Co., Ltd.

4F., No.49, Sec. 1, Wuchang St., Zhongzheng Dist., Taipei City, Taiwan (R.O.C.)
Tel : +886-2-2349-3889
Website : www.botib.com.tw

■ The CPA-Auditor of the Financial Report

Name : Yeng-Ling Fang and Derek Hsu
CPA Firm : KPMG
68F., No.7, Sec. 5, Sinyi Rd., Sinyi Dist., Taipei City, Taiwan (R.O.C.)
Tel : +886-2-8101-6666
Website : www.kpmg.com.tw

■ Overseas Listing: None



2014

2014 ANNUAL REPORT



INTEGRATE GROUP RESOURCES
REAP THE BENEFITS OF SYNERGY



Date of Publication: July 2015

CONTENTS

I. Message to Shareholders	06
II. Company Profile	11
III. Corporate Governance	12
1. Organization	12
2. Chairperson, President, Executive Vice President, and Department Heads	15
IV. Capital Raised by TFH	20
1. Capital and Shares	20
2. Issuance of Corporate Bonds	21
3. Issuance of Preferred Shares	21
4. Issuance of Global Depositary Receipts	21
5. Issuance of Employee Stock Warrants	21
6. Mergers and Acquisitions	21
V. An Overview of Operations	22
1. Business Activities	22
2. Cross-Selling	32
3. Employee Profile	32
4. Corporate Social Responsibility	33

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 2015

Date of First Issue: July 2009

Issuing Frequency: Annually

Cost of Production: NTD 910

VI. Financial Status	36
1. Condensed Financial Statement for Year 2013 and 2014	36
2. Financial Analysis for Year 2013 and 2014.....	40
3. Consolidated Financial Statements for Year 2014	42
VII. Financial Status, Financial Performance, and Risk Management	142
1. Financial Status	142
2. Financial Performance.....	143
3. Cash Flows.....	143
4. Impact of Material Capital Expenditures on Financial and Operating Condition in 2014 ..	143
5. Policy on Strategic Investments, and the State of Its Implementation.....	143
6. Risk Management	144
7. Crisis Management Mechanism	150
VIII. Miscellaneous	151
1. TFH Affiliates	151
2. Domestic and Overseas Branches of BOT.....	151
3. Domestic Branches of BTLI	151
4. Domestic Branches of BTS	151
5. Domestic Service Units of BTIB	151

*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)

Copyright © Taiwan Financial Holding Co., Ltd.

All Rights Reserved.

NATIONAL BRAND

***Government Backing Translates to
Solid Market Position***

I. Message to Shareholders

II. Company Profile

III. Corporate Governance

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




Taiwan Financial Holdings

I. Message to Shareholders



Chairperson Jih-Chu Lee

The global economy recovered at a moderate pace in 2014. Figures released by Global Insight indicate that the global economy grew by 2.7% last year, slightly up from 2.5% in 2013. An international economy on the mend spurred stronger exports in Taiwan. Domestic industry continued to grow, the employment picture improved somewhat, and private consumption picked up steam. According to the Directorate-General of Budget, Accounting and Statistics (DGBAS) of Executive Yuan, Taiwan's economy grew by an estimated 3.74% in 2014, well up from 2.23% in 2013.



The Taiwan Financial Holdings (TFH) Group worked hard to reap the benefits of synergy, continued to deepen its cross-selling system, expanded the benefits of integrated marketing, and actively helped its subsidiaries to adjust business strategies and commodity composition. These steps enabled the group to put itself on more stable footing, accelerate moves to establish a stronger presence overseas, and continue building up its financial services throughout the Asia-Pacific region. The group also strengthened cross-strait financial cooperation and enhanced its international competitiveness by signing MOUs with numerous financial services providers in the mainland, including the Postal Savings Bank of China.

Thanks to the tremendous efforts of management and staff, the group's consolidated earnings before tax in 2014 reached a five-year high, consolidated earnings after tax hit NT\$7.422 billion, or 113.62% of the target, and the group achieved a consolidated EPS after tax of NT\$0.82. And after factoring out the burden shouldered by the group in supporting government policy, the group actually achieved profits of over NT\$15.6 billion, EPS of NT\$1.73, ROA of 0.35%, and ROE of 6.09%.

Earnings before tax at the group's core subsidiary, the Bank of Taiwan (BOT), were the highest they've ever been since establishment of TFH. Even after factoring out one-time profits from the sale of real estate and stock holdings, profits reached an all-time high, with earnings after tax of NT\$8.248 billion. And after factoring out the burden shouldered by BOT in supporting government policy, BOT achieved earnings after tax of NT\$16.426 billion, EPS of NT\$1.73, ROA of 0.41%, and ROE of 6.54%. The core lines of business of BOT—deposit taking, lending, foreign exchange, gold, and trust services—continued to rank among the best in the industry, and BOT continued to be the number one arranger and bookrunner for syndicated loans in Taiwan. It also held the top market share for student loans, custodial service for discretionary investment assets, and charitable trust services.

BankTaiwan Life Insurance (BTLI), the nation's only state-run life insurer, achieved gross premiums of NT\$35 billion last year, but had to set aside additional policy reserves to comply with the government's supervisory policy and get on stronger financial footing, which resulted in an after-tax loss of NT\$817 million, with a loss per share of NT\$0.48, ROA of -0.20%, and ROE of -6.19%. Nevertheless, BTLI's persistency rates remained among the best in the industry, and the insurer's product structure have gradually improved.

BankTaiwan Securities (BTS), which worked to expand the scale of its business operations, achieved its highest-ever earnings before tax. In addition, it posted earnings after tax of NT\$225 million, EPS of NT\$0.75, ROA of 2.09%, and ROE of 6.46%. BTS ranked number one for EPS and ROE among securities firms over which the government exercises significant control.

Guided by its commitment to stable business operations, the TFH Group is on a long-term quest to build up a stronger position in domestic financial markets, achieve better business results, and put itself on



President Chang-Ruey Shiau

stronger financial footing. This approach has won high marks from international credit rating institutions. In October 2014, BOT received long-term and short-term credit ratings of S&P A+ and S&P A-1 with a stable outlook from Standard & Poor's (S&P), and long-term and short-term credit ratings of twAAA and twA-1+ with a stable outlook from Taiwan Ratings Corporation (TRC). In the meantime, in September 2014 BTLI received long-term credit ratings of S&P A+ and twAAA with a stable outlook from S&P and TRC, and in June 2014 BTS received long-term and short-term credit ratings of twAA+ and twA-1+ with a stable outlook from TRC. Each of the group's three subsidiaries has been assigned the highest rating given to any financial services provider in its sector in Taiwan.



The TFH Group has been widely recognized by the competent authorities, financial industry organizations, and major industry publications for its outstanding performance in the areas of corporate finance, retail banking, brand image, wealth management, and innovative services. Its subsidiary, BOT, was named by the Financial Supervisory Commission as one of the institutions that have cooperated best with the "Program to Encourage Lending by Domestic Banks to Small and Medium Enterprises," and for its strong support of youth entrepreneurship and youth home ownership received a pair of awards conferred jointly by the Ministry of Economic Affairs and the Financial Supervisory Commission. The BOT for the first time received the Joint Credit Information Center's "Golden Security Award" and "Golden Quality Award" for its high-caliber information security and credit information, while the Institute for Information Industry, in conferring awards for the top 100 mobile device apps in Taiwan, named a BOT app as the best from a financial services provider last year. In addition, Wealth News magazine handed BOT two separate prizes in its "Consumer Finance Brand and CSR Awards" event for "best domestic bank" and "best bank image."

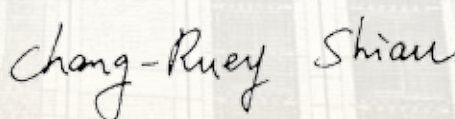
In 2015, the Taiwan government will continue to push for deregulation and financial liberalization while seeking to expand the scope of services that financial institutions are allowed to provide. Toward these ends, the government will: encourage financial institutions to build up a stronger Asian presence; promote the establishment of a digital banking environment (Bank 3.0); and continue to ease restrictions on electronic banking services, promote financial import substitution, and work to establish Taiwan as an Asia-Pacific wealth management center. These measures are designed to further enhance Taiwan's international competitiveness and boost economic growth. In addition, the Financial Supervisory Commission is going to promote an agenda of 12 financial industry development projects, and these are expected to boost profitability of financial services providers.

In the coming year, the TFH Group will seek further deregulation and strengthen its capital in order to take advantage of development opportunities as they arise. TFH intends to pursue the following eight key business strategies: (1) promote amendments to the "Act Governing the Taiwan Financial Holding Company"; (2) strengthen capital to put the company on stronger financial footing; (3) accelerate moves to build up a stronger Asian presence; (4) strengthen digital networks and mobile banking services; (5) improve the business results and financial footing of the group's subsidiaries; (6) continue promoting products and services suited to the needs of an ageing society; (7) further build up human resources development programs; and (8) continue actively supporting government policies. These undertakings are designed to support the group's development and growth and make it still more competitive so that TFH can continue on to new heights.

Chairperson



President





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



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-run 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.

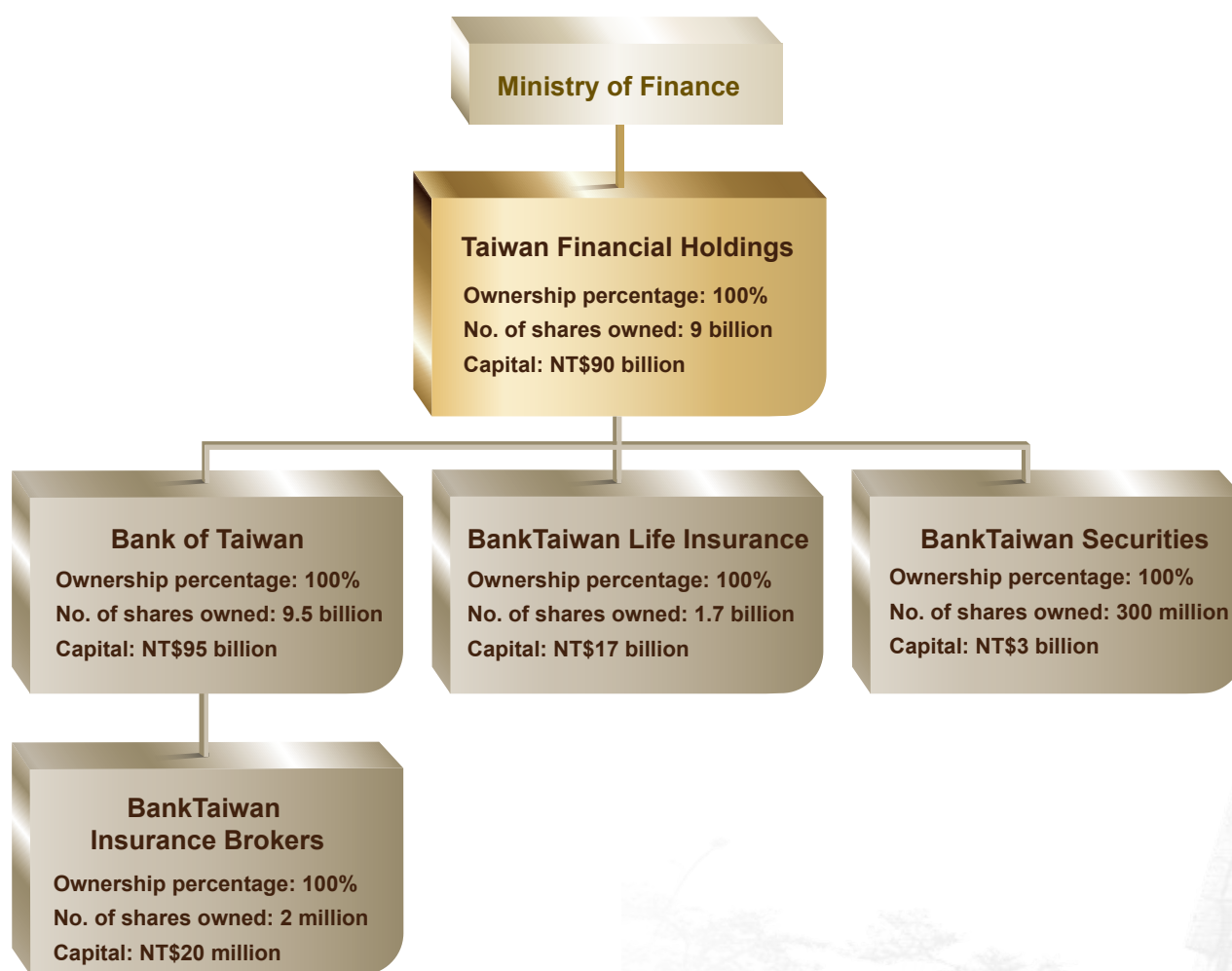
(2) Events with a Material Impact on Shareholders' Equity

None

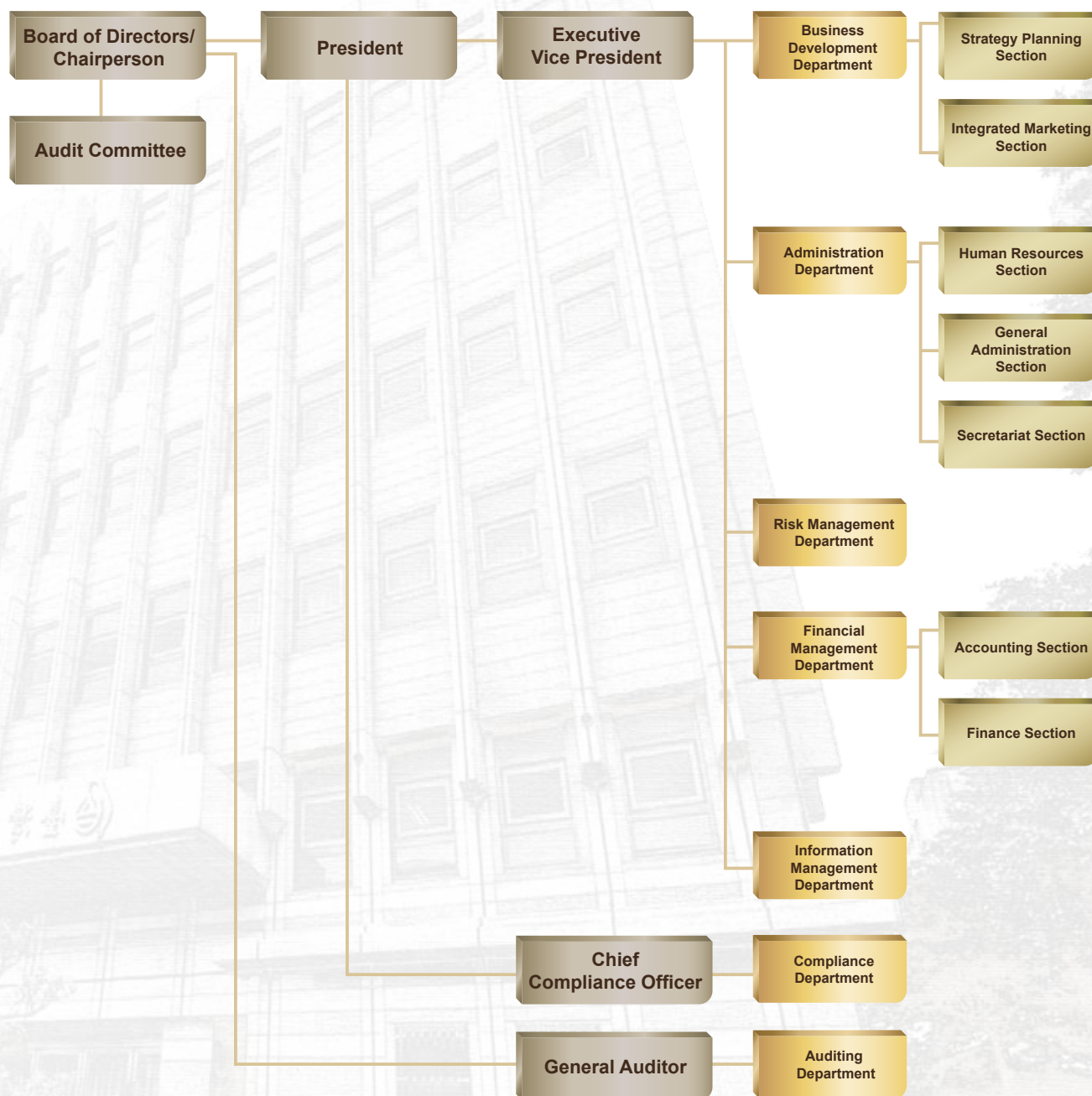
III. Corporate Governance

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.



