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Taiwan Financial Holdings

2012

2012 ANNUAL REPORT

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臺灣金控
Taiwan Financial Holdings

2012 ANNUAL REPORT

INTEGRATE GROUP RESOURCES
REAP THE BENEFITS OF SYNERGY

Date of Publication: July 2013

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專業
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I. Message to Shareholders

Chairman Teng-Cheng Liu

In 2012 the eurozone debt crisis rolled on unabated, the United States continued its policy of quantitative easing, economic growth in China slowed down, and the global economy remained in the doldrums. Figures released by Global Insight indicate that the global economy grew by 2.6% last year, down from 3.0% growth in 2011. Taiwan is heavily export-dependent, so its real economy and financial markets are both greatly affected by global economic cycles, and overall performance in 2012 fell short of expectations. The Directorate-General of Budget, Accounting and Statistics (DGBAS) on 22nd February 2013 reported growth of 1.26% for the Taiwan economy in 2012, down from the 4.07% growth achieved in the preceding year.

But despite uncertain economic conditions in 2012, the group of Taiwan Financial Holding (TFH) , by sticking to its strategy of maintaining stable business operations, succeeded for a third straight year in being the top performing state-run enterprise under the jurisdiction of the Ministry of Finance. Externally, the group supported the national government's financial policy and capitalized on business opportunities presented by progress in cross-strait relations. Internally, the group moved forward with organizational integration and took advantage of cross-subsidiary business development and the operations of function-based committees to spur sound development of the financial and business operations of group subsidiaries. The group in 2012 had total assets of NT$4.198 trillion, No.2 among its peers in Taiwan. It achieved consolidated after-tax earnings of NT$7.296 billion (105% of target), consolidated after-tax earnings per share (EPS) of NT$0.81. When actions taken by the group to support government policy (which primarily means the group shouldering part of the burden of paying out the special interest rates applying to the savings of persons from the military, civil service, and teaching professions) and the like are factored out, the group is found to have achieved earnings of NT$15.3 billion, EPS of NT$1.70, ROA of 0.37%, and ROE of 6.02%. Overall business performance in 2012 was better than in 2011.

The 2012 business results of each of the group's three subsidiaries are as described below.

Taking advantage of its stability as a 100% state-run enterprise, the Bank of Taiwan (BOT) worked to adjust its asset/liability structure and continued to achieve growth amidst adverse circumstances, demonstrating excellent business management capability. BOT ranked first among all banks in Taiwan in terms of assets, deposits, loans, and shareholders equity, and it continued to be a domestic leader in many lines of business, with after-tax earnings of NT$7.232 billion, and if BOT adds to this the burden it takes on in support of government policy, the after-tax earnings actually come to NT$15.2 billion, EPS of NT$2.18, ROA of 0.40%, and ROE of 6.10%. Overall business performance in 2012 was better than in 2011.

BankTaiwan Life Insurance (BTLI) in 2012 earned first-year premium income of NT$37.2 billion (up 18.5% from 2011). Meanwhile, after-tax earnings came to NT$212 million, EPS was NT$0.19, ROA was 0.06%, and ROE was 3.09%. BTLI achieved 13- and 25-month persistency rates of 99.05% and 99.47%, both among the best in the industry. In response to a declining birth rate and the aging of society, BTLI continued to launch new products designed to meet market needs and the company's own business development strategy.

At BankTaiwan Securities (BTS), performance of the brokerage business fell short of expectations in 2012 due to reduced stock trading volume in Taiwan. After-tax earnings came to NT$23 million, EPS was NT$0.08, ROA was 0.44%, and ROE was 0.70%. In order to expand its services network, the company at mid-year established a new branch in Hsinchu and upgraded the software and hardware for its electronic order submission system. The company's market share of the brokerage business in the area of electronically submitted orders rose, amidst adverse market conditions, by 0.07 percentage points from 2011.

The TFH group has long worked to establish a strong position in domestic financial markets, and international credit rating agencies give us high marks for our financial strength and operating performance. Each of the group's three subsidiaries has been assigned the highest rating to be given to any financial services provider in Taiwan. In October 2012, BOT received long- and short-term credit

President Ming-Daw Chang

ratings of S&P A+ and S&P A-1 with a stable outlook from Standard & Poor's (S&P), and long- and short-term credit ratings of twAAA and twA-1+ with a stable outlook from Taiwan Ratings Corporation (TRC). Then in November 2012, Moody's assigned BOT long-and short-term credit ratings of Aa3 and P-1. BTLI, in the meantime, received long-term credit ratings of S&P A+ and twAAA with a stable outlook in September 2012 from S&P and TRC. In June 2012, BTS received long- and short-term credit ratings of twAA+ and twA-1+ with a stable outlook from TRC. The TFH group's brand image enjoys strong acceptance in a wide swath of society thanks to the company's integrity, stability, and demonstrated social concern. In addition, the group's core subsidiary, BOT, has won numerous awards for having the most reputable brand and the best overall image, and for being consumers' preferred bank. In 2012 it was named by Global Finance magazine as one of the "10 Safest Banks In Asia" and one of the "World's 50 Safest Banks." In addition, BTLI was once again selected by the Risk Management, Insurance & Finance Foundation for Insurance Faith, Hope & Love (FHL) Awards in two different categories ("Distinguished Contribution Award for Social Responsibility" and "Distinguished Contribution Award for Professionalism").

The TFH group made big strides into the mainland China market in 2012. BOT's Shanghai representative office obtained approval from the mainland's China Banking Regulatory Commission to upgrade into a branch. This branch commenced business operations in July, and in September was designated by Taiwan's Central Bank as the clearing bank for NT Dollar transactions in the mainland. BTLI set up a representative office in Beijing, and BTS joined hands with BOT branches in Shanghai and Hong Kong to directly and indirectly provide financial services to Taiwan-invested firms operating in those jurisdictions. The TFH group is thus making steady progress in building up a financial services platform to support cross-strait economic and trade ties.

Looking ahead to 2013, although global economic growth is generally expected to top that of 2012, a return to better times for the world's economy remains subject to future developments in the eurozone debt crisis and the course of economic recovery in the US and mainland China. TFH intends to respond with caution to changing international economic conditions in a number of ways. Acting in coordination with the government's Economic Power-Up Plan, part of which calls for "sparking sustainable development of the financial sector," TFH will be pursuing the following three principal business strategies: accelerating moves to establish an international presence; expanding its scope of business operations; and achieving greater groupwide profitability. With these ends in mind, we will work to reap greater benefit from integrated marketing, develop financial products and services with cross-strait characteristics, and establish a Taiwan-Centric Wealth Management Platform for Domestic Consumers. BOT has established a wholly owned insurance brokerage subsidiary—BankTaiwan Insurance Brokers Co., Ltd.—that went into business on 6th February 2013. On that same day, BOT also began handling RMB business, so the bank is now able to provide customers with a much more diverse range of financial planning choices. In the future, the TFH group will emphasize stability as it works to support economic development and provide local citizens with the financial services they need. By putting equal stress on quantity and quality, we will maintain appropriate control of risks while accelerating expansion of business lines in which we enjoy niche strengths, cross-strait financial services being one good case in point. These are the keys to improve overall business performance.

Our government seeks to build "a society that is both prosperous and upright." The TFH group will continue doing its part, as Taiwan's only government-owned financial holding company, to fulfill its social responsibilities. We will support the government's core commitment to "innovation and change," and will build on the solid foundation we've achieved by acting in a disciplined and efficient manner to become a stronger force for progress. Together with the larger society, we hope to share the fruitful results.

Chairman Teng-Cheng Liu　　President Ming-Hsaw 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) in 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, the BOT on 6th February 2013 established BankTaiwan Insurance Brokers Co., Ltd. (BTIB) as a wholly owned subsidiary.

(2) Event Which Has a Material Impact on Shareholders' Equity:

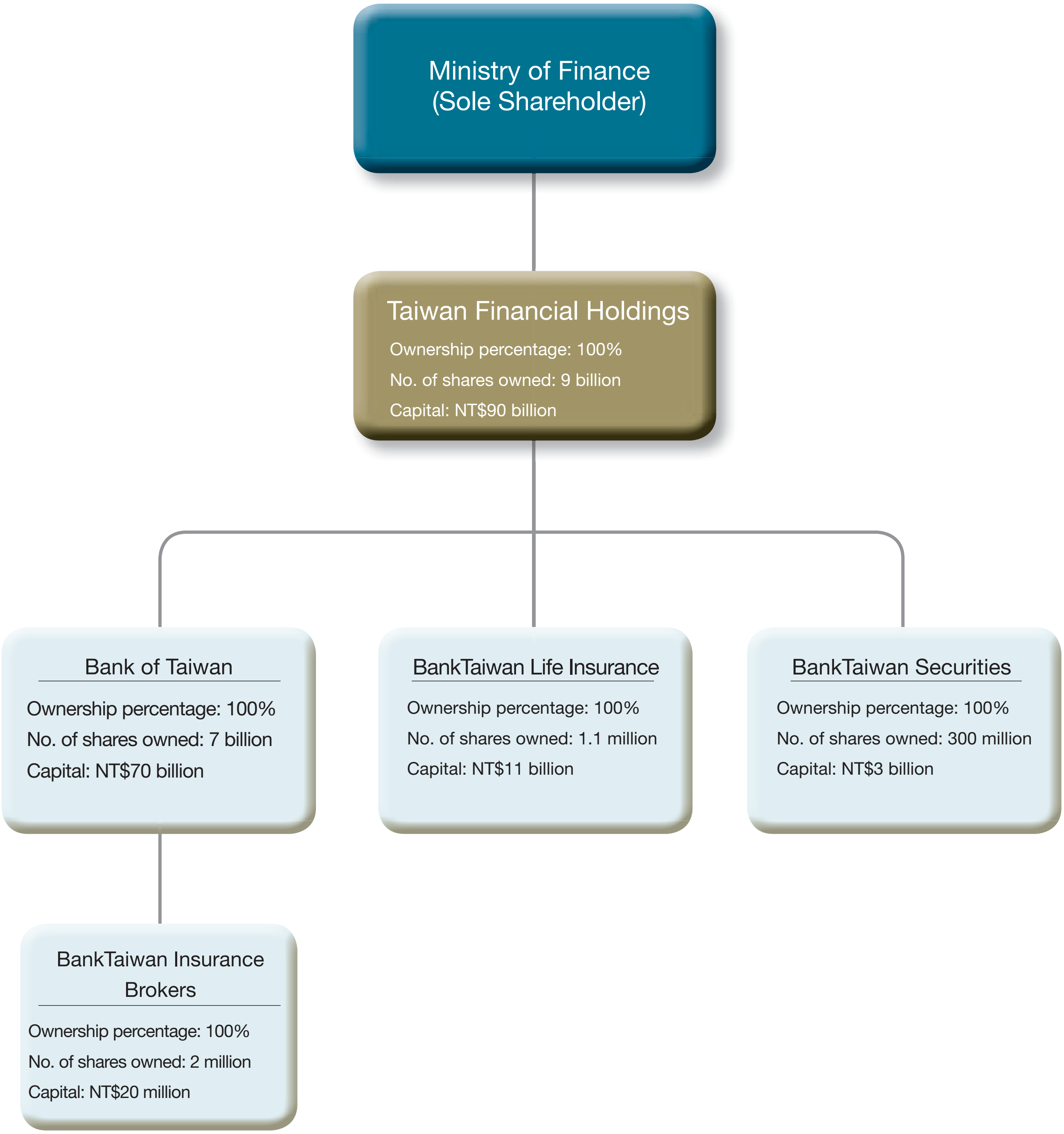
i. Mr. Teng-Cheng Liu was appointed TFH chairman on 16th July 2012, taking over from the previous chairman, Ms. Susan S. Chang.

ii.Mr. Ming-Daw Chang was appointed TFH president on 16th July 2012, taking over from the previous president, Mr. Shou-Tzuoo Huang.

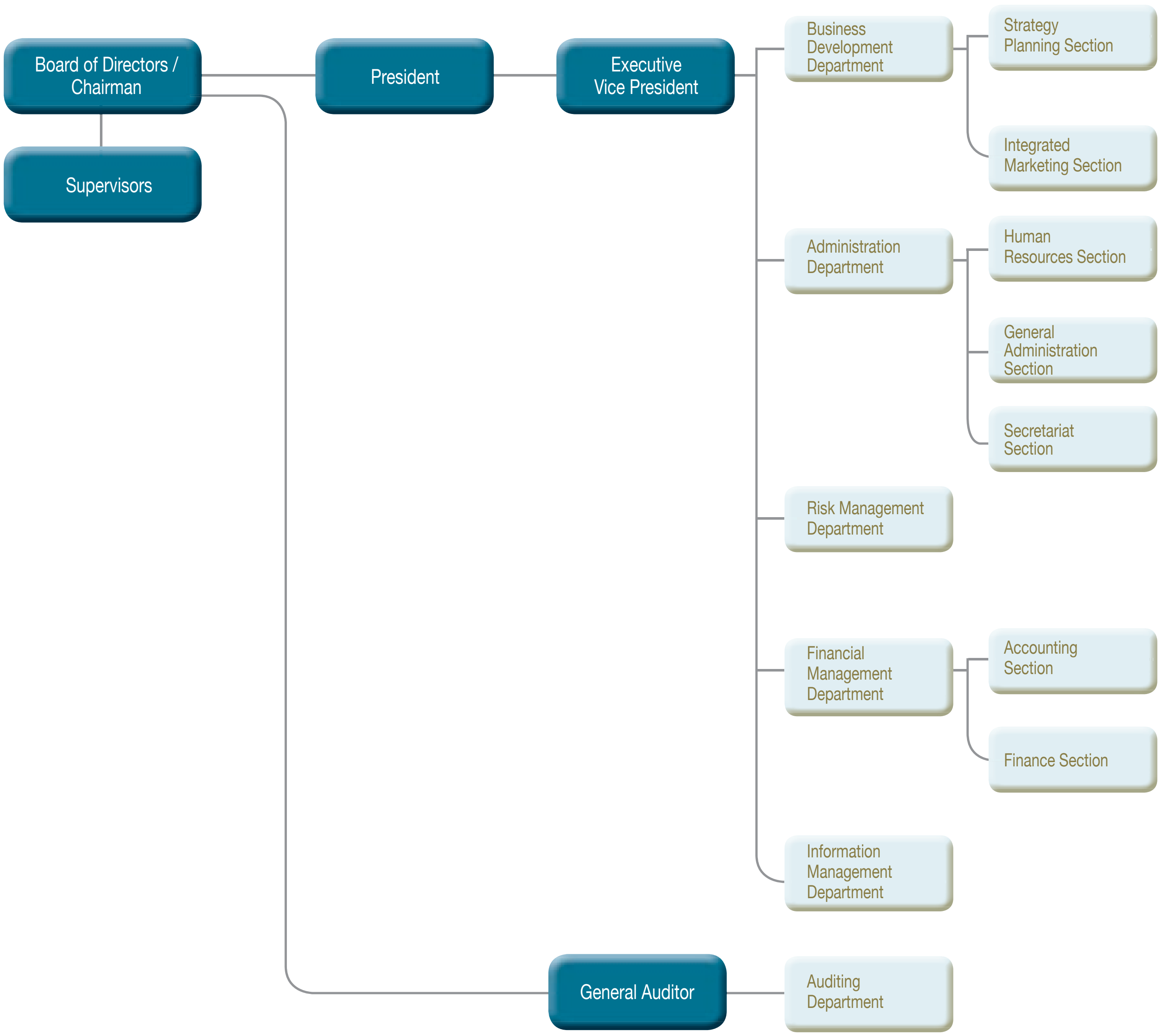
III. Corporate Governance

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 controls, evaluates internal audit performance at subsidiaries, helps the Board of Directors and management to inspect and evaluate the implementation of internal controls.

ii. Business Development Department

Plans organizational development, business strategies, investment activities; handles integrated marketing, advertising activities, and preparation of the annual report.

iii. Administration Department

Handles personnel, payroll, ethics matters, general office administration, purchasing, cashier operations, document management; takes charge of public relations, board of directors meetings, corporate governance, and legal affairs.

iv. Risk Management Department

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

v. Financial Management Department

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

vi. Information Management Department

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

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

As of March 31, 2013

Position	Name	Date of Employment	Shares Held	Education and Career	Positions Held with Other Companies
Chairman	TENG-CHENG LIU	Jul 16, 2012	Shares 100% Owned by MOF	M.A. in International Business, National Taiwan University B.A. in Law, National Taiwan University Chairman, Taiwan Cooperative Financial Holding Co., Ltd. and Taiwan Cooperative Bank Administrative Deputy Minister, MOF Director General, National Treasury Agency, MOF Director General, Training Institute, MOF Counselor, MOF & Adjunct Director, the Central Taiwan Office	Chairman, BOT Chairman, the Bankers Association of the Republic of China Director, Central Bank of the Republic of China (Taiwan) Director, Taiwan External Trade Development Council (TAITRA) Director, Taiwan Academy of Banking and Finance Director, Joint Credit Information Center Vice Chairman, Taiwan Financial Services Roundtable Co., Ltd. Counselor, the Bankers Association of Taipei Managing Supervisor,Taiwan Mergers & Acquistions and Private Equity Council
President	MING-DAW CHANG	Jul 16, 2012		LL.M Chinese Culture University Director General, Banking Bureau, FSC Deputy Director General, Financial Examination Bureau, FSC Deputy Director General, Bureau of Monetary Affairs, MOF	President and Managing Director, BOT Director, Taiwan Stock Exchange Corporation Director, Taiwan Small Business Integrated Assistance Center Chairman, the Bankers Association of Taiwan Supervisor, Bankers Association of the R.O.C Director, Financial Planning Association of Taiwan Supervisor, Securities & Futures Institute Supervisor, the Bankers Association of Taipei
Executive Vice President	HONG-CHI CHANG	Sep17, 2012		Master of Agricultural Economics, National Chung-Hsing University Executive Vice President and General Auditor, BOT Senior Vice President & Chief Secretary, BOT	Executive Vice President , BOT Supervisor, BTS Director, Taiwan Futures Exchange
Executive Vice President	YU-CHIH LIU	Jul 16, 2012		B.A. of Business Administration, National Taiwan University Supervisor, BankTaiwan Insurance Brokers SVP & General Manager, Department of Treasury, BOT SVP & General Manager, Department of Trusts, BOT SVP & General Manager, Department of Trusts, CTC	Director of Administration and Training Committee, Trust Association of R.O.C Head of Chairman, Debt Instruments Group, General Banking Committee, Bankers Association of the R.O.C. Director, BOT
Executive Vice President & General Auditor	CHENG-HO CHIANG	Jul 16, 2009		M.A. in Eminent Public Administrators, National Chengchi University Director, Financial Examination Bureau, FSC Director, Bureau of Monetary Affairs, MOF	Committee Member, Internal Audit Committee, the Bankers Association of the Republic of China

Position	Name	Date of Employment	Shares Held	Education and Career	Positions Held with Other Companies
SVP & Chief Secretary	CHING-JUI CHEN	Aug 30, 2012	Shares 100% Owned by MOF	Dept. of Laws, Soochow University SVP & General Manager, Department of Real Estate Management, BOT	SVP & Chief Secretary, BOT
VP & Chief Strategy Officer	SHENG-CHIA KUEI	Mar 1, 2012		LL.M.,Soochow University M.A. in Finance, Tamkang University VP & General Manager, Department of Finance, TFH Manager, Investments Section, Department of Finance, TFH	
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, FSC Vice Director, Bureau of Monetary Affairs, MOF	
SVP & Chief Financial Officer	LI-SHIEU TSAI	Mar 1, 2012		M.A. in Finance,Ming Chuan University SVP & General Manager, Business Development Department, TFH Supervisor, BTLI SVP & Chief Secretary, TFH VP & Deputy Chief Secretary, BOT Assistant Vice President & General Manager, Xizhi Branch,Land Bank of Taiwan	Director, BTLI
SVP & Chief Risk Officer	LILY LEE	Jul 15, 2009		M.A. in International Trade, National Chengchi University SVP & General Manager, Department of Risk Management, BOT Deputy General Manager, Department of Domestic Operations, BOT Deputy General Manager, Department of Risk Management, BOT	
SVP & Chief Information Officer	MAN-YI CHU	Mar 1, 2012		M.A. in Business Administration, National Taiwan University SVP & General Manager, Administration Department, TFH Supervisor, BTS SVP and Deputy General Manager, Information Management Office, BOT General Manager, Department of Information Management, CTC	

穩健務實

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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 Year 2012	Past Two Fiscal Year 2011	As of 31st Mar 2013
Price Per Share	High		–	–	–
	Low		–	–	–
	Average		–	–	–
Net Worth Per Share	Before Distributions		28.70	27.74	27.89
	After Distributions		28.20	27.25	27.39
Earnings Per Share	Weighted Average Issued Shares		9,000,000	9,000,000	9,000,000
	Earnings Per Share		0.81	0.45	0.21
Dividends Per Share	Cash Dividends		0.50	0.49	–
	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 2012

In closing the annual accounts for 2012, TFH set aside provisions to the legal reserve and the special reserve on the basis of audited after-tax earnings, then distributed cash dividends of NT$4.51 billion (NT$0.50 per 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 2012 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 3 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	2012	
	Dollar Amount	Share of Total
Investment Gains Recognized Under the Equity Method	7,467,092	99.96%
Other Operating Revenue	2,626	0.04%
Total Revenues and Gains	7,469,718	100%

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

Please refer to 2013 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 also (on contract to the Central Bank of the Republic of China) handles ancillary matters pertaining to the distribution of New Taiwan Dollar notes and coins, and engages in other lines of business as may be approved by the competent authorities.

a. Commercial Banking: deposit taking; lending; guarantees; domestic and international remittances; import/export-related foreign exchange services; offshore banking; trust and depository services; electronic banking; book-entry central government bonds; safety deposit box leasing.

b. Investment and Personal Financial Planning: domestic and international financial market transactions; wealth management; property trusts; charitable trusts; securities trusts; trusts for loans and related security interests; real estate trusts; trusts for surface rights.

c. Government Employees Insurance: provision of insurance for current and retired government employees, and payout of cash benefits.

d. Procurement and Foreign Trade: purchasing agent for government agencies and both state-run and private-sector enterprises; government-designated purchasing projects; gold trade; tariff quota management; other trade services for the government.

e. Outsourced Services for Government Agencies: services provided, for example, to the Central Bank of the Republic of China (Taiwan), operating related to the issuance of New

Taiwan Dollar bank notes and coins, including pick-up and delivery, transportation, supply management, bank note recovery/destruction; fund management for the old Labor Pension Fund.

(B) Types of Business

Unit: NT$1,000

Item \ Year	2012	
	Dollar Amount	Share of Total
Net Interest Income	24,675,639	84.52%
Net Fee Income	4,700,011	16.10%
Financial Assets and Liabilities at Fair Value Through Profit or Loss	12,107,835	41.47%
Realized Gains (Losses) on Available-for-Sale Financial Assets	929,157	3.18%
Investment Gains/Losses Recognized Under the Equity Method	1,948,134	6.67%
Foreign Exchange Gains/Losses	1,679,754	5.75%
Schedule of Asset Impairment Losses, and Gains on Reversal of Impairment	-72,267	-0.25%
Schedule of Other Net Non-Interest Income/Losses	-16,773,200	-57.44%
Net Earnings	29,195,063	100%

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

Please refer to 2013 Business Plan.

iii. BTLI

(A) Main Lines of Business:

a. Personal insurances including life insurance, personal injury insurance, health insurance and annuity insurance.

b. Acts on behalf of the government in running military personnel insurance and insurance for men serving alternative military service.

c. Other lines of business as may be approved by the competent authorities.

(B) Types of Business

Unit: NT$1,000

Item \ Year	2012	
	Dollar Amount	Share of Total
Personal Life Insurance	54,905,277	96.84%
Personal Injury Insurance	149,354	0.26%
Personal Health Insurance	717,050	1.26%
Personal Annuity Insurance	761,589	1.34%
Investment-oriented Insurance	172	-
Group Life Insurance	34,615	0.06%
Group Personal Injury Insurance	105,375	0.19%
Group Health Insurance	24,010	0.04%
Reinsurance Assumed	5,104	0.01%
Gross Premium Income	56,702,546	100.00%

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

Please refer to 2013 Business Plan.

iv. BTS

(A) Main Lines of Business:

a. Securities brokering, dealing, and underwriting.

b. Margin trading services and short selling services.

c. Futures introducing broker services.

d. Consultation for securities issuing, fund raising and related matters.

e. Other lines of business as may be approved by the competent authorities.

(B) Types of Business

Unit: NT$1,000

Item / Year	2012	
	Dollar Amount	Share of Total
Securities Brokering and Underwriting Revenue	306,616	65.79%
Interest Revenue	103,587	22.23%
Income from Securities Sold	24,768	5.31%
Gain on Evaluation of Trading Securities	15,479	3.32%
Investment Income	13,211	2.83%
Other Operating Revenue	2,404	0.52%
Total Operating Revenue	466,065	100%

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

Please refer to 2013 Business Plan.

(2) 2013 Business Plan

i. TFH

(A) Flesh out cross-selling systems, improve business synergies

Integrate groupwide marketing resources; improve our integrated marketing plan; enhance cross-selling quality; increase substantive cross-selling benefits; link target management to the performance review system; encourage more cooperation among group subsidiaries; cultivate a groupwide culture of integrated marketing; make the best possible use of groupwide cooperative marketing.

(B) Convert to electronic shared platforms, accelerate integration of logistical resources

Continue promoting groupwide shared platforms; utilize computer technology to improve shared operating procedures; further integrate logistical resources and reap enhanced benefits from them; strengthen centralized management and professional specialization; improve logistical support for shared operations platforms; reap the benefits of cost reductions.

(C) Strengthen risk management, improve capital efficiency

Rigorously implement systems to prevent risks from materializing, to control the damage of ongoing incidents, and to carry out supervision after the fact; improve groupwide integrated risk management; strike a proper balance between risks and returns; strengthen monitoring and control of capital adequacy; enhance the asset pool's risk resistance; consolidate the group's business foundation.

(D) Integrate groupwide information, improve management of customer relationship

Continue expanding the group's information sharing platform operations; integrate business management information; support risk management and other operations; build a fully developed information sharing environment; design and build a groupwide customer relationship management system; improve cross-selling performance.

(E) Take accelerated steps to establish strategic overseas presence, work to become one of the top financial holding companies in the Asia-Pacific region

Draw up a group blueprint for developing mainland China markets; utilize the BOT Shanghai branch as the anchor of what is to become a larger network of mainland business locations, and join with BTLI and BTS to develop business and provide integrated financial services to Taiwan-invested firms in the mainland; continue evaluating possibilities to set up overseas business locations; extend the group's business reach; make inroads into international financial markets; establish the name "Taiwan Financial Holdings" throughout the Asia-Pacific region as a synonym for top quality.

(F) Engage in public service, fulfill social responsibilities

Use group resources to carry out public service activities; actively show concern for the disadvantaged; support cultural and creative undertakings, the arts, sports, environmental protection, and other socially beneficial undertakings; fulfill the group's corporate social responsibilities; set an example of model corporate citizenship by a state-run financial holding company.

ii. BOT

(A) Adopt flexible pricing strategies, achieve more profitable lending

Carefully consider structure of funding costs, capital efficiency, overall credit market risks, and economic and financial conditions; act in a timely manner to revise rules for the setting of lending rates; achieve more lending profits.

(B) Strengthen management of lending, maintain loan quality

Perform thorough credit checks and post-loan monitoring; effectively control credit risks; maintain loan quality.

(C) Monitor economic conditions, cultivate high-quality customers

Monitor economic conditions and industrial development trends; carefully select high-quality customers and solicit their business; closely track the condition of their business; maintain prudent growth in lending, emphasizing quality over quantity.

(D) Strengthen integrated marketing, reap greater profits per customer

Strengthen bank's marketing capacity; provide superior service to customers; launch a diverse range of corporate financial products; reap greater profits per customer.