TFH Chairperson Jih-Chu Lee (4th from left) and Li Lihui (former President of the Bank of China; 3rd from right), exchange documents on 16 Dec. 2014 at the signing of a memorandum of understanding on cross-strait syndicated lending. Also present are Mr. Sush-der Lee (5th from left) and Mr. Liu Mingkang (4th from right).



Out of concern for the needs of an ageing society, TFH launched a retirement trust that combines the services of the Group's banking and life insurance subsidiaries. TFH Chairperson Jih-Chu Lee presided over the press conference to announce the product launch.

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

As of March 31, 2015

Position	Name	Date of Employment	Shares Held	Education and Career	Positions Held with Other Companies
Chairperson	Jih-Chu Lee	Aug.9,2013	Shares 100% Owned by MOF	<p>Ph.D. in Economics, National Taiwan University</p> <p>Chairperson, Chunghwa Post Co., Ltd.</p> <p>Vice - Chairperson, Financial Supervisory Commission (Cabinet level), R.O.C.</p> <p>Chairperson, Financial Research and Development Fund, R.O.C.</p> <p>Chairperson, Committee for the Administration of Development of Insurance Business, R.O.C.</p> <p>Member of Board, Mega Financial Holding Company</p> <p>Member of Board, Chunghwa Telecom Co., Ltd.</p> <p>Member of Supervisory Board, Taiwan Cooperative Bank</p> <p>Professor, Department of Economics, National Chengchi University</p> <p>Chairperson, Economic Policy Research Center, National Chengchi University</p> <p>Chairperson (Minister), National Youth Commission, Executive Yuan (the Cabinet), R.O.C.</p> <p>Legislator, Legislative Yuan, R.O.C.</p> <p>Committee Member, Mainland Affairs Council, Executive Yuan, R.O.C.</p> <p>Visiting Scholar, Department of Economics, Harvard University, U.S.A.</p> <p>Visiting Scholar, Department of Economics, Stanford University, U.S.A.</p> <p>Professor, International Finance Teachers Training Program, Johns Hopkins University, U.S.A.</p> <p>Vice-President, the Harvard University Alumni Club of R.O.C.</p> <p>Member of Board, Straits Exchange Foundation</p> <p>Committee Member, SME Policy Committee, Ministry of Economic Affairs</p> <p>Member of Board, Taiwan Academy of Banking and Finance</p> <p>Member of Board, Commerce Development Research Institute</p> <p>Member of Board, Eisenhower Fellows Association in the Republic of China</p> <p>Jury Member, Panel of New Chinese Economic Leader, World Economic Forum</p> <p>Advisor, Public Service Pension Fund, Supervisory Board, R.O.C.</p> <p>Advisor, Chung-Hua Institute for Economic Research</p> <p>Expert Economics Columnist, CommonWealth Magazine</p>	<p>Chairperson, Bank of Taiwan Co.,Ltd.</p> <p>Chairperson, The Bankers Association Of The Republic Of China.</p> <p>Vice Chairperson, Taiwan Financial Services Roundtable Co., Ltd.</p> <p>Vice Chairperson, Monte Jade Science & Technology Association of Taiwan</p> <p>Member of Board, Taiwan Stock Exchange Corporation (TWSE)</p> <p>Member of Board, Taiwan External Trade Development Council (TAITRA)</p> <p>Member of Board, Joint Credit Information Center (JCIC)</p> <p>Committee Member , Steering Committee, National Palace Museum</p> <p>Committee Member,Utilization Team of Long-term Funding, National Development Council, Executive Yuan, R.O.C.</p> <p>Committee Member, Industry Consultation Committee, Ministry of Economic Affairs.</p> <p>Managing Supervisor, Cross-Strait Entrepreneurs Summit</p> <p>Adjunct Professor, Department of Economics, National Chengchi University</p> <p>Member of Board, The Asian Bankers Association</p>
President	Chang-Ruey Shiau	Mar. 3, 2014		<p>LL.B National Chung Hsing University</p> <p>Chief of Staff to the Vice President of the Republic of China (Taiwan)</p> <p>Director-General, Department of Fiscal, Statistical and Financial Affairs, Executive Yuan</p> <p>Counselor and Director, the 4th Department, Executive Yuan</p> <p>Chief Secretary, Financial Supervisory Commission, R.O.C</p> <p>Deputy Director-General, Banking Bureau, Financial Supervisory Commission, R.O.C</p> <p>Commissioner, Legal Affairs Committee, Executive Yuan</p> <p>Director, Taiwan Cooperative Financial Holding Co., Ltd.& Taiwan Cooperative Bank</p>	<p>President ,Bank of Taiwan Co.,Ltd.</p> <p>Managing Director, Bank of Taiwan Co.,Ltd.</p> <p>Director, Taiwan Small Business Integrated Assistance Center</p> <p>Adviser, The Bankers Association of the Republic of China</p> <p>Director, Taipei Interbank Money Center, The Bankers Association of the Republic of China</p> <p>Adviser, The Bankers Association of Taipei</p>

Position	Name	Date of Employment	Shares Held	Education and Career	Positions Held with Other Companies
Executive Vice President	Hong-Chi Chang	Sep.17, 2012	Shares 100% Owned by MOF	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 Director, Taiwan Futures Exchange Corp.
Executive Vice President	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. Director of Administration and Training Committee, Trust Association of R.O.C.
Executive Vice President & General Auditor	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	Tzong-Rong Tsai	Feb.04,2015		PhD in Economics, Michigan State University SVP & Chief Secretary, Taiwan Financial Holding Co., Ltd. SVP & Chief Secretary, Bank of Taiwan Co.,Ltd. Commissioner, Financial Supervisory Commission, Executive Yuan President, Taiwan Land Development and Trust Investment Corp. Chairman, Waterland Securities Investment Consulting Corporation	Executive Vice President & Chief Compliance Officer, Bank of Taiwan Co.,Ltd. Director, Joint Credit Information Center Managing Director, Taiwan Business Bank

Position	Name	Date of Employment	Shares Held	Education and Career	Positions Held with Other Companies
Senior Vice President & Chief Secretary	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.	Senior Vice President & Chief Secretary, Bank of Taiwan Co.,Ltd. Director, BankTaiwan Securities Co.,Ltd.
SVP & Chief Strategy Officer	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	Lily Lee	Mar.1,2012		M.A. in international Trade, 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.	Teammate of Risk Management, Financial Holding Business Committee ,The Bankers Association of the Republic of China Director, BankTaiwan Securities Co.,Ltd
SVP & Chief Administration Officer	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 Vice Director, Bureau of Monetary Affairs, Ministry of Finance	
SVP & Chief Financial Officer	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 General Manager, Shin Kong Bank 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.
SVP & Chief Information Officer	Hsi-Tai Ku	Jan.16,2015		M.B.A., Northrop University	Management, Department of Information, Bank of Taiwan Co.,Ltd. Director, Financial eSolution Co., Ltd. Committee Member, Certificate Policy Management Committee, The Bankers Association of The Republic of China Chairperson, Banking Automation Committee, The Bankers Association of The Republic of China

MARKET LEADER

***Over a Century at the Forefront of
Financial Services***

IV. Capital Raised by TFH

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

Taiwan Financial Holdings

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-run enterprise wholly owned by the government, 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	
			2013	2014
Price Per Share	High		-	-
	Low		-	-
	Average		-	-
Net Worth Per Share	Before Distributions		28.08	28.88
	After Distributions		27.74	28.51
Earnings Per Share	Weighted Average Issued Shares		9,000,000	9,000,000
	Earnings Per Share(after tax)		0.79	0.82
Dividends Per Share	Cash Dividends		0.34	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-run enterprise. Our stock is not exchange-listed, so there is no data for market capitalization or return analysis.

(4) Dividend Policy and Its Implementation

i. Dividend policy

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

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

ii. Dividend Distributions in 2014

In closing the annual accounts for 2014, TFH distributed cash dividends of NT\$3.32 billion (NT\$0.37per share). However, in accordance with Article 51 of Taiwan's Government Auditing Act, the earnings reported in TFH's annual accounts are subject to the final approval of the Ministry of Audit. TFH's annual accounts for 2014 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	2014	
		Dollar Amount	Share of Total
Share of profit of subsidiaries, associates and joint ventures accounted for using equity method		7,656,632	100%
Other Operating Revenues		2,049	-
Total Revenues and Gains		7,658,681	100%

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

Please refer to 2015 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.

An Overview of Operations

(B) Types of Business

Unit: NT\$1,000

Item \ Year	2014	
	Dollar Amount	Share of Total
Net Interest Income	28,779,375	79.82%
Net Fee Income	5,438,609	15.08%
Financial Assets and Liabilities at Fair Value Through Profit or Loss	15,914,831	44.14%
Realized Gains (Losses) on Available-for-Sale Financial Assets	1,062,198	2.95%
Investment Gains/Losses Recognized Under the Equity Method	3,042,845	8.44%
Foreign Exchange Gains/Losses	6,250,104	17.34%
Schedule of Asset Impairment Losses, and Gains on Reversal of Impairment	-1,685	0.00%
Schedule of Other Net Non-Interest Income/Losses	-24,432,806	-67.77%
Net Earnings	36,053,471	100.00%

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

Please refer to 2015 Business Plan.

iii. BTLI

(A) Main Lines of Business

Offers personal insurance, including life insurance, personal injury insurance, health insurance, annuity 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	2014	
	Dollar Amount	Share of Total
Personal Life Insurance	22,689,548	64.86%
Personal Injury Insurance	126,442	0.36%
Personal Health Insurance	788,097	2.25%
Personal Annuity Insurance	11,208,808	32.04%
Group Life Insurance	33,261	0.10%
Group Personal Injury Insurance	107,650	0.31%
Group Health Insurance	26,279	0.07%
Reinsurance Assumed	3,908	0.01%
Gross Premium Income	34,983,993	100.00%

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

Please refer to 2015 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	2014	
	Dollar Amount	Share of Total
Securities brokerage income	394,398	57.61%
Interest income	179,003	26.14%
Gain from disposal of securities	45,128	6.59%
Gain on financial assets or liabilities measured at fair value through profit or loss	60,523	8.84%
Net gains on writing of call (put) warrants	-3,527	-0.52%
Dividend income	28,595	4.18%
Net gains (losses) on derivatives	-23,696	-3.46%
Other operating revenues	4,229	0.62%
Total	684,653	100.00%

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

Please refer to 2015 Business Plan.

(2) 2015 Business Plan

i. TFH

(A) Amend the "Act Governing the Taiwan Financial Holding Company," make the Group more competitive

In addition to complying with supervisory legislation, TFH must also abide by regulatory restrictions applying to state-run enterprises. For the sake of its sustainable development, the Group has suggested amendments to the "Act Governing the Taiwan Financial Holding Company" that would: simplify procedures for budgeting and closing of accounts; exempt certain lines of business from the requirements of the "Government Procurement Act"; allow for greater flexibility in human resources operations and relax hiring restrictions; allow the Group make more effective use of real estate assets; and facilitate an adjustment to the Group's capital structure.

(B) Strengthen capital, enhance business development capability

TFH has always been required to carry the burden of supporting government policies, and to contribute to the national treasury each year. These requirements have affected capital accumulation and gradually weakened the Group's capital position. In order to put the Group on stronger financial footing and facilitate its development, TFH intends to strengthen capital by persuading the government to allow it to pay a reduced share of earnings into the national treasury, count the value of national real estate toward capital, and raise its special reserve ratio. TFH will also try to get the competent authority to adopt a more lenient interpretation of regulatory restrictions applying to real estate, and allow the Group

to reappraise the value of its land holdings and adjust its asset/liability structure as well as its strategic investments structure.

(C) Accelerate the Group's move to build up a stronger Asian presence

TFH will actively respond to the competent authority's efforts to encourage financial services firms to build up a stronger presence throughout Asia, and will take advantage of its strong brand to accelerate its move into mainland China and elsewhere in the Asia-Pacific region. The Group will cautiously select partners for cooperative tie-ups so as to build up a strong position in local markets and expand its overseas business prowess. TFH is closely monitoring the progress of financial industry liberalization in such countries as Cambodia, Indonesia, and Thailand, and is evaluating the possibility of M&A deals to establish a presence in those markets.

(D) Strengthen digital networks and mobile banking services

In response to the approach of the "Bank 3.0" era, TFH intends to strengthen its digital capabilities, make use of mobile technology, integrate its virtual and physical channels, implement business innovation, make its services more convenient, and enhance its core competencies.

(E) Improve the business results and financial footing of the group's subsidiaries

Steps to achieve better business results and financial footing include the following: consolidate the core competencies of our banking subsidiary, and innovatively launch distinctive new products; help our life insurance subsidiary adjust its product structure and get on stronger financial footing for the sake of stability for the Group as a whole; help our securities subsidiary expand its scope of business and increase profitability; and encourage the Group's insurance broker subsidiary to add competitive products to its lineup in order to meet the diverse needs of customers.

(F) Continue promoting products and services suited to the needs of an ageing society

The Group intends to do a number of things to provide a full and diverse range of financial products and services. A key focus will be to respond to demographic ageing by: actively using trusts to promote related financial products and services; continuing to build up a strong position in the market for retirement trusts; developing insurance products that meet people's needs; and offering insurance policy conversions.

(G) Further build up human resources development programs

Because of plans to establish a stronger overseas presence and build up the Group's capability to conduct international business, bolstering the training of human resources is going to be an important focus. To accelerate the cultivation of people with the needed international preparation, there will be programs held in domestic, internships overseas, and rotating overseas assignments. And in response to personnel needs in core businesses as well as new types of business, the Group will strengthen the content of training programs and take maximum advantage of online and videoconference teaching resources to train with greater efficiency.

(H) Continue actively supporting government policies

As Taiwan's only state-run financial holding company, TFH plays an especially valuable role by supporting government policy. This it does by, for example, extending preferential loans, supporting industrial development, and financing the establishment of families and businesses. By responding to important issues facing the nation and society, TFH properly fulfills its corporate social responsibility.

ii. BOT

(A) Active effort to improve deposit structure and reduce the share of time deposits

BOT intends to improve deposit structure by actively seeking more business from both state-run and private-sector enterprises, attracting more demand deposits, and encouraging customers who cancel time deposits to transfer the funds into foreign currency deposits or purchase wealth management products.

(B) Optimize credit business, implement interest rate pricing policy

Measures to improve loan profitability include the following: place greater stress on lines of business with relatively wide interest margins; carefully choose and solicit high-quality customers; offer special treatment to recognize customers that make an especially good contribution to profits; and exercise flexibility in setting loan approval conditions.

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

To meet customers' mobile payment needs, BOT has added additional functions to its mobile banking app and its online collection and payment services, thereby expanding opportunities to provide corporate and retail banking services between the two parties to online transactions. Also, in support of the Bank 3.0 policy, BOT is making plans to offer branch banking via the cloud, and will tap into the power of big data to provide greater service precision.

(D) Strengthen credit card business, generate operating income

BOT is planning to issue a higher-class credit card (a "titanium card"). The Bank will also join the Taiwan Mobile Payments (twMP) network and set up the necessary systems to work with the trusted service manager. Once this is done, the Bank can move forward with plans to launch a mobile device credit card and a contactless credit card. These moves will help win the business of different customer segments and make BOT more competitive.

(E) Push for deregulation of OBUs so they can contribute more to profitability

BOT will actively introduce financial products which include international bonds that are suitable for OBU customers to invest in, and will strengthen cooperation between the OBU and the Bank's domestic branches. In addition, BOT may also work together with other domestic banks on syndicated loans to blue-chip medium- and large-size corporations in Taiwan, Hong Kong, and mainland China.

(F) Continue promoting wealth management business, and tap into channel functionality

The Bank intends to generate increased fee income by strengthening its brick-and-mortar channel for wealth management business, expanding its wealth management services network, and increasing the depth and breadth of customer services.

(G) Take advantage of cross-strait financial ties to expand the scope and scale of business

The Bank will further grow its business by establishing more branches, sub-branches, and banking subsidiaries in mainland China, and by putting its mainland business locations under the Bank's integrated management.

(H) Make good use of financial instruments to improve capital efficiency

Achieving better performance is a key objective, and toward that end the Bank will make effective use

of financial instruments while taking timely action to adjust its asset allocations. In addition, in response to financial industry conditions and the development of cross-strait financial ties, the Bank will make diversified use of funds to seek stable returns.

iii. BTLI

(A) Develop a diverse range of marketing channels

Using the Group's resource integration platform, BTLI will seek bigger cross-selling benefits and accelerate steps to expand the scale of operations. In addition, BTLI will establish ties with high-quality brokers and agents and expand its brokerage and agency channels, further diversify its sales channels, and earn bigger returns from marketing via different channels.

(B) Develop products that meet market demand

BTLI intends to provide consumers with a diverse range of high-quality life insurance products. In response to the business climate, economic trends, and channel needs, BTLI will actively develop installment-premium whole life insurance products, medical insurance, foreign currency-denominated policies, and unit-linked insurance. And in response to demographic ageing, BTLI will promote long-term care insurance, money-back whole life insurance, annuity insurance, and other retirement planning products.

(C) Improve capital efficiency

In order to improve financial results and strengthen its capital adequacy ratios, BTLI will work for better capital efficiency and risk management, paying simultaneous attention to both liquidity and profitability. And in coordination with asset-liability management strategy, the company will act as appropriate to adjust the foreign exchange hedge ratio of its investment portfolio in order to achieve better capital efficiency and improve its capital adequacy ratios.

(D) Implement risk management mechanisms

Acting in accordance with the "Risk Management Best-Practice Principles for Insurers", BTLI will promote and implement various risk management matters. By monitoring capital adequacy ratios and using a variety of qualitative and quantitative techniques, the company will strengthen its risk management mechanisms and improve its management.

(E) Cultivate employees with multiple core competencies

BTLI will upgrade professional expertise and business implementation abilities by actively cultivating skills in financial investment, actuarial practice, and risk management, and by improving in-house professional training programs.

(F) Strengthen IT operations platform

In response to business development needs, BTLI will promote e-business operations and strengthen its IT operations platform in order to simplify operational procedures and increase the depth and breadth of services.

iv. BTS

(A) Securities brokerage business

In coordination 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, BTS will actively educate and train personnel and update computer system software and hardware in order to increase brokerage business volume. In addition, BTS will also work to develop corporate customers, build up its securities finance business, expand its niche strengths, and generate increased operating revenues.

(B) Securities underwriting business

Using the Group's resources and integrated marketing platform, BTS will 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. In addition, acting hand-in-hand with BOT's overseas branches, BTS will work to encourage offshore-based Taiwan-invested enterprises to raise capital in Taiwan. Also, BTS will continue engage with mainland Chinese banks and securities firms in an effort to increase cross-strait business opportunities.

(C) Securities dealing business

To achieve high investment returns and expand its scope of business, BTS will select investment assets with strong fundamentals and strong profit growth potential, and will cooperate with the government's deregulatory policies by investing in Shanghai-Hong Kong Stock Connect ETFs. The company will also invest in highly rated corporate bonds, bank debentures, and Formosa Bonds in order to spread risks and earn better returns, and will also continue to increase its issuance of warrants and options, improve its pre-purchase screening of warrants and options, strengthen its market making and hedge mechanisms, and increase profits.

(D) Internal management

BTS will strengthen systems for corporate governance, legal compliance, risk management, internal control, and internal auditing. Also, to meet the needs of the company's business units, BTS will strengthen its information system functions, train personnel, and actively select personnel to take part in training in order to improve the company's management.

(E) Risk management

BTS will continue to strengthen the functions of the quantitative risk control information system to facilitate quantification of risks and bring about more timely risk management action. The company will also continue to flesh out risk management system bylaws in order to effectively control overall risks.

(3) Industry Overview

i. Financial holdings business

The overall after-tax earnings of financial holding companies rose further in 2014, with profits helped along by global economic growth, buoyant Taiwanese stock prices, and recognition of real estate at fair value. Aided by the government's policy encouragement and deregulation, financial services firms stepped up efforts to set up additional overseas business locations and enter into offshore M&A deals in an effort to become more competitive in overseas markets. These firms have been especially enthusiastic about the ASEAN nations (which are in the early stages of financial industry development) and areas in Southeast Asia where there are large concentrations of Taiwan-invested enterprises. In addition, with the government accelerating its moves to ease financial regulations, financial firms are taking active steps to extract greater benefit from idle assets. This will help financial holding companies

achieve better capital efficiency. In the future, offshore RMB financial services and cross-border financial trade will become the main sources of overseas profits for financial holding companies. In addition to building up financial service networks to expand opportunities for overseas profits, financial holding companies are also going to take advantage of easing restrictions on cross-strait ties while responding to financial digitization and the needs of an ageing society to continue developing a diverse range of financial products. The result will be business innovation and strengthened core competencies, which will in turn increase profitability for financial holding companies in general.

ii. Banking industry

According to statistics from the Financial Supervisory Commission, the combined earnings before tax of domestic Taiwanese banks as of end-December 2014 stood at NT\$320.1 billion, up from NT\$257.6 billion in 2013, and the highest figure in recent years. Amidst its continuing pursuit of deregulation and financial liberalization, the government is expanding the range of business activities permissible to financial institutions, encouraging financial services firms to build up a stronger presence throughout Asia, and promoting the Bank 3.0 push for a digital environment. In addition, the government continues to ease restrictions on electronic financial services, push for financial import substitution, and build up Taiwan as an Asia-Pacific wealth management center. These encouragements have contributed to stronger ability to develop new financial products while strengthening international competitiveness. We can expect to see continued improvement in the profitability of domestic banks and further expansion of domestic markets.

iii. Life insurance industry

Market interest rates remained low in 2014, but due to a gradual global economic recovery and the US Federal Reserve's decision to exit its quantitative easing strategy, market interest rates can be expected to rise in the future. In addition, the Financial Supervisory Commission in 2015 has eased restrictions on the payment of "cash rebates to the holders of interest-sensitive life insurance policies that have appreciated in value" and "life insurance pure endowment proceeds," and is drafting numerous deregulatory policies designed to be helpful to life insurers in their business and financial operations. In addition, as Taiwan's population ages and the birth rate falls, insurance products that meet the needs of an ageing society for home and nursery care will generate business opportunities that cannot be overlooked.

iv. Securities industry

Taiwan's stock markets were roiled in 2014 by discontinuation of the US Fed's quantitative easing policy, and by controversy here in Taiwan over the "active trader" clause in legal provisions governing the levying of a capital gains tax on securities. Investors withdrew to the sidelines, so there was little chance of any growth in trading volume. However, the Financial Supervisory Commission adopted a package of stock market stimulus measures, and is expected to take many other measures in 2015, including the following: relaxing daily price fluctuation limits for stocks listed in Taiwan; allowing institutions to invest in ETFs; easing restrictions on margin trading and short selling; expanding the pool of lendable securities that can be used in securities borrowing and lending (SBL) transactions; and promoting cross-border transactions between Taiwan and Singapore. These measures can be expected to afford greater market efficiency, boost market activity, and bring Taiwan's markets more closely in line with international norms. They should also afford greater flexibility in dealing operations,

and boost brokerage business. Meanwhile, international bonds continue to sell briskly, and financial services firms are now allowed to establish offshore securities units (OSUs). These positive factors, plus the return of a buoyant economy, have translated to increased corporate need to raise capital. All of this should result in a bigger market for underwriting services.

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

i. TFH

(A) Short-term business development plan

TFH will seek deregulation of business operations while taking steps on the financial end to bolster capital, so as to seize upon development opportunities as they arise in the financial sector; continue urging group subsidiaries to develop innovative lines of business and distinctive products so they can provide customers with a diverse range of choices; respond positively to the competent authority's call for a stronger presence in Asia by accelerating steps to establish overseas business locations; respond to technology trends by strengthening the group's digital capabilities and improving its mobile financial services, thereby achieving better business performance.

(B) Long-term business development plan

TFH will continue strengthening legal compliance and improving corporate governance, expand the group's sources of profitability, consolidate the competitive strength afforded by the group's position as a leading brand, and work for sustainable development; 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" so as to tap into group synergies and become the nation's flagship financial holding company, characterized by both high performance and stability.

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

BTLI will support government policy by stepping up promotion of long-term installment-premium products and protection products; respond to demographic ageing and falling birth rates and meet the attendant market demand by developing long-term care insurance, disability care insurance, cancer insurance, and annuity insurance; reap the benefits of group synergy, and provide customers with a diverse range of financial services; and actively establish ties with large high-quality insurance brokers and agents to expand sales.

(B) Long-term business development plan

BTLI has adopted a "BankTaiwan Life Insurance Co. 12-Year Development Blueprint." In phase 1 (2015-2018), the company will continue working to make its financial and business operations more sound and profitable, so as to comply with IFRS 4 Phase II. Phase 2 (2019-2022) focuses on "local implementation of international standards" as a means of stabilizing the domestic life insurance market. During this time period, the company will be cultivating personnel with the skills needed for international insurance business, and in line with the Group's internationalization strategy, will seek out and evaluate opportunities for development in international insurance markets. The focus of phase 3 (2023-2026) will be on "accelerating the move into international markets." During this time period, BTLI will hasten the internationalization of its business operations. Steps toward this objective will include the establishment of overseas business locations, M&A activity, and strategic tie-ups.

iv. BTS

(A) Short-term business development plan

By using the Group's cross-selling platform, BTS will actively expand its customer base, increase its market share in the brokerage business, and margin balance; integrate the Group's corporate channel resources, win IPO and SPO capital raising business; and continue encouraging offshore Taiwan-invested enterprises to list in Taiwan, while taking advantage of deregulation of international bonds issuance by being actively involved as an advising underwriter for international bonds. BTS will also be an investor in such bonds.

(B) Long-term business development plan

Provide professional services to help major companies and high-end customers restructure, issue shares, and refinance; move step-by-step toward the goal of "cultivating our business in the capital markets and developing into an investment bank." In the area of proprietary trading, BTS will hire additional futures traders and engage in strategic trading so as to add depth and breadth to the company's derivatives.

2. Cross-Selling

(1) Cross-selling synergies

In line with the strategic goal of tapping into group synergies, the Group is actively developing integrated products and services. It has built an integrated marketing platform for six principal lines of business (corporate finance & bulk collections; wealth management; life insurance; investment of life insurance funds; securities brokerage; and securities underwriting), and holds monthly meetings of the Cross-selling Committee, which uses the "management by objectives" method to monitor implementation. And the Group uses its joint business development and performance evaluation systems to diversify the business of the Group's subsidiaries. The subsidiaries use the platform to refer business to each other, and engage in cross-selling of 16 of the Group's cross-sector products; monitor the achievement of 23 plan targets. Quantifiable items sold via the cross-selling platform contributed NT\$880 million to the Group's profits in 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. Concrete benefits during the fiscal year included: integrated use of the Group's information resources; upgrading of the management platform for the Group's basic IT framework; and continued leasing and purchasing of out-of-house information sources. Our logistics platform handled 2,343 cross-subsidiary operations in 2014, reducing measurable operating costs over the course of the year by NT\$47 million, thus reducing operating costs by tapping into group synergies.

3. Employee Profile

Year	2013	2014
Company	Number of Employees	
TFH	53	47
BOT	7,968	7,936
BTLI	214	219
BTS	130	133
Total	8,365	8,335
Average Age	44.72	45.03
Average Service Year	17.61	17.79
Education Level & Ratio		
Doctor	0.08	0.08
Master	15.35	16.75
University or College	74.15	73.18
Senior High School	9.00	8.63
Below Senior High School	1.42	1.36

4. Corporate Social Responsibility

- (1) In 2014, 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); 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; went to these homes on holidays to deliver material donations and visit with the residents; and collaborated with nine other leading banks to jointly hold a hiking activity in Kaohsiung in a show of concern following a massive series of gas mains explosions there.
- (2) 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.
- (3) 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 2014 reached 5.29%.
- (4) Green purchasing policies: For products included among the designated product categories slated for the government's green procurement program, the Group has adopted a target of procuring at least 90% Green Mark products, and the Green Mark product procurement rate for 2014 was 99.6%.
- (5) 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.



TFH Chairperson Jih-Chu Lee (right) sings with a 90-year-old woman during a very happy visit to a senior citizens' center in Taichung on Senior Citizens' Day.



TFH held a series of "Lighting Christmas Trees" charitable activities in late 2014 to share happiness and good cheer with both children and senior citizens.

PROFESSIONALISM

Providing Professional and Conscientious Services

VI. Financial Status

1. Condensed Financial Statement for Year 2013 and 2014
2. Financial Analysis for Year 2013 and 2014
3. Consolidated Financial Statements for Year 2014

Taiwan Financial Holdings



VI. Financial Status

1. Condensed Financial Statement for Year 2013 and 2014

(1) Condensed Consolidated Balance Sheet

Unit: NT\$1,000

Item	Year	2013	2014
Cash and cash equivalents		124,627,966	175,979,782
Placement with Central Bank and call loans to banks		585,444,072	582,914,021
Financial assets at fair value through profit or loss		167,496,351	208,952,372
Available-for-sale financial assets, net		815,602,042	852,076,122
Hedging financial assets		5,443	25,613
Bills and bonds purchased under resell agreements		13,671,033	7,945,387
Receivables, net		90,884,392	71,031,163
Current income tax assets		3,349,666	4,200,074
Loans and discounts, net		2,240,472,476	2,299,974,231
Reinsurance assets		16,588	12,528
Held-to-maturity financial assets, net		270,703,495	270,591,631
Investments under equity method, net		40,325,633	42,915,583
Other financial assets, net		166,509,512	142,602,433
Investments property, net		5,512,559	5,487,465
Property and equipment, net		99,369,646	99,283,101
Intangible assets		1,062,179	958,129
Deferred tax assets		2,044,758	1,447,820
Other assets		11,748,859	14,156,169
Total Assets		4,638,846,670	4,780,553,624
Deposits of Central Bank and other banks		252,738,244	156,988,830
Financial liabilities measured at fair value through profit or loss		4,416,467	50,111,045
Hedging financial liabilities		225,806	103,024
Bills and bonds sold under repurchase agreements		20,898,486	39,587,959
Commercial paper payables, net		1,499,705	2,478,382

Item		Year	2013	2014
Payables			70,865,244	66,577,265
Current income tax liabilities			217,159	259,952
Deposits and remittances			3,391,502,015	3,537,029,089
Financial bonds payable			15,998,240	24,997,612
Provision			597,615,741	613,249,048
Other financial liabilities			3,720,522	2,378,613
Deffered tax liabilities			18,427,706	18,562,701
Other liabilities			8,003,288	8,343,565
Total liabilities	Before distribution		4,386,128,623	4,520,667,085
	After distribution		4,386,128,623	4,520,759,090
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		111,434,739	111,463,639
	Retained earnings	Before distribution	34,212,052	38,035,182
		After distribution	31,158,249	34,716,406
	Other equity		17,071,256	20,387,718
Total equity		Before distribution	252,718,047	259,886,539
		After distribution	249,664,244	256,567,763

(2) Condensed Consolidated Income Statement

Unit: NT\$1,000

Item	Year	2013	2014
Interest income		68,852,758	75,096,486
Less: Interest expense		(33,482,173)	(36,573,222)
Net interest income		35,370,585	38,523,264
Non-interest income, net		41,507,033	11,263,282
Net revenue		76,877,618	49,786,546
Bad debt expense and reserve for guarantees		(2,627,371)	(7,335,511)
Provisions for policyholder's reserve premium		(46,618,023)	(13,299,952)
Total expenses		(19,309,006)	(20,573,975)
Net income before income tax		8,323,218	8,577,108
Income tax expenses		(1,256,113)	(1,154,642)
Consolidated net income		7,067,105	7,422,466
Other comprehensive income (loss)		3,558,360	2,770,929
Total comprehensive income (loss) after tax for the period		10,625,465	10,193,395
Consolidated net income attributable to stockholders of TFH		7,067,105	7,422,466
Total comprehensive income (loss) after tax for the period attributable to stockholders of TFH		10,625,465	10,193,395
Basic earnings per share		0.79	0.82

(3) Condensed Balance Sheet

Unit: NT\$1,000

Item	Year	2013	2014
Cash and cash equivalents		260,624	529,552
Receivables, net		35	37
Current income tax assets		272,093	304,622
Investments under equity method, net		264,447,827	271,193,700
Property and equipment, net		6,274	6,618
Intangible assets		356	419
Other assets, net		3,236,103	3,235,673
Total assets		268,223,312	275,270,621
Payables		28,983	21,563

Item		Year	2013	2014
Other loans			11,600,000	11,550,000
Provision			98,992	87,356
Other liabilities			3,777,290	3,725,163
Total liabilities	Before distribution		15,505,265	15,384,082
	After distribution		11,835,985	11,684,040
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		111,434,739	111,463,639
	Retained earnings	Before distribution	34,212,052	38,035,182
		After distribution	31,158,249	34,716,406
	other equity		17,071,256	20,387,718
Total equity	Before distribution		252,718,047	259,886,539
	After distribution		249,664,244	256,567,244