(E) Expand retail banking business, generate increased operating income

Respond to market trends; offer different packages to different customer segments; work with developers to make loans to individual home buyers referred by the developer; strike a proper balance between profitability and stable business growth; act in a timely manner to implement marketing strategies, so as to strengthen our competitiveness and increase profits.

(F) Strengthen electronic banking business, improve service efficiency

Improve the functionality of e-banking products in order to reduce operating costs, improve service efficiency, and generate increased fee income; strengthen mobile banking services for users of smart mobile devices, thereby becoming more competitive in the market.

(G) Further develop cross-strait business, create expanded room for operations

Respond to government's gradual easing of restrictions on cross-strait financial business, which affords banks increased business opportunities; step up efforts to expand RMB-related business to provide customers more diversified financial services; reap the benefits of synergy; become even more competitive.

(H) Accelerate moves to establish an international presence, improve operating performance

Evaluate the feasibility of establishing additional overseas business locations; strengthen international syndicated loan participation and bond investment business, thereby improving the business performance of overseas branches; strengthen online banking services; build a capital management platform for Taiwan-invested firms located overseas.

(I) Expand channels, promote wealth management business

Raise service quality and increase efforts to solicit the wealth management business of high net worth individuals; continue taking steps to build up the bank's channels; expand our wealth management services network; recruit and train professional talent for our personal financial planning services in order to promote the wealth management business and generate increased fee income.

(J) Make good use of insurance brokerage resources, launch diverse range of products

Adopt a customer-driven approach; capitalize on establishment of the insurance brokerage subsidiary to offer a diverse line of products from domestic life and non-life insurers, thereby generating increased insurance brokerage income.

iii. BTLI

(A) Develop diverse channels, build up scale of business

Make use of TFH resource integration platforms; reap increased benefit from integrated marketing; accelerate steps to expand scale of business; respond to easing of restrictions on cross-strait financial dealings by accelerating efforts establish presence in mainland markets.

(B) Develop niche products, enhance competitive advantages

Respond to business conditions, social trends, and channel needs by actively developing installment-premium money-back endowment plans, medical insurance, foreign currency-denominated insurance policies, and investment-linked insurance; provide the public with a diverse range of choices.

(C) Improve capital allocations, enhance financial performance

Coordinate with asset-liability management strategy; establish mid- to long-term core shareholdings; adopt foreign currency hedge strategy; continue investing in commercial real estate with appreciation potential; actively participate in syndicated loans to corporate borrowers with strong credit; flexibly adjust investment portfolio to strike proper balance between liquidity, safety, and returns to enhance financial performance.

(D) Raise service quality, maintain high satisfaction

Provide a one-stop service window and a toll-free 0800 customer service number; establish an online call center, insurance claim representatives, and a customer service email address to provide policyholders with access to information and ensure seamless customer service; continue carrying out customer satisfaction surveys and, from time to time, reviews of service quality; improve overall service quality.

(E) Strengthen risk management, ensure sound business

Strengthen monitoring and control of capital adequacy ratios; calculate the ratios regularly, keep close track of changes, evaluate their impact, and develop responses; promote and implement risk management measures; use various qualitative and quantitative techniques to improve the company's risk management systems; actively maintain and improve the company's actuarial models; closely monitor legislative changes; strengthen reserves based on the results of liability adequacy testing.

(F) Strengthen core competencies, provide superior services

Actively cultivate professional expertise in such fields as financial investing, actuarial science, and risk management; use in-house professional education & training courses as well as professional training opportunities at home and abroad to elevate employees' professional expertise, better familiarize them with operating procedures, and improve their ability to handle such procedures, thereby improving service quality.

(G) Strengthen corporate governance, enhance corporate image

Act in accordance with the Corporate Governance Best-Practice Principles for Insurers to improve internal controls, internal audits, legal compliance, and risk management systems; build a high-quality corporate governance environment, strengthen the functions of the board of directors, and bring the functions of supervisors into full play, thereby raising the level of corporate governance and corporate values; actively participate in artistic, cultural, and public service activities; enhance the company's image as a locally engaged citizen; fulfill the company's corporate social responsibilities.

iv. BTS

(A) Strengthen information systems, expand brokerage business

Continue to upgrade the electronic order submission platform; strengthen system functionality and stability; actively solicit the business of institutional customers; expand securities finance business; develop a new customer base and actively build good relationships in order to expand the company's competitive niche and attract more brokerage business.

(B) Make good use of the group's shared platforms, expand underwriting business

Tap into the resources of the group's corporate finance business, and integrate direct and indirect financing businesses, to promote underwriting and related businesses; use the channel platform of BOT's overseas branches and its Shanghai branch to take advantage of the opportunities afforded by the easing of restrictions on cross-strait business dealings to expand the company's business.

(C) Strengthen asset allocation strategies, prudently achieve better investment returns

Regularly screen for investment targets that offer good fundamentals and growth potential; set reasonable profit targets; regularly review profitability and make adjustments as needed to achieve stable profits; establish reputation as a solid and reliable provider of options and warrants, thereby attracting strategic investors that will take mid- to long-term stakes in the company.

(D) Strengthen corporate governance, continue cultivating top-caliber staff

Strengthen corporate governance, legal compliance, risk management, internal control, and internal audit systems; improve business management; implement employee training; actively dispatch personnel to take part in professional training to help them increase their knowledge and develop a broader world view.

(3) Industry Overview

i. Financial holdings business

It has now been over a decade since the Financial Holding Company Act entered into force. Many large financial groups have built themselves into financial holding companies through mergers carried out under the provisions of this Act. Taiwan now has 16 financial holding companies, and the authorities have signed the Cross-Straits Economic Cooperation Framework Agreement (ECFA) plus a series of MOUs on financial supervisory cooperation, thus creating growth potential and generating opportunities for increased profitability. Taiwanese financial holding companies are actively accelerating preparations to embark upon mainland markets. However, they still face intense competition. If they are to succeed, they will need to further integrate resources, generate greater synergy through cross-selling, and expand the scope of their business.

ii. Banking

Developed nations in the West continue to pursue quantitative easing and cut fiscal expenditures, while China's economic growth is expected to gradually pick up steam, all of which should enable global economic growth to retain a certain degree of momentum. Accordingly, international economic forecasting organizations are calling for global economic growth to be slightly stronger in 2013 than in 2012, and this is expected to trigger an upturn in Taiwan's economy. In addition, the self-regulatory efforts of domestic banks should keep interest margins at a reasonable level. At the same time, as cross-strait financial industry ties are gradually liberalized, the OBUs and DBUs of domestic banks will continue to expand their scope of business. In particular, now that the cross-strait currency clearing mechanism has been established, DBUs are starting to handle RMB business, including deposits, loans, wire transfers, remittances, and clearing of cross-border trades paid for in RMB. These developments will help boost business growth for Taiwanese banks.

iii. Life Insurance Industry

In 2012, global interest rates remained low, the eurozone debt crisis raised the level of systemic risk in capital markets at home and abroad, and world stock markets did not rise significantly. The business climate for life insurers thus remained quite poor. The competent authority has wanted to discourage insurers from making too much use of marketing strategies that draw comparisons with CD interest rates, because such strategies prompt them to take in excessive short-term premiums, which in turn generates future interest rate and liquidity risks. For this reason, the competent authority on 1st July 2012 and 1st January 2013 twice lowered the reserve valuation interest rates for insurance policies denominated in NT Dollars as well as various foreign currencies including US Dollars, Australian Dollars, and Euros. This step has sharply increased premium rates, which will make it much more difficult for life insurers to promote their business.

iv. Securities

Taiwan's securities markets were affected by multiple factors in 2012, including the ongoing eurozone debt crisis, weak economic recovery in the US, and weakening of economic growth momentum in mainland China and other emerging economies. As a result, international institutions repeatedly lowered forecasts for global economic growth. Our markets were also affected by domestic factors such as the reinstatement of a capital gains tax on securities and the raising of national health insurance premiums. Conditions didn't begin to improve until the government launched its Economic Power-Up Plan in the fourth quarter. Statistics from the Taiwan Stock Exchange (TWSE) indicate that turnover by value in 2012 was down by 22.7% from 2011, while the aggregate profits of securities firms as a whole came to NT$17.985 billion. This figure was up by 5% from NT$17.071 billion in 2011, but once NT$2.2 billion in real estate disposal gains are factored out, we find that profitability actually fell. Moreover, profits were far lower than NT$35.199

billion achieved in 2010, so it is quite clear that the overall business climate was rather adverse for securities firms. According to the DGBAS, GDP growth in 2013 should exceed that of 2012. As international economic conditions improve in 2013 and burgeoning cross-strait ties generate more and more business opportunities, we expect growth potential to materialize in the securities industry.

(4) Short-term and Long-term business development plans

i. TFH

(A) Short-term business development plan

Understand financial market trends; build up our cross-selling product lineup; innovate and integrate marketing platforms and modes of service; satisfy the increasingly diverse needs of customers; reap the benefits of synergy; work to integrate information operations; improve customer relationship management; provide differentiated and tailor-made services; raise our product penetration rate; work to maximize customer value; improve group products and mechanism for integrated public marketing; bring about healthy competition and cooperation among TFH subsidiaries; reap the benefits of strategic partnerships; drive continued growth in the group's core businesses.

(B) Long-term business development plan

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"; adopt efficient, corporate-style management; improve our business management model; improve company's competitiveness; achieve improved business performance.

ii. BOT

(A) Short-term business development plan

Use the TFH resource sharing platform, enhance our cross-selling policy, and reap the synergistic benefits of integrated marketing; take advantage of the launch of RMB banking services, and accelerate efforts to branch into related lines of business; use our insurance brokerage subsidiary to launch competitive insurance products and improve wealth management performance; capitalize on our good brand image to reap the benefits of differentiated marketing; act in a timely manner to strengthen capital structure, create more sound business operations, and improve risk-bearing capacity.

(B) Long-term business development plan

In order to continue expanding markets and improving profitability, we engage in coordinating with government policy by continuing to conduct various policy-based lines of business, taking active part in international syndicated loans, and deepening and expanding our overseas presence. In particular, now that a cross-strait currency clearing mechanism has been set up, we will capitalize on our advantageous status as the NT Dollar clearing bank in the mainland to develop RMB financial products, and at the same time will also tap into group resources to provide a diverse range of financial services. These measures should expand our scope of business and help us advance toward our goal of becoming one of East Asia's leading banks.

ili BTLI

(A) Short-term business development plan

Use the group's cross-selling resources, and cooperate with the banking channel and high-quality insurance brokers and agents, to improve our channel marketing capabilities; coordinate with asset-liability management strategy, improve capital efficiency; respond to customer needs and market interest rate trends by stepping up efforts to develop foreign-currency-denominated endowment insurance policies and interest-sensitive life insurance; mainland representative office established to carry out market surveys and collect information so we can prepare to establish an expanded presence in the mainland market.

(B) Long-term business development plan

Accelerate steps to expand our marketing channels, improve the company's business; optimize asset allocations; coordinate with the government's efforts to get the public to acquire more insurance protection; coordinate with the government's efforts to respond to an aging society and a falling birth rate; step up efforts to develop protection-type insurance products.

iv. BTS

(A) Short-term business development plan

Use the TFH integrated marketed platform to actively expand customer sources; increase brokerage business market share and balance of long margin positions; work with BOT's foreign branches and Shanghai branch to continue encouraging Taiwan-invested firms to list in Taiwan; expand the business of margin lending.

(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."

2. Cross-Selling

(1) Cross-selling synergies

Act in accordance with groupwide strategy by adopting a 2012 plan for integrated marketing among group subsidiaries; establish an integrated marketing platform for the six business lines of securities brokerage, securities underwriting, life insurance, corporate finance, bulk collections, and wealth management; complete a mechanism for evaluating the performance of integrate marketing; encouraged subsidiaries to engage in joint business development; integrate marketing among group subsidiaries in 2012 yielded earnings of NT$1.127 billion, up by 10.27% from the 2011 figure of NT$1.022 billion; amply demonstrate the power of cross-selling and potential for growth, and improve the types of products and services offered via cross-selling; vigorously seek to underwrite stock listings in Taiwan by overseas Taiwan-invested enterprises; seek to develop more protection-type insurance products, foreign-currency-denominated long-term policies, and installment-premium life insurance products.

(2) Resource integration and cost reductions

Continue promoting groupwide shared operating platforms project; expand the scope of cooperation in shared operations; use shared operating platforms for eight major business operations (including information operations, financial and economic information, property management, press and public relations, and human resource exchange) to reap greater benefits from centralized management and professional specialization; concrete benefits included establishment of a groupwide document management system and an online system for the processing of electronic official documents, integrated leasing and purchasing of out-of-house information sources, and cooperative conduct of various marketing activities; our logistics platform handled 5,486 cross-subsidiary operations in 2012, up by 14% from 2011, 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	2011	2012	As of Mar 31, 2013
Number of Employees			
TFH	42	54	55
BOT	7,902	7,993	7,953
BTLI	230	223	219
BTS	118	136	135
Total	8,292	8,406	8,362
Average Age	44.26	44.22	44.35
Average Service Year	17.43	17.28	17.24
Education Level & Ratio			
Doctor	0.07	0.05	0.05
Master	11.97	13.56	14.41
University or College	76.06	75.21	74.65
Senior High School	10.37	9.70	9.43
Below Senior High School	1.53	1.48	1.46

4. Corporate Social Responsibility and Ethics

(1) In response to the Executive Yuan's Project to Conserve Energy and Reduce Carbon Footprint by Use of Electronic Documents, TFH reduced paper consumption in 2012 by 11.28% from the preceding year. It will continue working to reach its goal of eventually reducing paper consumption by 30%.

(2) The group held two major charity entertainment events in 2012—a carnival and a children's theater performance—through a blood drive and a cash register receipt donation campaign—to show concern for society. In the process, we brought happiness to large numbers of people and enhanced our corporate image.

(3) Integrated the group's resources; led group subsidiaries in carrying out long-running public service and environmental protection activities; used concrete action to support social service groups that serve children, the elderly, and others; promoted basketball, baseball, tennis and other sports; joined with the Chinese Professional Baseball League to jointly organize a home run derby contest and an all-star baseball game; have been holding an annual summer youth basketball camp.

(4) Held an economic forum at which Professor Robert Shiller (who was chosen in 2011 by Bloomberg Businessweek as one of the 50 Most Influential People in Global Finance) spoke on the topic of Global Economic Trends in 2013. By arranging to hear the insightful views of this renowned economist, TFH afforded the general public a chance to enhance their worldview.

(5) TFH and its subsidiaries each have an employees' handbook and a code of conduct that require all directors, supervisors, executive officers, and employees to carry out their duties in an honest and ethical manner. They are required to avoid conflicts of interest, refrain from using their positions for personal profit, maintain the confidentiality of undisclosed information, safeguard company assets, and allocate them effectively. TFH and its subsidiaries are very serious about ensuring the ethical conduct of their employees, and examine ethical issues closely when evaluating job performance, so as to promote a corporate culture that emphasizes ethical ideals, and to establish a clean and capable image for state-run enterprises.

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VI. Financial status

1. Condensed financial statement for most recent 5 years

(1) Condensed consolidated balance sheet

Unit: NT$1,000

Item / Year			Financial Information for Past 5 Years				
			2012	2011	2010	2009	2008
Cash and cash equivalents			120,604,340	97,988,304	60,552,750	72,498,553	80,104,961
Placement with Central Bank and call loans to banks			549,627,869	488,555,403	518,166,823	1,248,000,974	996,241,280
Financial assets at fair value through profit or loss			147,512,761	111,746,984	102,094,813	94,008,327	78,655,045
Bills and bonds purchased under resell agreements			23,106,942	12,402,851	9,746,406	9,402,856	12,321,566
Receivables, net			98,341,071	91,084,216	90,593,836	94,848,447	105,973,044
Loans, net			2,182,122,142	2,158,327,794	2,083,747,129	2,053,171,504	1,997,536,704
Available for sale financial assets, net			777,192,341	802,058,331	891,936,602	175,919,557	175,527,297
Held to maturity financial assets, net			244,048,117	227,724,845	195,221,334	147,700,416	117,196,368
Equity investments using the equity method			40,936,053	37,544,129	36,181,254	34,373,421	31,125,626
Other financial assets, net			114,965,947	110,755,243	91,129,833	78,562,977	77,978,931
Real estate investments, net			4,773,134	4,057,036	3,351,986	1,982,445	2,003,965
Fixed assets, net			98,436,106	99,049,681	77,757,512	79,651,798	81,040,624
Intangible assets			1,177,207	830,361	982,123	1,121,713	1,451,116
Other assets, net			16,919,776	19,082,920	22,512,358	18,741,276	18,298,572
Total Assets			**4,419,763,806**	**4,261,208,098**	**4,183,974,759**	**4,109,984,264**	**3,775,455,099**
Deposits of Central Bank and other banks			213,374,465	208,926,475	207,612,937	204,950,860	181,489,738
Commercial paper payable, net			519,880	499,537	479,781	-	-
Financial liabilities at fair value through profit or loss			4,508,508	4,274,874	16,397,063	4,210,041	5,804,419
Bills and bonds sold under repurchase agreements			13,341,805	15,638,050	9,801,211	5,525,570	20,251,220
Payables			69,404,869	69,231,005	70,926,353	91,743,498	97,501,208
Deposits			3,277,797,765	3,202,888,078	3,167,175,151	3,165,389,168	2,932,562,905
Other financial liabilities			13,185,447	11,246,261	7,187,799	7,192,234	6,429,020
Reserves for operation and liabilities			534,299,189	467,108,298	415,927,106	355,414,596	279,848,256
Other liabilities			34,999,248	31,707,537	28,289,686	25,913,182	25,402,994
Total liabilities			4,161,431,176	4,011,520,115	3,923,797,087	3,860,339,149	3,549,289,580
Equity Attributable to Stockholders of TFH	Capital stock		90,000,000	90,000,000	90,000,000	90,000,000	90,000,000
	Additional paid-in capital		111,632,634	112,095,429	111,516,202	111,494,739	111,495,264
	Retained Earnings	Before distribution	17,132,483	14,239,506	15,993,501	12,512,535	7,321,499
		After distribution	12,623,887	9,836,122	9,975,873	8,569,400	3,731,372
	Equity adjustments		39,567,513	33,353,048	42,667,969	35,637,841	17,348,756
Minority Interest			-	-	-	-	
Total Stockholders' Equity	Before distribution		258,332,630	249,687,983	260,177,672	249,645,115	226,165,519
	After distribution		253,824,034	245,284,599	254,160,044	245,701,980	222,575,392

(2) Condensed income statement

Unit: NT$1,000

Item / Year		Financial Information for Past 5 Years				
		2012	2011	2010	2009	2008
Net interest income		33,641,112	31,387,079	26,433,738	21,676,325	28,847,934
Revenues other than interest		64,239,166	48,337,279	61,060,902	85,599,986	31,737,758
Credit provisions		3,107,905	5,054,016	374,535	4,431,377	1,598,254
Provisions for insurance policy reserves		67,635,554	50,751,321	60,749,024	76,342,481	33,710,940
Operating expenses		19,219,830	19,277,120	18,487,962	17,817,075	18,280,269
Income before income tax		7,916,989	4,641,901	7,883,119	8,685,378	6,996,229
Consolidated net income after tax		7,296,361	4,058,934	7,424,101	8,781,163	7,321,499
Cumulative effect of changes in accounting principles (after tax)		-	-	-	-	-
Net interest income		-	-	-	-	-
Revenues other than interest		-	-	-	-	-
Consolidated net income	Attributable to TFH shareholders	7,296,361	4,058,934	7,424,101	8,781,163	7,321,499
	Attributable to minority interest	-	-	-	-	-
Basic earnings per share		0.81	0.45	0.82	0.98	0.81

(3) Condensed balance sheet

Unit: NT$1,000

Item / Year		Financial Information for Past 5 Years				
		2012	2011	2010	2009	2008
Cash and cash equivalents		309,775	171,358	37,114	1,406,943	348,555
Receivables, net		2,590,262	73,774	25,622	135	133
Equity investments accounted for by the equity method, net		264,080,731	255,335,967	265,595,960	251,166,051	226,195,089
Property and equipment, net		7,026	7,644	7,854	7,757	5,274
Intangible assets, net		125	31	45	59	14
Other assets, net		4,511,342	4,305,803	5,793,134	3,078,567	3,593,413
Total assets		271,499,261	259,894,577	271,459,729	255,659,512	230,142,478
Short-term borrowing		5,800,000	5,700,000	5,600,000	2,000,000	-
Payables		2,511,577	19,616	15,873	17,803	2,907
Accrued pension liabilities		71,364	56,288	45,206	41,396	122
Other liabilities		4,783,690	4,430,690	5,620,978	3,955,198	3,973,930
Total liabilities	Before distribution	13,166,631	10,206,594	11,282,057	6,014,397	3,976,959
	After distribution	8,695,145	6,008,622	5,975,519	2,059,394	3,127
Capital stock		90,000,000	90,000,000	90,000,000	90,000,000	90,000,000
Capital surplus		111,632,634	112,095,429	111,516,202	111,494,739	111,495,264
Retained earnings	Before distribution	17,132,483	14,239,506	15,993,501	12,512,535	7,321,499
	After distribution	12,623,887	9,836,122	9,975,873	8,569,400	3,731,372
Equity adjustments		39,567,513	33,353,048	42,667,969	35,637,841	17,348,756
Total stockholders' equity	Before distribution	258,332,630	249,687,983	260,177,672	249,645,115	226,165,519
	After distribution	253,824,034	245,284,599	254,160,044	245,701,980	222,575,392

(4) Condensed income statement

Unit: NT$1,000

Item \ Year	Financial Information for Past 5 Years				
	2012	2011	2010	2009	2008
Investment Income from Equity Investments Accounted for by the Equity Method	7,467,092	4,089,157	7,532,044	8,860,946	7,351,070
Other Income	2,626	2,821	3,083	4,086	3,612
Operating Expenses	158,209	140,732	131,247	99,960	36,394
Other Expenses and Losses	63,581	52,148	27,659	7,962	75
Income Before Income Tax	7,247,928	3,899,098	7,376,221	8,757,110	7,318,213
Net Income After Tax	7,296,361	4,058,934	7,424,101	8,781,163	7,321,499
Earnings per share (before tax)	0.81	0.43	0.82	0.97	0.81
Earnings per share (after tax)	0.81	0.45	0.82	0.98	0.81

2. Financial analysis for most recent 5 years

Unit: NT$1,000 %

Item	Year	2012	2011	2010	2009	2008
Operating Ability	Total Assets Turnover	0.0273	0.0156	0.0277	0.0346	0.0320
	Loans to Deposits Ratio of Banking Subsidiary (%)	66.26	67.16	65.19	63.35	66.36
	NPL Ratio of Banking Subsidiary (%)	0.52	0.44	0.62	1.03	1.06
	The Group's Average Operating Revenue Per Employee	11,129	9,192	10,075	11,733	6,631
	The Group's Average Profit Per Employee	830	468	855	960	801
Profitability	Return on Assets (%)	2.76	1.54	2.82	3.62	3.18
	Return on Equity (%)	2.87	1.59	2.91	3.69	3.24
	Net Margin (%)	98.52	100.47	98.89	99.14	99.55
	Earnings Per Share (NT$)	0.81	0.45	0.82	0.98	0.81
Financial structure(%)	Debt Ratio	4.85	3.93	4.16	2.35	1.73
	Liabilities to Net Worth Ratio	5.10	4.09	4.34	2.41	1.76
	TFH's Double Leverage Ratio	102.23	102.26	102.08	100.52	99.80
Leverage ratio	Operating Leverage Ratio	101.99	103.34	101.65	101.07	100.50
	TFH's Financial Leverage Ratio	100.82	101.24	100.32	100.07	100.00

Item			2012	2011	2010	2009	2008
Growth Rates	Growth Rate of Assets		4.47	-4.26	6.18	11.09	—
	Growth Rate of Profit		85.89	-47.14	-15.77	19.66	—
Cash Flows	Cash Flow Ratio		23,692.67	23,090.18	35,692.04	22,902.93	135,702.48
	Cash Flow Adequacy Ratio		102.29	102.67	103.32	121.31	109.69
	Cash Flow Reinvestment Ratio		285,848.61	253,462.17	141.57	203.22	57,783.37
Operating Scale	Market Share by Assets		12.52	12.86	14.50	15.15	15.39
	Market Share by Net Worth		10.56	11.33	13.08	12.92	13.67
	Market Share of Deposits of Banking Subsidiary		11.12	11.29	11.63	12.32	12.17
	Market Share of Loans of Banking Subsidiary		9.29	9.52	9.97	10.54	10.22
Capital Adequacy	Capital Adequacy Ratio	Bank of Taiwan	10.92	11.38	11.87	11.89	11.63
		BankTaiwan Life Insurance	221.43	266.20	292.03	252.52	147.66
		BankTaiwan Securities	470	421	651	679	1,503
	Eligible self-owned Capital	Bank of Taiwan	191,839,471	187,365,815	176,521,653	179,926,649	172,902,518
		BankTaiwan Life Insurance	10,152,895	10,448,676	11,022,399	7,183,845	3,840,391
		BankTaiwan Securities	2,010,497	1,846,923	2,896,702	2,869,108	2,696,758
	Group's Eligible Capital		198,150,713	193,915,074	184,974,178	188,431,327	179,406,811
	Subsidiary's Statutory Capital Requirement	Bank of Taiwan	140,535,348	131,687,943	118,922,025	121,023,652	118,957,766
		BankTaiwan Life Insurance	9,056,288	7,850,196	7,548,714	5,689,758	5,201,664
		BankTaiwan Securities	641,957	658,278	667,907	634,229	269,138
	Group's statutory capital requirement		150,284,631	140,249,039	127,186,654	130,406,739	128,559,770
	Group's capital adequacy ratio		131.85	138.26	145.44	144.50	139.55
Paragraph 46 of the Financial Holding Company Act requires disclosure of the ratio of aggregate credit extensions, guarantees or other transactions between all subsidiaries and any single party, single group of related parties, or single group of related enterprises.		Single party (%)	755.05	784.14	762.88	470.78	420.12
		Single group of related parties (%)	26.01	9.71	2.90	2.21	15.93
		Single group of related enterprises (%)	304.25	293.00	178.98	161.48	519.55

3. Consolidated Financial Statements for Year 2012

LETTER OF DECLARATION

The entities that are required to be included in the combined financial statements of Taiwan Financial Holding Co., Ltd. as of and for the year ended December 31, 2012, 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 Statement of Financial Accounting Standards No.7, "Consolidated Financial Statements". 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 combined financial statements.

Truthfully yours,

TAIWAN FINANCIAL HOLDING CO., LTD.

By

Teng-Cheng Liu

Teng-Cheng Liu

Chairman

March 28, 2013

Independent Auditors' Report

The Board of Directors
Taiwan Financial Holding Co., Ltd.

We have audited the accompanying consolidated balance sheets of Taiwan Financial Holding Co., Ltd. and its subsidiaries (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years ended December 31, 2012 and 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of some investee companies. The Company's investment in those investee companies on December 31, 2012 and 2011, was $33,305,362 thousand and $31,481,606 thousand, respectively, constituting 0.75% and 0.74%, respectively, of total consolidated assets, and its equity in earnings of those investee companies was $1,995,417 thousand and $2,508,749 thousand, respectively, constituting 25.20% and 54.05%, respectively, of the consolidated income before income tax, for the years ended December 31, 2012 and 2011. The consolidated financial statements of those investee companies were audited by other auditors, whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for those investee companies, is based solely on the reports of the other auditors. The details are as described in note (12).

We conducted our audits in accordance with the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and 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 about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Taiwan Financial Holding Co., Ltd. and its subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years ended December 31, 2012 and 2011, 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", and accounting principles generally accepted in the Republic of China.