(4) Condensed Income Statement

Unit: NT\$1,000

Item		Year	2013	2014
Income from equity investments under equity method			7,212,071	7,656,632
Other gains			1,527	2,049
Operating expenses			(155,556)	(151,079)
Other expenses and losses			(91,778)	(120,897)
Net income before income tax			6,966,264	7,386,705
Income tax benefit			100,841	35,761
Net income			7,067,105	7,422,466
Other comprehensive income (losses) for the period, net of income tax			3,558,360	2,770,929
Total comprehensive income (losses) for the period			10,625,465	10,193,395
Earnings per share			0.79	0.82

2. Financial Analysis for Year 2013 and 2014

(1) Consolidated Financial Analysis

Unit: NT\$1,000; %

Item			Year	2013	2014
Operating ability	Total assets turnover			0.0170	0.0106
	Loans to deposits ratio of banking subsidiary (%)			66.02	65.25
	NPL ratio of banking subsidiary (%)			0.44	0.31
	The group's average operating revenue per employee			9,109	5,893
	The group's average profit per employee			837	879
Profitability	Return on assets (%)			0.16	0.16
	Return on equity (%)			2.88	2.90
	Net margin (%)			9.19	14.91
	Earnings per share (NT\$)			0.79	0.82
Financial structure (%)	Debt ratio			94.55	94.56
	Liabilities to net worth ratio			1,735.58	1,739.48
	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		4.95	3.05	
	Growth rate of profit		6.39	3.05	
Cash flows	Cash flow ratio		Refer to condensed financial analysis		
	Cash flow adequacy ratio				
	Cash flow reinvestment ratio				
Operating scale	Market share by assets		11.99	11.44	
	Market share by net worth		9.23	8.77	
	Market share of deposits of banking subsidiary		10.80	10.59	
	Market share of loans of banking subsidiary		9.06	8.78	
Capital adequacy	Capital adequacy ratio	Bank of Taiwan	10.73	11.31	
		BankTaiwan Life Insurance	218.27	273.78	
		BankTaiwan Securities	373	348	
	Group's capital adequacy ratio		120.92	127.69	

(2) Condensed Financial Analysis

Unit: NT\$1,000; %

Item		Year	2013	2014
Operating ability	Total assets turnover		0.0271	0.0277
	Average operating revenue per employee		134,374	160,378
	Average profit per employee		133,342	157,925
Profitability	Return on assets (%)		2.69	2.73
	Return on equity (%)		2.88	2.90
	Net margin (%)		99.23	98.47
	Earnings per share (NT\$)		0.79	0.82
Financial structure (%)	Debt ratio		5.78	5.59
	Liabilities to net worth ratio		6.14	5.92
	TFH's double leverage ratio		104.64	104.35
Leverage ratio	Operating leverage ratio		101.98	101.84
	TFH's financial leverage ratio		101.31	101.60
Growth rates	Growth rate of assets		4.26	2.63
	Growth rate of profit		-2.72	6.04
Cash flows	Cash flow ratio		12,552.03	16,197.03
	Cash flow adequacy ratio		102.10	99.28
	Cash flow reinvestment ratio		60.62	239,709.33
Operating scale	Market share by assets		9.12	8.41
	Market share by net worth		9.66	8.94

3. Consolidated Financial Statements for Year 2014

LETTER OF DECLARATION

The entities that are required to be included in the consolidated financial statements of Taiwan Financial Holding Co., Ltd. as of December 31, 2014, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Accounting Standards No.27 endorsed by the Financial Supervisory Commission. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Taiwan Financial Holding Co., Ltd. and its subsidiaries do not prepare a separate set of related parties consolidated financial statements.

Truthfully yours,

TAIWAN FINANCIAL HOLDING CO., LTD.

By

A handwritten signature in black ink, reading "Jih-Chu Lee", is written over a horizontal line.

Jih-Chu Lee
Chairperson

March 24, 2015

Independent Auditors' Report

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

We have audited the consolidated financial statements of Taiwan Financial Holding Co., Ltd (the Company) and its subsidiaries, which comprise the consolidated balance sheet as of December 31, 2014 and 2013, the related consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows for the years then ended. The management of the Company is responsible for the preparation of these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit. As stated in note 14 to the consolidated financial statements, certain investments under the equity method in the consolidated financial statements of Taiwan Financial Holding Co., Ltd and its subsidiaries as of December 31, 2014 and 2013 amounting NTD36,105,126 thousand, constituting 0.76% of the total assets and NTD34,026,971 thousand, constituting 0.73% of the total assets, respectively, and the related investment gains of NTD3,295,331 thousand and NTD2,521,721 thousand, constituting 38.42% and 30.30% of the income before income tax in 2014 and 2013, respectively, were accounted for using the equity method and based on the investees' financial statements audited by other auditors.

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

In our opinion, based on our audits and the audit of the other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial performance of the Company and its subsidiaries as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended, in conformity with the "Regulations Governing the Preparation of Financial Reports of Financial Holding Companies", "Regulations Governing the Preparation of Financial Reports by Securities Issuers", the International Financial Reporting Standards, the International Accounting Standards and IFRS interpretation endorsed by the Financial Supervisory Commission.

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



March 24, 2015

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2014 and 2013

		(expressed in thousands of New Taiwan dollars)			
		December 31, 2014		December 31, 2013	
Assets		Amount	%	Amount	%
11000	Cash and Cash Equivalents (note 5 and 46)	\$ 175,979,782	4	124,627,966	3
11500	Placement with Central Bank and Call Loans to Banks (note 6,11 and 46)	582,914,021	12	585,444,072	13
12000	Financial Assets Measured at Fair Value through Profit or Loss, Net (note 7 and 46)	208,952,372	4	167,496,351	4
12100	Available-for-Sale Financial Assets, Net (note 12,20 and 46)	852,076,122	18	815,602,042	17
12300	Hedging Derivative Financial Assets (note 8)	25,613	-	5,443	-
12500	Bills and Bonds Purchased under Resell Agreements (note 9)	7,945,387	-	13,671,033	-
13000	Receivables, Net (note 10,11 and 46)	71,031,163	2	90,884,392	2
13200	Current Income Tax Assets	4,200,074	-	3,349,666	-
13500	Loans and Discounts, Net (note 11 and 46)	2,299,974,231	48	2,240,472,476	48
13700	Reinsurance Assets	12,528	-	16,588	-
14500	Held-to-Maturity Financial Assets, Net (note 13 and 20)	270,591,631	6	270,703,495	6
15000	Investments under Equity Method, Net (note 14)	42,915,583	1	40,325,633	1
15500	Other Financial Assets, Net (note 11,15 and 20)	142,602,433	3	166,509,512	4
18000	Investments property, Net (note 16)	5,487,465	-	5,512,559	-
18500	Property and Equipment, Net (note 17,20 and 47)	99,283,101	2	99,369,646	2
19000	Intangible Assets (note 18)	958,129	-	1,062,179	-
19300	Deferred Tax Assets (note 34)	1,447,820	-	2,044,758	-
19500	Other Assets (note 19)	14,156,169	-	11,748,859	-
Total assets		\$ 4,780,553,624	100	4,638,846,670	100
		December 31, 2014		December 31, 2013	
Liabilities and Stockholders' Equity		Amount	%	Amount	%
21000	Deposits of Central Bank and Other Banks (note 21 and 46)	\$ 156,988,830	3	252,738,244	6
22000	Financial Liabilities Measured at Fair Value through Profit or Loss (note 22 and 46)	50,111,045	1	4,416,467	-
22300	Hedging Derivative Financial Liabilities (note 8)	103,024	-	225,806	-
22500	Bills and Bonds Sold under Repurchase Agreements (note 9)	39,587,959	1	20,898,486	-
22600	Commercial Paper Payables, Net (note 23)	2,478,382	-	1,499,705	-
23000	Payables (note 24)	66,577,265	2	70,865,244	2
23200	Current Income Tax Liabilities	259,952	-	217,159	-
23500	Deposits and Remittances (note 25 and 46)	3,537,029,089	74	3,391,502,015	73
24000	Financial Bonds Payable (note 26 and 46)	24,997,612	1	15,998,240	-
24600	Provision (note 29,30,31 and 32)	613,249,048	13	597,615,741	14
25500	Other Financial Liabilities (note 28)	2,378,613	-	3,720,522	-
29300	Deferred Tax Liabilities (note 34)	18,562,701	-	18,427,706	-
29500	Other Liabilities (note 33)	8,343,565	-	8,003,288	-
Total liabilities		4,520,667,085	95	4,386,128,623	95
Equity attributable to shareholders of the parent (note 35):					
31101	Capital Stock	90,000,000	2	90,000,000	2
31500	Capital Surplus	111,463,639	2	111,434,739	2
Retained earnings:					
32001	Legal Reserve	4,175,915	-	3,493,367	-
32003	Special Reserve	26,558,186	1	23,850,122	1
32011	Unappropriated Retained Earnings	7,301,081	-	6,868,563	-
		38,035,182	1	34,212,052	1
32500	Other Equity	20,387,718	-	17,071,256	-
Total equity		259,886,539	5	252,718,047	5
Total liabilities and stockholders' equity		\$ 4,780,553,624	100	4,638,846,670	100

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

For the year ended December 31, 2014 and 2013

(expressed in thousands of New Taiwan dollars)

	2014		2013		Percentage
	Amount	%	Amount	%	Change
Revenue and income :					
41000 Interest income (note 36)	\$ 75,096,486	151	68,852,758	90	9
51000 Less: Interest expense (note 36)	(36,573,222)	(73)	(33,482,173)	(44)	9
Net interest income (note 36)	38,523,264	78	35,370,585	46	9
Non-interest income, net					
49800 Service fees, net (note 37)	3,986,237	8	3,756,396	5	6
49825 Gain on real estate investment, net (note 16)	109,942	-	95,397	-	15
49890 Share of profit (loss) of associates and joint ventures accounted for using equity method (note 14)	3,590,679	7	2,319,959	3	55
49810 Premiums gain (loss) (note 45)	(24,313,619)	(49)	10,383,823	14	(334)
49820 Gain on financial assets or liabilities measured at fair value through profit or loss (note 38)	10,709,102	22	12,585,765	16	(15)
49830 Realized gain on available-for-sale financial assets (note 39)	2,426,302	5	2,381,266	3	2
49840 Realized gain (loss) on held-to-maturity financial assets	201	-	252	-	(20)
49870 Foreign exchange gain (loss)	11,959,313	24	3,892,948	5	207
49880 Impairment loss of assets (note 20)	(1,685)	-	(19,063)	-	91
49943 Sales income (note 19 and 40)	450,651	1	430,636	1	5
48100 Subsidized income from government (note 40)	12,946,954	26	15,696,251	20	(18)
48063 Gain on disposal of property and equipment (note 40)	188,574	-	466,674	1	(60)
49999 Other miscellaneous income (note 40)	(25,223)	-	377,317	-	(107)
58090 Excess interest expenses (note 10 and 40)	(10,764,146)	(22)	(10,860,588)	(14)	1
Net Revenue	49,786,546	100	76,877,618	100	(35)
58100 Bad debt expense and reserve for guarantees (note 11)	(7,335,511)	(15)	(2,627,371)	(3)	179
58300 Provisions for policyholder's reserve premium	(13,299,952)	(27)	(46,618,023)	(61)	(71)
Expenses:					
58501 Employee benefits expenses (note 41)	(12,632,621)	(25)	(12,496,516)	(16)	1
58503 Depreciation and amortization expenses (note 42)	(1,261,794)	(3)	(1,333,860)	(2)	(5)
58599 Other general and administrative expenses (note 43)	(6,679,560)	(13)	(5,478,630)	(7)	22
Total Expenses	(20,573,975)	(41)	(19,309,006)	(25)	7
Net income before income tax	8,577,108	17	8,323,218	11	3
61003 Income Tax Expenses (note 34)	(1,154,642)	(2)	(1,256,113)	(2)	8
Consolidated net income	7,422,466	15	7,067,105	9	5
69500 Other comprehensive income (loss):					
69501 Exchange differences arising on translation of foreign operations	391,039	1	6,933	-	5,540
69511 Unrealized gain on available-for-sale financial assets	2,330,095	5	4,699,092	6	(50)
69531 Other comprehensive income, before tax, actuarial losses on defined benefit plans	(457,300)	(1)	(292,153)	-	(57)
69541 Share of other comprehensive income of associates accounted for using equity method (note 14)	561,449	1	(1,038,566)	(1)	154
69591 Income tax related to components of other comprehensive income (note 34)	(54,354)	-	183,054	-	(130)
69500 Other comprehensive income (loss), net of tax for the year	2,770,929	6	3,558,360	5	(130)
Total comprehensive income (loss), net of tax for the year	\$ 10,193,395	21	10,625,465	14	(4)
Basic earnings per share (In dollars) (note 44)	\$ 0.82		0.79		

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the year ended December 31, 2014 and 2013

(expressed in thousands of New Taiwan dollars)

Equity attributable to shareholders' of parent

	Equity attributable to shareholders' of parent						Other equity			
	Capital stock	Capital surplus	Retained earnings			Total	Exchange differences arising on translation of foreign operation	Unrealized gain on available-for-sale financial assets	Total	Total
			Legal reserve	Special reserve	Unappropriated earnings					
Balance at January 1, 2013	\$ 90,000,000	111,385,217	2,758,570	5,719,853	23,440,480	31,918,903	(369,751)	13,641,022	13,271,271	246,575,391
Legal reserve appropriated	-	-	734,797	-	(734,797)	-	-	-	-	-
Special reserve appropriated	-	-	-	3,233,842	(3,233,842)	-	-	-	-	-
Cash dividends	-	-	-	-	(4,532,331)	(4,532,331)	-	-	-	(4,532,331)
Reversal of special reserve-sale of land	-	-	-	(43,083)	43,083	-	-	-	-	-
Changes in capital surplus-associates and joint ventures accounted for using equity method	-	49,522	-	-	-	-	-	-	-	49,522
Special reserve for the first-time adoption of IFRS	-	-	-	14,939,510	(14,939,510)	-	-	-	-	-
Consolidated net income	-	-	-	-	7,067,105	7,067,105	-	-	-	7,067,105
Other comprehensive income (loss) for the period	-	-	-	-	(241,625)	(241,625)	62,967	3,737,018	3,799,985	3,558,360
Total comprehensive income (loss) for the period	-	-	-	-	6,825,480	6,825,480	62,967	3,737,018	3,799,985	10,625,465
Balance at December 31, 2013	90,000,000	111,434,739	3,493,367	23,850,122	6,868,563	34,212,052	(306,784)	17,378,040	17,071,256	252,718,047
Legal reserve appropriated	-	-	682,548	-	(682,548)	-	-	-	-	-
Special reserve appropriated	-	-	-	3,132,212	(3,132,212)	-	-	-	-	-
Cash dividends	-	-	-	-	(3,053,803)	(3,053,803)	-	-	-	(3,053,803)
Reversal of special reserve	-	-	-	(399,000)	399,000	-	-	-	-	-
Reversal of special reserve-sale of land	-	-	-	(25,148)	25,148	-	-	-	-	-
Changes in capital surplus-associates and joint ventures accounted for using equity method	-	28,900	-	-	-	-	-	-	-	28,900
Consolidated net income	-	-	-	-	7,422,466	7,422,466	-	-	-	7,422,466
Other comprehensive income (loss) for the period	-	-	-	-	(545,533)	(545,533)	436,847	2,879,615	3,316,462	2,770,929
Total comprehensive income (loss) for the period	-	-	-	-	6,876,933	6,876,933	436,847	2,879,615	3,316,462	10,193,395
Balance at December 31, 2014	<u>\$ 90,000,000</u>	<u>111,463,639</u>	<u>4,175,915</u>	<u>26,558,186</u>	<u>7,301,081</u>	<u>38,035,182</u>	<u>130,063</u>	<u>17,378,040</u>	<u>20,387,718</u>	<u>259,886,539</u>

TAIWAN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

For the year ended December 31, 2014 and 2013

(expressed in thousands of New Taiwan dollars)

	2014	2013
Cash flows from (used in) operating activities :		
Net income before income tax	\$ 8,577,108	8,323,218
Adjustments :		
Adjustments to reconcile profit (loss)		
Depreciation expense	965,749	1,004,578
Amortization expense	383,572	415,001
Provision for bad debt expense	6,798,218	2,717,392
Interest expense	36,573,222	33,482,173
Interest income	(75,096,486)	(68,852,758)
Provision for guarantee liabilities	537,293	(17,527)
Net change in other provisions	13,299,952	46,618,023
Share of profit of associates and joint ventures accounted for using equity method	(3,590,677)	(2,319,959)
Gain on disposal of property and equipment	(188,574)	(466,674)
Impairment loss on financial assets	2,303	50
Impairment loss on non-financial assets	-	19,013
Reversal of impairment loss on non-financial assets	(616)	-
Others	1,351	(6,899)
Total adjustments to reconcile profit (loss)	(20,314,693)	12,592,413
Changes in operating assets and liabilities :		
Increase in placement with Central Bank and call loans to banks	(16,693,019)	(28,075,745)
Increase in financial assets measured at fair value through profit or loss	(60,045,190)	(14,133,242)
Decrease (increase) in available-for-sale financial assets	528,082	(106,033,005)
Increase in hedging derivative financial assets	(20,170)	(1,900)
Decrease in bills and bonds purchased under resell agreements	332,077	4,457,882
Decrease in receivables	23,479,561	7,569,504
Increase in loans and discounts	(66,382,800)	(61,143,052)
Decrease (increase) in held-to-maturity financial assets	5,254,077	(50,019,896)
Decrease (increase) in other financial assets	23,953,906	(9,248,650)
(Increase) decrease in other assets	(2,026,525)	493,355
(Decrease) increase in deposits of Central Bank and other banks	(95,749,414)	39,363,779
Increase (decrease) in financial liabilities measured at fair value through profit or loss	13,954,635	(92,040)
Decrease in hedging derivative financial liabilities	(122,782)	(75,584)
Increase in bills and bonds sold under repurchase agreement	18,689,473	7,556,681
(Decrease) increase in payables	(4,466,769)	1,072,579
Increase in deposits and remittances	145,527,074	113,704,251
Increase in employee benefit obligations	563,449	271,635
Increase (decrease) in other liabilities	717,044	(2,654,171)
Total changes in operating liabilities	79,112,710	159,147,130
Total changes in operating assets and liabilities	(12,507,291)	(96,987,619)
Total adjustments	(32,821,984)	(84,395,206)
Cash (outflow) generated from operations	(24,244,876)	(76,071,988)
Interest received	71,510,680	67,302,618
Dividends received	1,591,078	917,817
Interest paid	(36,394,431)	(34,741,651)
Income taxes paid	(1,230,325)	(1,645,356)
Net cash flows from (used in) operating activities	11,232,126	(44,238,560)

	2014	2013
Cash flows (used in) from investing activities :		
Acquisition of property and equipment	(626,978)	(584,107)
Proceeds from disposal of property and equipment	301,075	664,366
Increase in refundable deposits	(378,007)	(128,659)
Acquisition of intangible assets	(279,517)	(299,877)
Acquisition of investments property	(337,611)	(1,280,208)
Increase in other financial assets	(7,100)	-
Net cash flows used in investing activities	(1,328,138)	(1,628,485)
Cash flows from (used in) financing activities :		
Increase in commercial papers payable	978,677	979,825
Proceeds from issuing financial bonds	40,739,315	15,998,240
Decrease in guarantee deposits received	(376,767)	(542,985)
Decrease in other financial liabilities	(1,341,909)	(9,163,535)
Cash dividends paid	(3,053,877)	(3,395,499)
Net cash flows from financing activities	36,945,439	3,876,046
Effect of exchange rate changes on cash and cash equivalents	1,231,207	869,740
Net increase (decrease) in cash and cash equivalents	48,080,634	(41,121,259)
Cash and cash equivalents at beginning of period	886,219,757	927,341,016
Cash and cash equivalents at end of period	\$ 934,300,391	886,219,757
Compose of cash and cash equivalents :		
Cash and cash equivalents reported in the statement of financial position	\$ 175,979,782	124,627,966
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	156,883,746	176,106,816
Investments qualifying for cash and cash equivalents under the definition of IAS 7	601,436,863	585,484,975
Cash and cash equivalents at end of period	\$ 934,300,391	886,219,757

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

December 31, 2014 and 2013

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

(1) Organization and business scope

1) Taiwan Financial Holdings

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

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

2) Subsidiaries' activities

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

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

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

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

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

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

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

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

(2) Financial statements authorization date and authorization process

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

(3) Significant accounting policies

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

1) Statement of compliance

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

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

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

2) Basis of preparation

1. Basis of Measurement

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

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

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 note4 for further information.

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

4. Functional currency and presentation currency

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

3) Basis of consolidation

1. Principle of preparation of the consolidated financial statements

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

even if the non-controlling interests to have a deficit balance.

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

2. List of subsidiaries in the consolidated financial statements

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

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 planned nor likely in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

5) Cash and cash equivalents

For consolidated balance sheets, Cash and cash equivalents include cash on hand, due from banks, demand deposits and highly liquid investments that are readily convertible into known amount of cash and which are subject to insignificant risk of change in value. The aforementioned time deposits which are held for short-term cash commitment rather than investment or other purposes are recognized as cash equivalents.

For consolidated statement of cash flows, cash and cash equivalents refer to cash and cash equivalents presented in consolidated statement of balance sheet, deposit in the central bank, call loans to banks, and investments of bonds and callable notes which are in accordance with the definition of cash and cash equivalents in the International Accounting Standards 7 accepted by FSC.

6) Financial instrument

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

1. Financial asset

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

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

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

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

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

(b) Available-for-sale financial assets

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

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

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

(c) Held to maturity financial assets

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

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

(d) Loans and receivables

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

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

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

The write-off of non-performing loans and non-accrual loans of the subsidiary, BOT, shall be discussed by the related committee, reviewed by the general manager and approved by a resolution passed by the board of directors or the board of managing

directors and the audit committee shall be notified of the write-off. The Board of Directors shall be notified if the write-off case is passed by the board of the managing directors. Collections after write-off shall be reversed from the allowance for bad debt.

(e) Financial assets at cost

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

(f) Debts investment without active market

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

(g) Impairment of financial assets

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

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

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

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

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

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

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

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

The subsidiary, BOT, evaluates the categories and recognizes allowance for doubtful accounts according to the higher of the Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans and the Regulation of Evaluating the Impairment Loss of Loans and Receivables. Except for the normal credit assets that are classified at the first category, the other bad credit rating assets are classified as the second category-attention required, the third category-collectable, the forth category-hard to collect and the fifth category-impossible to collect by assessing the collaterals and overdue days.

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

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

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

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

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

(h) The derecognition of financial assets

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

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

2. Financial liability and equity instrument

(a) The classification of liabilities and equity

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

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

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

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

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

The held for trading financial liabilities are acquired or incur principally for the purpose of

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

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

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

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, plant and equipment. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

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

11) Property, plant and equipment

1. Recognition and measurement

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

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

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

2. Reclassification to investment property

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

3. Subsequent cost

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

4. Depreciation

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

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

and its useful life.

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

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

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

12) Reinsurance assets

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

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

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

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

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

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

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

13) Insurance contract

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

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

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

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 subsidiaries shall assess at the end of each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Company and its subsidiaries shall estimate the recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the asset individually, they shall determine the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

An impairment loss recognized in prior periods for an asset other than goodwill shall be reverse if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount. The carrying amount of the asset shall be increased to its recoverable amount, but the increased carrying amount of an asset or 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-type insurance commodities. The payment of premiums (net of administrative expense) is recorded in a separate account which shall only be used in a way agreed by the proposer. The assets of separate accounts are valued at market price on the valuation date, and the Company and its subsidiaries follow the related rules and financial accounting standards in the IFRS to determine the net asset value.

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

20) Insurance liability

Reserves for insurance contracts are provided in accordance with the "Regulations Governing Insurance Enterprises for Setting Aside Various Reserves" and are also certified by an appointed actuary approved by the Financial Supervisory Commission, Executive Yuan, R.O.C. (FSC). If an insurance contract contains a discretionary participation feature as well as a

guaranteed element, the Company shall set aside reserves in accordance with related insurance regulations and shall classify the whole contract as a liability. Except the reserves for short-term group insurance, the reserve basis shall be based on the greater amount of actual premium income or the premium income as calculated under the corresponding regulations and other reserve basis listed below:

1. Unearned premium reserve

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

2. Claims Reserve:

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

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

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

3. Policy reserves

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

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

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

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

4. Special reserves

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

a) Special catastrophe reserve:

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

b) Special risk-volatility reserve:

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

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

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

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

5. Premium deficiency reserve

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

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

6. Liability adequacy reserve

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

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

21) Foreign exchange volatility reserve

In accordance with "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises", starting on March 1, 2012, personal insurance industries should set up a foreign exchange volatility reserve under liabilities for their foreign investments. It should transfer some of the special reserve for significant incidents and special reserve for risk volatility of various insurance types recorded under the liabilities as the opening balance of foreign exchange volatility reserve. The maximum amount may not exceed half of the special reserve for significant incidents and the special reserve for risk volatility of various insurance types recorded under the liabilities as of December 31, 2014.

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

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

22) Future trader's equity

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

23) Revenue and operating expense recognition

Subsidiary, BOT:

1. Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary operating activities of an entity when those inflows result in increases in equity, other than increase relating to contributions from equity participants.

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

Subsidiary, BTLI:

1. Premium revenue recognition and policy acquisition costs

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

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

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

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

2. Interest revenue

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

3. Lease income

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

4. Revenue and expense that relate to the same transaction or other event are recognized simultaneously; this process is commonly referred to as the matching of revenue and expense.

The Subsidiary, BTS :

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

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

24) Employee benefit

1. Short-term employee benefit

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

2. Pension

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

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

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

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

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

- (b) For defined contribution plan, the employer has no further legal or constructive obligation to pay further contributions in accordance with the Labor Pension Act.
- (c) For the definite benefit plan, the independent actuary uses the projected unit credit method to calculate the present value of the defined benefit obligation and the current service cost. The present value of the defined benefit obligation is the projected future cash flow discounted by the market yields at the end of the reporting period on the bonds that have maturity dates approximating the terms of the obligation and that are denominated in the same currency in which the benefits are expected to be paid. The actuarial gains and losses are recognized in the other comprehensive income when they occur.
- (d) The overseas branches of the bank subsidiary follow the foreign government's regulations.

3. Preferential interest deposits

- (a) The Company and its subsidiaries provide their employees the preferential interest deposits, including that for current employees and retired employees. The difference between the preferential interest rate and the market rate are the employee benefit.

(b) In accordance with the Regulations Governing the Preparation of Financial Reports by the Financial Holding Companies, if the preferential interest rate for retired employees exceeds the market rate, the Company and its subsidiaries shall calculate the excess interest using the actuarial method by adopting the IAS 19 when the employees retire. However, the actuarial assumptions shall follow the government's related regulations. For the preferential interest deposits paid for current employees, the Company and its subsidiaries shall calculate the interest monthly on accrual basis. The different amount of the preferential interest rate and market interest rate is recognized under the preferential interest account in the comprehensive Income statement.

4. Other employee's retirement benefits

- (a) Include three Chinese festival gifts, survivors benefit, and special benefits to retired employees who were paid pension in early times.
- (b) It belongs to the definite benefit plan, and the independent actuary uses the projected unit credit method to calculate the present value of the defined benefit obligation and the current service cost. The present value of the defined benefit obligation is the projected future cash flow discounted by the market yields at the end of the reporting period on the bonds that have maturity dates approximating the terms of the obligation and that are denominated in the same currency in which the benefits are expected to be paid. The actuarial gains and losses are recognized in the other comprehensive income when they occur.

25) Income tax

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

1. Current income tax

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

2. Deferred Tax

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

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

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

26) Earnings per share

Basic earnings per share: The earnings per share is computed by dividing the net income or loss by the weighted average number of common stocks outstanding over the reporting term.

27) Operating segments

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

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.

For the valuation of impairment loss of loans and discounts, please see note 11.

2) Fair value of financial instruments

1. Fair value

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

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

Please refer to note 47 relating to the fair value of financial instruments content description for the above the estimated fair value of financial instruments.

2. Impairment

(a) Available-for-sale securities

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

(b) Financial assets carried at amortized cost

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

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

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

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

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

Liability Adequacy Test is estimated based on "Code of Conduct of Actuarial Practice Under the Statements of Financial Accounting Standards No 40 - Contracts Classification and Liability Adequacy Test" announced by the Actuarial Institute of the Republic of China. BTLI evaluates liability adequacy test using future insurance benefits, premiums, related fees and other reasonable estimates for the current estimates of future cash flows under its insurance contracts. Please refer note 30 for further information.

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

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

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

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

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

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

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

Additionally, as of December 31, 2014 and 2013, 60% of the reserve deposits collected by the subsidiary, BOT, on behalf of a government institution amounting to \$4,940,792 thousand dollars and \$5,584,031 thousand dollars, respectively, were deposited in the Central Bank and their use is restricted according to the regulations.

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

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

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

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

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

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

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

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

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

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

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

(8) Hedging Derivative Financial Instruments

The details of hedging derivative financial assets were as follows:

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

The content of hedging liabilities is as follows:

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

Fair value hedge

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

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

The net losses of above hedging instruments in 2014 and 2013 are \$49,365 thousand dollars and \$136,422 thousand dollars, respectively. The net losses of hedged items embedded in hedging instrument in 2014 and 2013 are \$146,704 thousand dollars and \$68,914 thousand dollars, respectively.

(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, 2014	December 31, 2013
Bills and bonds purchased under resell agreements:		
Negotiable certificates of deposit	\$ 1,913,424	5,580,625
Commercial paper	5,292,037	7,168,770
Government bonds	339,169	520,328
Corporate bonds	400,757	401,310
Total	<u>\$ 7,945,387</u>	<u>13,671,033</u>
	December 31, 2014	December 31, 2013
Bills and bonds sold under repurchase agreements:		
Commercial papers	\$ 449,425	349,417
Government bonds	28,257,321	19,247,168
Corporate bonds	2,128,865	1,301,901
Foreign government bonds	437,353	-
Convertible Corporate bonds	70,118	-
Financial bonds	8,244,877	-
Total	<u>\$ 39,587,959</u>	<u>20,898,486</u>

(10) Receivables, Net

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

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

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

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

(11) Loans and Discounts, Net

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

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

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

Details of allowance for doubtful accounts were as follows:

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

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

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

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

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

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

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

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

(13) Held-to maturity Financial Assets, Net

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

(14) Investments under Equity Method, Net

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

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

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

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

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

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

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

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

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

1. The investment gains from the investees audited by other auditors were \$3,295,331 and \$2,521,721 in 2014 and 2013, respectively.
2. The investment loss from the investees amounting to \$134,880 and \$64,853 in 2014 and 2013, respectively, were based on its unaudited financial statements.
3. Since Kaohsiung Ammonium Sulfate Co., Ltd. still in the process of liquidation and the liquidators and supervisors were appointed by the Ministry of Economic Affairs, the Company and its subsidiaries have no power to control such investee.
4. Taiwan Life Insurance Co., Ltd had issued private equity funds and unsecured subordinated mandatory convertible bonds, which were due on March 28, June 27, September 2, October 1, October 8, and November 6, 2013, and March 6, 2014. The investee were obligated to

convert their bonds into shares. The Company and its subsidiaries did not hold any unsecured subordinated mandatory convertible bonds; hence, the percentage of ownership was decrease from 21.59% to 20.26%.

(15) Other Financial Assets, Net

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

- 1) Please see note 46, "The Fair Value and Fair Value Hierarchy of the Financial Instruments", for details of the valuation of hedging derivative financial assets and debt investments without quoted price in non-active markets for December 31, 2014 and 2013.
- 2) Concerning for the payment of excess interest for the government, booked under "short term payment" for December 31, 2014 and 2013, please refer to note 10 for further information.