As described in note (3), effective January 1, 2011. Taiwan Financial Holdings and its subsidiaries adopted the third amendment of the Statement of Financial Accounting Standards (SFAS) No. 34 “Financial Instruments: Recognition and Measurement” revised by the Financial Accounting Standards Committees. In accordance with the SFAS No.34, the recognition, subsequent valuation and impairment losses of loans and receivables shall comply with the new amendment. The amendment also applies to the terms and conditions of restructured and negotiable debts. Please see note (5), (8), (9) and (13) for further descriptions.

The consolidated financial statements of the Company shall be audited by the Ministry of Audit in accordance with the related regulations of the Law of Audit. The 2011 and 2010 consolidated financial statements of the Company were audited by the Ministry of Audit, the results are as described in note 42 (11); the revised items were adjusted in the consolidated financial statements of the Company.

KPMG

March 28, 2013

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Balance Sheet

December 31, 2012 and 2011

(expressed in thousands of New Taiwan Dollars)

	December 31, 2012	December 31, 2011	Percentage change
Assets			
Cash and cash equivalents (notes 4 and 37)	$ 120,604,340	97,988,304	23
Placement with Central Bank and call loans to banks (notes 5, 9, 37 and 38)	549,627,869	488,555,403	13
Financial assets measured at fair value through profit or loss, net (notes 6, 35 and 37)	147,512,761	111,746,984	32
Bills and bonds purchased under resell agreements (note 7)	23,106,942	12,402,851	86
Receivables, net (notes 8, 9 and 28)	98,341,071	91,084,216	8
Discounts and loans, net (notes 9, 35 and 37)	2,182,122,142	2,158,327,794	1
Available for sale financial assets, net (notes 10, 32, 35 and 38)	777,192,341	802,058,331	(3)
Held to maturity financial assets, net (notes 11, 32, 35 and 38)	244,048,117	227,724,845	7
Investments under equity method, net (note 12)	40,936,053	37,544,129	9
Other financial assets, net (notes 8, 9, 13, 32 and 35)	114,965,947	110,755,243	4
Real estate investments, net (notes 14 and 15)	4,773,134	4,057,036	18
Fixed assets, net (notes 15, 26 and 32)	98,436,106	99,049,681	(1)
Intangible assets (note 16)	1,177,207	830,361	42
Other assets (notes 17, 32 and 38)	16,919,776	19,082,920	(11)
Total Assets	$ 4,419,763,806	4,261,208,098	2

		December 31, 2012	December 31, 2011	Percentage change
Liabilities and Stockholders' Equity				
Deposits of Central Bank and other banks (notes 18 and 37)	$	213,374,465	208,926,475	2
Commercial paper payable, net (note 19)		519,880	499,537	4
Financial liabilities measured at fair value through profit or loss (notes 20, 35 and 37)		4,508,508	4,274,874	5
Bills and bonds sold under repurchase agreements (note 7)		13,341,805	15,638,050	(15)
Payables (note 21)		69,404,869	69,231,005	-
Deposits and remittances (notes 22 and 37)		3,277,797,765	3,202,888,078	2
Other financial liabilities (notes 25 and 35)		13,185,447	11,246,261	17
Reserves for operation and liabilities (note 24)		534,299,189	467,108,298	14
Other liabilities (notes 15, 26 and 27)		34,999,248	31,707,537	10
Total liabilities		4,161,431,176	4,011,520,115	4
Stockholders' equity (notes 15, 28 and 29):				
Common stock		90,000,000	90,000,000	-
Additional paid in capital		111,632,634	112,095,429	-
Retained earnings:				
Legal reserve		2,758,570	2,352,676	17
Special reserve		5,924,552	5,227,896	13
Unappropriated retained earnings		8,449,361	6,658,934	27
		17,132,483	14,239,506	20
Equity adjustments:				
Unrealized gains on revaluation increments		28,112,517	27,175,554	3
Cumulative translation adjustments		(810,653)	(370,052)	(119)
Unrealized gains on financial instruments		13,523,945	7,418,299	82
Net losses not recognized as pension cost		(1,258,296)	(870,753)	(45)
		39,567,513	33,353,048	19
Total stockholders' equity		258,332,630	249,687,983	3
Commitments and contingencies (note 39)				
Total Liabilities and Stockholders' Equity	$	4,419,763,806	4,261,208,098	4

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Income

For the years ended December 31, 2012 and 2011

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

	2012	2011	Percentage change
Interest income	$ 66,827,124	62,088,506	8
Less: interest expenses	33,186,012	30,701,427	8
Net-interest income	33,641,112	31,387,079	7
Net non-interest income			
Net income on service charges and commissions	3,172,020	3,730,333	(15)
Net insurance business income (note 31)	33,433,548	31,325,073	7
Gains (losses) on financial assets and liabilities at fair value through profit or loss (note 6)	14,029,859	(7,452,108)	288
Realized gains on available-for-sale financial assets (note 10)	2,933,880	2,651,465	11
Realized gains on held-to-maturity financial assets	60,083	64,704	(7)
Gains on equity investments recognized under the equity method (note 12)	2,304,262	2,646,724	(13)
Gains on real estate investments	87,898	43,229	103
Foreign exchange (losses) gains	(1,799,868)	4,823,608	(137)
Asset impairment (losses) gains on reversal of impairment (note 32)	(72,267)	37,027	(295)
Other net non-interest (losses) income:			
Self-managed and commissioned sales (note 17)	147,698,592	151,965,102	(3)
Government grant income (note 42)	18,525,118	18,619,038	(1)
Gains on disposal of properties, plant, and equipment (note 15)	812,794	421,670	93
Other miscellaneous income	1,025,516	1,500,024	(32)
Self managed and commissioned cost of sales (note 17)	(146,867,152)	(151,065,996)	3
Excess interest expenses (notes 8)	(10,288,089)	(10,103,378)	(2)
Other miscellaneous expenses	(817,028)	(869,236)	6
Net revenue	97,880,278	79,724,358	23
Bad debt expenses (note 9)	3,107,905	5,054,016	(39)
Provisions for insurance policy reserves (note 33)	67,635,554	50,751,321	33
Operating expenses:			
Personnel expenses (note 27)	12,705,105	12,785,984	(1)
Depreciation and amortization expenses	1,369,927	1,483,982	(8)
Other business and administrative expenses	5,144,798	5,007,154	3
Total operating expenses	19,219,830	19,277,120	-
Income before income taxes	7,916,989	4,641,901	71
Income tax expense (note 28)	620,628	582,967	6
Consolidated total income	$ 7,296,361	4,058,934	80
Attributable to:			
Parent company shareholders	$ 7,296,361	4,058,934	80
Minority interest	-	-	-
	$ 7,296,361	4,058,934	80

	2012 Before income tax	2012 After income tax	2011 Before income tax	2011 After income tax
Basic earnings per share (note 30)	$ 0.88	$ 0.81	$ 0.52	$ 0.45

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2012 and 2011

(expressed in thousands of New Taiwan Dollars)

			Retained earnings			Equity adjustments				
	Common stock	Additional paid-in capital	Legal reserve	Special reserve	Unappropriated retained earnings	Cumulative foreign currency translation adjustments	Net loss not recognized as pension cost	Unrealized gains on financial instruments	Unrealized increments on revaluation	Total
Balance as of January 1, 2011	$ 90,000,000	111,516,202	1,610,266	4,653,557	9,729,678	(465,473)	(2,183)	28,019,454	15,116,171	260,177,672
Consolidated total income for the year ended December 31, 2011	-	-	-	-	4,058,934	-	-	-	-	4,058,934
Appropriation of retained earnings:										
Legal reserve	-	-	742,410	-	(742,410)	-	-	-	-	-
Special reserve	-	-	-	2,969,640	(2,969,640)	-	-	-	-	-
Cash dividends	-	-	-	-	(6,017,628)	-	-	-	-	(6,017,628)
Special reserve reversal				(2,600,000)	2,600,000	-	-	-	-	-
Additional paid-in capital from investee company	-	579,227	-	-	-	-	-	-	-	579,227
Change in unrealized gains on revaluation increments	-	-	-	-	-	-	-	-	12,059,383	12,059,383
Change in unrealized gains of available- for-sale financial assets	-	-	-	-	-	-	-	(20,601,155)	-	(20,601,155)
Change in cumulative translation adjustments	-	-	-	-	-	95,421	-	-	-	95,421
Special reserve recognized under equity method	-	-	-	66,638	-	-	-	-	-	66,638
Reserves for default losses transferred to special reserve	-	-	-	138,061	-	-	-	-	-	138,061
Net loss not recognized as pension cost	-	-	-	-	-	-	(868,570)	-	-	(868,570)
Balance as of December 31, 2011	90,000,000	112,095,429	2,352,676	5,227,896	6,658,934	(370,052)	(870,753)	7,418,299	27,175,554	249,687,983
Consolidated total income for the year ended December 31, 2012	-	-	-	-	7,296,361	-	-	-	-	7,296,361
Appropriation of retained earnings:										
Legal reserve	-	-	405,894	-	(405,894)	-	-	-	-	-
Special reserve	-	-	-	1,849,656	(1,849,656)	-	-	-	-	-
Cash dividends	-	-	-	-	(4,403,384)	-	-	-	-	(4,403,384)
Special reserve reversal	-	-	-	(1,153,000)	1,153,000	-	-	-	-	-
Additional paid-in capital from investee company	-	(462,795)	-	-	-	-	-	-	-	(462,795)
Change in unrealized gains on revaluation increments	-	-	-	-	-	-	-	-	936,963	936,963
Change in unrealized gain of available for sale financial assets	-	-	-	-	-	-	-	6,105,646	-	6,105,646
Change in cumulative translation adjustments	-	-	-	-	-	(440,601)	-	-	-	(440,601)
Net loss not recognized as pension cost	-	-	-	-	-	-	(387,543)	-	-	(387,543)
Balance as of December 31, 2010	$ 90,000,000	111,632,634	2,758,570	5,924,552	8,449,361	(810,653)	(1,258,296)	13,523,945	28,112,517	258,332,630

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2012 and 2011

(expressed in thousands of New Taiwan Dollars)

		2012	2011
Cash flows from operating activities:			
Consolidated total income	$	7,296,361	4,058,934
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation and amortization		1,374,415	1,488,140
Credit provisions		3,074,321	4,744,057
Provisions for reserves		67,191,509	51,325,438
Loses (gains) on disposal of financial assets		13,699,341	(1,716,873)
Amortization of financial assets premium (discount)		1,453,843	(3,643,078)
Loss on bad debt received		3,217,589	4,102,760
Investments income recognized under equity method		(2,304,262)	(2,646,724)
Cash dividend received from investee under equity method		1,029,823	759,148
Gains on disposal of fixed assets and non-operating assets		(792,819)	(930,738)
(Gains) losses on write-off of printed matter, (recovery) reduction of inventory to market, and fixed asset reclassification		(224,302)	250,465
Unrealized valuation (gains) losses on financial assets and liabilities		(2,793,676)	271,339
Impairment losses on financial assets		12,289	137
Gains on reversal of impairment on financial assets		-	(1,156)
Impairment losses on non financial assets		4,971	4,036
Gains on reversal of impairment on non-financial assets		-	(40,044)
Net Change of operating assets and liabilities			
Net change of operating assets			
Increase in receivables		(8,179,879)	(1,137,106)
Increase in bills and bonds purchased under resell agreements		(1,909,889)	(2,737,659)
(Increase) decrease in deferred income tax assets		(167,639)	236,711
Increase in trading financial assets		(12,630,259)	(11,357,305)
Increase in other financial assets		(7,823,492)	(2,950,758)
Decrease (increase) in other assets		3,201,193	(5,397,276)
Net change of operating liabilities			
Increase (decrease) in payables		511,717	(983,180)
Increase in accrued pension liabilities		177,572	444,690
Decrease in trading financial liabilities		(307,909)	(548,280)
(Decrease) increase in bills and bonds sold under repurchase agreements		(2,296,244)	5,836,839
Increase (decrease) in other liabilities		966,645	(663,763)
Net cash provided by operating activities		63,781,219	38,768,754

		2012	2011
Cash flows from investing activities:			
Acquisition of financial assets designated as at fair value through profit or loss	$	(7,312,974)	(11,528,078)
Proceeds from disposal of financial assets designated as at fair value through profit or loss		9,122,152	4,056,872
Acquisition of available for sale financial assets		(4,094,219,290)	(3,909,983,459)
Proceeds from disposal of available for sale financial assets		40,249,276	116,433,425
Proceeds received on the maturity of available for sale financial assets		4,069,208,516	3,794,300,535
Proceeds received on the maturity of financial assets designated as at fair value through profit or loss		3,584,884	2,320,951
Proceeds received on the maturity of bond investment in non active market at cost		1,548,161	1,182,195
Acquisition of held to maturity financial assets		(188,431,923)	(190,365,893)
Proceeds from disposal of held to maturity financial assets		31,452,861	5,305,000
Proceeds from received on the maturity of held to maturity financial assets		124,623,430	150,350,882
Proceeds from equity reduction of available for sale financial assets		-	3,069
Cash dividend received from available for sale financial assets		51,601	330,242
Proceeds from disposal of hedging derivatives		1,169	259
(Increase) decrease in due from Central Bank and call loans to banks		(11,901,027)	29,738,637
Acquisition of fixed assets		(635,365)	(722,392)
Proceeds from sale of fixed assets and non operating assets		697,829	498,651
Acquisition of bond investment in non active market		(25,663,316)	(31,400,496)
Proceeds from disposal of bond investment in non active market at cost		14,147,006	16,176,850
Acquisition of intangible assets		(697,668)	(292,260)
Increase in discounts and loans		(21,953,107)	(84,622,983)
Increase in purchase of real estate investment		(758,449)	(740,349)
Decrease (increase) in other financial assets		320,427	(15,262)
(Increase) decrease in other assets		(8,577,620)	898,056
Net cash used in investing activities		(65,143,427)	(108,075,548)
Cash flows from financing activities:			
Decrease in other loans		-	(82,017)
Increase in commercial paper payables		20,343	19,756
Increase in other financial liabilities		2,851,737	4,553,096
Increase (decrease) in other liabilities		1,705,697	(171,238)
Cash dividend paid		(4,587,871)	(4,493,370)
Increase in deposits from central bank and other financial institution		4,447,991	1,313,537
Increase in deposits and remittances		74,918,971	35,721,771
Net cash provided by financing activities		79,356,868	36,861,535
Exchange effect		5,947,074	(3,138,460)
Net increase (decrease) in cash and cash equivalents		83,941,734	(35,583,719)
Cash and cash equivalents at beginning of year		867,511,740	903,095,459
Cash and cash equivalents at end of year	$	951,453,474	867,511,740
Supplemental disclosure of cash flow information:			
Interest paid	$	43,176,859	39,840,996
Income tax paid	$	1,155,300	556,079
Financial and investing activities not affecting cash:			
Unrealized gains (losses) on financial instruments	$	6,105,646	(20,601,155)
Unrealized increments on revaluation	$	936,963	12,059,383
Cumulative foreign currency translation adjustments	$	(440,601)	95,421
Special reserve	$	-	204,699
Change in additional paid-in capital	$	(462,795)	579,227
Net losses not recognized as pension costs	$	(387,543)	(868,570)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(expressed in thousands of New Taiwan Dollars, unless otherwise specified)

(1) Organization and Business

1) Taiwan Financial Holding Co., Ltd.

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 Holding became a public company on November 17, 2009.

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

As of December 31, 2012 and 2011, there were 8,795 and 8,673 employees in the Company and its subsidiaries, respectively.

2) The consolidated subsidiaries' businesses

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 starting from 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 engaged in the following business:

1. all commercial banking operations allowed under the Banking Law;
2. international banking operations;
3. all kinds of savings and trust business;
4. overseas branch operations authorized by the respective foreign governments; and
5. other operations authorized by the central government authorities.

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 yielded by BOT as its owner's equity. 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's main businesses include the following: 1. Securities trading brokerage. 2. Providing margin purchases and short sales for securities transactions. 3. Securities dealing. 4. Operating as futures introducing brokers.

(2) Summary of Significant Accounting Policies

The financial statements of the Company and its subsidiaries have been prepared in the local currency and in Chinese. The financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language financial statements, the Chinese version shall prevail.

1) Basis of preparation

The Company and its subsidiaries' consolidated financial statements were prepared in conformity with relevant government customs. The Company prepared the accompanying financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China (ROC) when customs are inapplicable.

The Company and its subsidiaries are government-owned enterprises, and their accounting practices mainly follow the Budget Law, Account Settlement Law and Uniform Regulations on Accounting Systems for Banks Governed by the MOF. The annual financial statements are audited by the Ministry of Audit (the MOA) to ensure that the Company and its subsidiaries comply with the budget approved by the Legislative Yuan. The financial statements become final only after such an audit by the MOA. Adjustments are amended in the preparation of consolidated financial statement in accordance to the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

The financial statements of 2011 and 2010 were approved by the MOA, and the beginning balance in 2012 and 2011 were the same as the approved closing balances in 2011 and 2010, respectively.

The differences between the financial statements certified by the MOA and that audited by the independent auditors are described in note (42) 11.

2) Principles of consolidation

The consolidation of financial statements is made in accordance with the requirements of the "Regulations Governing the Preparation of Financial Reports by Financial Holding Companies" and ROC Statement of Financial Accounting Standards (ROC SFAS) No. 7 "Consolidated Financial Statements". All material inter-company transactions have been eliminated in the consolidated financial statements.

Name of the investor	Name of the subsidiary	Business	Shareholding percentage	
			December 31, 2012	December 31, 2011
The Company	BOT	Banking	100.00%	100.00%
The Company	BTLI	Life Insurance	100.00%	100.00%
The Company	BTS	Securities	100.00%	100.00%

3) Foreign currency transactions

The financial statements of the Company and its subsidiaries are presented in New Taiwan Dollar. Non-derivative transactions in foreign currency are translated at the exchange rate on the date of transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date . All differences are taken to the Consolidated Income statement for the period. If the non-monetary assets or liabilities are measured at fair value through profit or loss, the resulting unrealized exchange gains (loss) from such translation is reflected in the accompanying statement of income. If the non-monetary assets or liabilities are measured at fair value through shareholder's equity, the resulting unrealized exchange gains (loss) from such translation are recorded as a separate component of shareholder's equity.

The financial statements of overseas operating entities reported in functional currencies are translated into New Taiwan Dollars at the exchange rates prevailing on the balance sheet date, with the exception of stockholders' equity, which is translated at historical rates. Translation differences resulting from the translation of these financial statements into New Taiwan Dollars are recorded as cumulative translation adjustment, a separate component of shareholders' equity.

4) Use of estimates

The preparation of the accompanying financial statements requires management of the Company and its subsidiaries to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods.Actual results could differ from these estimates.

5) Accounting basis cash-flow

Cash and cash equivalents are the basis for the preparation of cash flow. Cash comprise of cash on hand, demand deposit, check deposit, timed deposit and NCD that are fully redeemable upon cancellation. Cash equivalents comprise of short-term, highly liquid investments that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of changes in value. Investment normally meets the definition of a cash equivalent when it has a maturity of three months or less from the date of acquisition, such as short term bills.

6) Cash and cash equivalents

Cash and cash equivalents refer to cash on hand, notes and checks for clearing, petty cash, bank deposits and placement with other banks.

7) Financial assets or liabilities at fair value through profit or loss

1. An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition.

(a) Financial assets and liabilities held for trading purposes are classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term.Derivatives held by the Company and its subsidiaries, other than designated hedging securities, are classified in this category.

(b) An embedded derivative shall be separated from the master contract,but if the entity is unable to determine reliably the fair value of an embedded derivative separately either at acquisition or at the subsequent balance sheet date, it shall designate the entire hybrid contract as at fair value through profit or loss, either to eliminate or significantly reduce accounting mismatch that would otherwise arise from financial assets.

(c) Financial assets or liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Financial assets purchased or sold regularly is recognized using either trade date accounting (except for bonds and funds recognized using settlement date accounting).

2. Derivative financial instruments refer to transactions such as forward contracts, interest swaps, cross currency swaps, asset swaps and options that are engaged in by the Company and its subsidiaries in foreign exchange, interest rate and capital markets.In addition to their application in hedge accounting, derivative financial instruments are for trading purposes.Derivative financial instruments for trading purposes are involved in creating markets, serving customers and other related arbitrage activities.

Derivative financial instruments for trading purposes are assessed by the fair value method.Any relevant net present value created shall be recognized as current gains or losses.Fair value refers to the formal transaction price fully recognized and agreed by both parties.The fair value generally is the trading price in an active market.If there is no trading price available, the fair value should be estimated by a valuation method or model.

The right of set-off of derivative financial instruments measured by the fair value method is enforceable by law. In net settlement, financial assets are offset with liabilities and disclosed in net amount.

8) Available-for-sale financial assets

Available-for-sale financial assets are recorded at fair value, and the change in market value is adjusted against shareholders' equity. Financial assets or liabilities purchased or sold regularly is recognized using either trade date accounting (except for bonds and funds recognized using settlement date accounting).Impairment loss is recognized when there is objective evidence of impairment thereof.If, in a subsequent period, the amount of the impairment loss decrease, then for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to equity; for debt securities, the amount of the decrease is recognized in profit or loss, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

9) Held-to-maturity financial assets

Held-to-maturity financial assets are debt instruments held by the Company and its subsidiaries with positive intention and ability to hold to maturity, recorded at amortized cost.Held-to-maturity financial assets are measured at fair value upon initial recognition plus transaction costs, and recognized through profit or loss at derecognition,impairment or amortization. Financial assets or liabilities purchased or sold regularly is recognized using either trade date accounting. Impairment loss is recognized when there is objective evidence of impairment. If the impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit and loss.The carrying value after the reversal should not exceed the amortized balance of the assets assuming no impairment loss was recognized

10) Hedge accounting

Financial instruments held by the Company and its subsidiaries which meet all the criteria for applying hedge accounting are treated with fair value hedge accounting.Gains or losses on a hedging instrument resulting from fair value revaluation or exchange rate variation are recognized through profit or loss in the current year immediately.Gains or losses on a hedged item arising from the exposures to targeted risks is reflected in the face value of that hedged item and recognized through profit or loss in the current year immediately.

11) Financial assets carried at cost

Financial assets measured at costs are unquoted equity instrument whose fair value cannot be reliably measured. Impairment loss is recognized if there is objective evidence of impairment, and this recognized amount is non-reversible.

12) Bond investment in non-active market

Bond investments in non-active market are recorded at amortized cost.The asset is measured at fair value upon initial recognition plus any transaction costs incurred for acquiring such asset.Impairment loss is recognized when there is objective evidence of impairment thereof.If the impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized,the previously recognized impairment loss is reversed through profit and loss.The carrying value after the reversal should not exceed amortized balance of the assets assuming no impairment loss was recognized.

13) Notes receivables, account receivables and other receivables

Notes receivable and account receivables result from services provided and goods sold other receivables resulted from non-operating activities.

14) Loans

Loans are recorded by the amount of outstanding principal,with unearned income excluded.Interest income is recognized revenue on an accrual basis.

Recording of interest receivable of loans would be suspended if either of the following conditions is met:

1. Collection of payment of principal or interest accrued is considered highly unlikely; or,
2. Payment of principal or interest accrued is over 6 months past due.

Interest revenue is recognized upon receipt of interest for the period when recording of accrued interest is suspended.

The Company first assesses whether any objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment impairment. Impairment loss is recognized and measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss. When determining impairment loss, the estimated future cash flows should include collaterals and the recoverable amount from associated insurance contracts.

If in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date when impairment is reversed. The amount of the reversal shall be recognized in profit or loss.

The asset valuation of subsidiary, BOT, complies with the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans” for certain loans with uncollectible risks. The subsidiary, BOT, shall allocate sufficient loan loss provision. Uncollectible loans are written off upon approval of Board of Directors. The recovery of written off loans is accounted for under the reversal of the allowance of doubtful accounts after notifying the internal audit committee.

Effective July 1st, 1999, the subsidiary, BOT, adopted the interpretation letter of Tai Chai Rong No. 88733168 issued on June 30, 1999 by reserving 3% of sales as loan loss provision to accelerate the recovery of over-dued loans. Additionally, the subsidiary, BOT, also adopted interpretation letter No. 09200114870 issued on June 25, 2003 by extending the content from the previous interpretation letter, 3% reserve from the sales shall be terminated when over-dued loan falls below 1%. Adopting the aforementioned rules, loan loss provision shall be accounted for under “bad debt expense” and “provision for bad debt”.

Subsidiary BTLI conforms to “Regulations Governing the Procedures for Insurance institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans” for loan provisions, taking into the characteristics and nature of the loans and its collectability into consideration. From January 1st, 2011, 0.5% of loan loss provision will be recognized from normal loans from the first category less life insurance loan and prepaid insurance fee.

The allowance of doubtful accounts is decided by the higher result of note (9) or the method described above.

Subsidiary BTLI adopted the interpretation letter of Tai Chia Bao No. 0920750506 on April 30, 2003 and No. 0920751057 on July 22, 2003, the insurance subsidiary will decrease the allowance for doubtful accounts, which resulted from three percent of sales tax which are not yet written off. While the NPL ratio is less than one percent for three months, the decreased allowance for doubtful accounts will be recognized as special reserve, and the next month is allowed not to prepare the allowance for doubtful accounts and special reserves.

15) Pecuniary and securities financing and refinancing

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

The allowance of doubtful accounts is decided by the higher result of note (9) or the method described above.

16) 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.The related interest revenue or expenses are recorded on an accrual basis.

17) Non-financial asset impairment

The Company and its subsidiaries adopted SFAS No.35 “Accounting for Asset Impairment”.In accordance with standard, the Company and its subsidiaries identified indications that asset is impaired on balance sheet date (besides cash generating units and goodwill), and should estimate the recoverable amount for the asset, which if it’s lower than its carrying amount, the carrying amount of the asset should be reduced to is recoverable amount, and the reduction should be recognized as impairment loss.The accumulated impairment loss of an asset (other than goodwill) recognized in prior years should be reversed, if, subsequently, there has been a change in the estimates used to determine the asset’s recoverable amount so as to increase the recoverable amount, Then, the asset’s carrying amount should be increased to its recoverable amount but should not exceed the carrying amount of an asset that would have been determined net of depreciation or amortization had no impairment loss been recognized for the asset in prior years.

18) Investment under equity method

Long term investments in which the Company and its subsidiaries have more than 20% of the investee's voting shares or are able to exercise significant influence over the investee's operating and financial policies are accounted for by the equity method.The net equity value of long term investments based on percentage of voting rights and investment cost is as follows:

1. The original difference between investment cost and underlying equity in net assets, if it had originally be analyzed the causes of the difference, should continue the same way as the previous analysis has indicated, However, the goodwill in the difference should not be amortized anymore, and the goodwill that had been amortized shall not be reversed.
2. If the total difference had be chosen to be amortized over certain period, then the unamortized difference of investment cost over underlying equity in net assets shall follow the same treatment as goodwill (where difference should not be amortized anymore, and the amortized amount shall not be reversed).
3. The deferred credit in the difference shall continue to be amortized over the remaining amortization period.

Goodwill shall be evaluated on an annual basis or when there is any indication that good will may be impaired, the recoverable amount less than book value is recognized as impairment loss.

Gains or losses on disposal of long term equity investment are calculated based on the difference between selling price and book value. The capital surplus arising from long term equity investment is adjusted to profit and loss based on the percentage sold.

19) Real estate investments

Real estate investments are recorded at cost at acquisition, the value on balance sheet date is determined by the lower value between the book value and fair value. If a decline in the investment’s value is validated along with minor probability of recovering, the investment is written down to reflect such a decline, and the resulting loss is recognized as current gains or losses when such decline occurs.The major renewals and improvements, which result in the prolonged service life or the increased value of real estate, are capitalized. Repairs and maintenance are expensed as incurred.The cost of an investment in real estate, its corresponding revaluation surplus, and accumulated depreciation are written off upon retirement or disposal.The gains or losses resulting from disposal of an investment in real estate are recognized as an operating gains or losses respectively.