(16) Investment property

	Land and improvements	Buildings	Total
Cost or deemed cost:			
Balance at January 1, 2014	\$ 3,598,287	2,072,494	5,670,781
Additions	209,140	128,471	337,611
Reclassification to property and equipment	(251,391)	(67,534)	(318,925)
Balance at December 31, 2014	\$ 3,556,036	2,133,431	5,689,467
Balance at January 1, 2013	\$ 2,882,590	1,507,983	4,390,573
Additions	715,697	564,511	1,280,208
Balance at December 31, 2013	\$ 3,598,287	2,072,494	5,670,781
Depreciation:			
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
Balance at January 1, 2013	\$ -	109,812	109,812
Depreciation	-	48,410	48,410
Balance at December 31, 2013	\$ -	158,222	158,222
Carrying amounts:			
December 31, 2014	\$ 3,556,036	1,931,429	5,487,465
January 1, 2013	\$ 2,882,590	1,398,171	4,280,761
December 31, 2013	\$ 3,598,287	1,914,272	5,512,559

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

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

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

	December 31, 2014	December 31, 2013
Fair value of investment properties	\$ 8,036,252	7,066,222

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

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

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

(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 2014 and 2013 were as follows:

	Land and Land improvements	Buildings	Machinery and equipment	Transportation equipment	Miscellaneous equipment	Leasehold improvements	Construction in progress and prepayment for equipment	Total
Cost:								
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
Balance at January 1, 2013	\$ 87,743,828	15,567,684	6,177,241	1,108,559	1,044,910	692,163	351,101	112,685,486
Additions	53,542	12,280	196,753	32,473	28,408	1,725	258,926	584,107
Disposals	(177,730)	(51,686)	(271,486)	(39,466)	(43,017)	(13,668)	-	(597,053)
Reclassification	-	34,959	302,825	1,679	3,681	18,291	(361,896)	(461)
Effect of change in exchange rates	-	-	(1,751)	(643)	(985)	(2,232)	-	(5,611)
Balance at December 31, 2013	\$ 87,619,640	15,563,237	6,403,582	1,102,602	1,032,997	696,279	248,131	112,666,468

	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, 2014	\$ 13,699	6,161,615	4,692,424	895,548	827,215	614,786	-	13,205,287
Depreciation	-	-	(175,999)	(37,201)	(32,005)	(685)	-	(245,890)
Disposal	363	322,145	471,068	46,950	40,054	36,195	-	916,775
Reclassification	-	5,194	-	-	-	-	-	5,194
Effect of change in exchange rates	-	-	287	224	831	1,288	-	2,630
Balance at December 31, 2014	\$ 14,062	6,488,954	4,987,780	905,521	836,095	651,584	-	13,883,996
Balance at December 31, 2014	\$ 13,336	5,879,917	4,461,986	883,404	824,767	591,338	-	12,654,748
Depreciation	-	(50,129)	(257,654)	(38,290)	(39,620)	(13,668)	-	(399,361)
Disposal	363	331,827	490,295	50,859	42,890	39,933	-	956,167
Reclassification	-	-	(369)	-	-	-	-	(369)
Effect of change in exchange rates	-	-	(1,834)	(425)	(822)	(2,817)	-	(5,898)
Balance at December 31, 2013	\$ 13,699	6,161,615	4,692,424	895,548	827,215	614,786	-	13,205,287
Accumulated impairment:								
Balance at January 1, 2014	\$ 91,535	-	-	-	-	-	-	91,535
Impairment loss	(616)	-	-	-	-	-	-	(616)
Balance at December 31, 2014	\$ 90,919	-	-	-	-	-	-	90,919
Balance at December 31, 2014	\$ 72,522	-	-	-	-	-	-	72,522
Impairment loss	19,013	-	-	-	-	-	-	19,013
Balance at December 31, 2013	\$ 91,535	-	-	-	-	-	-	91,535
Carrying amounts:								
December 31, 2014	\$ 87,670,774	9,199,418	1,636,105	184,877	203,631	77,343	310,953	99,283,101
January 1, 2013	\$ 87,657,970	9,687,767	1,715,255	225,155	220,143	100,825	351,101	99,958,216
December 31, 2013	\$ 87,514,406	9,401,622	1,711,158	207,054	205,782	81,493	248,131	99,369,646

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

As of December 31, 2014, the Company and its subsidiaries' property and equipment neither served as a guarantee or collateral, nor were they pledged, please refer to note 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 2014 and 2013 were as follows:

	Computer software
Costs:	
Balance at January 1, 2014	\$ 2,417,413
Additions	279,517
Balance at December 31, 2014	\$ 2,696,930
Balance at January 1, 2013	\$ 2,117,444
Additions	299,877
Reclassification	461
Balance at December 31, 2013	\$ 2,417,782

	Computer software
Amortization and Impairment loss:	
Balance at January 1, 2014	\$ 1,355,234
Amortization for the year	383,567
Balance at December 31, 2014	<u>\$ 1,738,801</u>
Balance at January 1, 2013	\$ 940,237
Amortization for the year	414,997
Reclassification	369
Balance at December 31, 2013	<u>\$ 1,355,603</u>
Carrying value:	
Balance at December 31, 2014	<u>\$ 958,129</u>
Balance at January 1, 2013	<u>\$ 1,177,207</u>
Balance at December 31, 2013	<u>\$ 1,062,179</u>

(19) Other Assets

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

1) Foreclosed collaterals and residuals taken over, net

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

2) Advance payment

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

3) Inventories

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

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

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

(20) Impairment

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

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

Details of accumulated impairment were as follows:

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

(21) Deposits of Central Bank and other banks

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

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

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

3) Financial liabilities held for trading

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

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

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

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

The details of the financial bonds were as follow:

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

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

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

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

(23) Commercial paper payable, Net

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

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	0.998%~1.148%	1,200,000
			2,480,000
Less: discount			(1,618)
Total			\$ 2,478,382

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

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

(25) Deposits and Remittances

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

(26) Financial Bonds Payable

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

(27) Borrowings

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

(28) Other Financial Liabilities

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

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

(29) Provision

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

(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, 2014 and 2013 were as follows:

1) Details of reserve for unearned premium:

December 31, 2014			
	Financial products with discretionary participation feature		
	Insurance Contract		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

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

The reconciliations of reserve for unearned premium were listed below:

	2014		
	Financial products with		
	Insurance Contract	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
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

	2013		
	Financial products with		
	Insurance Contract	discretionary participation feature	Total
Balance at January 1, 2013	\$ 354,934	8,640	363,574
Provision	416,252	5,735	421,987
Reclaim	(353,750)	(8,640)	(362,390)
Other	(4)	-	(4)
Balance at December 31, 2013	417,432	5,735	423,167
Deduction of reserve for unearned premium outward			
Balance at January 1, 2013, net	16,039	108	16,147
Provision	11,621	109	11,730
Reclaim	(16,039)	(108)	(16,147)
Balance at December 31, 2013, net	11,621	109	11,730
Total	\$ 405,811	5,626	411,437

2) Details of claims reserve:

	December 31, 2014		
	Financial products with		
	Insurance Contract	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

December 31, 2014			
	Financial products with		Total
	Insurance Contract	discretionary participation feature	
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

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

The reconciliations of claims reserve were listed below:

2014			
	Financial products with		Total
	Insurance Contract	discretionary participation feature	
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

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

3) Details of liability reserve :

	December 31, 2014		
	Financial products with discretionary participation feature		
	Insurance Contract		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

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

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

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

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

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

4) Details of special reserve:

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

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

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

The movements of special reserve were listed below:

2014			
	Financial products with discretionary participation feature		
	Insurance Contract		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

2013			
	Financial products with discretionary participation feature		
	Insurance Contract		Total
Balance at January 1, 2013	\$ 240,812	-	240,812
Provision of dividend policy	82,593	-	82,593
Recovery of dividend policy	(55,912)	-	(55,912)
Balance at December 31, 2013	\$ 267,493	-	267,493

5) Reserve for premium deficiency:

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

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

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

2014			
	Financial products with discretionary participation feature		
	Insurance Contract		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

	2013		
	Financial products with		
	Insurance Contract	discretionary participation feature	Total
Balance at January 1, 2013	\$ 965,808	-	965,808
Provision	222,339	-	222,339
Reclaim	(485,600)	-	(485,600)
Effect of changes in exchange rates	61	-	61
Balance at December 31, 2013	\$ 702,608	-	702,608

6) Details of provision for liability adequacy:

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

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

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

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

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

In accordance with the liability adequacy test, the total loss ratio were 80.99% and 83.35%, respectively, which were lower than 100%. There was no concern of provision for the adequacy of the liability.

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

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

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

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

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

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:

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

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

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

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

(32) Employee benefit obligations

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

(33) Other Liabilities

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

(34) Income Tax Expenses

1) Income tax expenses (benefit)

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

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

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

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

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

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

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

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

Deferred Tax Assets:

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

Deferred Tax Liabilities:

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

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

	December 31, 2014	December 31, 2013
Unappropriated earnings of 1998 and after	\$ 7,301,081	6,868,563
	December 31, 2014	December 31, 2013
Balance of deductible tax account	\$ 492,019	981,360
	2014(Projected)	2013(Actual)
Imputed tax creditable ratio for appropriating net income	20.48%	22.22%

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, 2014 and 2013, the Company's authorized capital and issued capital were \$90,000,000 thousands. The above mentioned capital stock had a par value of \$10.

2) Capital surplus

	December 31, 2014	December 31, 2013
Changes in capital surplus-associates and joint ventures accounted using equity method	\$ 78,422	49,522
Equity premium	111,385,217	111,385,217
Total	\$ 111,463,639	111,434,739

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

3) Legal reserve

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

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

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

(36) Net interest income

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

(37) Service fees, Net

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

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

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

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

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

(40) Other non-interest income (expenses)

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

(41) Employee benefits expenses

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

(42) Depreciation and amortization expenses

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

(43) Other general and administrative expenses

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

(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 2014 and 2013 are \$7,422,466 and \$7,067,105, respectively. The weighted average outstanding shares are 9,000,000 thousand.

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

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

(45) Insurance income, Net

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

	2013		
	BOT government employees' insurance department		
		BTLI	Total
Premium income	\$ 20,863,143	48,020,875	68,884,018
Amortized reinsurance claims payment	-	23,947	23,947
Income on insurance product-separated account	-	112,101	112,101
Insurance business income	20,863,143	48,156,923	69,020,066
Reinsurance expenses	-	72,540	72,540
Direct business expenses	-	212	212
Insurance claims payment	26,426,619	31,976,752	58,403,371
Disbursement toward industry stability	-	48,019	48,019
Disbursement on insurance product separated account	-	112,101	112,101
Insurance business expenses	26,426,619	32,209,624	58,636,243
Net income from insurance business	\$ (5,563,476)	15,947,299	10,383,823

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

1) Retained earned premiums

	2014		
	Financial products with discretionary participation		
	Insurance Contract	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

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

2) Retained benefits and claims paid

2014			
	Financial products with discretionary participation		
	Insurance Contract	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

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

(46) The Fair Value and Fair Value Hierarchy of the Financial Instruments

1) The fair value of financial instruments

	December 31, 2014		December 31, 2013	
	Book value	Fair value	Book value	Fair value
Financial Assets:				
Cash and cash equivalents	\$ 175,979,782	175,979,782	124,627,966	124,627,966
Placement with Central Bank and call loans to bank	582,914,021	582,914,021	585,444,072	585,444,072
Financial assets measured at fair value through profit or loss	208,952,372	208,952,372	167,496,351	167,496,351
Available-for-sale financial assets	852,076,122	852,076,122	815,602,042	815,602,042
Hedging derivative financial assets	25,613	25,613	5,443	5,443
Bills and Bonds Purchased under resell agreements	7,945,387	7,945,387	13,671,033	13,671,033
Receivables	71,031,163	71,031,163	90,884,392	90,884,392
Loans and discounts	2,299,974,231	2,299,974,231	2,240,472,476	2,240,472,476
Reinsurance assets - Due from reinsurers and ceding companies and claims recoverable from reinsurers	12,528	12,528	16,588	16,588
Held-to-maturity financial assets	270,591,631	271,058,879	270,703,495	269,595,592
Other financial assets-Debt investments without quoted price in an active market	55,871,570	56,260,525	57,045,188	53,828,329
Other financial assets - Financial assets carried at cost	10,771,413	10,771,413	10,766,887	10,766,887
Other financials - Others	75,959,450	75,959,450	98,697,437	98,697,437

	December 31, 2014		December 31, 2013	
	Book value	Fair value	Book value	Fair value
Financial Liabilities:				
Deposits of Central Bank and other banks	156,988,830	156,988,830	252,738,244	252,738,244
Financial liabilities measured at fair value through profit or loss	50,111,045	50,111,045	4,416,467	4,416,467
Hedging derivative financial liabilities	103,024	103,024	225,806	225,806
Bills and bonds sold under repurchase agreements	39,587,959	39,587,959	20,898,486	20,898,486
Commercial paper payables	2,478,382	2,478,382	1,499,705	1,499,705
Payables	66,577,265	66,577,265	70,865,244	70,865,244
Deposits and Remittances	3,537,029,089	3,537,029,089	3,391,502,015	3,391,502,015
Financial bonds payable	24,997,612	24,997,612	15,998,240	15,998,240
Other financial liabilities	2,378,613	2,378,613	3,720,522	3,720,522

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

1. Some financial instruments that have short term to maturity or of which the agreed prices are close to carrying amounts are recognized using their carrying amounts at reporting date. These financial instruments include cash and cash equivalents, placement with Central Bank and call loans to banks, bills and bonds purchased under resell agreements, notes receivables and other receivables, other financial liabilities (other than financial assets carried at cost and debt investments without quote price in an active market), margin loans and stock loans, deposits of central bank and other banks, commercial paper payables, bills and bonds sold under repurchase agreements, payables, deposits, other borrowings and other financial liabilities.
2. For financial instruments measured at fair value through profit or loss, available-for- sale financial assets, held-to-maturity financial assets and hedging derivative financial assets, the fair value is based on quoted market price in an active market. If a quoted market price is not available, the fair value is determined based on valuation technique or quoted price from other financial institution.
3. For loans and discounts, negotiations, factoring receivables, credit card receivables, acceptance receivables, and overdue, the fair value is the balance of adjustment unamortized discount or premium and accumulated impairment loss.
4. Debt investments without quoted price in an active market use the valuation model or quoted price 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.

3) The fair value hierarchy of financial instruments

1. The Three-level Definition

(a) Level 1

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

(b) Level 2

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

- a) The quoted price of a similar financial instrument in an active market. The fair value of held financial instruments is inferred from the recent trading price of similar financial instruments. Similar financial instruments are judged according to their characteristics and trading conditions. Fair value of financial instruments should be priced using the observable prices adjusted over time, trading conditions, and the impact of related parties and its observable trading prices and associated nature of the product.
- b) Quoted prices of similar financial instruments in a non-active market.
- c) Fair value price using valuation models. The input parameters of the valuation model (i.e., interest rates, yield curves and volatility...etc) are based on the available 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)

The Fair Value Hierarchy of the Financial Instruments

	December 31, 2014			
Financial instruments measured at fair value	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets held for trading				
Investment in stocks	74,888,839	74,878,237	10,602	-
Investment in bonds	4,172,269	3,186,536	985,733	-
Others	88,131,478	62,358,396	25,773,082	-
Financial assets designated at fair value measured through profit or loss	19,497,201	1,265,390	18,231,811	-
Investments in stocks	83,140,464	83,140,464	-	-
Investment in bonds	105,985,002	6,217,750	99,767,252	-
Others	662,950,656	2,561,227	660,389,429	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Financial liabilities held for trading	56	-	56	-
Financial liabilities designated at fair value through profit or loss	31,739,943	-	31,739,943	-
<u>Derivative financial instruments</u>				
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	-
	December 31, 2013			
Financial instruments measured at fair value	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial instruments</u>				
Assets:				
Financial assets held for trading				
Investment in stocks	54,495,703	54,480,551	15,152	-
Investment in bonds	3,895,928	2,971,388	924,540	-
Others	83,090,159	41,988,723	41,101,436	-
Financial assets designated at fair value through profit or loss	20,268,425	1,839,784	18,131,585	297,056
Investment in stocks	74,398,335	74,398,335	-	-
Investment in bonds	111,870,539	18,651,598	93,218,941	-
Others	629,333,168	1,160,248	628,172,920	-

December 31, 2014

Financial instruments measured at fair value	Total	Level 1	Level 2	Level 3
Liabilities:				
Financial liabilities measured at fair value through profit or loss	-	-	-	-
Financial liabilities held for trading	976	976	-	-
Derivative financial instruments				
Assets:				
Financial assets measured at fair value through profit or loss	5,746,136	-	5,746,136	-
Hedging derivative financial assets	5,443	-	5,443	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	4,415,491	34,966	4,380,525	-
Hedging derivative financial liabilities	225,806	-	225,806	-

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

Unit: In Thousand of NTD

December 31, 2014

Account	Balance on January 1, 2013	Evaluation of gains and losses profit or loss or the amount of equity	Increase		Decrease		Effect of exchange rate change	Balance on December 31, 2013
			Buy, issue or discount	Transferred to level 3	Sale, disposal or settle at premium	Transferred from level 3		
Financial assets measured at fair value through profit or loss								
Financial assets designated at fair value through profit or loss	\$ 297,056	744	18,900	-	316,700	-	-	-

December 31, 2013

Account	Balance on January 1, 2013	Evaluation of gains and losses profit or loss or the amount of equity	Increase		Decrease		Effect of exchange rate change	Balance on December 31, 2013
			Buy, issue or discount	Transferred to level 3	Sale, disposal or settle at premium	Transferred from level 3		
Financial assets measured at fair value through profit or loss								
Financial assets designated at fair value through profit or loss	\$ 1,146,388	14,268	29,800	-	893,400	-	-	297,056
Available-for-sale financial assets	202,900	1,525	825,927	-	208,778	821,574	-	-
Total	\$ 1,349,288	15,793	855,727	-	1,102,178	821,574	-	297,056

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

The fair value measurement of the Company and its subsidiaries is reasonable. However, if different valuation models or parameters are used, the valuation results will be different. Aiming at the financial instruments classified in the third level, the influence on the income or the other comprehensive income due to the $\pm 0.01\%$ changes of the parameters are as follows.

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

The favorable or unfavorable changes refer to the volatility of fair value which is calculated using different observable input parameters. No influence exists on December 31, 2014.

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

(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.

December 31, 2014

Unit: In Thousands of NTD; %

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

December 31, 2013

Unit: In Thousands of NTD; %

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

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

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

(48) Pledged assets

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

The subsidiary, BOT

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

The subsidiary, BTLI

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

The subsidiary, BTS

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

(49) Commitments and contingencies

1) Commitments and contingencies

1. Commitments and contingencies of the subsidiary, BOT

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

2. Commitments and contingencies of the subsidiary, BTLI

The contract guarantees on behalf of counter parties of the subsidiary, BTLI, are \$1,580 thousand and \$2,633 thousand dollars on December 31, 2014 and 2013, respectively.

3. Commitments and contingencies of the subsidiary, BTS

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

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

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

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

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

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

Income statement for assets under trust	December 31, 2014	December 31, 2013
Trust revenue		
Capital interest revenue	\$ 10,284,346	9,433,617
Cash dividend revenue	909,254	2,318,628
Donation revenue	736,644	-
Realized capital gain shares	1,124,155	4,083,806
Realized capital gain fund	3,832,346	1,734,464
Realized exchange gain – bond	1,022,769	1,799,725
Realized foreign exchange gain	315,459	746,848
Realized gain on property exchange	1,312,929	823,399
Income from beneficiary certificates	2,771,898	274,682
Total trust revenue	<u>22,309,800</u>	<u>21,215,169</u>

Income statement for assets under trust	December 31, 2014	December 31, 2013
Trust expense		
Capital management fee	511,283	473,886
Tax expense	5,542	5,497
Supervisory fee	335	338
Storage fee	9,736	7,859
Commission fee	17	16
Donation cost	398,040	-
Other expense	51,859	22,642
	<u>976,812</u>	<u>510,238</u>
Net income	<u>\$ 21,332,988</u>	<u>20,704,931</u>

3) Supplementary information for government employees' insurance department

1. Balance sheets

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

2. Income statement

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

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

(50) Profitability

1) The Company

Unit: %

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

2) The Company and its subsidiaries

Unit: %

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

3) The subsidiary, BOT

Unit: %

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

4) The subsidiary, BTLI

Unit: %

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

5) The subsidiary, BTS

Unit: %

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

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

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

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

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

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

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

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

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

(51) Losses due to major disasters: None.

(52) Subsequent events: None.

(53) Other

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

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

2) Government audit adjustments for fiscal year ended 2013

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

The Company and its subsidiaries

Balance Sheet	As Previously Reported December 31, 2013	Adjustments - Increase (Decrease)	As Audited by the MoA, December 31, 2013
Assets			
Cash and cash equivalents	\$ 124,627,959	7	124,627,966
Current income tax assets	3,498,988	(149,322)	3,349,666
Other financial assets, net	166,509,627	(115)	166,509,512
Deferred tax assets	2,012,373	32,385	2,044,758
Other assets	11,551,422	197,437	11,748,859
Liabilities			
Payables	70,973,042	(107,798)	70,865,244
Current income tax liabilities	129,172	87,987	217,159
Deposits and remittances	3,391,508,828	(6,813)	3,391,502,015
Deferred tax liabilities	18,394,308	33,398	18,427,706
Equity			
Retained earnings	34,138,434	73,618	34,212,052

Income statement	As Previously Reported 2013	Adjustments - Increase (Decrease)	As Audited by the MoA, 2013
Bad debt expenses and reserve for guarantees	\$ 2,699,865	(72,494)	2,627,371
Operating expenses	19,309,010	(4)	19,309,006
Income before tax expenses	8,250,720	72,498	8,323,218
Income tax expense	1,257,233	(1,120)	1,256,113
Net income	6,993,487	73,618	7,067,105

The subsidiary, BOT

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

Balance Sheet	As Previously Reported December 31, 2013	Adjustments - Increase (Decrease)	As Audited by the MoA, December 31, 2013
Assets			
Current income tax assets	\$ 2,301,083	(131,953)	2,169,130
Other financial assets	70,317,917	(115)	70,317,802
Deferred tax assets	208,406	33,398	241,804
Other assets, net	9,031,706	197,444	9,229,150
Liabilities			
Payables	44,813,384	(54,768)	44,758,616
Current income tax liabilities	127,506	34,924	162,430
Deposits and remittances	3,409,612,039	(6,813)	3,409,605,226
Deferred tax liabilities	18,266,259	33,398	18,299,657
Equity			
Retained earnings	50,961,023	92,033	51,053,056

Income statement	As Previously Reported 2013	Adjustments - Increase (Decrease)	As Audited by the MoA, 2013
Bad debt expense and reserve for guarantees	\$ 2,697,538	(72,494)	2,625,044
Income tax expense	1,449,163	(19,539)	1,429,624
Net income	7,325,894	92,033	7,417,927

The subsidiary, BTLI

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

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

The subsidiary, BTS

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

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

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

3) Financial information classified by business type

December 31, 2014

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

December 31, 2013

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

4) The balance sheets and income statements of the subsidiaries

1. Balance sheets

	Bank of Taiwan (Individual)	
	December 31, 2014	December 31, 2013
Cash and cash equivalents	\$ 155,902,567	119,265,263
Placement with Central Bank and call loans to banks	582,914,021	585,444,072
Financial assets measured at fair value through profit or loss	208,646,968	166,714,218
Hedging derivative financial assets, net	25,613	5,443
Bills and bonds purchased under resell agreements	1,956,563	6,173,451
Receivables, net	62,547,115	82,258,188
Current income tax assets	1,878,465	2,169,130
Loans and discounts, net	2,298,237,964	2,240,652,458
Available-for-sale financial assets, net	797,692,802	765,521,333
Held-to-maturity financial assets, net	77,372,697	73,044,728
Investments under equity method, net	37,242,253	34,941,396
Other financial assets, net	68,466,496	70,317,802
Property and equipment, net	97,103,753	97,497,978
Intangible assets, net	940,987	1,047,495
Deferred tax assets	357,844	237,929
Other assets, net	11,399,279	9,227,485
Total assets	<u>\$ 4,402,685,387</u>	<u>4,254,518,369</u>
Deposits of Central Bank and other banks	\$ 156,988,830	252,738,244
Financial liabilities measured at fair value through profit or loss	47,915,342	3,999,496
Hedging derivative financial liabilities, net	103,024	225,806
Bills and bonds sold under repurchase agreements	38,018,153	19,036,703
Payables	41,013,062	44,746,966
Current tax liabilities	154,840	132,072
Deposits and remittances	3,554,349,701	3,409,797,342
Financial bonds payable	24,997,612	15,998,240
Other financial liabilities	1,756,954	1,243,698
Provisions	257,654,781	232,743,116
Deferred tax liabilities	18,348,772	18,299,657
Other liabilities	7,202,842	7,482,893
Total liabilities	<u>4,148,503,913</u>	<u>4,006,444,233</u>
Capital stock	95,000,000	70,000,000
Capital surplus	80,521,742	105,496,092
Retained earnings		
Legal reserve	29,526,951	27,386,900
Special reserve	17,502,398	16,489,571
Unappropriated retained earnings	8,139,902	7,176,585
	<u>55,169,251</u>	<u>51,053,056</u>
Other equity	23,490,481	21,524,988
Total equity	<u>254,181,474</u>	<u>248,074,136</u>
Total liabilities and stockholders' equity	<u>\$ 4,402,685,387</u>	<u>4,254,518,369</u>

Financial Status

BankTaiwan Life Insurance		
	December 31, 2014	December 31, 2013
Cash and cash equivalents	\$ 38,564,185	22,859,656
Receivables	2,351,669	3,282,052
Current income tax assets	1,247,634	908,441
Financial assets measured at fair value through profit or loss	31,893	195,292
Available-for-sale financial assets	52,517,885	48,136,850
Debt investments without quoted price in an active market	54,856,557	55,509,059
Held-to-maturity financial assets	193,218,934	197,658,767
Investments under equity method, net	5,925,466	5,533,592
Other financial assets, net	21,685,621	44,585,700
Real estate investments	6,076,383	6,111,686
Loans	13,599,820	11,620,809
Reinsurance assets	12,528	16,588
Property and equipment	1,080,136	770,660
Intangible assets	12,324	10,950
Deferred tax assets	1,852,844	1,801,722
Other assets	3,078,094	2,758,200
Separate account-insurance assets	621,659	2,476,824
Total assets	<u>\$ 396,733,632</u>	<u>404,236,848</u>
Payables	\$ 22,835,523	23,196,712
Current tax liabilities	89	158
Financial liabilities measured at fair value through profit or loss	3,190,594	566,702
Insurance liabilities	353,328,002	363,607,014
Foreign exchange volatility reserves	1,376,324	439,970
Provisions	666,433	572,029
Deferred tax liabilities	122,475	38,079
Other liabilities	1,146,843	379,313
Separate account-insurance liabilities	621,659	2,476,824
Total liabilities	<u>383,287,942</u>	<u>391,276,801</u>
Capital stock	17,000,000	17,000,000
Capital surplus	369,713	366,463
Retained earnings		
Legal reserve	96,557	96,557
Special reserve	653,160	549,661
Unappropriated retained earnings	(1,517,514)	(566,910)
	<u>(767,797)</u>	<u>79,308</u>
Other equity	<u>(3,156,226)</u>	<u>(4,485,724)</u>
Total equity	<u>13,445,690</u>	<u>12,960,047</u>
Total liabilities and equity	<u>\$ 396,733,632</u>	<u>404,236,848</u>

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

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

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

2. Income statements

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

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

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

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

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

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

Unit: In Thousand Of NTD

Transaction date	Transaction person	Contain of loans	Book value	Selling price	Gain (loss) on disposal	Condition with contract	Relation with the Bank
Jan 29, 2014	A Company	Construction loans	28,840	43,263	13,423	-	Non-related parties
Jan 29, 2014	B Company	Construction loans	28,325	43,177	14,852	-	Non-related parties

(b) Information regarding selling non-performing loans for which the amount exceeded \$1 billion: None.

7. Approved securitization instrument types and related information according to "asset backed securitization" or "mortgage backed securitization": None.
8. Other material transaction items which were significant to people who use the information in the financial statements: None.

2) Information on investees:

The followings are the information on investees:

Unit: In Thousand of NTD

Unit: in thousand of NT\$

Name of the investee	Investee Location	Major Operation	% of shares	Highest holding ratio for the period	Original investment cost	Gain(Loss) recognized during the period	Held by the company and related party at year-end				Notes
							Shares	Subtotal			
								Shares	% of Shares		
Hua Nan Financial Holdings Co., Ltd. and its subsidiaries	NO.38, Sec. 1, Chung-King South Road, Taipei, Taiwan	Financial Holding	25.07%	25.07%	36,086,328	3,292,173	2,338,861,845	-	2,338,861,845	25.07%	
Taiwan Life Insurance Co., Ltd.	No.17 and 18 , Xuchang St., Taipei City, Taiwan	Life Insurance	20.26%	21.59%	3,239,021	355,284	196,136,255	-	196,136,255	20.26%	
Tang Eng Iron Works Co., Ltd.	5F., No.53, Zhonghua 4th Rd., Kaohsiung City, Taiwan	Iron Industry	21.37%	21.37%	1,377,683	74,944	74,802,414	-	74,802,414	21.37%	
Kaohsiung Ammonium Sulfate Co., Ltd.	No.4, Yanhai 2nd Rd., Kaohsiung City, Taiwan	Liquidation	91.86%	91.86%	2,193,752	(134,880)	303,131,576	-	303,131,576	91.86%	
Tai Yi Real Estate Management Co., Ltd	3F., No.56, Dunhua N. Rd., Taipei City, Taiwan	Real Estate Service	30.00%	30.00%	18,799	3,158	1,500,000	-	1,500,000	30.00%	
Bank of Taiwan	No. 120, Section 1, Chongching South Road, Taipei City	Banking	100.00%	100.00%	254,181,474	8,248,208	9,500,000	-	9,500,000	100.00%	
BankTaiwan Life Insurance	6F, No.69, Section 2, Dunhua South Road, Taipei City	Life insurance	100.00%	100.00%	13,445,690	(817,026)	1,700,000	-	1,700,000	100.00%	
BankTaiwan Securities	No. 58, Section 1, Chongching South Road, Taipei City	Securities	100.00%	100.00%	3,566,536	225,450	300,000	-	300,000	100.00%	
BankTaiwan Insurance Brokers	4F., No.49, Sec. 1, Wuchang St., Taipei City, Taiwan	Insurance broker	100.00%	100.00%	252,136	206,265	2,000	-	2,000	100.00%	

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

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

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

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

3) Information regarding investment in China:

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

Unit: In Thousand of NTD

Name of the investee	Investee's main operation	Paid in capital	Way of investing	Opening balance of accumulate investment amount from Taiwan	Remit or regain investment amount in current period		Ending balance of accumulate investment amount from Taiwan	Net income of investee	% of share	Gain (loss) on investment in current period	Ending balance of book value	Remit back by gain from investment
					Remit	Regain						
Bank of Taiwan, Shanghai Branch	Banking business	5,099,000 CNY1,000,000	(3)	2,549,500 CNY500,000	2,549,500 CNY500,000	-	5,099,000 CNY1,000,000	It's a branch rather than a investee company	It's a branch rather than a investee company	282,396	5,404,247	None

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

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

2.Rationed investment in China:

Unit: In Thousand of NTD

Current period of accumulate investment amount remitting from Taiwan	The rationed investing amount approved by Investment Commission, MOEA	The regulation announced by Investment Commission, MOEA rationed investing amount
5,099,000	5,099,000	152,508,884

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

- 4) **Subsidiaries lending to other parties, guarantees and endorsements for other parties, securities held as of December 31, 2014, securities for which purchase or sale amount for the period exceed \$300 million or 10% of the Company's paid-in capital, and trading in derivative financial instruments: BOT, 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:

Financial Status

2014

	Department of Government		Department of						
	Bank department	Employees' Insurance	Department of Procurement	Precious Metals	Insurance Business	Securities Business	Other business	Reconciliation and elimination	Total
Interest income	\$ 63,650,091	1,582,659	78	35	9,938,637	179,691	865	(255,570)	75,096,486
Less: interest expense	36,453,834	-	-	-	223,302	33,163	118,493	(255,570)	36,573,222
Interest income, net	27,196,257	1,582,659	78	35	9,715,335	146,528	(117,628)	-	38,523,264
Non-interest income, net	18,232,770	9,491,530	263,222	41,544	(20,217,909)	497,596	381,043	(223,325)	8,466,471
Other non-interest income	(10,334,880)	12,939,866	2,287	349,353	(40,288)	(872)	(1,632)	(117,023)	2,796,811
Net revenue	35,094,147	24,014,055	265,587	390,932	(10,542,862)	643,252	261,783	(340,348)	49,786,546
Bad debt expenses and reserve for guarantees	7,284,809	23,874,056	-	-	(10,523,402)	-	-	-	20,635,463
Operating costs	18,881,425	139,999	111,303	82,023	821,339	388,772	283,198	(134,084)	20,573,975
Continuing operating income before income tax	\$ 8,927,913	-	154,284	308,909	(840,799)	254,480	(21,415)	(206,264)	8,577,108
Continuing operating income after income tax	\$ 7,785,015	-	154,284	308,909	(817,026)	225,450	(27,902)	(206,264)	7,422,466
Total assets	\$ 4,169,425,658	240,932,692	2,587,268	1,090,015	396,733,632	11,121,835	275,649,628	(316,987,104)	4,780,553,624
Total Liabilities	\$ 3,915,707,376	240,932,692	2,432,985	781,106	383,287,942	7,555,299	15,510,952	(45,541,267)	4,520,667,085

2013

	Department of Government		Department of						
	Bank department	Employees' Insurance	Department of Procurement	Precious Metals	Insurance Business	Securities Business	Other business	Reconciliation and elimination	Total
Interest income	\$ 57,804,653	1,447,520	80	30	9,657,751	130,230	418	(187,924)	68,852,758
Less: interest expense	33,364,506	-	-	-	192,674	21,587	91,330	(187,924)	33,482,173
Interest income, net	24,440,147	1,447,520	80	30	9,465,077	108,643	(90,912)	-	35,370,585
Non-interest income, net	13,913,684	4,923,606	393,582	26,244	15,674,828	375,798	232,317	(143,316)	35,396,743
Other non-interest income	(9,744,911)	15,685,028	(10,504)	249,160	19,074	21,835	604	(109,996)	6,110,290
Net revenue	28,608,920	22,056,154	383,158	275,434	25,158,979	506,276	142,009	(253,312)	76,877,618
Bad debt expenses and reserve for guarantees	2,625,099	21,922,074	-	-	24,698,221	-	-	-	49,245,394
Operating costs	17,622,953	134,080	118,595	79,808	871,922	373,638	231,967	(123,957)	19,309,006
Continuing operating income before income tax	\$ 8,360,868	-	264,563	195,626	(411,164)	132,638	(89,958)	(129,355)	8,323,218
Continuing operating income after income tax	\$ 6,957,739	-	264,563	195,626	(327,706)	121,849	(15,611)	(129,355)	7,067,105
Total assets	\$ 4,043,745,599	218,192,470	3,145,911	1,594,177	404,236,848	10,406,695	268,523,369	(310,998,399)	4,638,846,670
Total Liabilities	\$ 3,796,131,651	218,192,470	2,881,349	1,398,551	391,276,801	6,993,052	15,655,967	(46,401,218)	4,386,128,623

STEADYING FORCE

An Irreplaceable Bulwark of Stability.