20) Fixed assets

Land is stated at acquisition cost, which can be revaluated in accordance with related laws. Reserve for land appreciation tax is allocated and recorded as other liabilities.During a land transfer, both land revaluation increments and the reserves for land revaluation increment tax should be transferred with the acquisition cost of such land.Fixed assets other than land are assessed based on acquisition cost, including capitalization of any interest accrued in obtaining such assets before reaching usable condition.Major additions, improvements and renewals are capitalized, whereas maintenance and repairs are expensed when occurred.Fixed assets without use value or left unused should be reclassified as idle assets, where the cost, cumulative depreciation and cumulative impairment of such assets are all transferred to depreciation and impairment of idle assets.

Depreciation of fixed assets is by the straight line method over the estimated useful lives of the respective assets.The useful lives of leasehold improvements are the shorter of the lease period or service life. Upon reaching its useful life, if it is still in use, a depreciable asset can have its remaining useful life re-estimated and depreciation expense can continue to be allocated over its residual value.

In compliance with Accounting Research and Development Foundation Interpretation letter number 340,the Company and its subsidiaries have recorded the estimated dismantlement or restoration obligation for a fixed asset while it is not used for producing inventory as the cost of such asset since November 20, 2008.Every single part of the fixed asset that is significant should be depreciated individually.

The Company and its subsidiaries re-evaluate the remaining useful life,depreciation method and residual value of each fixed asset at the end of each accounting period. Changes in those elements are accounted for as changes in accounting estimate.

The estimated useful lives of fixed assets are as follows:

Land improvements	5 to 55 years
Buildings	8 to 55 years
Machinery and equipment	2 to 20 years
Transportation equipment	2 to 12 years
Miscellaneous equipment	3 to 10 years
Leasehold improvements	5 years

Gains or losses on the disposal of fixed assets are recorded as non-operating income or loss.

21) Intangible assets

The Company and its subsidiaries adopted SFAS No. 37 "Intangible Assets". In accordance with SFAS No. 37, intangible assets are recorded at cost, which is measured at fair value. Subsequent to their initial recognition, their book values are their cost plus their incremental value that resulted from revaluation minus accumulated amortization and impairment loss.

Amortization is computed using the straight-line method. The Company and its subsidiaries should revaluate the residual value, estimated useful lives, and amortization method at least once every year. Changes in the above factors will be regarded as changes in accounting estimate. The estimated useful lives of major intangible assets are as follows:

Computer software	3 to 5 years

At the end of each accounting period, the Company and its subsidiaries evaluate the residual value, the useful life and the method of amortization. Changes in those elements are considered changes in accounting estimate.

22) Deferred expense

Deferred expense is mainly telephone installation and subsidy for electrical wires that are deferred from 3 5 years.

23) Separate accounts－insurance instruments

The insurance subsidiary is engaged in selling investment type insurance commodities. The payment of premiums (net of administrative expenses) is recorded in a separate account which should only be used in a way agreed to by the insured. The assets of separate accounts are valued at market price on the balance sheet date, and the Company follows the related rules and financial accounting standards in the ROC to determine the net asset value. In accordance with Insurance Financial Reporting Standards, the assets, liabilities, revenue and expenses are recorded as "separate account－insurance instrument assets", "separate account－insurance instrument liabilities", "separate account－insurance instrument revenue" and "separate account－insurance instrument expenses", respectively.

24) Collateral assumed

Collateral and assets received are stated at the net realizable value: the amount the Company and its subsidiaries receive when debtors cannot meet their obligations and the collateral and residuals are auctioned off. Any discrepancy from the initial claim will be reflected as credit loss. Gains or losses on disposition are included in current earnings. The Company and its subsidiaries recognize impairment loss on collateral on the balance sheet date if the book value of collateral exceeds net fair value.

25) Other assets

Earnings per share are calculated by dividing net income after tax by the weighted-average number of shares outstanding in each period.

1. Statutory deposits

   In accordance with the ROC Insurance Law, the insurance subsidiary should deposit in the National Treasury an amount equal to 15% of its issued capital as guarantee for its insurance business. The insurance subsidiary made these deposits in the form of government bonds and financial bills, and such deposits were approved by the Ministry of Finance.

2. Non operating assets

The cost of non operating assets are stated at the lower of net realizable value or book value. The cumulative depreciation and impairment of those non operating assets are also transferred to non operating assets. Depreciation expense would continue to be incurred over the remaining estimated useful lives of the non operating assets.

26) Due from representative organization

According to Military Insurance Act, the insurance subsidiary charges 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 are recorded as expenses. Moreover, funding for military insurance is keeper by the subsidiary and the interest is paid and recorded as interest expense.

27) Reserve for operations and liabilities

The Company and its subsidiaries comply in accordance with the regulations of the respective authorities which include the provision for operating loss, insurance, unearned premiums, outstanding losses, special reserve, reserve for breach of contract, loss on sales of securities purchased and premium deficiency, recognized as expenses for the period. Effective January 1, 2011, in accordance with Jing Guan Securities No. 0990073857, reserves for breach of contract and loss on sales of securities shall be transferred to special reserves for the purpose of covering company losses. Only when special reserve reaches 50% of the capital, amount can be used for additional investment in capital.

Life insurance industry should recognized foreign exchange volatility reserve for foreign investment assets since March 1, 2012.They can transfer part of the special reserves significant events and the special reserves significant changes to be the preliminary balance of foreign exchange volatility reserve. However, the amount should less than half of the special reserves significant events and the special reserves significant changes on December 31, 2011. According to the SFAS No.40, special reserves should be recognized in three years. The recognized amount for the first year can’t lower than one third of after tax preliminary balance, and the accumulated amount for the first two years can’t lower than two thirds of the preliminary balance.

The insurance subsidiary conduct the liability adequacy test base on the commodity types (or the entire company contract), and apply the Actuarial Standards of Practice NO.40 issued by the Actuarial institute of the Republic of China. This test compares the net carrying amount of insurance liabilities deducted deferred cost and related intangible assets with the estimated amount of the future cash flow from the insurance contract, and recognizes the difference as the expense if the net carrying amount is less than the other.

28) Pension

Retirement, relief and severance of employees of the subsidiaries BOT, LBOT, BTS and BTLI were calculated based on service years until December 31, 1981. From January 1, 1982, to April 30, 1997, they were dealt with according to "The Regulations on Employee's Retirement, Relief and Severance for State run Financial and Insurance Enterprises Owned by the Ministry of Finance". The Company and its subsidiaries contributed 4% to 8.5% of salaries as prior service cost; in addition, employees contributed 3% of total monthly salaries to a pension fund each month. After May 1, 1997, when the Labor Standards Law was implemented, 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. For cleaning and maintenance workers, service costs equivalent to 8% to 15% of total monthly salaries are accrued over the workers' careers based on plan benefit formulas. The workers' pension fund is deposited in an account with the Company and its subsidiaries for the purpose of paying pension benefits to the workers when retiring.

The Labor Pension Act of the R.O.C. ("the Act"), which adopts a defined contribution scheme, is effective from July 1, 2005. In accordance with the Act, employees of the Company and its subsidiaries 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. For employees subject to the Act, the Company and its subsidiaries shall make monthly contributions to the employees' individual pension accounts of 6% of the employees' monthly wages. The related net pension cost is recorded in current income based on the actual contribution made to the pension funds.

The defined benefit pension plan has used the balance sheet date as the measurement date to complete an actuarial valuation of accumulated payment obligation is excess of pension fund assets at fair value. At the balance sheet date, the Company and its subsidiaries recognize minimum pension liabilities and, based on the pension plan's actuarial liabilities, record net pension cost, including current service cost and transitional net assets, prior service cost, and pension profit or loss, amortized over the average remaining length of service of employees by the straight line method.

29) Income tax

The income tax of the Company and its subsidiaries is calculated in accordance with SFAS No. 22 "Income Taxes". Deferred income tax is determined based on differences between the financial statement and tax basis of assets and liabilities, using enacted tax rates in effect during the years in which the differences are expected to be reversed. The income tax effects due to taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects due to deductible temporary differences, utilization of loss carryforwards and income tax assets is evaluated, and a valuation allowance is recognized accordingly.

The adjustments of income tax for the prior year are recorded as income tax expenses in the current year.

Since the Company and its subsidiaries are a government owned enterprise, income tax should be determined by the Ministry of Audit.

In accordance with the Financial Holding Company Act, Article 49, the Company has adopted the Company as the taxpayer to file a consolidated corporate income tax return starting from 2008. Other tax matters should be handled by each entity of the Company and its subsidiaries. When preparing its financial statements, the Company accounts for its income tax in conformity with SFAS No. 22 "Income Taxes". However, the Company also adjusts the related income tax balance in a reasonable and systematic way to reflect the differences computed for purposes of filing a consolidated corporate income tax return with the Company as the taxpayer. The adjustments resulting from using the Company as the taxpayer to file a consolidated corporate income tax return is recorded under receivable from (payable to) affiliated parties.

30) Revenue recognition

1. Interest income from the Company's banking loans is accrued on the unpaid principal balance in accordance with the terms of the loans. No interest revenue is recognized on loans and other credits that are classified as nonperforming loans until the interest is collected. Interest income from bailout and loan extension in recorded as deferred income in accordance with the government authorities' provision. No interest revenue from the foregoing sources is recognized until the interest is collected. Service income is recognized on an accrual basis.

   A cash dividend is recognized as revenue on the ex-dividend date, while a stock dividend can only be booked as an increase in shares rather than as revenue in accordance with ROC generally accepted accounting principles.The company should estimate dividend revenue with issue condition when they invest in cumulative non-participating preference shares. In accordance with the regulation of "Insurance Act for Government employees', the losses and underlying debt accrued by May 30, 1999 has been replenished by MOF and recognized as revenue by the Company. The losses occurred after the aforementioned date is replenished by adjusting revenue rates.

2. In terms of the insurance contracts and the financial products with discretionary participation feature for BTLI, the premium of the first and the subsequent period is recognized as revenue when the insurance process is completed and the due date comes. The policy acquisition costs such as commission expenses, is recognized as current expenses when the insurance contracts become effective.

   The premiums of insurance contracts not belong to investment-linked insurance and classified as financial products without discretionary participation feature are recognized as “provision for insurance contracts with financial product features”. The acquisition costs are used to write off “provision for insurance contracts with financial product features” when the insurance contracts become effective.

   The premiums of insurance contracts belong to investment-linked insurance and classified as financial products without discretionary participation feature are all recognized as “Liabilities on Insurance Product – Separated Account” after deducting the expenses such as the front-end load and investment administrative service charge. The acquisition costs of investment administrative service, including the commission expenses and the additional charges related to the issue of new contracts, are recognized as “deferred acquisition costs”.

   The service charges which BTLI collects from the policyholder of insurance contracts not belong to investment linked insurance and classified as financial products without discretionary participation feature include contract administrative charge, investment administrative charge, rescinding charge and others. The service charge is recognized as revenue when it is collected. When BTLI collects certain service charge which makes it obligated to provide future service (ex: Front end load), then the service charge deferred to recognize as revenue when the service is provided.

3. For the subsidiary BTS, brokerage commissions, profit or loss from trading securities, and relevant brokerage securities transaction charges are recognized on the dealing date. Interest income or expenses of margin loans, securities financing and refinancing, bonds purchased under agreement to resell and sold under agreement to repurchase, and brokerage commission for introducing futures contracts are recognized during the transaction periods on an accrual basis. Underwriting commissions are recognized when collected, and underwriting transaction fees are recognized when the contract becomes effective.

31) Contingent liability and commitment

If commitment and contingent liabilities are highly probable, and the amount can be measured reliably, the provision shall be recognized accordingly. If the contingent liability is highly probably but cannot be measured reliably, it shall be disclosed in the notes in the financial statements.

32) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity). The operating results from operating segments are regularly review by the Company and its subsidiaries' chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

33) Others

1.Insurance contract classification

An insurance contract is a contract under which one party (the insurer) 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 Company identifies the significant insurance risk if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario.

An insurance contract with financial Instrument features means the contract is able to transfer significant insurance risk. Financial risk refers to the risk resulting from possible changes in one or more 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.

A contract that qualifies as an "insurance contract" remains an "insurance contract" until all rights and obligations are extinguished or expired even if the insurance risk significantly mitigated. However, if an insurance contract with financial instrument feature transfers significant risk to the Company 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:

(a) that are likely to be a significant portion of the total contractual benefits;

(b) whose amount or timing of distribution of additional benefits is contractually at the discretion of the company; and

(c) the additional benefits are contractually based on:

a) the performance of a specified pool of contracts or a specified type of 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 of the embedded derivative shall be measured at fair value through profit or loss, and the change shall be recognized as current gains or losses. If the embedded derivative is itself an insurance contract or in the case of an insurer need not separate it and is able to measure it at fair value through profit or loss, the company does not need to separate the embedded derivative and the insurance contract in terms of recognition.

2. Reinsurance

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 tests to determine whether the rights are impaired or unrecoverable.

If there is evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the insurance subsidiaries 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 subsidiaries shall recognize the difference between the recoverable amount and the book value of the previously stated right as impairment loss.

For the reinsurance contract, the insurance subsidiaries 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 subsidiaries will recognize and measure it as deposit accounting. The consideration received or paid by the Insurance subsidiaries 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 per effective interest method. The effective interest rate is calculated from the estimate of the future cash flow and the interest is recognized as interest revenue or expense.

3. Other assets-inventory

The costs of inventories are necessary expenditures and charges for bringing the inventory to the salable and useable condition and location. Inventories shall be measured at the lower of cost and net realizable value. Cost of inventories are prepared using weighted average cost formula and net realizable value as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

4. Earnings per share

Earnings per share are calculated by dividing net income after tax by the weighted average number of shares outstanding in each period.

(3) Reasons for and Effects of Accounting Changes

1) Effective January 1, 2011, the Company and its subsidiaries adopted the third amendment of SFAS No. 34 “Financial Instruments: Recognition and Measurement” revised by the Financial Accounting Standards Committees. In accordance with SFAS No. 34, the recognition, subsequent valuation and impairment losses of loans and receivables shall comply with the new amendment. The amendment also applies to the terms and conditions of restructured and negotiable debts. Please see Note 5, 8, 9 and 13 for further descriptions.

2) Effective January 1, 2011, the Company and its subsidiaries adopted SFAS No. 41 “Operating Segments.” In accordance with SFAS No. 41, an entity shall disclose information to enable users of its financial statements to evaluate the nature and financial impact of the business activities in which it engages and the economic environments in which it operates. The Company and its subsidiaries determine and present the operating segments based on the information that is internally provided to the chief operating decision maker. The Standard also supersedes SFAS No. 20 “Segment Reporting.” Such changes in accounting principle did not have any significant impact for the year ended December 31, 2012.

3) Effective January 1, 2011, the Company and its subsidiaries adopted interpretation letter Jing Guan No. 0990073857 to transfer reserve of securities defaults and purchase of bills to special reserve.

4) Effective from January 1, 2011, the Company’s insurance subsidiaries adopted Republic of China Statement of Financial Accounting Standards (SFAS) No.40 “Insurance Contract”, such changes in accounting principle did not have significant impact for the year ended December 31, 2011.

5) BTLI adopted interpretation letter Jing Guan No. 10102501561 published on February 7, 2012 to revise recording method of special reserves for life insurance firms. The influence for 2012 annual report are as follows:

Item		2012 Before	2012 After	2012 Difference
Income before tax	$	7,843,229	7,916,989	73,760
Income after tax		7,235,140	7,296,361	61,221
EPS before tax		0.88	0.88	-
EPS		0.81	0.81	-
Foreign exchange volatility reserves (Debit for every recorded special insurance reserves)		-	73,760	73,760 (note)
Special reserves significant incident (Recorded reserve for operating and liabilities)		203,856	101,928	(101,928) (note)
Special reserves significant changes (Recorded reserve for operating and liabilities)		137,584	68,792	(68,792) (note)
Foreign exchange volatility reserves (Recorded reserve for operation and liabilities)		-	96,960	96,960 (note)
Shareholders' equity		258,372,351	258,433,572	61,221

Note: Foreign exchange volatility reserves $96,960 on December 31, 2012 is transferred from special reserves significant incident $101,928 and special reserves significant changes $68,792 on March 1, 2012 and with drawled foreign exchange volatility reserves $73,760 this year.

(4) Cash and Cash Equivalents

		The year ended December 31, 2012	The year ended December 31, 2011
Cash on hand and petty cash	$	11,959,498	10,483,673
Foreign currency on hand		5,453,671	5,845,726
Bank deposits		47,789,573	21,562,098
Notes and checks for clearing		11,768,506	8,904,406
Placement with banks		43,633,092	51,192,401
	$	120,604,340	97,988,304

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

		The year ended December 31, 2012	The year ended December 31, 2011
Cash on hand	$	120,604,340	97,988,304
Call loans to banks and bank overdraft		140,411,653	72,374,442
Placement with Central Bank, including reserve checking account and foreign－currency－denominated deposit reserves		27,954,705	46,820,477
Negotiable certificates of deposit (NCDs)		614,518,774	631,220,453
Investment in bills and securities maturing within 90 days		47,964,002	19,108,064
Total	$	951,453,474	867,511,740

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

		The year ended December 31, 2012	The year ended December 31, 2011
Call loans to banks	$	140,442,053	72,379,420
Less: allowance for doubtful accounts－call loans to banks		(30,400)	(4,978)
Reserves for deposits－A account and reserves for deposits－foreign currency, etc.		27,954,705	46,820,477
Reserves for deposits－B account		62,743,516	60,077,287
Deposits in Central Bank		318,517,995	309,283,197
	$	549,627,869	488,555,403

1) The reserves for deposits is required by the Banking Law and is determined by applying the reserve ratios by the Central Bank to the monthly average balance of each type of deposit. The reserve amount is deposited in the reserve deposit account at the Central Bank. According to the regulations, such reserve for deposits－B account cannot be withdrawn except for monthly adjustments of the reserve for deposits.
2) As of December 31, 2012 and 2011, 60% of the deposits collected by BOT on behalf of government institutions from government organizations amounting to $4,345,419 and $5,077,052, respectively, were deposited in the Central Bank and cannot be withdrawn, according to the regulations.

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

	The year ended December 31, 2012	The year ended December 31, 2011
Financial assets held for trading		
Commercial paper	$ 31,909,877	7,477,954
Government bonds	704,084	966,154
Listed stocks, beneficiary certificates and monetary instruments	78,407,882	74,355,186
Domestic convertible bonds	996,918	193,006
Corporate and financial bonds	24,782	12,708
Foreign government bonds	2,213,812	2,254,871
Trading securities	552,835	432,883
	114,810,190	85,692,762
Derivative financial instruments	7,642,686	17,253
Financial assets designated as at fair value through profit or loss:		
Foreign government and financial bonds	20,581,246	24,189,751
Add: adjustment valuation	4,478,639	1,847,218
Total	$ 147,512,761	111,746,984

Financial assets and liabilities designated at fair value through profit or loss, net:

	The year ended December 31, 2012	The year ended December 31, 2011
Cash dividend of financial assets	$ 2,079,929	2,434,829
Gains from disposal of financial assets, net	40,386,865	81,412,686
Valuation (losses) of financial assets, net	7,899,239	(8,298,202)
Losses from disposal of financial liabilities, net	(36,811,829)	(75,616,575)
Valuation gain (losses) of financial liabilities	475,655	(7,384,846)
Total	$ 14,029,859	(7,452,108)

For details of the valuation of financial assets measured at fair value through profit or loss, please see note 35, "Information on Financial Instruments".

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

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

	The year ended December 31, 2012	The year ended December 31, 2011
Bills and bonds purchased under resell agreements:		
Government bonds	$ 389,073	2,459,465
Negotiable certificates of deposit	5,648,155	1,403,553
Commercial paper	17,069,714	8,539,833
	$ 23,106,942	12,402,851
Bills and bonds sold under repurchase agreements:		
Government bonds	$ 12,992,332	5,525,570
Commercial paper	349,473	2,706,204
	$ 13,341,805	15,638,050

(8) Receivables, Net

		The year ended December 31, 2012	The year ended December 31, 2011
Accounts receivable	$	1,331,020	1,310,990
Long term receivable－payment on behalf of government		28,875,801	34,821,221
Accrued revenue		815,486	528,263
Interest receivable		13,753,832	12,596,122
Insurance receivable		1,669,649	205,333
Refundable income tax		2,911,681	2,433,731
Notes receivable and acceptance notes receivable		3,064,890	2,827,244
Factoring receivable－without recourse		17,657,859	10,054,670
Margin loans receivable		2,028,144	1,770,825
Others－shall be replenished by state treasury		21,620,758	22,572,919
Others－undelivered spot exchange		2,344	1,906
Others－collection and payment transfer by ATM (Net)		1,455,277	1,329,159
Others－foreign exchange accounting transfer		2,070,823	-
Others		1,908,070	864,485
Subtotal		99,165,634	91,316,868
Less: allowance for doubtful accounts		824,563	232,652
Total	$	98,341,071	91,084,216

In accordance with Executive Yuan Tai 79 JEN Cheng SZU tsu No. 14225, in 2012 and 2011, the BOT paid a premium savings account interest rate in excess of the regular rate of 1.8005% and 1.7868%, respectively, and the resulting interest expenses were $7,996,175 and $7,907,574, respectively, due to executing the government premium savings policy.

As of December 31, 2012 and 2011, BOT, instead of the government, had paid premium savings interest expenses amounting to $75,812,742 (booked in long term receivable $28,875,801 and other financial asset – temporary advances of $46,936,941 and $81,737,714 (booked in long term receivable of $34,821,221 and other financial assets – temporary advances of $46,916,493), respectively. Please refer to note (13) “Other financial assets – net” for further descriptions.

(9) Discounts and loans－Net

		The year ended December 31, 2012	The year ended December 31, 2011
Discounts and import export negotiations	$	5,490,786	4,415,954
Short term loans and overdrafts		270,251,830	374,970,679
Short term secured loans and secured overdrafts		82,499,396	83,050,582
Insurance loans		5,969,738	6,037,958
Accounts receivable financing		265,346	142,685
Medium term loans		688,781,695	600,661,125
Medium term secured loans		278,913,744	288,495,159
Long term loans		185,874,999	182,011,229
Long term secured loans		672,052,225	628,352,806
Non performing loans		10,032,163	8,276,652
Subtotal		2,200,131,922	2,176,414,829
Less: allowance for doubtful accounts		18,009,780	18,087,035
Total	$	2,182,122,142	2,158,327,794

Estimation tables of allowance for doubtful accounts of loans and receivables were as follows:

Loans

Item		Total Loans		Allowance for doubtful accounts	
		December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
There is objective evidence of impairment on individual	Individual assessment of impairment	34,275,894	20,824,187	4,492,298	6,805,532
	Combined assessment of impairment	14,137,972	15,188,305	4,483,970	3,473,720
There is no objective evidence of impairment on individual asset	Combined assessment of impairment	2,151,718,056	2,140,402,337	9,033,512	7,807,783
Subtotal		2,200,131,922	2,176,414,829	18,009,780	18,087,035

Receivables (including other financial assets)

Item		Total Loans		Allowance for doubtful accounts	
		December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
There is objective evidence of impairment on individual asset	Individual assessment of impairment	1,033,607	134,421	613,279	65,584
	Combined assessment of impairment	251,711	289,347	151,243	89,405
There is no objective evidence of impairment on individual asset	Combined assessment of impairment	294,615,712	220,444,111	223,753	120,587
Subtotal		295,901,030	220,867,879	988,275	275,576
Total		2,496,032,952	2,397,282,708	18,998,055	18,362,611

Changes of allowance for doubtful accounts of loans and receivables are as follows:

	The year ended December 31, 2012	The year ended December 31, 2011
Loan:		
Opening balance	$ 18,087,036	11,670,326
Provision for doubtful accounts	2,826,703	4,773,893
Write off	(5,949,262)	(2,518,860)
Recovery of written off	3,198,212	4,076,296
Effects of exchange rate changes and others	(152,909)	85,380
Ending balance	$ 18,009,780	18,087,035
Receivables (including other financial assets):		
Opening balance	$ 275,576	288,782
Reversal of doubtful accounts	247,618	(29,836)
Write off	(12,085)	(12,589)
Recovery of written off	24,954	28,537
Effects of exchange rate changes and others	452,212	682
Ending balance	$ 988,275	275,576

Details of allowance for doubtful accounts were as follows:

		The year ended December 31, 2012	The year ended December 31, 2011
Call loans to bank	$	30,400	4,978
Receivables		824,563	232,652
Discounts and loans		18,009,780	18,087,035
Other financial assets		133,312	37,946
Total	$	18,998,055	18,362,611

Details of bad debt expense were as follows:

		The year ended December 31, 2012	The year ended December 31, 2011
Bad debt	$	3,074,321	4,744,057
Reserve for guarantee liability		33,584	309,959
Total	$	3,107,905	5,054,016

As of December 31, 2012 and 2011, the amount of loans where interest accruals had been ceased of the Company and its subsidiaries which are Bank of Taiwan and BankTaiwan Life Insurance Co., Ltd. were $10,146,246 and $8,326,113, respectively, which was booked in discounts and loans－nonperforming loans and other financial assets－overdue receivables.

Effective January 1, 2011, the Company and its subsidiaries adopted the third amendment of SFAS No. 34 “Financial Instruments: Recognition and Measurement” revised by the Financial Accounting Standards Committees. In accordance with SFAS No. 34, the recognition, subsequent valuation and impairment losses of loans and receivables shall comply with the new amendment from the beginning of 2011. Financial Accounting Standards Committees also amended “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans” and “Regulations Governing the Procedures for Insurance institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans”. Effective January 1, 2011, the subsidiary Bank will reserve 0.5% of allowance for bad debt and reserve for guarantees from loans in the first category less the loans of government debt. Similarly, the insurance subsidiary shall reserve 0.5% of allowance for bad debt based on loans from the first category less life insurance liability and prepaid insurance. The Company and its subsidiaries conformed to the aforementioned regulations for reserving allowance for bad debt and reserve for guarantees.

Please see note (35), "Information on Financial Instruments", for the valuation of loans granted by the Company and its subsidiaries.

(10) Available-for-sale Financial Assets, Net

		The year ended December 31, 2012	The year ended December 31, 2011
Domestic:			
Negotiable certificates of deposit	$	607,100,000	622,500,000
Government bonds		24,967,487	27,329,372
Corporate bonds		21,497,197	17,252,068
Financial bonds		18,816,727	10,448,549
Real estate securitization		-	10,000
Financial asset securitization		995,505	995,505
Listed stocks and beneficiary certificates		48,650,638	53,309,854
Preferred stocks		22,502	1,430,356
Real estate investment trust		515,340	2,061,434
		722,565,396	735,337,138
Foreign:			
Foreign bonds		35,941,605	55,253,521
Beneficiary certificates		5,355,770	2,800,261
		41,297,375	58,053,782
Less: accumulated impairment		1,140,920	1,296,432
Add: valuation adjustment		14,470,490	9,963,843
Total	$	777,192,341	802,058,331

1) Please see note (35), "Information on Financial Instruments", for valuation of available for sale financial assets
2) The subsidiary BOT recognized reversed impairment gain of $1,156 as a result of individual asset impairment valuation on March 17, 2011.
3) Realized profit or loss from available for sale financial assets

	The year ended December 31, 2012	The year ended December 31, 2011
Cash dividend	$ 1,137,469	1,104,667
Gains (losses) on disposal, net	1,796,411	1,546,798
	$ 2,933,880	2,651,465

(11) Held-to-maturity Financial Assets, Net

	The year ended December 31, 2012	The year ended December 31, 2011
Domestic:		
Financial bonds	$ 45,200,212	30,684,106
Corporate bonds	45,295,914	48,433,030
Negotiable certificates of deposits	8,793,255	8,720,452
Commercial paper	16,054,125	11,630,110
Government bonds	44,386,334	39,758,516
Treasury bonds	-	1,487,480
Real estate securitization	-	30,381
Preferred stocks	-	291,090
Structured deposit	800,000	800,000
	160,529,840	141,835,165
Foreign:		
Foreign bonds	83,589,251	86,095,915
Less: accumulated impairment	70,974	206,235
	83,518,277	85,889,680
	$ 244,048,117	227,724,845

1) Please see note (35), "Information on Financial Instruments", for valuation of held-to-maturity investment.

(12) Investments under Equity Method, Net

Name of Investee	December 31, 2012		December 31, 2011	
	Percentage of Ownership (%)	Amount	Percentage of Ownership (%)	Amount
Hua Nan Financial Holdings Co., Ltd.	25.07	$ 33,287,676	25.07	31,466,383
Taiwan Life Insurance Co., Ltd.	21.59	3,601,027	21.59	1,987,762
Kaohsiung Ammonium Sulfate Co., Ltd.	91.86	2,393,485	91.86	2,420,898
Tang Eng Iron Works Co., Ltd.	21.37	1,636,179	21.37	1,653,863
Tai Yi Real-Estate Management Co., Ltd.	30.00	17,686	30.00	15,223
Total		$ 40,936,053		37,544,129

1) The initial costs of long-term equity investment under the equity method were as follows:

Name of Investee	The year ended December 31, 2012	The year ended December 31, 2011
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	1,451,462
Tai Yi Real Estate Management Co., Ltd.	3,793	3,793
	$ 11,750,343	11,750,731

2) The gains or losses on long-term investments under the equity method were as follows:

Name of Investee	The year ended December 31, 2012	The year ended December 31, 2011
Hua Nan Financial Holdings Co., Ltd.	$ 1,992,954	2,503,775
Taiwan Life Insurance Co., Ltd.	437,561	62,708
Kaohsiung Ammonium Sulfate Co., Ltd.	(27,413)	(28,212)
Tang-Eng Iron Works Co., Ltd.	(101,303)	103,479
Gain on disposal of Tang-Eng Iron Works Co., Ltd.	2,463	4,974
Tai Yi Real-Estate Management Co., Ltd.	$ 2,304,262	2,646,724

1. The financial statements of the Company and its subsidiaries' investee companies－Hua Nan Financial Holding Co., Ltd. and Tai Yi Real Estate Management Co., Ltd. under equity method were audited by other auditors, and the related equity in earnings has $1,995,417 and $2,508,749 for the year ended December 31, 2012 and 2011, respectively.
2. The financial statements of the Company and its subsidiaries' investee company－Kaohsiung Amonium Sulfate Co., Ltd. under equity method was not audited by auditors, and the related equity in losses were $27,413 and $28,212 for the year ended December 31, 2012 and 2011, respectively.
3. Since Kaohsiung Ammonium Sulfate Co., Ltd. was 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 control power over such investee.

3) Details of the Company and its subsidiaries' recognition of unrealized increments on revaluation and cumulative translation adjustments under stockholders' equity were as follows:

Name of investee	Unrealized increments on revaluation		Cumulative translation adjustments	
	2012	2011	2012	2011
Hua Nan Financial Holdings Co., Ltd.	$ 901,150)	441,814	(27,447)	35,587
Taiwan Life Insurance Co., Ltd.	29,450	21,880	(1,748)	4,538
Tang Eng Iron Works Co., Ltd.	83,762	-	-	-
	$ 1,014,362	463,694	(29,195)	40,125

4) Details of the Company and its subsidiaries' recognition of additional paid-in capital and unrealized losses or gains on financial instruments under stockholders' equity were as follows:

Name of investee	Additional paid-in capital		Unrealized losses and gains of financial instruments	
	2012	2011	2012	2011
Hua Nan Financial Holdings Co., Ltd.	$ (463,083)	463,082	459,664	(919,726)
Taiwan Life Insurance Co., Ltd.	288	116,144	1,154,805	(755,166)
Tang Eng Iron Works Co., Ltd.	-	-	(142)	434
	$ (462,795)	579,226	1,614,327	(1,674,458)

5) Details of the net loss not recognized as pension costs in 2012 and 2011 were as follows:

Name of investee	2012	2011
Taiwan Life Insurance Co., Ltd.	$ 6,521	74

6) Details of the special reserve recognized under equity method in 2012 and 2011 were as follows:

Name of investee	2012	2011
Taiwan Life Insurance Co., Ltd.	$ -	66,638

7) Details of the Bank's cash dividends received from its long term equity investments under the equity method in 2012 and 2011 were as follows:

Name of investee	2012	2011
Hua Nan Financial Holding Co., Ltd.	$ 1,029,823	582,919
Taiwan Life Insurance Co., Ltd.	$ -	176,229
	$ 1,029,823	759,148

8) The Company and its subsidiaries' investee, Hua Nan Financial Holding Co., Ltd., increased its share capital by cash on December 27, 2011. The Company and its subsidiaries' shareholding percentage decreased from 29.36% to 25.07% as the Company and its subsidiaries do not hold the shares of the investee by percentage.
9) The Company and its subsidiaries investee, Taiwan Life Insurance Co., Ltd., increased its share capital by cash on November 2, 2011. The Company and its subsidiaries shareholding percentage decreased from 23.76% to 21.59% as the Company and its subsidiaries do not hold the shares of the investee by percentage.

(13) Other Financial Assets, Net

	The year ended December 31, 2012	The year ended December 31, 2011
Temporary advances	$ 56,159,008	57,100,344
Less: allowance for doubtful accounts－temporary advance	(42,250)	(10,691)
Financial assets carried at cost	11,092,326	11,092,326
Less: accumulated impairment financial assets carried at cost	(12,426)	(137)
Bond investments with no active market	43,012,877	37,326,838
Less: accumulated impairment－bond investment with no active market	-	(317,888)
Overdue receivables	114,083	49,458
Less: allowance for doubtful accounts－overdue receivables	(91,062)	(27,255)
Hedging derivative financial assets	3,543	3,074
Separate account insurance product assets	4,686,044	5,490,078
Bills purchased	20,252	21,789
Others	23,552	27,307
Total	$ 114,965,947	110,755,243

1) Please see note (35), "Information on Financial Instruments", for valuation of hedging derivative financial assets and bond investments with no active market.
2) Please see note (8), "Receivables", for description of temporary advance of excess interest expense on behalf of the government.
3) Convertible bond $436,875 of Promos technologies matured on February 14, 2012, so its relative accumulated loss $305,813 were transferred to other receivables and allowance for doubtfully accounts.
4) On December 31, 2012, BOT assessed individually asset and recognized an impairment loss amounting to $12,426.
5) As of December 31, 2012 and 2011, BOT, instead of the government, had paid premium savings interest expenses amounting to $75,812,742 and $81,737,714, and the overdone amount are $46,936,941 and $46,916,493 (booked under temporary advances).

(14) Real Estate Investments, Net

	The year ended December 31, 2012	The year ended December 31, 2011
Real estate investments	$ 5,096,020	4,337,660
Less: accumulated depreciation	322,886	280,624
Total	$ 4,773,134	4,057,036

(15) Fixed Assets, Net

		The year ended December 31, 2012	The year ended December 31, 2011
Cost:			
Land	$	4,913,018	4,913,030
Land revaluation increments		81,567,575	81,736,647
Land improvements		14,964	14,964
Buildings (including revaluation increments)		15,337,939	14,998,570
Machinery and equipment		6,177,275	5,887,734
Transportation equipment		1,108,570	1,106,261
Miscellaneous equipment		1,044,910	1,053,853
Leasehold improvements		692,163	662,910
Construction in progress and order parts		348,118	665,260
Subtotal		111,204,532	111,039,229
Accumulated depreciation:			
Land improvement		13,337	12,975
Buildings		5,926,526	5,609,947
Machinery and equipment		4,461,985	4,148,434
Transportation equipment		883,404	853,743
Miscellaneous equipment		824,767	811,957
Leasehold improvements		591,338	552,492
Subtotal		12,701,357	11,989,548
Accumulated impairment		67,069	-
Net	$	98,436,106	99,049,681

On May 31, 2012 and March 11, 2011, the Company and its subsidiaries assessed individually asset and recognized an impairment loss amounting to $59,978 and $4,036, a reversal on impairment loss amounting to $0 and $23,282; (decrease) increase unrealized increments on revaluation by $(12,061) and $119,733, respectively.

The Company and its subsidiaries have conducted revaluations of lands and buildings many times over past years. As of December 31, 2012 and 2011, revaluation increments of lands were $81,567,575 and $81,736,647, respectively, and estimated tax payables on land increments were $18,290,593 and $18,367,918 (recorded in other liabilities), respectively.

To comply with government policy, the Company and its subsidiaries sold land, buildings and equipments and recognized gains on disposal of property, plant and equipment of $812,794 and $421,670 recorded in the years ended December 31, 2012 and 2011, respectively.

As of December 31, 2012 and 2011, BTS pledged fixed assets as collateral.

As of December 31, 2012, the part of the land and buildings (including real estate investment) of the Company and its subsidiaries were leased out. The book value (including revaluation increments) of the rental land was $35,759,957. Most of the rental buildings have been fully depreciated over their useful lives. The estimated future lease revenue was as follows:

Period		Amount
2013.01.01~2013.12.31	$	264,047
2014.01.01~2014.12.31		181,068
2015.01.01~2015.12.31		93,827
2016.01.01~2016.12.31		29,372
2017.01.01~2017.12.31		98,779
	$	667,093

(16) Intangible Assets

As of December 31, 2012 and 2011, the details of intangible assets were as follows:

	The year ended December 31, 2012	The year ended December 31, 2011
Original cost:		
Computer software	$ 842,351	990,838
Add: acquisition	570,125	292,260
Less: accumulated amortization	235,269	452,737
Ending balance	$ 1,177,207	830,361

(17) Other Assets－Net

	The year ended December 31, 2012	The year ended December 31, 2011
Prepayments	$ 7,350,312	6,074,917
Refundable deposits	2,634,926	1,862,710
Operating guarantee deposits and settlement and clearing funds	107,452	93,097
Temporary advance and amount being transferred	203,627	202,079
Deferred income tax assets, net	2,138,917	2,018,960
Non operating assets (including revaluation increments)	1,029,873	1,044,568
Brokering transaction debit balance, net	9,447	38,738
Collateral assumed, net	1,076,959	1,076,959
Deferred pension cost	259,529	622,896
Inventory	1,812,216	5,994,550
Others	296,518	53,446
Total	$16,919,776	19,082,920

1) Prepayments

	The year ended December 31, 2012	The year ended December 31, 2011
Prepaid expense	$ 714,243	866,995
Prepaid tax	31,395	34,817
Prepaid stock dividends and bonus	4,275,737	4,120,249
Other prepayments	2,328,937	1,052,856
	$ 7,350,312	6,074,917

2) Non-operating assets, net

	The year ended December 31, 2012	The year ended December 31, 2011
Land	$ 1,006,941	1,015,351
Buildings	53,185	53,185
Miscellaneous equipment	92	92
Less: accumulated depreciation－buildings	24,892	23,578
accumulated impairment	5,453	482
	$ 1,029,873	1,044,568

The Company and subsidiaries recognized gains on reversal on impairment loss of $16,762 and unrealized increments on revaluation of $199 based on the result of impairment assessment of individual asset on Mach 11, 2011.

3) Collateral assumed, net

	The year ended December 31, 2012	The year ended December 31, 2011
Collateral assumed	$ 1,093,456	1,093,456
Less: accumulated impairment	16,497	16,497
	$ 1,076,959	1,076,959

4) Inventory

	The year ended December 31, 2012	The year ended December 31, 2011
Inventory	$ 1,837,838	6,244,475
Less: allowance for inventory devaluation	(25,622)	(249,925)
	$ 1,812,216	5,994,550

Changes of allowances for inventory devaluation were as follows:

	The year ended December 31, 2012	The year ended December 31, 2011
Opening balance	$ 249,925	3,575
Provision (reversal) for the current period	(224,303)	246,350
Closing balance	$ 25,622	249,925

The inventory (gains) losses recognized for the years ended December 31, 2012 and 2011 were $(224,303) and $246,350; write down of inventories to realizable value in the amount of $246,350 in 2011. The increase in net realizable value recognized reduced operating costs amount to $224,303, because previously caused inventories to net realizable value below costs factors have disappeared in 2012.

(18) Deposits of Central Bank and Other Banks

	The year ended December 31, 2012	The year ended December 31, 2011
Call loans from bank	$ 171,051,568	167,538,254
Postal deposits transferred	3,205,362	3,404,645
Deposits from Central Bank	9,676,169	12,005,704
Deposits from other banks	27,351,993	25,282,765
Bank overdrafts	2,089,373	695,107
	$ 213,374,465	208,926,475

(19) Commercial Paper Payable－Net

	The year ended December 31, 2012	The year ended December 31, 2011
Commercial paper	$ 520,000	500,000
Less: commercial paper discount	120	463
Total	$ 519,880	499,537

For the years ended December 31, 2012 and 2011, the annual interest rates ranged from 0.938%~1.028% and 0.928%~0.958%, respectively. As of December 31, 2012 and 2011, unissued commercial paper facilities amounted to approximately $2,980,000 and $2,500,000 thousand. There were no assets pledged as collateral for issuing commercial paper for the years ended December 31, 2012 and 2011.

(20) Financial Liabilities Measured at Fair Value through Profit or Loss

	The year ended December 31, 2012	The year ended December 31, 2011
Held for trading financial liabilities		
Foreign exchange options premium	$ 126,688	22,440
Stock warrants	5,180	-
Valuation adjustment foreign exchange options	(49,671)	(13,327)
Valuation adjustment stock warrants	(4,047)	-
Valuation adjustment FX swaps and cross currency swaps	3,081,190	3,042,673
Valuation adjustment interest rate swaps	754,810	906,650
Valuation adjustment forward foreign exchange	542,135	316,438
Valuation adjustment asset swaps	52,223	-
	$ 4,508,508	4,274,874

For valuation of financial liabilities at fair value through profit or loss, please refer to note (35).

(21) Payables

	The year ended December 31, 2012	The year ended December 31, 2011
Accounts payable	$ 12,590,057	10,941,024
Receipts under custody	1,293,343	1,181,647
Accrued expense	2,817,914	2,832,186
Interest payable	13,093,002	12,713,800
Bank acceptances	3,080,210	2,724,821
Due from representative organization	26,083,290	28,822,442
Other payables－ATM temporary receipts, payments and inter branch differences	1,476,089	1,259,252
Other payables－collection and payment transfer by ATM (net)	1,713	-
Other payables－collection bills	979,490	1,410,373
Other payables－payments awaiting transfer	5,066,383	4,545,731
Other payables－foreign exchange awaiting transfer	470,141	-
Other payables－non-recourse factoring	464,073	-
Other payables－others	1,989,164	2,799,729
	$ 69,404,869	69,231,005

(22) Deposits and Remittances

	The year ended December 31, 2012	The year ended December 31, 2011
Checking account deposits	$ 37,723,315	34,873,580
Government deposits	217,407,712	227,242,671
Demand deposits	272,041,563	246,371,660
Time deposits	453,470,593	468,871,243
Savings account deposits	2,296,652,586	2,224,960,904
Remittances	501,996	568,020
	$ 3,277,797,765	3,202,888,078

(23) Other loans

As of December 31, 2012 and 2011, the unused limit of the Company and its subsidiaries' short term loans were $7,000,000 and $8,250,000, respectively.

(24) Reserves for Operation and Liabilities

	The year ended December 31, 2012	The year ended December 31, 2011
Reserves for unearned premium	$ 363,574	367,649
Reserves for life insurance liability	337,063,756	286,036,341
Special reserves for life insurance	407,601	589,071
Reserves for claim outstanding	88,188	67,281
Reserves for operating loss	26,800	26,800
Reserves for guarantees	624,406	591,441
Reserves for labor insurance liability	194,662,096	178,024,493
Reserve for insufficient premiums	965,808	1,405,222
Foreign exchange volatility reserve	96,960	-
Total	$ 534,299,189	467,108,298

(25) Other Financial Liabilities

	The year ended December 31, 2012	The year ended December 31, 2011
Appropriated loan funds	$ 376,265	671,370
Separate account－insurance liabilities	4,686,044	5,490,078
Hedging derivative financial liabilities	301,390	409,907
Principal from structured products	7,821,748	4,674,906
	$ 13,185,447	11,246,261

Commencing from January 1, 2011, the Financial Supervisory Commission issued the “Regulations for the accounting principle for principal received from structured products”. In accordance with the regulation, principal received from structured products shall be booked under other financial liabilities under the corresponding account name. Such changes will not be reclassified as principal received from structured products that were booked under savings in December 31, 2010 approved by the Natinoal Audit Office. For details of hedging derivative financial liabilities on December 31, 2012 and 2011, please refer to note (35).

(26) Other Liabilities

	The year ended December 31, 2012	The year ended December 31, 2011
Advance collections	$ 1,790,748	1,209,755
Guarantee deposits received	4,578,212	4,651,029
Estimated tax payable on land increments	18,290,593	18,367,918
Temporary receipt awaiting transfer	80,415	43,485
Accrued pension liabilities	5,508,214	5,044,448
Others	4,751,066	2,390,902
	$ 34,999,248	31,707,537

(27) Pension

The reconciliation of the plan's funded status and accrued pension liabilities was as follows:

	The year ended December 31, 2012		The year ended December 31, 2011	
	Regular Employees	Regular Labor	Regular Employees	Regular Labor
Benefit obligation:				
Vested benefit obligation	$ (6,099,963)	(537,478)	(5,443,850)	(434,375)
Non vested benefit obligation	(4,564,028)	(570,540)	(4,676,163)	(583,898)
Accumulated benefit obligation	(10,663,991)	(1,108,018)	(10,120,013)	(1,018,273)
Additional benefits based on future salaries	(2,750,308)	(307,158)	(2,851,357)	(324,624)
Projected benefit obligation (PBO)	(13,414,299)	(1,415,176)	(12,971,370)	(1,342,897)
Fair value of plan assets	5,462,419	1,078,121	5,368,377	1,033,255
Funding status	(7,951,880)	(337,055)	(7,602,993)	(309,642)
Unrecognized transitional net benefit obligation (assets)	272,616	192,302	344,000	226,596
Unrecognized prior service cost	133,116	(9,123)	153,595	(12,771)
Unrecognized pension loss (gain)	3,971,476	(22,972)	3,652,682	(65,690)
Additional minimum pension liability recognized	(1,626,900)	(129,794)	(1,298,920)	(131,305)
Accrued pension liabilities	$ (5,201,572)	(306,642)	(4,751,636)	(292,812)
Vested benefit	$ (6,448,480)	(578,811)	(6,476,656)	(511,530)

The components of net pension costs for the year 2012 and 2011 were as follows:

	2012		2011	
	Regular Employees	Regular Labor	Regular Employees	Regular Labor
Service cost	$ 580,455	49,588	858,191	59,395
Interest cost	201,881	21,905	213,575	22,064
Expected return on plan assets	(82,667)	(17,309)	(101,777)	(19,999)
Amortization and deferred cost	221,764	30,950	202,037	20,265
Settlement gain or loss	3,275	-	-	-
Net pension costs	$ 924,708	85,134	1,172,026	81,725

The details of pension expenses for 2012 and 2011 as follows:

	2012	2011
Pension expenses:		
Defined benefit pension plan	$ 1,009,842	1,253,751
Defined contribution pension plan	113,773	147,705

Actuarial assumptions:

	2012	2011
Discount rate	1.65%, 1.75%, 1.50% and 2%	2.00%
Rate of increase in future compensation	2.00%	2.00%
Rate of expected return on plan assets	1.65%, 1.75%, 2.00% and 2.20%	1.5% and 2.00%

Pension expense in December 31, 2012 and 2011 were $1,123,615 and $1,401,456, and accrued pension liabilities in December 31, 2012 and 2011 were $5,508,214 and $5,044,448 (recorded in other liabilities).

(28) Income Tax

The income tax expenses are summarized below:

	The year ended December 31, 2012	The year ended December 31, 2011
Current income tax	$ 928,256	453,200
Deferred income tax expense (benefit)	(307,628)	129,767
Income tax expense	$ 620,628	582,967

The maximum income tax rate was lowered to 17% beginning 2010 according to the amendment of the "Income Tax Act" issued on June 15, 2010. Hence, the Company was subject to a maximum income tax rate of 17% in 2011 and 2010, and the Company adopted the "Income Basic Tax Act".

For the year ended December 31, 2012 and 2011, the differences between the "expected" income tax at the statutory income tax rate and the income tax expense in the accompanying financial statements were as follows:

	The year ended December 31, 2012	The year ended December 31, 2011
Expected income tax expenses	$ 1,345,888	789,123
Gains on securities transactions exempt from tax	(111,148)	(56,902)
Valuation losses (gains) on domestic financial instruments	250,681	(13,634)
Tax free earnings from OBU	(333,129)	(122,838)
Investment gains recognized under the equity method	(391,725)	(449,943)
Gain on disposal of land	(136,489)	(70,029)
Available for sale financial assets	2,089	-
(Reversal gains) impairment losses of assets	10,196	(6,121)
Tax free dividends	(702,478)	(743,207)
High speed railway and cost reversal	457,598	549,205
Allowance for deferred income tax assets	(333,917)	426,091
Income tax expenses of overseas branches	456,327	362,539
Income basic tax	117,694	45,758
Adjustment of combined corporate income tax filing	(11,175)	(127,526)
Adjustment of income taxes estimated in prior years	-	118
Others	216	333
Income tax expenses	$ 620,628	582,967

The major components of deferred income tax expense (benefit) were as follows:

	The year ended December 31, 2012	The year ended December 31, 2011
Pension costs in excess of tax limits	$ (6,240)	503,936
Gains (losses) on valuation of foreign and derivative financial instruments	255,296	(673,471)
Unrealized gains (losses) on foreign currency exchange	(707,445)	357,182
Impairment loss on financial assets	22,994	88,448
Loss carryforward	172,022	(60,788)
Adjustment of combined corporate income tax filing	(48,433)	(127,526)
Deferred tax expense of overseas branches	4,226	-
Excess of allowance for doubtful account	45	-
Others	(93)	41,986
Deferred income tax expense (benefit)	$ (307,628)	129,767

The temporary differences, loss carryforward, and tax effects relating to deferred income tax assets were as follows:

	The year ended December 31, 2012		The year ended December 31, 2011	
	Amount	Income tax effect	Amount	Income tax effect
Deferred income tax assets:				
Pension costs in excess of tax limits	$ 3,531,306	600,322	3,402,765	578,470
Loss carryforward	4,396,416	747,391	5,153,400	876,078
Excess of allowance for doubtful accounts	14,071	2,392	-	-
Accumulated impairment loss of collateral assumed	16,494	2,804	16,494	2,804
Unrealized losses on foreign currency exchange	7,837,076	1,332,303	4,427,271	752,636
Impairment losses on financial assets	216,394	36,787	206,235	35,060
Unrealized gains or losses on foreign and derivative financial instruments	(925,794)	(157,385)	716,259	121,764
Allowance for inventory devaluation	25,622	4,356	-	-
Foreign deferred income tax assets－loss carryforward and exchange effect	1,020,806	173,537	-	372,665
Others	165,341	28,108	713,006	121,211
Subtotal		2,770,615		2,860,688
Allowance for deferred income tax assets		(474,139)		(808,056)
		$ 2,296,476		2,052,632
Deferred income tax liabilities:				
Unrealized exchange gain	$ 730,353	124,160	-	-
Foreign deferred income tax liabilities－changes in exchange	196,465	33,399	-	33,672
		$ 157,559		33,672
Deferred income tax assets－net		$ 2,138,917		2,018,960

According to income tax law, loss of a company could be used to offset taxable income in next ten years. On December 31, 2012, the amount of loss which could be used to offset taxable income was as follows:

Fiscal years	The year ended December 31, 2012	Last year offsetable
2008, applied amount	$ 32,856	2018
2009, assessed amount	1,993,914	2019
2010, applied amount	1,865,725	2020
2011, applied amount	357,576	2021
2012, estimated amount	146,345	2022
	$ 4,396,416	

The Company and its subsidiaries' income tax returns for all years through 2011 were audited by the MOA. Except for 2009, the income tax returns for the years from 2008 to 2011 are not assessed by the National Tax Administration.

Beginning 2008, the Company and its subsidiary BOT adopted a combined income tax declaration to report their tax. The subsidiaries BTLI and BTS join in adoption in 2009. As of December 31, 2012 and 2011, the details of receivables and payables resulting from income tax were as follows:

year	The year ended December 31, 2012			
	Tax receivables from affiliated parties (booked in accounts receivable)	Tax payables to affiliated parties	Income tax receivables from National Tax Administration (booked in accounts receivable)	Income tax payables to National Tax Administration (booked in accounts payable)
2008	$ -	740,542	740,551	1,295
2010	24,061	430,221	430,272	-
2011	21,549	797,990	806,181	-
2012	-	521,996	525,710	-
	$ 45,610	2,490,749	2,502,714	1,295

year	The year ended December 31, 2011			
	Tax receivables from affiliated parties (booked in accounts receivable)	Tax payables to affiliated parties	Income tax receivables from National Tax Administration (booked in accounts receivable)	Income tax payables to National Tax Administration (booked in accounts payable)
2008	$ -	740,542	740,551	1,295
2010	24,061	430,221	430,272	-
2011	21,549	797,990	806,181	-
	$ 45,610	1,968,753	1,977,004	1,295

The reconciliation of the balances of current income tax expense, deferred income tax expense, deferred income tax assets, and income tax receivables under the provisions of SFAS No. 22 "Income Taxes" to the related balances computed for filing combined corporate income tax returns with the Company as the taxpayer was as follows:

	The year ended December 31, 2012			
	Current income	Deferred income	Deferred income tax assets, net	Current income tax receivables
Amount computed under SFAS No. 22	$ 928,256	(307,628)	2,138,917	2,278,484
Difference adjustments	-	-	-	-
Amount computed for filing combined corporate income tax return	$ 928,256	(307,628)	2,138,917	2,278,484

	The year ended December 31, 2011			
	Current income	Deferred income	Deferred income tax assets, net	Current income tax receivables
Amount computed under SFAS No. 22	$ 453,200	129,767	2,018,960	1,977,004
Difference adjustments	-	-	-	-
Amount computed for filling combined corporate income tax returns	$ 453,200	129,767	2,018,960	1,977,004

As of December 31, 2012 and 2011, unappropriated retained earnings were as follows:

	The year ended December 31, 2012	The year ended December 31, 2011
1998 and after	$ 8,449,361	6,658,934

(29) Stockholders' Equity

1) Common stock

On January 1, 2008, the Company was incorporated through switch of shares and issued 9,000,000 thousand shares of common stock with a par value of $10. As of December 31, 2012, the Company had authorized and issued $90,000,000 thousand dollars of common stock.

2) Additional paid in capital

The change in additional paid in capital for the six month periods ended December 31, 2012 and 2011 were as follows:

	Capital surplus	
	The year ended December 31, 2012	The year ended December 31, 2011
Beginning balance	$ 112,095,429	111,516,202
Recognition of change in the subsidiaries' additional paid in capital in capital under equity method	(462,795)	579,227
Closing balance	$ 111,632,634	112,095,429

3) Distribution of unappropriated earnings

The articles of incorporation of the Company stipulate that net income should be distributed as follows:

1. to offset prior years' deficit;
2. to appropriate 10% as legal reserve;
3. to appropriate 40~60% and the same amount of unrealized loss on financial instruments under stockholders' equity as special reserve;
4. to appropriate dividends.

The remaining balance plus prior year's accumulated unappropriated earnings will be distributed under the applicable laws and regulations.

According to the Company's articles of incorporation, cash dividend cannot be distributed in excess of 15% of total capital unless the legal reserve reaches the total amount of capital.