VII. Financial Status, Financial Performance, and Risk Management

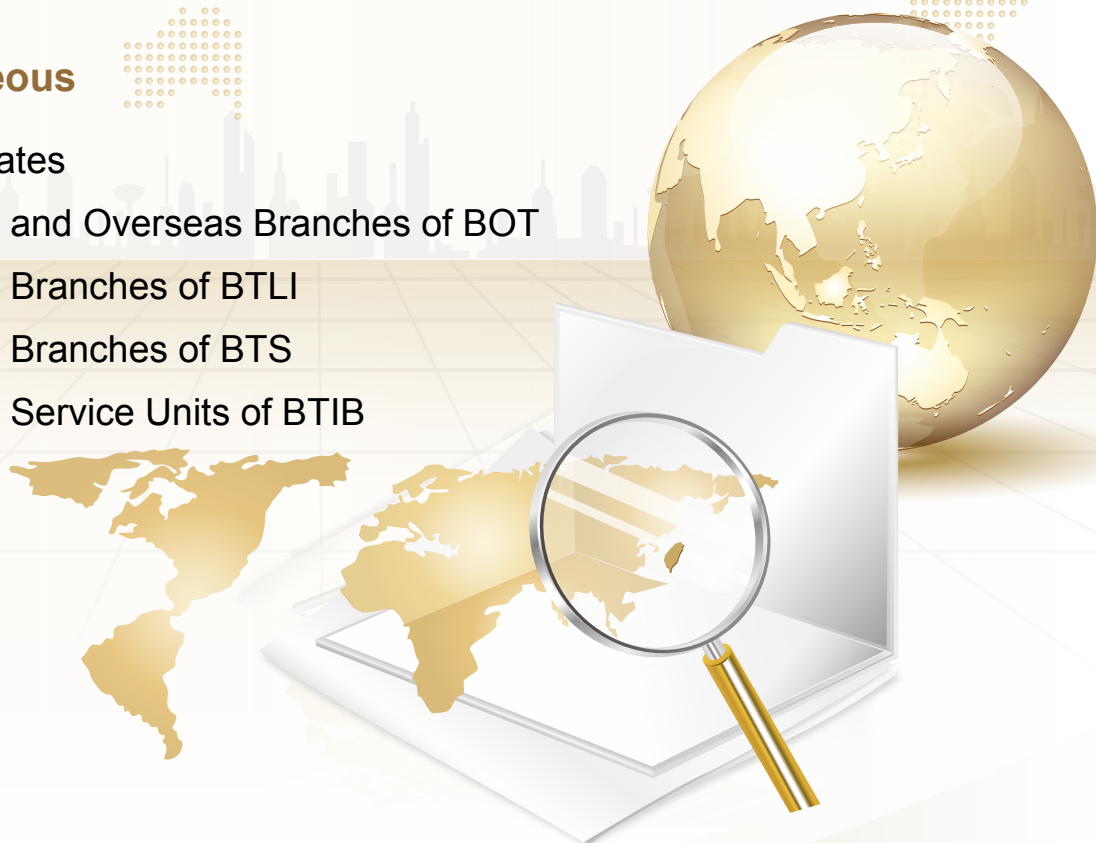
1. Financial Status
2. Financial Performance
3. Cash Flows
4. Impact of Material Capital Expenditures on Financial and Operating Condition in 2014
5. Policy on Strategic Investments, and the State of Its Implementation
6. Risk Management
7. Crisis Management Mechanism



Taiwan Financial Holdings

VIII. Miscellaneous

1. TFH Affiliates
2. Domestic and Overseas Branches of BOT
3. Domestic Branches of BTLI
4. Domestic Branches of BTS
5. Domestic Service Units of BTIB



VII. Financial Status, Financial Performance, and Risk Management

1. Financial Status

Unit: NT\$1,000

Item \ Year	2014	2013	Difference	
			Amount	%
Cash and Cash Equivalents	529,552	260,624	268,928	103.19
Receivables-Net	37	35	2	5.71
Current Tax Assets	304,622	272,093	32,529	11.96
Long-Term Investment at Equity-Net	271,193,700	264,447,827	6,745,873	2.55
Fixed Assets-Net	6,618	6,274	344	5.48
Intangible Assets-Net	419	356	63	17.70
Other Assets-Net	3,235,673	3,236,103	-430	-0.01
Total Assets	275,270,621	268,223,312	7,047,309	2.63
Payables	21,563	28,983	-7,420	-25.60
Other loans	11,550,000	11,600,000	-50,000	-0.43
Debt Reserves	87,356	98,992	-11,636	-11.75
Other Debt	3,725,163	3,777,290	-52,127	-1.38
Total Debt	15,384,082	15,505,265	-121,183	-0.78
Capital	90,000,000	90,000,000	0	—
Additional Paid-In Capital	111,463,639	111,434,739	28,900	0.03
Retained Earnings	38,035,182	34,212,052	3,823,130	11.17
Other Items of Shareholders' Equity	20,387,718	17,071,256	3,316,462	19.43
Total Shareholders' Equity	259,886,539	252,718,047	7,168,492	2.84

Financial Status, Financial Performance, and Risk Management

2. Financial Performance

Unit: NT\$1,000

Item \ Year	2014	2013	Difference	
			Amount	%
Investment Income Recognized Under Equity Method	7,656,632	7,212,071	444,561	6.16
Other Income	2,049	1,527	522	34.18
Operating Expenses	(151,079)	(155,556)	4,477	-2.88
Other Expenses & Losses	(120,897)	(91,778)	-29,119	31.73
Net Income Before Income Tax	7,386,705	6,966,264	420,441	6.04
Consolidated Net Income	7,422,466	7,067,105	355,361	5.03
Other Comprehensive Income (Loss) for the Period	2,770,929	3,558,360	-787,431	-22.13
Total Comprehensive Income(Loss) After Tax for the Period	10,193,395	10,625,465	-432,070	-4.07

3. Cash Flows

(1) Analysis of Cash Flow Changes in 2014

Item \ Year	2014	2013	Change(%)
Cash flow ratio	16,197.03	12,551.92	29.04
Cash flow adequacy ratio	99.28	102.1	-2.76
Cash flow satisfied ratio	239,709.33	60.62	395,329.45

(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
529,552	-212,814	-112,557	204,181	None

4. Impact of Material Capital Expenditures on Financial and Operating Condition in 2014: None

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

(1) Policy on 2014 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. Two of our three wholly owned subsidiaries—BOT and BTS—in 2014 posted their highest profits since the establishment of TFH, while BTLI posted a loss because it had to set aside additional policy reserves and foreign exchange volatility reserves, and was faced with negative margin. To implement asset-liability matching and actively improve business results, TFH intends to boost efforts to promote long-term installment-premium life insurance products and improve capital allocations in order to establish a better match between assets liabilities.

(3) 2015 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.

Financial Status, Financial Performance, and Risk Management

- (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. TFH has adopted a unified risk management policy and set of guidelines which TFH and all group subsidiaries are expected to adhere to. We are also working with our subsidiaries to help them formulate and implement their own risk management rules. In addition to complying with the requirements of the competent authorities, the group is also acting in accordance with legislation governing financial holding companies by implementing integrated risk management, by strengthening management of interested parties, large risk exposures, and capital adequacy, and by carrying out monitoring and controlling of risk limits. We also report on group wide risk monitoring and control, and submit the reports regularly to our Risk Management Committee and Board of Directors.

TFH establishes an integrated risk management mechanism; formulates risk management guidelines; sets qualitative and quantitative control indicators; oversees the efforts of group subsidiaries to improve their risk management, and requires them, when warning indicators are triggered, to submit corrective actions; regularly holds meetings of the Risk Management Committee, which reviews overall risks and reports its findings to the Board of Directors so that top management can better understand risk exposures and judge whether they are at acceptable levels, thus serving an early warning function; ascertains the safety of group businesses; and makes sure that the group's integrated risk management mechanism is being properly implemented. The group's risk management mechanisms, and the principal risk management guidelines, are as follows:

(A) Integrated management of risks

To ensure proper management of the group's risks, TFH has adopted group wide risk management policies and risk management guidelines in accordance with legal requirements and the nature of the group's businesses. These policies and guidelines determine how TFH and its subsidiaries manage risk. TFH also exercises oversight to make sure that each subsidiary further adopts its own risk management rules based on the above, and checks to see that these rules are properly enforced.

(B) Integrated management of interested parties

TFH has adopted operating rules governing the group's exposure to interested parties as well

as the control of interested-party transactions. These rules provide an integrated set of requirements regarding how TFH and its subsidiaries fill out reports on interested parties, establish files, update information, carry out periodic file maintenance, and check information to ensure its accuracy. TFH also oversees the execution of subsidiaries to establish operating procedures for control of the group interested-party transactions, and uses group wide platforms to carry out regular monitoring and control, so as to complete the group's interested party management mechanism.

(C) Integrated management of large risk exposures

To avoid excessive concentration of group risks, TFH has adopted a set of rules governing loans, guarantees, and other transactions between any group subsidiary and any single party, single group of related parties, or single group of related enterprises. TFH also oversees efforts by its subsidiaries to adopt risk limits and warning indicators. In addition, TFH regularly compiles and analyzes large exposures, closely tracks the risk indicators for the group as a whole and for individual subsidiaries, and acts in a timely manner to propose corrective actions and reap greater benefits from integrated management.

(D) Integrated management of capital adequacy

In order to effectively monitor, control, and evaluate the group's capital adequacy, TFH has adopted group wide capital adequacy target ratios and warning ratios. We have also guided group subsidiaries through the process of establishing suitable capital allocations, asking each of them to adopt capital adequacy target ratios and warning ratios suited to its own particular business. TFH has also adopted capital efficiency standards by which to evaluate subsidiary performance, thereby inducing the subsidiaries to support group policies and maintain appropriate capital adequacy. In this manner, we promote effective capital allocations.

(E) Regular submission of integrated monitoring and control reports

The TFH Risk Management Committee meets once per quarter to analyze overall group risks, asset quality at each subsidiary, risk limits and stop loss performance, the status of bonds that have been targeted for special monitoring, collection of operational risk data, risk limits for interested parties, and large exposures. Integrated group risk reports are prepared and submitted to the Risk Management Committee and the Board of Directors, and serve as reference in the making of policy decisions.

(F) Guidelines for management of principal risks

a. 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 they use 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.

Financial Status, Financial Performance, and Risk Management

- (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.
- b. 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.
- c. Guidelines for management of liquidity risks
- (a) TFH and its subsidiaries have adopted liquidity risk management rules appropriate to their respective businesses, maintain suitable liquidity ratios and duration gaps, and have emergency response plans in place. 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.
- d. 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.
- e. 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 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.
- f. Rules governing crisis management

TFH and its subsidiaries have established crisis management mechanisms and adopted related rules, such as the "Crisis Management Rules," the "Crisis Management Guidelines," and the "Response Measures for Business Crises."
- g. Legal compliance guidelines

TFH and its subsidiaries have all established a legal compliance officer system and appointed someone as the chief compliance officer to periodically evaluate the state of the company's legal compliance.

(2) 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. In compliance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" issued by the Financial Supervisory Commission's Banking Bureau, TFH subsidiary Bank of Taiwan in 2014 set aside additional funds to bring its loan loss reserve and reserve for guarantee losses up to required levels, thereby improving the bank's risk-bearing capacity and laying a stronger foundation for future business development.
- ii. The Financial Supervisory Commission amended the "Insurance Act" last year. Under the amended provisions, investments made by an insurer in foreign-denominated equities or bonds listed in

Financial Status, Financial Performance, and Risk Management

Taiwan (e.g. International Bonds or Formosa Bonds) will not be counted against the cap on the insurer's foreign investments. This change has effectively expanded the range of permissible uses for insurers' capital and made it possible for the Group's insurance subsidiary to make asset allocations more flexibly.

- iii. The Financial Supervisory Commission decided last year to ease restrictions on day trades, thus allowing investors to choose among a wider range of trading strategies. This will help the Group's securities subsidiary to diversify its business.
- iv. The competent authority amended the "Financial Holding Company Act," the "Regulations Governing Cross-selling Among a Financial Holding Company's Subsidiaries," the "Financial Consumer Protection Act," and the "Regulations Governing the Implementation of Internal Control and Audit Systems by Financial Holding Companies and Banking Enterprises" to set out more carefully drafted rules and improve supervision with respect to: the manner in which affiliates share customer information and the scope within which they are authorized to do so; the rights and interests of financial consumers; internal audits; and legal compliance. These changes will help ensure proper sharing of customer of customer information among a financial holding company's subsidiaries, improve internal control and internal audit systems, and provide enhanced consumer safeguards.

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

In response to the arrival of the "Bank 3.0" era, the Group is taking steps to strengthen its digital capabilities, make increased use of mobile technologies, integrate its virtual and brick-and-mortar channels, implement business innovations, make its services more convenient, and enhance its core competencies. To respond to the rise of e-commerce, TFH's subsidiary Bank of Taiwan has been taking steps to provide customers with electronic services that offer increased speed, convenience, and security. Prior to last year, it had already obtained ISO 27001 certification of its information security management system, ISO 20000 certification of its information technology service management system, BS 25999 certification of its business continuity management system, and ISO 22301 certification of its business continuity management system. It followed up on these successes in 2014 by obtaining BS10012 certification for its personal information management system, and by being the only financial institution to win both the Golden Quality Award and the Golden Security Award last year from the Joint Credit Information Center. This was the first time that the Bank of Taiwan had ever won both awards in the same year.

(4) 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 and sports events in a concerted effort to give back to society. In 2014, the Bank of Taiwan was named by the Financial Supervisory Commission as one of the institutions that have cooperated best with the "Program to Encourage Lending by Domestic

Banks to Small and Medium Enterprises," and for its strong support of youth entrepreneurship and youth home ownership received a pair of awards conferred jointly by the Ministry of Economic Affairs and the Financial Supervisory Commission. The Bank for the first time last year received the Joint Credit Information Center's "Golden Security Award" and "Golden Quality Award" for its high-caliber information security and credit information, while the Institute for Information Industry, in conferring awards for the top 100 mobile device apps in Taiwan, named a BOT app as the best from a financial services provider. In addition, the Bank received the Reader's Digest Trusted Brands survey "Gold Award" (for the ninth year in a row), Wealth News magazine handed BOT two separate prizes in its "Consumer Finance Brand and CSR Awards" event for "best domestic bank" and "best bank image" (second consecutive year), and Global Views Monthly selected BOT for its top prize in the category of "Bank With the Most Highly Recommended Wealth Management Services." BankTaiwan Life Insurance, meanwhile, ranked No. 1 in the industry for both 13- and 25-month persistency, and received an award from the Financial Supervisory Commission for its excellent performance in promoting sales of microinsurance. In addition, BankTaiwan Insurance Brokers Co. won the "Award for Best Channel Strategy" at the Faith Hope Love 2014 Insurance Awards.

(5) 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.

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

None (TFH is a state-run 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 brokerage. 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\$17 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

Jen-Chueh Lin

Chairperson





No.120, Sec. 1, Chongqing S. Rd.,
Taipei City 10007, Taiwan (R.O.C.)
Tel: +886-2-2349-3456
www.twfhc.com.tw

ISSN:2078-726-X

00910



9 772078 726007

ISSN: 2078-726X (Hard Copy)
ISSN: 2078-7286 (Soft Copy)
GPN: 2009802894
Cost of Production : NTD 910