4) Special reserves

The board of directors agreed to distribute unappropriated earning using special reserve of $1.153 billion and $2.6 billion on December 8, 2011 and December 28, 2012, respectively.

(30) Earnings per Share

	The year ended December 31, 2012		The year ended December 31, 2011	
	Pretax	After tax	Pretax	After tax
Net income (for common stockholders)	$ 7,916,989	7,296,361	4,641,901	4,080,591
Weighted average outstanding shares (shares in thousands)	9,000,000	9,000,000	9,000,000	9,000,000
Primary earnings per share (in Dollars)	$ 0.88	0.81	0.52	0.45

(31) Net Insurance Business Income

	The year ended December 31, 2012		
	Government Employee School Staff Insurance	BTLI	Total
Gross written premiums	$ 17,992,149	56,702,546	74,694,695
Reinsurance claims recovery	-	26,537	26,537
Investment type insurance policy revenue	-	1,632,268	1,632,268
Insurance business revenue	17,992,149	58,361,351	76,353,500
Re insurance expense	-	78,105	78,105
Direst business expense	-	24,076	24,076
Insurance payments	28,267,159	12,861,647	41,128,806
Stability fund	-	56,697	56,697
Investment type insurance policy expense	-	1,632,268	1,632,268
Insurance business expense	28,267,159	14,652,793	42,919,952
Net insurance income	$ (10,275,010)	43,708,558	33,433,548

	The year ended December 31, 2011		
	Government Employee School Staff Insurance	BTLI	Total
Gross written premiums	$ 17,695,580	50,896,340	68,591,920
Reinsurance claims recovery	-	24,898	24,898
Investment type insurance policy revenue	-	2,297,029	2,297,029
Insurance business revenue	17,695,580	53,218,267	70,913,847
Re insurance expense	-	81,882	81,882
Direct business expense	-	41,477	41,477
Insurance payments	26,971,342	10,146,153	37,117,495
Stability fund	-	50,891	50,891
Investment type insurance policy expense	-	2,297,029	2,297,029
Insurance business expense	26,971,342	12,617,432	39,588,774
Net insurance income	$ (9,275,762)	40,600,835	31,325,073

(32) Asset Impairment (Loss) Gain on Reversal of Impairment

	2012	2011
Opening balance	$ 1,837,671	4,445,866
Loss recognized on assets impairment	72,267	4,173
Loss reversed	-	(41,200)
Unrealized gain on revaluation increments	(92,306)	(119,932)
Offset	(175,017)	(2,450,481)
Reclassification	(166,262)	-
Exchange difference	(163,014)	(755)
Ending balance	$ 1,313,339	1,837,671

The components of accumulated impairment loss are as the follows:

	The year ended December 31, 2012	The year ended December 31, 2011
Available-for-sale financial assets	$ 1,140,920	1,296,432
Held-to-maturity financial assets	70,974	206,235
Other financial assets	12,426	318,025
Other assets	21,950	16,979
Fixed assets	67,069	-
	$ 1,313,339	1,837,671

(Loss) gain on impairment was composed as the follows:

	The year ended December 31, 2012	The year ended December 31, 2011
Available-for-sale financial assets	$ -	1,156
Other financial assets	-	(137)
Fixed assets	(59,978)	19,246
Other assets	(12,289)	16,762
	$ (72,267)	37,027

(33) Provisions (Recoveries) for Insurance Policy Reserves

	The year ended December 31, 2012	The year ended December 31, 2011
Policyholders' reserve	$ 68,114,663	51,178,295
Special reserve	12,856	46,970
Claim reserve	21,209	(5,528)
Insufficient premium reserve	(439,414)	(468,416)
Foreign exchange volatility reserve	(73,760)	-
	$ 67,635,554	50,751,321

(34) Disclosure in insurance contracts

1) Description for insurance contract recognition

1. 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, for the year ended December 31, 2012 and 2011 were as follows:

(a) Details of liability reserve

	The year ended December 31, 2012		
	Insurance Contract	Financial products with discretionary participation feature	Total
Life insurance	$ 203,722,095	122,545,691	326,267,786
Health insurance	4,146,548	-	4,146,548
Annuity insurance	24,638	6,619,698	6,644,336
Investment linked insurance	5,086	-	5,086
Total	$ 207,898,367	129,165,389	337,063,756

	The year ended December 31, 2011		
	Insurance Contract	Financial products with discretionary participation feature	Total
Life insurance	$ 177,172,272	98,952,526	276,124,798
Health insurance	3,694,575	-	3,694,575
Annuity insurance	23,678	6,183,037	6,206,715
Investment linked insurance	10,253	-	10,253
Total	$ 180,900,778	105,135,563	286,036,341

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

	The year ended December 31, 2012		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance as at January 1, 2012	$ 180,900,778	105,135,563	286,036,341
Provision	37,925,322	25,789,664	63,714,986
Reclaim	(10,454,675)	(1,740,977)	(12,195,652)
Exchange rate effect	(449,907)	-	(449,907)
Others	(23,151)	(18,861)	(42,012)
Total	$ 207,898,367	129,165,389	337,063,756

	The year ended December 31, 2011			
		Insurance Contract	Financial products with discretionary participation feature	Total
Balance as at January 1, 2011	$	153,492,502	84,636,298	238,128,800
Provision		34,728,135	22,522,137	57,250,272
Reclaim		(7,561,928)	(2,003,926)	(9,565,854)
Exchange rate effect		261,790	-	261,790
Others		(19,721)	(18,946)	(38,667)
Total	$	180,900,778	105,135,563	286,036,341

(b) Details of provision for unearned premium

	The year ended December 31, 2012			
		Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	$	5,221	10,592	15,813
Personal injury insurance		83,272	-	83,272
Personal health insurance		117,590	-	117,590
Group insurance		146,862	-	146,862
Investment linked insurance		37	-	37
Total		352,982	10,592	363,574
Deduction of provision for unearned premium outward:				
Personal life insurance		487	115	602
Personal injury insurance		9,236	-	9,236
Group insurance		6,308	-	6,308
Total		16,031	115	16,146
Net	$	336,951	10,477	347,428

	The year ended December 31, 2011			
		Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	$	4,860	8,399	13,259
Personal injury insurance		83,698	-	83,698
Personal health insurance		117,850	-	117,850
Group insurance		152,811	-	152,811
Investment linked insurance		31	-	31
Total		359,250	8,399	367,649
Deduction of provision for unearned premium outward:				
Personal life insurance		638	85	723
Personal injury insurance		10,419	-	10,419
Group insurance		8,817	-	8,817
Investment linked insurance		1	-	1
Total		19,875	85	19,960
Net	$	339,375	8,314	347,689

The reconciliation of the abovementioned changes in unearned premium is listed below:

	The year ended December 31, 2012			
	Insurance Contract		Financial products with discretionary participation feature	Total
January 1, 2012	$	359,250	8,399	367,649
Provision		352,978	10,591	363,569
Reclaim		(359,244)	(8,399)	(367,643)
Other		(1)	-	(1)
December 31, 2012		352,983	10,591	363,574
Deduction of provision for unearned premium outward:				
January 1, 2012		19,875	85	19,960
Provision		16,032	114	16,146
Reclaim		(19,875)	(85)	(19,960)
December 31, 2012		16,032	114	16,146
Total	$	336,951	10,477	347,428

	The year ended December 31, 2011			
	Insurance Contract		Financial products with discretionary participation feature	Total
January 1, 2011	$	354,057	8,296	362,353
Provision		359,250	8,399	367,649
Reclaim		(354,056)	(8,297)	(362,353)
December 31, 2011		359,251	8,398	367,649
Deduction of provision for unearned premium outward:				
January 1, 2011		20,273	55	20,328
Provision		19,875	85	19,960
Reclaim		(20,273)	(55)	(20,328)
December 31, 2011		19,875	85	19,960
Total	$	339,376	8,313	347,689

(c) Details of provision for claims

	The year ended December 31, 2012			
	Insurance Contract		Financial products with discretionary participation feature	Total
Personal life Insurance				
– Reported but unpaid	$	5,627	20,726	26,353
– Unreported and unpaid		1,878	899	2,777
Personal injury insurance				
– Reported but unpaid		2	-	2
– Unreported and unpaid		9,207	-	9,207
Personal health insurance				
– Reported but unpaid		1,142	-	1,142
– Unreported and unpaid		15,969	-	15,969
Group insurance				
– Reported but unpaid		1,392	-	1,392
– Unreported and unpaid		31,346	-	31,346
Subtotal		66,563	21,625	88,188

Deduction of provision for claims outward:			
Personal life Insurance	120	57	177
Personal injury insurance	322	-	322
Personal health insurance	7	-	7
Group insurance	1,933	-	1,933
Subtotal	2,382	57	2,439
Net	$ 64,181	21,568	85,749

	The year ended December 31, 2012		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life Insurance			
– Reported but unpaid	$ 4,888	518	5,406
– Unreported and unpaid	167	1,715	1,882
Personal injury insurance			
– Reported but unpaid	1,136	-	1,136
– Unreported and unpaid	6,911	-	6,911
Personal health insurance			
– Reported but unpaid	4,040	-	4,040
– Unreported and unpaid	13,535	-	13,535
Group insurance			
– Reported but unpaid	2,511	-	2,511
– Unreported and unpaid	30,725	-	30,725
Unitlinked insurance			
Unreported and unpaid	1,135	-	1,135
Subtotal	65,048	2,233	67,281
Deduction of provision for claims outward:			
Personal life Insurance	-	1	1
Personal injury insurance	587	-	587
Personal health insurance	4	-	4
Group insurance	2,149	-	2,149
Subtotal	2,740	1	2,741
Net	$ 62,308	2,232	64,540

The reconciliation of the abovementioned changes in provision for claims is listed below:

	The year ended December 31, 2012		
	Insurance Contract	Financial products with discretionary participation feature	Total
January 1, 2012	$ 65,048	2,233	67,281
Provision	221,092	26,223	247,315
Reclaim	(219,577)	(6,831)	(226,408)
December 31, 2012	66,563	21,625	88,188
Deduction of provision for claims outward			
January 1, 2012	2,740	1	2,741
Provision	9,287	160	9,447
Reclaim	(9,645)	(104)	(9,749)
December 31, 2012	2,382	57	2,439
Closing Balance	$ 64,181	21,568	85,749

	The year ended December 31, 2011		
	Insurance Contract	Financial products with discretionary participation feature	Total
January 1, 2011	$ 68,799	1,269	70,068
Provision	188,013	4,848	192,861
Reclaim	(191,764)	(3,884)	(195,648)
December 31, 2011	65,048	2,233	67,281
Deduction of provision for claims outward			
January 1, 2011	-	-	-
Provision	10,906	1	10,907
Reclaim	(8,166)	-	(8,166)
December 31, 2011	2,740	1	2,741
Closing Balance	$ 62,308	2,232	64,540

(d) Details of special reserve for life insurance

	The year ended December 31, 2012		
	Insurance Contract	Financial products with discretionary participation feature	Total
Legal reserve			
Personal life insurance	$ 3,882	1,854	5,736
Personal injury insurance	28,896	-	28,896
Personal health insurance	61,241	-	61,241
Group insurance	70,916	-	70,916
	164,935	1,854	166,789
Provision for bonus risk	240,812	-	240,812
Total	$ 405,747	1,854	407,601

	The year ended December 31, 2011		
	Insurance Contract	Financial products with discretionary participation feature	Total
Legal reserve			
Personal life Insurance	$ 8,261	3,709	11,970
Personal injury insurance	60,097	-	60,097
Personal health insurance	123,711	-	123,711
Group insurance	145,662	-	145,662
	337,731	3,709	341,440
Provision for bonus risk	247,631	-	247,631
Total	$ 585,362	3,709	589,071

The reconciliation of the abovementioned changes in special reserve is listed below:

	The year ended December 31, 2012			
	Insurance Contract	Financial products with discretionary participation feature	Other	Total
January 1, 2012	$ 585,362	3,709	-	589,071
Provision of special reserve for major accident over 15 years	(2,429)	-	-	(2,429)
The amount of actual indemnity minus provision of major accident exceeds expected indemnity	(1,503)	-	-	(1,503)
Provision of bonus risk reserve	58,680	-	-	58,680
Reclaim of bonus risk reserve	(41,892)	-	-	(41,892)
Other	(192,471)	(1,855)	-	(194,326)
Closing Balance	$ 405,747	1,854	-	407,601

	The year ended December 31, 2011			
	Insurance Contract	Financial products with discretionary participation feature	Other	Total
January 1, 2011	$ 534,031	8,070	-	542,101
Provision of special reserve for major accident over 15 years	(4,857)	-	-	(4,857)
The amount of actual indemnity minus provision of major accident exceeds expected indemnity	(570)	-	-	(570)
Contingent variation risk special reserve exceeds 30% of retained premium	(42,811)	(4,361)	-	(47,172)
Provision of bonus risk reserve	123,909	-	-	123,909
Reclaim of bonus risk reserve	(24,340)	-	-	(24,340)
Closing Balance	$ 585,362	3,709	-	589,071

(e) Premium deficiency reserve

	The year ended December 31, 2012		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	$ 949,521	-	949,521
Group insurance	16,287	-	16,287
Total	$ 965,808	-	965,808

	The year ended December 31, 2011		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	$ 1,399,586	-	1,399,586
Personal injury insurance	629	-	629
Group insurance	5,007	-	5,007
Total	$ 1,405,222	-	1,405,222

The reconciliation of the above change as in premium deficiency reserve is listed below:

	The year ended December 31, 2012		
	Insurance Contract	Financial products with discretionary participation feature	Total
January 1, 2012	$ 1,405,222	-	1,405,222
Provision	37,720	-	37,720
Reclaim	(477,134)	-	(477,134)
Closing Balance	$ 965,808	-	965,808

	The year ended December 31, 2011		
	Insurance Contract	Financial products with discretionary participation feature	Total
January 1, 2011	$ 1,873,638	-	1,873,638
Provision	10,545	-	10,545
Reclaim	(478,961)	-	(478,961)
Closing Balance	$ 1,405,222	-	1,405,222

(f) Special reserve major accident and contingent variation risk special reserve detail:

	The year ended December 31, 2012		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	$ 2,052	4,768	6,820
Personal injury insurance	28,119	-	28,119
Personal health insurance	51,035	-	51,035
Group insurance	67,155	-	67,155
Total	$ 148,361	4,768	153,129

	The year ended December 31, 2011		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	$ 718	1,925	2,643
Personal injury insurance	10,925	-	10,925
Personal health insurance	17,651	-	17,651
Group insurance	24,143	-	24,143
Total	$ 53,437	1,925	55,362

(g) Details of provision for liability adequacy

	Financial contract and financial products with discretionary participation feature	
	The year ended December 31, 2012	The year ended December 31, 2011
Unearned premium reserve	$ 10,629	-
Liability reserve	336,933,043	285,895,331
Premium deficiency reserve	949,521	1,399,587
Special reserve of life insurance	240,812	-
Book value of insurance liability	$ 338,134,005	287,294,918
Estimate of present cash flow	$ 335,674,601	247,430,606
Provision for liability adequacy balance	$ -	-

Short term insurance: All short term insurance are tested.

	The year ended December 31, 2012			
	Loss %	Fee %	Expense %	Combined %
short term insurance	40.5%	12.8%	23.3%	76.5%

	The year ended December 31, 2011			
	Loss %	Fee %	Expense %	Combined %
short term insurance	38.6%	12.9%	17.2%	69.0%

Reinsurance:

	The year ended December 31, 2012			
	Reinsurance	Agency and transaction fee	Reinsurance paid	Combined %
Short term	5,104	2,447	1,978	86.7%

	The year ended December 31, 2011			
	Reinsurance	Agency and transaction fee	Reinsurance paid	Combined %
Short term	5,651	2,388	1,740	73.0%

The liability adequacy test method of the Company is listed below:

	December 31, 2012	December 31, 2011
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	Discount rates are calculated using the best estimated scenario investment return based on Assumption actuary report of 2011, with unchanged assumption for discount rates after 30 year	Set up the assumed discount rate of future years based on the assets allocation of the company and the weighted average investments reward ratio

(h) Foreign exchange volatility reserve

a) Hedge strategy and exposure of foreign exchange volatility

Up to the end of 2012, the whole hedge rate was 75%. We should adjust the hedge rate regarding to future foreign exchange and hedge cost in order to ease foreign exchange volatility risk.

b) Adjust meant of foreign exchange volatility reserve is as follows:

	Financial productswith discretionary participation feature	
	The year ended December 31, 2012	
January 1, 2012	$	170,720
Fixed provision		94,730
Incremental provision		322,699
Reclaim		(491,189)
December 31, 2012	$	96,960

2. Revenue of matured retention premium

	The year ended December 31, 2012		
	Insurance Contract	Financial products with discretionary participation feature	Total
Written premium revenue	$ 32,569,689	24,127,753	56,697,442
Reinsurance premium revenue	5,104	-	5,104
Premium revenue	32,574,793	24,127,753	56,702,546
Deduct: Reinsurance premium expenses	77,876	229	78,105
Provision of net unearned	(2,424)	2,163	(261)
	75,452	2,392	77,844
Revenue of matured retention premium	$ 32,499,341	24,125,361	56,624,702

	The year ended December 31, 2011		
	Insurance Contract	Financial products with discretionary participation feature	Total
Written premium revenue	$ 29,524,131	21,366,558	50,890,689
Reinsurance premium revenue	5,651	-	5,651
Premium revenue	29,529,782	21,366,558	50,896,340
Deduct: Reinsurance premium expenses	81,712	170	81,882
Provision of net unearned premium	5,591	73	5,664
	87,303	243	87,546
Revenue of matured retention premium	$ 29,442,479	21,366,315	50,808,794

3. Retained insurance claims and benefits

	The year ended December 31, 2012		
	Insurance Contract	Financial products with discretionary participation feature	Total
Claims of directly written insurance contracts	$ 10,882,825	1,976,844	12,859,669
Claims of reinsurance	1,978	-	1,978
Insurance claims and benefits	10,884,803	1,976,844	12,861,647
Deduct: Amortized reinsurance claims and benefits	(26,379)	(158)	(26,537)
Retained insurance claims and benefits	$ 10,858,424	1,976,686	12,835,110

	The year ended December 31, 2011		
	Insurance Contract	Financial products with discretionary participation feature	Total
Claims of directly written insurance contracts	$ 7,938,805	2,205,608	10,144,413
Claims of reinsurance	1,740	-	1,740
Insurance claims and benefits	7,940,545	2,205,608	10,146,153
Deduct: Amortized reinsurance claims and benefits	(24,898)	-	(24,898)
Retained insurance claims and benefits	$ 7,915,647	2,205,608	10,121,255

2) Subsidiary, BTLI –The property and scope regarding the risk of insurance contracts

1. The target, policy, procedure and method of risk management for insurance contract

(a) The system, organization and the range of responsibilities of risk management

The risk management structure of the Bank includes the Board of Directors, risk management committee, internal audit department and authorities in charge of all business units. Their responsibilities are as follows:

a) Board of Directors

a. The Board of Director holds the highest responsibility in maintaining the risk management of the subsidiary

b. The Board of Directors shall formulate operating strategies according to the operating condition of the subsidiary, establishing effective risk management policy, ensuring the consistency of the risk managing system and the condition of the subsidiary as well as the capital adequacy in response of all risks.

b) Risk Management Committee

a. Executing and implementing the risk management strategy and integrating risk related issues between various units across the subsidiary.

b. Formulate risk management policies, structure, organize function, and assemble gualitative and guantitative indicators. To report to the Board of Directors on a timely basis as well as reflecting the conditions of risk management along with compulsory suggestions for improvements.

c) Risk Management Department

a. Responsible of the overall risk management of the subsidiary.

b. Implement, monitor and measure the subsequent conditions of the policies and procedures approved by the Board of Directors or the risk management committee and report back to them. If any risk exposures exceeding the capacity of the subsidiary is discovered, the department has the responsibility to take reasonable actions and report to the Board of Directors.

c. Assist the Board of Directors in the implementation and formulation of risk management policies.

d. Establish the subsidiary's primary risk management standards and procedures as a reference for all units and to report to the Parent company for back additional investigation.

e. Report to the Board of Directors and risk management committee on a regular basis regarding all operational risk management conditions as means of control and understanding the subsidiary's risk tolerance for decision making. Monthly reports on risk management shall be reported to the Parent Company.

d) All Operational Units

Every department shall identify, evaluate, and control the risks of any new products or operations and establish the risk management process accordingly.

e) Auditing Department

The auditing office shall audit the subsidiary, BTLI's condition of risk management in accordance with applicable regulations and legislations.

(b) Risk management procedures and protocols

a) Risk management procedures and protocols include risk identification, measurement, and response to risk, monitoring, and data communication. Moreover, to integrate risk management procedures to an operational level, in order to reflect the impact of risk from various operations.

b) Establish relevant risk indicators for all risks for operations concerning the procedures, period and frequency of identification, measurement and evaluation of risk as means of decision making. It also includes evaluating performances and allocating resources.

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

a. Risk averse: to exclude any participation or terminate operations and activities

b. Risk transfer: to reinsure or transfer all risks or partial risks to a third party.

c. Risk control: to adopt risk controlling procedures in order to minimize any impact.

d. Risk tolerance: to tolerate any possible impact of risk by not initiating procedures as means of changing the probabilities of outcome.

d) Establish a risk monitoring system, timely scrutinize and monitor all risks. If risks are in excess, it should report and respond accordingly.

e) The aforementioned risk monitoring and reporting system shall change with the adjustment of operating objectives, risk exposure and external conditions of the subsidiary, including the effectiveness of the risk management system and the appropriateness of risk elements.

2. Information of insurance risk

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

	The year ended December 31, 2012		
	Rate	Rate	Rate
Death rate	X1.1	(13,812)	(11,464)
Morbidity	X1.1	(17,531)	(14,550)
Contract default rate	X0.9	(28,149)	(23,363)
Expense	X1.1	(280,597)	(232,896)
Ratio of Return on Investment	(0.25)%	(759,940)	(630,750)

	The year ended December 31, 2011		
	Rate	Rate	Rate
Death rate	X1.1	(12,744)	(10,577)
Morbidity	X1.1	(21,089)	(17,504)
Contract default rate	X0.9	(14,764)	(12,254)
Expense	X1.1	(259,194)	(215,131)
Ratio of Return on Investment	(0.25)%	(639,071)	(530,409)

(b) The statement of insurance risk concentration

BTLI does not target its insurance product at any group, age or gender exclusively. Insurance service area includes the whole Taiwan. In order to increase subsidiary's management in insurance risk, BTLI established "BTLI reinsurance management plan" to further implement all sorts of risk managing strategies. As a result, BTLI does not have concerns in high risk concentration.

(c) Claim development trend

a) Development trend of direct business loss

Life insurance

Occurrence	Development year								Claim
year	1	2	3	4	5	6	7	8	provision
<=92	-	-	-	-	-	-	-	-	-
93	-	-	-	-	-	-	-	-	-
94	19,029	27,915	28,250	28,310	28,310	28,311	28,308	28,313	-
95	28,076	36,415	37,486	37,546	37,605	37,896	37,896	-	7
96	23,431	30,238	30,314	30,337	30,346	30,346	-	-	4
97	22,730	29,165	29,225	34,651	34,651	-	-	-	110
98	29,207	35,332	35,355	35,355	-	-	-	-	130
99	15,701	19,978	20,025	-	-	-	-	-	771
100	18,332	22,984	-	-	-	-	-	-	1,099
101	28,407	-	-	-	-	-	-	-	10,017
Provision for unreported and unpaid claims									12,138
Plus: reported and unpaid claims									(1,000)
Provision for claims									11,138

Injury insurance

Occurrence	Development year								Claim
year	1	2	3	4	5	6	7	8	provision
<=92	-	-	-	-	-	-	-	-	-
93	-	-	-	-	-	-	-	-	-
94	75,837	113,480	114,324	119,720	119,904	120,170	120,227	120,227	-
95	61,402	78,349	83,850	84,379	84,391	84,401	84,404	-	-
96	328,882	412,974	427,079	428,696	429,778	429,781	-	-	128
97	65,499	90,685	92,741	92,763	92,793	-	-	-	68
98	50,763	68,954	73,277	74,543	-	-	-	-	189
99	59,149	87,759	93,667	-	-	-	-	-	1,286
100	57,707	76,399	-	-	-	-	-	-	4,024
101	52,147	-	-	-	-	-	-	-	20,753
Provision for unreported and unpaid claims									26,448
Plus: reported and unpaid claims									(161)
Unreported provision for claims									26,287

Health insurance

Occurrence	Development year								Claim
year	1	2	3	4	5	6	7	8	provision
<=92	-	-	-	-	-	-	-	-	-
93	-	-	-	-	-	-	-	-	-
94	88,099	104,375	105,542	105,625	105,625	105,665	105,665	105,665	-
95	79,512	95,289	96,086	96,146	96,169	96,169	96,219	-	-
96	73,363	89,548	90,485	90,521	90,521	90,521	-	-	22
97	77,081	93,683	94,387	94,427	94,434	-	-	-	36
98	80,722	98,054	98,697	98,749	-	-	-	-	46
99	75,685	92,546	93,689	-	-	-	-	-	96
100	82,324	103,408	-	-	-	-	-	-	1,078
101	93,290	-	-	-	-	-	-	-	21,309
Provision for unreported and unpaid claims									22,587
Plus: reported and unpaid claims									(713)
Unreported provision for claims									21,874

b) Development trend of retained business loss

Life insurance

Occurrence	Development year								Claim
year	1	2	3	4	5	6	7	8	provision
<=92	-	-	-	-	-	-	-	-	-
93	-	-	-	-	-	-	-	-	-
94	16,649	25,013	25,348	25,408	25,408	25,409	25,406	25,411	-
95	23,116	31,085	32,156	32,216	32,274	32,566	32,566	-	6
96	21,589	27,846	27,922	27,945	27,954	27,954	-	-	3
97	20,586	26,572	26,632	31,557	31,557	-	-	-	100
98	26,735	32,460	32,483	32,483	-	-	-	-	120
99	14,579	18,556	18,602	-	-	-	-	-	716
100	17,044	21,246	-	-	-	-	-	-	1,016
101	27,153	-	-	-	-	-	-	-	9,575
Provision for unreported and unpaid claims									11,536
Plus: reported and unpaid claims									(1,000)
Unreported provision for claims									10,536

Injury insurance

Occurrence year	Development year 1	2	3	4	5	6	7	8	Claim provision
<=92	-	-	-	-	-	-	-	-	-
93	-	-	-	-	-	-	-	-	-
94	67,186	99,922	100,749	104,686	104,870	105,135	105,192	105,192	-
95	56,994	72,341	77,378	77,864	77,876	77,886	77,890	-	-
96	186,425	238,051	246,126	247,043	247,954	247,957	-	-	73
97	54,149	75,927	77,889	77,910	77,941	-	-	-	57
98	46,207	63,048	67,051	68,196	-	-	-	-	173
99	52,837	78,304	83,945	-	-	-	-	-	1,153
100	53,385	70,902	-	-	-	-	-	-	3,735
101	49,116	-	-	-	-	-	-	-	19,547
Provision for unreported and unpaid claims									24,738
Plus: reported and unpaid claims									(161)
Unreported provision for claims									24,577

Health insurance

Occurrence year	Development year 1	2	3	4	5	6	7	8	Claim provision
<=92	-	-	-	-	-	-	-	-	-
93	-	-	-	-	-	-	-	-	-
94	88,099	104,375	105,542	105,625	105,625	105,665	105,665	105,665	-
95	79,512	95,289	96,086	96,146	96,169	96,169	96,219	-	-
96	73,363	89,548	90,485	90,521	90,521	90,521	-	-	22
97	77,081	93,683	94,387	94,427	94,434	-	-	-	36
98	80,722	98,054	98,697	98,749	-	-	-	-	46
99	75,685	92,546	93,689	-	-	-	-	-	96
100	82,324	103,408	-	-	-	-	-	-	1,078
101	93,290	-	-	-	-	-	-	-	21,309
Provision for unreported and unpaid claims									22,587
Plus: reported and unpaid claims									(713)
Unreported provision for claims									21,874

Subsidiary, BTLI, provides claim reserve based on the expected future payments and relevant compensation process cost of reported and unreported claims. Such provision operation involves vast uncertainty, estimates and judgments, and is highly complicated. Any change of estimation or judgment is regarded as changes in accounting estimates and the amount of changes is recognized as current gains and losses. Some claims may be delayed to inform BTLI. In addition, when estimating the potential compensation amount of unreported claims, it involves vast past compensation experience and subjective judgment, therefore, it is not able to confirm that the estimated reserve for claims on the balance sheet date will equal to the final compensation amount. The estimate of reserve for claims is based on the information currently available, however, the final result may deviate the original estimate due to the subsequent development.

The above table demonstrates the development trend of claims (excluding the claims which will confirm the compensation amount and time in one year). The vertical shaft represents the year which the claim event occurred, and the horizontal shaft represents the development years. Every slash represents the accumulated compensation amount at the end of each year. The compensation amount refers to the claims whether they are ruled or not. It explains how BTLI estimates the compensation amount of each year as time passes by. The scenario and trend which affect the amount of reserve for claims may not be the same as they will be in the future; therefore, the estimated future compensation amount is not able to be determined by the claim development trend revealed by the above table.

3. Information of insurance risk

(a) Credit risk

The credit risk of insurance contract mainly comes from the inability of reinsurers to fulfill the obligation of reinsurance contracts and caused the subsidiary, BTLI, to encounter financial losses. The credit rating of the counter party for the subsidiary, BTLI, for the years ended December 31, 2012 are all above S&P A-. The details were as follows:

Name	The year ended December 31, 2012		
	Credit rating agent	Credit rating	Date of rating
Central Re	S&P	A-	10.20.2006
Munich Re	S&P	AA-	12.22.2006
Swiss Re	S&P	AA-	10.28.2011
Cologne Re	S&P	AA+	02.04.2010
Gibraltar Re	S&P	AA-	02.26.2009
Dai ichi Mutual Life	S&P	A	03.23.2006

(b) Liquidity risk

The subsidiary, BTLI, estimates its future insurance liability cash flow based on the effective premiums from traditional insurance, life insurance, interest linked annuity and foreign currency insurance for the year ended December 31, 2012, as well as the subsidiary's actual experience in associated actuarial assumptions (such as death rate, contract defaults, expenses, agent fee, compulsory bonus dividend, mortality rate and announced interest rate). The liability cash flow is greater than, the actual cash flow in the long term (10 years from now); however, taking subsidiary's cash and cash equivalents and future insurance premiums into account, the cash flow gap shall be closed in the long term.

(c) Market risk

Market risk in insurance contracts refers to the adverse changes in the market resulting in the returns on investment lower than the assumed interest rate for the insurance designed. As a result, insurers are subject to financial losses. Considering the subsidiary, BTLI's assumed interest with the return on investment for the year ended December 31, 2012, the risk taken by BTLI is within the acceptable level after evaluation.

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

(35) Information on Financial Instruments

1) Information on fair value of financial instruments

	The year ended December 31, 2012		The year ended December 31, 2011	
	Book Value	Fair Value	Book Value	Fair Value
Financial Assets:				
Financial assets measured at fair value through profit or loss	$ 147,512,761	147,512,761	111,746,984	111,746,984
Discounts and loans, net	2,182,122,142	2,182,122,142	2,158,327,794	2,158,327,794
Available for sale financial assets	777,192,341	777,192,341	802,058,331	802,058,331
Held to maturity financial assets	244,048,117	248,320,864	227,724,845	222,699,405
Other financial assets	114,965,947	114,965,947	110,755,243	110,755,243
Financial Liabilities:				
Financial liabilities measured at fair value through profit or loss	4,508,508	4,508,508	4,274,874	4,274,874
Other financial liabilities	13,185,447	13,185,447	11,246,261	11,246,261

2) The derivative financial instruments hold by the Company and the subsidiaries were as follows:

		The year ended December 31, 2012		The year ended December 31, 2011	
		Book value	Notional amount	Book value	Notional amount
Derivative financial assets:					
Buy side foreign exchange option	$	66,487	10,205,222	8,938	5,049,048
Structured products		7,542,327	7,533,514	-	-
Fx Swaps and Cross currency swaps		3,730,860	440,867,610	9,058,832	547,123,559
Interest rate swaps		3,069	490,127	409,929	9,031,487
Foreign exchange forward transaction		543,839	62,693,851	1,163,071	56,492,748
Assets Swaps		61,856	2,032,450	-	-
Commercial paper with fixed rate		(3,874)	1,200,000	(3,679)	1,700,000
Derivative financial liabilities:					
Stock warrants	$	1,133	4,047	-	-
Sell side foreign exchange option		77,017	10,273,357	9,113	4,949,172
Fx Swaps and Cross currency swaps		3,081,190	402,059,661	3,042,673	309,667,710
Interest rate swaps		754,810	15,073,803	906,650	15,668,237
Foreign exchange forward transaction		542,135	57,426,372	316,438	37,951,077
		52,223	2,235,695	-	-

3) Methods and assumptions used by the Company and its subsidiaries for fair value evaluation of financial instruments were as follows:

1. Since these instruments have short term maturities, the book value is a reasonable basis to estimate the fair value. This method is applied to cash and cash equivalents, placement with Central Bank and call loans to banks, bills and bonds purchased under resell agreements, receivables, other financial assets, deposits of Central Bank and other banks, bills and bonds sold under repurchase agreements, payables, deposits and other liabilities.
2. When the financial assets have a public quotation from an active market, the market price is considered the fair value. If a quoted market price is unavailable, then the fair value is determined based on a valuation model. The estimates and assumptions of the valuation model adopted by the Company and its subsidiaries are identical to those adopted by other market participants.
3. The interest on discounts and loans is calculated by a floating rate; therefore, the book value is the fair value.
4. Most deposits mature within one year. If it matures in more than one year, the interest is calculated by a floating rate. Thus the book value is the fair value.
5. The fair value of each forward contract is determined by the discounted cash flow using Reuters forward rate upon maturity. The fair value of interest rate swaps and cross currency swaps is calculated either by the quotation from the counterparty or by the price from Bloomberg, while the Black Scholes model is applied to evaluate the fair value of options.

4) The fair values of the financial instruments of the Company and its subsidiaries which were based on the quoted market price or a valuation model were as follows:

		The year ended December 31, 2012		The year ended December 31, 2011	
		Quoted market price	Valuation model	Quoted market price	Valuation model
Financial assets:					
Financial assets measured at fair value through profit or loss	$	79,336,672	68,176,089	66,847,255	44,899,729
Loans and discounts		-	2,182,122,142	-	2,158,327,794
Available for sale financial assets		82,967,811	694,224,530	91,697,334	710,360,997
Held to maturity financial assets		46,102,859	202,218,005	42,399,402	180,300,003
Other financial assets		-	114,965,947	-	110,755,243
Financial liabilities:					
Financial liabilities measured at fair value through profit or loss		-	4,508,508	-	4,274,874
Other financial liabilities		-	13,185,447	-	11,246,261

For the years ended December 31, 2012 and 2011, the Company and its subsidiaries recognized (losses) gains on valuation of $(4,684,206) and $11,452,185, respectively, based on a valuation model. The details were as follows:

	The year ended December 31, 2012	The year ended December 31, 2011
Financial assets:		
Valuation (losses) gains for assets held for trading	$ (6,457,709)	836,962
Valuation (losses) gains for assets designated at fair value	1,200,424	(410,753)
(Losses) gains on impairment for available for sale financial assets	155,512	129,463
Valuation (losses) gains for hedging derivatives	1,638	(3,139,414)
(Losses) gains on impairment for bond investment in non active	317,888	(8,138)
(Losses) gains on impairment for assets are carried at cost market	(12,289)	(137)
Total	(4,794,536)	(2,592,017)
Financial liabilities:		
Valuation (losses) gains for liabilities held for trading	1,813	14,198,760
Valuation (losses) gains for derivatives	108,517	(154,558)
	110,330	14,044,202
Total	$ (4,684,206)	11,452,185

5) Financial risk information

1. Market risk

(a) BOT

Market risk (also called "price risk") means changes such as in interest rates, exchange rates, and the prices of equity securities and instruments which may result in a loss for BOT, either on or off the balance sheet.

In order to establish and effectively operate the Market Risk Control Mechanism, all subsidiaries, in accordance with their cash capital and operating condition, implement appropriate market risk control in daily operations and management procedures, such as

a) Identifying, evaluating and analyzing (qualification/non qualification) risks and adopting appropriate methods (including risk hedging, risk sharing, risk reduction, and risk bearing).

b) Each unit following the Market Risk Management Guidelines for position management, actively monitoring various limits, and reporting to the responsible unit or the risk management department.

c) Verifying the position data and profit or loss status with the accounting department to ensure the consistency and completeness of data, and setting up a separate risk management unit to help control BOT's overall market risk.

BOT utilizes the standard method (IMA) for calculating market risk capital to meet the requirement of the competent authority. In the future, the Bank will adopt a market risk management system and use VAR to enhance risk gain or loss analysis and overall reporting ability. Furthermore, BOT will amend relevant policies and standards in accordance with the request of regulators.

(b) BTLI

Fair value of the domestic and foreign bonds held by the Company varies according to the fluctuation of market interest or exchange rate. In order to prevent the risk of exchange rate, the Company signed foreign exchange forward contracts to hedge.

The investments held by BTLI are classified as trading security financial assets and available for sale financial assets. Due to the value of the assets are measured in fair value, BTLI shall be exposed to the risk of changing price of market.

(c) BTS

Market risk is the risk that the Company will suffer losses due to market interest rate or exchange rate fluctuation. If the transaction purpose is to hedge, market risk will be eliminated by the hedged items. If the transaction purpose is trading, the Company will set a stop loss point in the beginning. Therefore, the Company can confine the losses within an expected range.

BTS can manage its risk through the following:

a) The content, range of transaction, and authorization of levels should be clearly defined.

b) Risk should be identified, measured, supervised, and controlled while operating financial instrument, the risk undertaken should be within the capacity of BTS.

c) Establishing risk target of market, precaution system, overrunning handling, and communication system to take proper policy of market risk, in order to accomplish fully supervising and prevention.

d) Establishing market risk information management system, including transaction system, operating system, and risk management system to define the responsibility, ensure the independence of the system, and keep the system proper and in balance.

e) Create a model of market risk to assess and express the exposure of BTS, furthermore, to systematically manage the risk exposed.

f) Assessing market risk and preparing paper work before creating financial instrument, changing operating process, or developing information system and explore new financial services and products.

g) Enforcing the professional knowledge and training, and harness risk sensitivity within the corporation culture.

2. Credit risk

(a) The possibility of a loss occurring due to the failure of a counterparty or third party to meet contractual debt obligations

Commodities owned and issued by the Company and its subsidiaries may cause a loss when the contractual debt obligations are not met. Therefore, the Company and its subsidiaries always conduct credit evaluations in accordance with the Credit Policy and Regulation in handling credit business such as loans, commitments and guarantees. The details were as follows:

(In millions of NTD)

The year ended December 31, 2012			
Item	Secured amount	Total amount	Percentage of total amount
Loan (note 1)	$ 1,286,840	2,208,132	58.49
Acceptances	455	3,059	14.87
Guarantees on loans	11,410	73,600	15.50

The year ended December 31, 2011			
Item	Secured amount	Total amount	Percentage of total amount
Loan (note 1)	$ 1,123,076	2,176,415	51.60
Acceptances	155	2,715	3.63
Guarantees on loans	9,967	71,487	20.85

Note 1: Amounts of loans exclude advances and off balance sheet items.

Collateral which the Company and its subsidiaries requires may include a deposit receipt, inventories, machinery and equipment, marketable securities, other property, and guarantees. If the customers default, the Company and its subsidiaries will, as required by circumstances, foreclose the collateral or execute other rights arising out of the guarantees given. Since most of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash demands. The maximum potential amount of future payments represents the notional amounts that could be lost under the guarantees if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from collateral held or pledged.

(b) Credit risk—disclosure of the maximum credit exposure

The book value and the maximum credit exposure of various commodities owned by the Company are disclosed below:

(In millions of NTD)

Items	The year ended December 31, 2012		
	Book value		Maximum credit exposure (notes 2 and 3)
Financial assets measured at fair value through profit or loss	$	147,513	145,866
Available for sale financial assets		777,192	145,077
Held-to-maturity financial assets		244,048	243,392
Loans and advances (note 1)		2,256,291	2,001,284
Hedging derivatives		4	4
Debt investments without quoted price in active markets		43,013	43,013
Financial assets carried at cost		11,080	11,080

Note 1: The aforementioned "loans and advances" refer to the outstanding amounts of discounts; overdrafts; treasury overdrafts; guarantee overdrafts; short term, medium term and long term secured/unsecured loans; import bill advances/export bill purchases; short term loans and nonperforming loans.

Note 2: In the amounts of maximum credit exposure, held for trading financial assets exclude treasury bonds $995 million, and government bonds amounting to $652 million; available for sale financial assets exclude government bonds amounting to $24,948 million and negotiable certificates of deposit amounting to $607,167 million; held to maturity financial assets exclude government bonds amounting to $656 million; loans and advances exclude Central Government loans amounting to $223,338 million; Bureau of National Health Insurance loans to $18,000 million and Central Government short term advance amounting to $13,669 million.

Note 3: The amount of maximum credit exposure is positive at the balance sheet date.

Items	The year ended December 31, 2011		
	Book value		Maximum credit exposure (notes 2 and 3)
Financial assets measured at fair value through profit or loss	$	111,747	110,865
Available for sale financial assets		802,058	151,397
Held to maturity financial assets		227,725	187,966
Loans and advances (note 1)		2,233,515	1,933,223
Hedging derivatives		3	3
Debt investments without quoted price in active markets		37,009	37,009
Financial assets carried at cost		11,092	11,092

Note 1:The aforementioned "loans and advances" refer to the outstanding amounts of discounts; overdrafts; treasury overdrafts; guarantee overdrafts; short term, medium term and long term secured/unsecured loans; import bill advances/export bill purchases; short term loans and nonperforming loans.

Note 2: In the amounts of maximum credit exposure, held for trading financial assets exclude government bonds amounting to $882 million; available for sale financial assets exclude government bonds amounting to $28,051 million and negotiable certificates of deposit amounting to $622,610 million; held to maturity financial assets exclude government bonds amounting to $39,759 million; loans and advances exclude Central Government loans amounting to $258,642 million; Bureau of National Health Insurance loans to $28,100 million and Central Government short term advance amounting to $13,550 million.

Note 3: The amount of maximum credit exposure is the fair value at the balance sheet date.

(c) Disclosure of obvious concentration of credit risk

When transactions involving a commodity are concentrated in a single industry or location, the ability to fulfill the contract may be affected by economic or other factors; thus, concentration of credit risk occurs. The concentration of credit risk of the Company and its subsidiaries is disclosed below:

a) The details of loans to various industries and the greatest credit exposure for the years ended December 31, 2012 and 2011 were as follows:

(In millions of NTD)

Industry type	The year ended December 31, 2012		
	Book value (note 1)	Percentage of total loans (%)	Maximum credit exposure (note 2)
Individuals	$ 727,834	33.08	727,834
Government agencies	423,364	19.24	182,026
Manufacturing	391,723	17.81	391,723
Transportation and storage	128,872	5.86	128,872
Utilities	114,902	5.22	114,902
Others	413,437	18.79	395,437
Total	$ 2,200,132	100.00	1,940,794

Note 1: The book value means the outstanding amounts (NTD$10,027 million exclude overdue credit card fee receivables and overdue security deposit) of discounts; overdrafts; treasury overdrafts; guarantee overdrafts; short term, medium term and long term secured/unsecured loans; import bill advances/ export bill purchases and nonperforming loans.

Note 2: The greatest credit exposure is the remaining amount when loans amounting to $223,338 million to the Central Government and $18,000 million to the Bureau of National Health Insurance loans are deducted from book value.

Industry type	The year ended December 31, 2011		
	Book value(note 1)	Percentage of total loans (%)	Maximum credit exposure (note 2)
Individuals	$ 693,596	31.87	693,596
Government agencies	452,601	20.80	165,859
Manufacturing	384,217	17.65	384,217
Transportation and storage	127,593	5.86	127,593
Utilities	123,856	5.69	123,856
Others	394,552	18.13	394,552
Total	$ 2,176,415	100.00	1,889,673

Note 1: The book value means the outstanding amounts (NT$1 million exclude overdue credit card fee receivables and overdue security deposit) of discounts; overdrafts; treasury overdrafts; guarantee overdrafts; short term, medium term and long term secured/unsecured loans; import bill advances/ export bill purchases and nonperforming loans.

Note 2: The maximum credit exposure is the remaining amount when loans amounting to $258,642 million to the Central Government and $28,100 million to the Bureau of National Health Insurance loans are deducted from book value.

b) The details of loans to various areas and the maximum credit exposure for the years ended December 31, 2012 and 2011 were as follows:

(In millions of NTD)

Areas type	The year ended December 31, 2012		
	Book value (note 1)	Percentage of total loans (%)	Maximum credit exposure (note 2)
Domestic	$ 2,037,767	92.62	1,796,429
Foreign	162,365	7.38	162,365
Total	$ 2,200,132	100.00	1,958,794

Note 1: The book value means the outstanding amounts (NT$10,027 million exclude overdue credit card fee receivables and overdue security deposit) of discounts; overdrafts; treasury overdrafts; guarantee overdrafts; short term, medium term and long term secured/unsecured loans; import bill advances/export bill purchases and nonperforming loans.

Note 2: The maximum credit exposure is the remaining amount when loans amounting to $223,338 million to the Central Government and $18,000 million to the Bureau of National Health Insurance loans are deducted from book value.

Areas type	The year ended December 31, 2011		
	Book value (note 1)	Percentage of total loans (%)	Maximum credit exposure (note 2)
Domestic	$ 2,029,091	93.23	1,742,349
Foreign	147,324	6.77	147,324
Total	$ 2,176,415	100.00	1,889,673

Note 1: The book value means the outstanding amounts (NTD$1 million exclude overdue credit card fee receivables and overdue security deposit) of discounts; overdrafts; treasury overdrafts; guarantee overdrafts; short term, medium term and long term secured/unsecured loans; import bill advances/export bill purchases and nonperforming loans.

Note 2: The maximum credit exposure is the remaining amount when loans amounting to $258,642 million to the Central Government and $28,100 million to the Bureau of National Health Insurance are deducted from book value.

(d) Off balance sheet credit risk (including loan commitments, net settlement, and offset rights)

The Company and its subsidiaries, when offering services of loan commitments, net settlement, and offset rights, always assesses credibility carefully. Collateral acquired by the Company and its subsidiaries, due to loans, loan commitments, net settlement, and guarantee, could be disposed on the basis of a notice of ownership transfer in order to protect the rights and decrease the credit risk of the Company and its subsidiaries.The fair value of collaterals would not be considered when the greatest credit exposure is disclosed.

Unit: million dollars

Item	Amount of disclosure of the maximum credit exposure	
	The year ended December 31, 2012	The year ended December 31, 2011
Irrevocable loan commitments (loan commitments)	$ 523,383	390,357
Amounts receivable under the letter of credit	$ 46,719	43,112
Guarantees receivable	$ 73,486	71,390
Acceptance receivable	$ 3,059	2,715

Note: This amount of maximum credit exposure only considers the positive account at balance sheet date. The Company and its subsidiaries assess the counterparty with off balance sheet commitment and guarantee without considering its type.

3. Liquidity risk

Liquidity risk includes market liquidity risk and capital liquidity risk (financial risk). Market liquidity risk is the risk of facing market price movement in processing or offsetting assets caused by a low volume market. Capital liquidity risk, on the other hand, is the risk of default at the maturity due to inability to sell assets or obtain sufficient capital.

The Company and its subsidiaries have different policies in accordance with capital demands for different kinds of business aiming to effectively monitor market liquidity risk. The finance department is in charge of the overview of capital and conducts a daily review to respond to system risk and capital demand in abnormal conditions.

In addition to all of the above, the attention and support from senior management are important to the success of the risk management system. Under the authorization of the senior management, the Company and its subsidiaries are gradually implementing the risk management system.

The Company and its subsidiaries control the trading risk of commodities by means of the aforementioned position limits, setting stop loss points and operation guidelines at the management level. In addition, the Company and its subsidiaries utilize financial tools of the money market and foreign exchange market, together with appropriate liquid assets to plan for future cash demand.

Capital and working capital of The Company and its subsidiaries are sufficient to perform all contract obligations, so there is no liquidity risk.

The analysis of maturity of the subsidiary BOT as of December 31, 2012 and 2011, is as follows:

	The year ended December 31, 2012				
	1~30 days	31~90 days	91 days~one year	Over one year	Total
Asset					
Cash and cash equivalents	$ 29,179,310	-	-	-	29,179,310
Placement with Central Bank and call loans to banks	73,188,463	263,106,664	124,386,149	110,129,177	570,810,453
Financial assets measured at fair value through profit or loss, net	29,729,707	7,991,169	4,383,704	18,725,844	60,830,424
Bills and bonds purchased under resell agreements	4,980,621	-	-	-	4,980,621
Available-for-sale financial assets, net	456,701,305	111,463,724	70,127,883	96,577,839	734,870,751
Held-to-maturity financial assets, net	1,500,506	3,140,753	1,829,860	584,984	7,056,103
Hedging derivative assets	3,543	-	-	-	3,543
Financial assets carried at cost	-	-	-	11,079,900	11,079,900
Debt investments without quoted price in active markets	-	-	290,350	2,115,636	2,405,986
Investments under equity method, net	-	-	-	35,393,882	35,393,882
Receivables, net	17,711,691	1,145,081	382,798	21,387,480	40,627,050
Discounts and loans, net	140,232,617	171,976,142	519,326,707	1,347,950,933	2,179,486,399
Non performing loans	669,591	-	-	9,471,083	10,140,674
Total assets	$ 753,897,354	558,823,533	720,727,451	1,653,416,758	3,686,865,096
Liabilities					
Deposits of Central Bank and other banks	$ 111,935,915	60,531,563	20,718,369	20,188,618	213,374,465
Payables	15,060,761	14,612	144,130	26,315,483	41,534,986
Financial liabilities measured at fair value through profit or loss	458,839	41,108	-	4,376,963	4,876,910
Bonds and bills sold under repurchase agreements	6,900,462	4,659,274	438,662	-	11,998,398
Hedging derivative liabilities	301,390	-	-	-	301,390
Other financial liabilities	-	-	-	376,265	376,265
Deposits and remittances	261,389,677	323,351,819	1,108,256,327	1,566,917,287	3,294,903,719
Total liabilities	$ 396,047,044	396,744,160	1,129,557,488	1,618,174,616	3,567,366,133
Gaps	$ 357,850,310	135,236,548	(408,830,037)	35,242,142	119,498,963

Note: The table contains the amounts for the bank departments of BOT only.

	The year ended December 31, 2011				
	1~30 days	31~91 days	91 days~one year	Over one year	Total
Asset					
Cash and cash equivalents	$ 25,233,775	-	-	-	25,233,775
Placement with Central Bank and call loans to banks	38,702,180	221,480,349	127,314,375	126,319,259	513,816,163
Financial assets measured at fair value through profit or loss, net	5,501,626	6,714,417	2,905,636	30,018,005	45,139,684
Bills and bonds purchased under resell agreements	3,231,949	-	-	-	3,231,949
Available for sale financial assets, net	315,920,821	266,954,423	77,090,954	97,407,267	757,373,465
Held to maturity financial assets, net	2,001	-	89,528	529,338	620,867
Hedging derivative assets	3,074	-	-	-	3,074
Financial assets carried at cost	-	-	-	11,092,189	11,092,189
Debt investments without quoted price in active markets	-	605,500	454,110	2,891,537	3,951,147
Investments under equity method, net	-	-	-	32,479,598	32,479,598
Receivables, net	9,990,711	1,108,127	646,911	16,547,065	28,292,814
Loans and discounts, net	202,617,269	175,031,865	412,495,247	1,368,715,956	2,158,860,337
Non performing loans	253,196	-	-	8,059,436	8,312,632
Total assets	$601,456,602	671,894,681	620,996,761	1,694,059,650	3,588,407,694
Liabilities					
Deposits of Central Bank and other banks	$102,494,969	63,188,499	17,567,343	25,675,664	208,926,475
Payables	11,869,584	11,302	148,956	25,282,175	37,312,017
Financial liabilities measured at fair value through profit or loss	553,783	64,551	-	3,279,298	3,897,632
Bonds and bills sold under repurchase agreements	9,715,429	4,715,540	475,196	-	14,906,165
Hedging derivative liabilities	409,907	-	-	-	409,907
Other financial liabilities	-	-	-	671,369	671,369
Deposits and remittances	305,811,927	338,382,799	1,092,169,729	1,481,646,232	3,218,010,687
Total liabilities	$430,855,599	406,362,691	1,110,361,224	1,536,554,738	3,484,134,252
Gaps	$170,601,003	265,531,990	(489,364,463)	157,504,912	104,273,442

Note: The table contains the amounts for the bank departments of BOT only.

4. Cash flow risk and fair value risk of interest rate change

Floating assets and floating liabilities of the Company and its subsidiaries may change due to movement in future cash flow caused by movement of market rate, and hence create risk.

(a) Information on expected final maturity and expected reprising date

As of December 31, 2012 and 2011, the expected reprising date and expected final maturity would not be affected by the contract effective date. The following table shows the interest risk of the Company and its subsidiaries. Non derivative assets and liabilities are listed at book value without deducting any allowance or adjustment. Derivative assets and liabilities are listed at book value. The book value is further categorized by the earlier of the maturity date or reprising date. The book values of commodities owned or issued by BOT, categorized by different maturity or reprising dates (the earlier date of the two dates), were as follows:

(In millions of NTD)

	The year ended December 31, 2012				
	1~30 days	31~90 days	91 days~one year	Over one year	Total
Assets					
Financial assets measured at fair value through profit or loss	$ 5,590	7,991	4,384	18,726	60,830
Bills and bonds purchased under resell agreements	4,981	-	-	-	4,981
Available for sale financial assets	456,701	111,464	70,128	96,578	734,871
Held to maturity financial assets	1,501	3,141	1,830	585	7,057
Hedging through derivative assets	4	-	-	-	4
Financial assets carried at cost	-	-	-	11,080	11,080
Debt investment without quoted price in active market	-	-	290	2,116	2,406
Placements with and call loans to banks	73,188	263,107	124,386	110,129	570,810
Discounts and loans, net	140,233	171,976	519,327	1,347,950	2,179,486
Investment under equity method	-	-	-	35,393	35,393
Other assets	27,904	11,623	1,178	214,576	255,281
Total assets	$ 734,241	569,302	721,523	1,837,133	3,862,199
Liabilities					
Deposits of Central Bank and other banks	$ 111,936	60,532	20,718	20,189	213,375
Financial liabilities measured at fair value through profit or loss	458	41	-	4,377	4,876
Bills and bonds sold under repurchase agreements	6,900	4,659	439	-	11,998
Hedging derivative liabilities	301	-	-	-	301
Other financial liabilities－appropriation for loans	-	-	-	376	376
Deposits	260,888	358,340	1,108,256	1,566,918	3,294,402
Long term liabilities	-	-	-	24,428	24,428
Other liabilities	14,803	7	207	49,360	64,377
Total liabilities	$ 395,286	423,579	1,129,620	1,665,648	3,614,133
Stockholders' equity	$ 338,955	145,723	(408,097)	171,485	248,066

Note: The table contains the amounts for the bank departments of BOT only.

	The year ended December 31, 2011				
	1~30 days	31~90 days	91 days~one year	Over one year	Total
Assets					
Financial assets measured at fair value through profit or loss	$ 5,501	6,714	2,906	30,018	45,139
Bills and bonds purchased under resell agreements	3,232	-	-	-	3,232
Available-for-sale financial assets	315,921	266,954	77,091	97,407	757,373
Held-to-maturity financial assets	2	-	90	529	621
Hedging through derivative assets	3	-	-	-	3
Financial assets carried at cost	-	-	-	11,092	11,092
Debt investment without quoted price in active market	-	606	453	2,892	3,951
Placement with Central Bank and call loans to banks	38,702	221,480	127,314	126,320	513,816
Discounts and loans	202,608	175,032	412,495	1,368,716	2,158,851
Investment under equity method	-	-	-	32,479	32,479
Other assets	18,980	4,708	1,516	222,458	247,662
Total assets	$ 584,949	675,494	621,865	1,891,911	3,774,219
Liabilities					
Deposits of Central Bank and other banks	$ 102,495	63,188	17,567	25,676	208,926
Financial liabilities measured at fair value through profit or loss	603	65	-	3,279	3,947
Bills and bonds sold under repurchase agreements	9,715	4,716	475	-	14,906
Hedging derivative liabilities	410	-	-	-	410
Other financial liabilities－appropriation for loans	-	-	-	671	671
Deposits	305,244	338,383	1,092,170	1,481,646	3,217,443
Long-term liabilities	-	-	-	24,112	24,112
Other liabilities	8,207	26,945	2,416	20,789	58,357
Total liabilities	$ 426,674	433,297	1,112,628	1,556,173	3,528,772
Stockholders' equity	$ 158,275	242,197	(490,763)	335,738	245,447

Note: The table contains the amounts for the bank departments of BOT only.

(b) Effective interest rate (excluding financial assets for trading purposes)

The effective interest rates, classified by currencies, of the commodities owned or issued by the BOT as of December 31, 2012 and 2011, were as follows:

The year ended December 31, 2012		
Item	NTD	USD
Available-for-sale financial assets:		
Government bonds	0.7800%~6.2602%	0.7500%~5.7500%
Financial bonds	1.2300%~2.3000%	0.4355%~7.3000%
Corporate bonds	1.2000%~3.0500%	1.0000%~6.5000%
Negotiable certificates of deposit of Central Bank	0.8700%~1.0500%	-
Taipei City Government bonds	1.2000%	-
Beneficiary certificates－financial assets securitization	2.4600%	-
Beneficiary certificates－real estate investment trust	-	5.7500%
Held-to-maturity financial assets:		
Government bonds	0.9500%~4.08434%	-
Financial bonds	-	0.65125%~3.5000%
Corporate bonds	-	3.1590%
Debt investment without quoted price in active markets:		
Beneficiary certificates－real estate investment trust	-	0.44900%~1.25900%
Loans and discounts:		
Short term loans	0.50211%~14.5000%	0.4500%~6.8100%
Medium term loans	0.84200%~18.0000%	0.4045%~6.8500%
Long term loans	0.84200%~10.0000%	0.66525%~3.56000%
Liabilities:		
Short term loans	-	0.2600%~1.1400%
Hedging derivative instrument:		
IRS	-	0.75850%~3.72400%

The year ended December 31, 2011		
Item	NTD	USD
Available for sale financial assets:		
Government bonds	0.7909%~6.9000%	1.2200%~7.3750%
Financial bonds	1.2300%~2.3000%	0.5056%~7.3000%
Corporate bonds	1.0002%~3.0500%	0.5456%~6.5000%
Negotiable certificates of deposit of Central Bank	0.8700%~1.0500%	-
Taipei City Government bonds	1.2000%	-
Beneficiary certificates－financial assets securitization	2.4600%	-
Beneficiary certificates－real estate investment trust	2.6800%	5.7500%~0.0000%
Held to maturity financial assets:		
Government bonds	1.3930%~6.0664%	-
Beneficiary certificates－real estate investment trust	2.4000%	-
Debt investment without quoted price in active markets:		
Beneficiary certificates－real estate investment trust	-	0.51830%~1.79360%
Loans and discounts:		
Short term loans	0.5021%~18.0000%	0.4500%~6.1500%
Medium term loans	0.10530%~18.0000%	0.4411%~6.8500%
Long-term loans	0.10530%~10.0000%	0.69022%~2.25000%
Liabilities:		
Short term loans	-	0.2000%~2.0000%
Hedging derivative instrument:		
IRS	-	0.77211%~4.57375%

5. Fair value hedge

Financial instruments held by the Company and Subsidiaries are applicable to hedge accounting. The Company and Subsidiaries adopted fair value hedge accounting and should disclose the following:

(a) Fair value hedge

Gains (losses) due to re measuring with fair value of hedge instrument, or change of exchange rate, should be recognized as gains (losses) of the period; gains (losses) due to hedging are the adjustment of the hedged target and should be recognized as gains (losses) of the period.

(b) Fair value hedge should disclose the following:

a) Description of hedging:

Currently the Tokyo, and Singapore branches of BOT adopt fair value hedge accounting and hold IRSs as designated hedging instruments to hedge the exposure to interest risk on investment in fixed rate bonds.

b) Description and balance sheet fair value of financial commodities designated as hedging instruments:

Hedged item	Designated hedging instruments	The year ended December 31, 2012	
		Original amount	Fair value
Foreign bonds	IRS	$ 290,909	3,137
Foreign bonds	Assets swap contract	145,454	406
Foreign bonds	IRS	5,380,874	(290,849)
Foreign bonds	Assets swap contract	378,181	(10,541)

Hedged item	Designated hedging instruments	The year ended December 31, 2011	
		Original amount	Fair value
Foreign bonds	IRS	$ 149,333	3,074
Foreign bonds	IRS	6,160,551	(409,907)

c) Nature of hedged risk:

The hedged items of the hedge accounting adopted by the Company and its subsidiaries are fixed rate bond investments. Thus, IRSs are used to hedge interest risk (adopting interest fair value hedging－swapping a fixed rate for a floating rate).

6. Levels of the fair value hierarchy of financial instruments

Financial instrument item measured at fair value	The year ended December 31, 2012			
	Total	Level 1 (note 1)	Level 2 (note 2)	Level 3 (note 3)
Non-derivative financial instruments				
Assets:				
Financial assets measured at fair value through profit or loss	$ 135,568,196	82,338,296	52,083,511	1,146,389
Financial assets measured at fair value				
Investment in stocks	45,704,323		-	-
Investment in bonds	3,715,620	3,038,176	677,444	-
Others	64,848,141	31,743,156	33,104,985	-
Original recognized at fair value	21,300,112	1,852,641	18,301,082	1,146,389
Available-for-sale financial assets				
Investments in stocks	51,953,835	51,953,835	-	-
Investment in bonds	100,759,908	6,268,824	94,491,084	-
Others	624,478,598	15,294,901	608,980,797	202,900
Other financial assets				
Debt securities investment in non-active market	43,012,877	465,390	42,547,487	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	1,133	1,133	-	-

Derivative financial instruments				
Assets:				
Financial assets measured at fair value through profit or loss	11,944,565	686	11,943,879	-
Other financial assets				
Hedging derivative financial assets	3,543	-	3,543	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	4,507,375	92,490	4,414,885	-
Other financial liabilities				
Hedging derivative financial liabilities	301,390	-	301,390	-
	The year ended December 31, 2011			
Financial instrument item measured at fair value	Total	Level 1 (note 1)	Level 2 (note 2)	Level 3 (note 3)
Non-derivative financial instruments				
Assets:				
Financial assets measured at fair value through profit or loss	101,110,582	73,010,279	28,100,303	-
Held-for-sale financial assets				
Investment in stocks	43,058,398	43,058,398	-	-
Investment in bonds	3,635,272	3,622,583	12,689	-
Others	30,494,957	23,018,149	7,476,808	-
Original recognized at fair value	23,921,956	3,311,150	20,610,806	-
Available-for-sale financial assets				
Investments in stocks	61,111,520	61,111,520	-	-
Investment in bonds	108,861,862	31,887,704	76,974,158	-
Others	632,084,949	9,437,298	622,647,651	-
Other financial assets				
Debt securities investment in non-active market	37,008,950	-	37,008,950	-
Derivative financial instruments				
Assets:				
Financial assets measured at fair value through profit or loss	10,636,402	-	10,636,402	-
Other financial assets				
Hedging derivative financial assets	3,074	-	3,074	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	4,274,874	212	4,274,662	-
Other financial liabilities				
Hedging derivative financial liabilities	409,907	-	409,907	-

Note1: Level inputs are quoted prices in active markets for identical assets or liabilities the Company have the ability to access. In accordance with section 5, of SFAS No.34 “Financial Instruments: Recognition and Measurement”, an active market satisfies all of the following conditions:

(a)The products traded in the market are homogeneous in nature.

(b) Parties willing to trade are readily available in the market.

(c)Price information is publicly available.

Note2: Level 2 inputs are fair value of the financial instruments that are observable but not considered level 1 quotes price, including the observable input parameters that are obtained directly (i.e., prices) or indirectly (i.e., derived from prices) from an active market. For instance.

(a) The quoted prices of similar financial instruments in active market. The fair value of financial instruments owned by the Company is inferred from the recent trading price of similar financial instruments. The similar financial instrument is judged according to the characteristic and trading conditions. Fair value of financial instruments should be priced using observable trading 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 or identical financial instruments in non-active markets.

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

(d) The majority of the input parameters are derived from, or corroborated by, observable market data.

Note 3: Level 3 means input parameters are not based on observable market data (unobservable inputs such as: option pricing model using historical volatility index, as historical volatility does not represent the expected future volatility from market participants).

Name	Opening balance	Valuation	Increase		Decrease foreign exchange		Change	Ending balance
		gain or loss booked on net income for current period or shareholders' equity	Buy, issue or discount	Transferred to Level 3	Sold, disposal or settle at premium	Transferred out from Level 3		
Financial assets measured at Fair value through profit or loss								
Financial assets designated as fair value through profit or loss	$ -	(15,011)	-	1,533,508	372,108	-	-	1,146,389
Available-for-sale financial assets	-	16	211,553	-	-	-	(8,669)	202,900
Total	$ -	(14,995)	211,553	1,533,508	372,108	-	(8,669)	1,349,289

(36) Disclosure of Risk Management Policy

1) The Company

The risk management organization of the Company includes the board of directors, risk management committee, and risk administrative office.

The responsibility of each risk management level is as follows:

1. The board of directors is the highest decision making unit, and it has the final responsibility for the Company's overall risk. According to the overall operating strategies and management environments, the board of directors approves the risk management policies, supervises the operating effectiveness of the risk management system, fully controls the risk situation, and ensures having sufficient capital for dealing with all risks.
2. The Company set up the risk management committee under the board of directors to execute the risk management policies approved by the board of directors and coordinate the related risk management matters within the group.
3. The risk administrative office is the independent risk management unit and is responsible for the implementation of overall risk management. For all risk management decisions and assignments of the board of directors and risk management committee, the risk administrative office must supervise and follow up the execution by the related units, and present the risk management report to the board of directors and risk management committee. If it finds significant exposure that endangers the financial situation, operations, or legal compliance, the risk administrative office should report to the board of directors immediately.

2) BOT

1. Risk management structure and protocols

(a) Risk management structure

The risk management structure of the Bank includes the Board of Directors, risk management committee, risk management department, authorities in charge all business units.

a) The Board of Director holds the highest responsibility in maintaining the risk management of the Bank, which includes formulating strategies accordingly, establishing the risk management policy, ensuring the consistency of the risk managing system, identifying all the risk matures and retain all the resources available for encountering all sorts of unexpected risks.

b) The role of risk management committee established by the Board of Directors includes implementing the risk management strategy and integrating risk related issues between various units across the bank.

c) The role of the risk management department includes monitoring all risk management issues independently and on an operational level. The risk management department is also in charge in investigating into any relevant departments and reports directly to the Board of Directors. Similarly, if any risk exposures exceeding the capacity of the Bank is discovered, the department has the responsibility to take reasonable actions and report to the Board of Directors.

d) Every department shall identify, evaluate, and control the risks of any new products or operations and establish the risk management process accordingly. In addition, to monitor the relevant risks in compliance with the risk management policy of the Bank.

e) All operational units shall comply with internal regulations for risk management.

(b) Risk management policies

Every operations engaged by the Bank, including off balance sheet operations, are included within the risk management system of the Bank, which contains credit risk, market risk, operational risk, interest rate risk, liquidity risk, national risk, legal risk and so forth. The brief risk management policy is as follows:

a) Monitor the settlement ratio of the Bank in relevance to the operational size, credit risk, market risk, operational risk and the future prospects.

b) Establish a risk measuring and monitoring procedure system in order to measure and monitor risks effectively.

c) Taking in the risk capacity, capital reserve, nature of debts, performance and rewards into consideration, the Bank shall manage the risks of operating across all units.

d) Establish a valuation system for the quality and classification of assets to consistently monitor excess risk exposures with large concentration, and to accrue allowance for losses.

e) Establish information safety system and emergency system concerning banking operations, transactions and data sharing. Additionally, to establish an independent and effective risk management system through means of appropriate policies, procedures and tools in order to increase the efficiency of the risk managing across all operations.

(c) The management mechanism of risk is as follows:

a) The bank should effectively identify, measure, monitor and control risks when engages in various businesses, and control risks in the affordable range to achieve the goal of rationalization between risk management and remuneration.

b) Establish risk indicators and early warning mechanism to adopt appropriate risk monitoring.

c) Establish a risk communication mechanism, which can regular or timely report complete risk messages up and down to agencies and communicate between departments. The bank also discloses the information of risk accordance with regulations.

d) When develops new kinds of businesses, changes the operating procedures and develops or runs new information system, the Bank should estimate the risk and prepare appropriate written operating procedures and management rules.

e) Strengthen the training of professional risk management staff, and education and training general employees' about risk management to base on the Bank's risk management culture.

2. Method of measuring and controlling risk and exposure quantitative information

A financial commodity refers to a contract in which a financial asset is created for one party and a financial liability is created for the other. The major financial assets of the Bank are loans, receivables, and negotiable security investments. The related risk and management policy are as follows:

(a) Credit risk management:

a) New Basel Capital Accord

According to the requirements of the New Basel Capital Accord, the Bank adopt standard method in the calculation of the minimum capital requirements of the first pillar of credit risk assets and capital, and each type of exposure risk weighting applies to the competent authority as required with the tax credit method to measure the assessment should be provision of capital.

b) For the overall management of the Bank's credit risk, the Bank formulate rules and regulations, specifications, operating manuals to effectively identify, measure, monitor and control credit risk in the full line of policy, organization, business, information and processes.

a. As policy and strategy, the Bank has established policies and guidelines, such as the specification of the credit policy, credit risk management criteria, credit criteria, credit information criteria.

b. As organization and structure, set of hierarchical authority approach and functionality commission and set various permissions and management mechanism by the degree of risk and the amount.

c. Set the practices for each business and goods, such as “consumer loans”, "general working capital" and "corporate credit rating," credit related approaches to follow.

c) Implement hierarchical authority system

Approved permission of credit extension cases and cleared up non performing loans, the Bank use hierarchical authority, each stratification has different quota. Each approved level has a credit review panel or committee, collection review panel or committee, and indeed perform within the competence of the cases are under consideration, in order to ensure the quality of loan assets.

d) Management of large exposure and excessive concentration

a. In accordance with the Banking Law, loans to the Bank’s responsible person, Bank employees, and persons having material interest with the Bank are controlled in accordance with stipulated quotas. The Bank has established rules for credit risk management of loans to enterprise groups and ratios for loan risk exposure to different industries, and it controls credit quotas for trading partners, issuers, and guarantors in accordance with their external credit ratings.

b. The Bank’s Treasury Department, OBU, and foreign branches set up policies based on external credit evaluation for loan quota management in money market, foreign exchange, and negotiable security trading.

c. Each year, to reinforce the control of credit risk in regard to individual countries, the national risk quota, in accordance with the placing in Euro money Magazine, is allocated to the Financing Department, OBU, and foreign branches. The business recorded by the Bank includes loan assets, transaction assets, and off balance sheet positions.

e) As a valid measure of assessing the quality of loan assets, the Bank has not only doing credit operating before extending loans but also strengthen post loan management, the method is as follows:

a. When handling credit business, the Bank collect detailed review of credit information management and fully understand the counterparty like their credit status, funds using, the source of repayment, to ensure claims and borrower’s future prospects.

b. The Bank has a provision about “Credit review and Follow up evaluations” which can credit review and follow up evaluations. According to this provision, the bank set an independent organization for handling credit review, monitoring borrowers’ current situation. In the credit period, the Bank doing credit review by each borrower’s credit rates, also, the Bank handles follow up evaluations to the important borrowers, and timing of return.

c. The Bank has a provision about “Credit warning mechanism”, which can warn the risk early and take some necessary response measures to safeguard the quality of loan assets.

d. In accordance with the provision about “Provision of asset evaluate loss and bad debt of nonperforming loans approach”, the bank regularly assesses and monitors the quality of various types of assets, strengthen the abnormal credit management and book allowance for doubtful accounts. The Bank also establishes a management mechanism for loan cases and nonperforming loans cleaning.

(b) Market risk management

Market risk is also called “pricing risk.” It means changes such as in interest rates, exchange rates, and the prices of equity securities and instruments which may result in a loss for the Bank, either on or off the balance sheet.

The Bank controls all probable loss from unfavorable market price changes when engaged in financial instruments trading positions.

a) The bank sets the rule about permitting financial instruments' content, the range and the authorization of each department. When transactions each financial instrument, the Bank required to effectively identify, measure, supervise and control its risks. When faced with exposure to market risks, taking into consideration the Bank's risk appetite and cost effectiveness, to take appropriate countermeasures market risk management, including risk aversion, risk transfer, risk control and risk undertake.

b) For the effective control of the profit and loss about holding financial instruments', a daily evaluation of the trading book site and a monthly evaluation of the banking book. The prices are from exchanges, electronic screen, independent broker and custodian's quotes, and counterparty reference price.

c) The Bank has a comprehensive risk monitoring process, ongoing by day to day business activities. The contents which the Bank is monitoring includes each trading unit, the whole of the financial instruments and the process of individual transactions, such as parts of movements, profit and loss, changes in trading patterns, the subject of the transaction. The above should be the limit of the Bank, stop loss, overrun processing requirements and the scope of authorization within.

The Bank utilizes the standard VAR method for calculating market risk capital to meet the requirement of the Basel Accord. In the future, the Bank will adopt a market risk management system and use to enhance risk gain or loss analysis and overall reporting ability. Furthermore, the Bank will amend relevant policies and standards in accordance with the request of management agencies.

(c) Operational risk management

In order to reduce operational risk, and the implementation of operational risk management in various businesses, the Bank has the relevant regulations and operating manuals and standard operating process (SOP) to develop various businesses, which is built on a World Wide Web site and employees can refer it to do business. The bank also set computer connection operations, information and network security management, internal audit and self audits, data processing outsourcing operating rules, and follow up evaluations regularly, to facilitate compliance and control operational risk.

For evaluating of the Bank's operational risk loss effective, the bank follows the rules" operational risk loss event collection guidelines" and "Taiwan bank operational risk loss events recorded table", each departments full and accurate record all units of each loss event, inform and keep track of and process until the case concluded. The Bank use these date to establish database and use it to analysis the frequency of risk and how severity of the money loss.

(d) Interest rate and liquidity risk management

a) The Bank has set up an Assets and Liabilities Management Committee to strengthen the structure of assets and liabilities. Under the leadership of the president, the Committee is divided into Management, Finance, and Capital subcommittees; and this Committee is responsible for setting guidelines for assets and liabilities management, liquidity position management, management of interest rate risk, and the review of the deposit and loan structure.

b) Setting up management policy for liquidity and interest rate risk; setting up guidelines for liquidity risk management

a. Management of interest rate sensitive gap: The ratio of New Taiwan Dollar interest rate sensitive assets to liabilities shall fall between 80% and 140%. The ratio of New Taiwan Dollar capital gap to owner's equity shall be maintained between positive/negative 100%. The difference in re pricing the foreign interest rate shall not exceed total assets of all currencies by 35%.

b. Management of liquidity risk

(i) Maintain liquid ratio: According to the Central Bank's "Liquidity Guidelines for Financial Institutions," the Bank shall maintain the liquidity ratio of all deposits greater than 10%.

(ii) Management of loan to deposit ration: the loan to deposit ratio should be in between 65%~87%, where the alarm rate is between 68%~86% as an indicator for future liquidity management.

(iii) Short term gap analysis: 1 10 day and 11 30 day gaps are calculated; and the period gap is greater than zero.

(iv) Foreign currency gap management: Make sure the ratio of accumulated capital liquidity gap to each currency assets of the four major foreign currencies of the Bank (U.S. Dollar, HK Dollar, JP yen, and Euro) measured for every month and every term under one year between ±50% and 40%

(v) Capital management: Full use is made of the Assets and Liabilities Management Information System on a regular basis to analyze maturity gaps of assets and liabilities and changes in maturity structure. The appropriate allocation and utilization of funds, and the adjustment of the capital structure are carried out in accordance with the capital situation. In the management of New Taiwan Dollar funds, in addition to maintaining an appropriate level of cash on hand and of securities that can be converted quickly into cash, the Bank has set policies for the reporting of New Taiwan Dollar funds to provide for the timely reporting of receipts or disbursements of large amounts of funds. The Bank also carries out gap analysis of the maturity amount of purchased bills, bonds, and call loans so as to lower liquidity risk. In the management of foreign currencies, the Bank uses the maturity method to carry out funds gap analysis of the actual funds to be received or paid out within the next year.

(vi) Establish "Bank of Taiwan operational crisis management plan" for prevention and preparation when crisis occurs. To minimize the damage effect, protect and maintain the stability of operation.

3. Risk Management system is following:

(a) The bank runs many business activities, it should be identify, measure, supervise and control risks, we need control the any risk be have that under the bearable range then achieve to the goal of risk management and reasonable of return.

(b) Build up risk index and warning system, for taking suitable risk supervise.

(c) Build up risk communication system. These concludes to report upside, to delivery downside, or communicate parallel in administration periodically or in due time, and disclose in according to related laws.

(d) Before developing the new activities and goods, change the system of process and developing or starting the new information system. It should to estimate the risk and to issue the system of process and control method with risk management.

(e) For keeping the bank risk management culture, should train its employees the risk management, and the professional risk manager is the most one.

4. The policy of reduction of credit risk in terms of pledges and guarantees

In its consideration of credit control and business promotion, the Bank attempted to decrease the burden of credit risk by increasing collateral or strengthening the guarantee, based on the Bank's credit and pledge policy. Collateral and guarantees include mortgages on real estate or property (i.e., land, building, machinery, car, ship, aircraft, etc.), pledges of securities or other rights (i.e., certificates of deposit; various bonds, stocks, or other securities), guarantees provided by government agencies, banks, or credit guarantee institutions authorized by the government, and any other guarantee or collateral approved by the Bank.

3) BTLI

1. Financial risk information

(a) Market Risk

The fair value of the domestic and overseas bond investments fluctuate with market interest rates and exchange rates. For overseas investment, BTLI reduces the market risk using forward exchange rate contracts.

BTLI's security investment can be categorized as trading financial assets and available for sale financial assets. As such assets are measured at fair value; BTLI is subject to the risk of security price fluctuations.

(b) Credit Risk

BTLI identifies cash and cash equivalents, security investment and bond investment as its principal source of underlying credit risk. In terms of the credit risk arising from various investments made and with counter parties, limits are set against the agreed credit scoring along with complimenting trading policies to diversify credit risk. Thus, the financial assets acquired are not exposed to material credit risk.

(c) Liquidity Risk

BTLI's liquidity position, including its capital and operational fund, are adequate for additional increase in assets, paying for maturing liabilities and comply with all agreements. Therefore, liquidity risk concerning contractual compliance is non existent.

BTLI's derivative products related to forward contacts operate in highly liquid market; as a result, liquidity risks are minimal as products are likely sold at reasonable prices. Due to the continuous renewal of forward contracts and other paid derivatives, funding risks are effectively reduced.

Liquidity risks are expected from partial security and bond investment that are categorized as investments from non active market, similarly, investments in active markets are assumed to be sold promptly at similar prices to that of fair value.

(d) Cash flow risk from change in interest rates

Cash flow is influenced by the change in interest rates which may affect the effective interest rate of bonds. Consequently, as floating interest rates are adopted in parts of BTLI's bond investment, cash flow are subject to interest rate risks.

2. Risk control and hedging policies

The various risk associated in BTLI's operations are all included in the area for risk management, such as embedding systematic risk measurement and monitoring system that allows operations to be tolerated within an acceptable level. Communication system for risk is designed to deliver timely and punctual risk related data. Taking initial capital, characteristics of liability, performance and reward into consideration, BTLI effectively allocates and manages their assets and risk.

All operations conducted by BTLI are effectively identified, measured, monitored and controlled. Risk is controlled within a tolerated level as an approach to meet reasonable performance targets. The Board retains the highest responsibility for the overall risk management of BTLI, where the risk management committee is responsible for implementing approved risk management decisions and the negotiation and collaboration of risk associated matters.

4) BTS

For the requirements of business, BTS has set up an overall risk management system to effectively control all kinds of risk. The system can assure the achievement of BTS's long term and steady management, profit growth, and strategy. At the same time, it formed a department with sole responsibility for risk control under the secretary unit of the risk management committee to handle these affairs and to exercise authority independently except over the operating unit and trade activities. The formation of the risk management organization by BTS includes the board of directors, the risk management committee, the administrative office, and all business units to execute the risk management decisions made by the board of directors and coordinate the related risk management matters across departments.

All risks of the business on or off the balance sheet should be subsumed under risk management, including market risk, credit risk, liquidity risk, operating risk, and other risk (for example legal risk, strategy risk, and reputation risk).

The related management systems of all kinds of risk are as follows:

1. BTS should effectively identify, measure, supervise, and control all risks when engaging in business. BTS should control the risk to a tolerable degree to reach the target of risk management and compensation rationalization.
2. Establish a risk indicator and warning system to implement the appropriate risk monitoring.
3. Establish a communication system. The complete risk information should be periodically given to senior management, conveyed to subordinates, and communicated across departments, and be available to the public according to the regulations.
4. Before developing new business or merchandise, changing the operating procedure, or developing the information system or operation, BTS should estimate the risk in advance and prepare the appropriate operating procedure and control method for the related risk.
5. Educate the professional risk management staff and provide education and training in risk management to the personnel of the operating unit to strengthen BTS's risk management culture.

(37) Related Party Transactions : omit

(38) Pledged Assets

Pledged assets	Purpose of pledge	Book value	
		The year ended December 31, 2012	The year ended December 31, 2011
Available-for-sale financial assets－bonds	Guarantee deposit for provisional attachments	$ 225,000	224,000
Available-for-sale financial assets－bonds	Operating deposit for securities trading	150,000	150,000
Available-for-sale financial assets－bonds	Guarantee deposit for trust business compensation reserve	100,000	100,000
Placement with central bank and call loans to banks-deposit transferred to Central Bank	Payment and settlement system of Central Bank	25,000,000	25,000,000
Held to maturity financial assets－Government bonds	Guarantee deposit for rust business compensation reserve	300,000	300,000
	Guarantee deposit for provisional attachments or taxation appeals	10,200	12,200
Other assets－refundable deposit	Operating guarantee deposit	2,464,392	1,701,112
Other assets－refundable	Lease and future guarantee deposit	53,385	52,491
Fix assets－Land	Short term loans	210,727	210,727
Fix assets－Building	Short term loans	42,860	44,500
Rented assets－Land	Short term loans	168,582	168,582
Rented assets－Building	Short term loans	28,136	29,440
deposits			
Total		$ 28,753,282	27,993,052

Note: BTS's operating guarantee deposit pledged with time deposit of BOT amounting to $280,000 has been offset due to related party transaction.

(39) Commitments and Contingencies

1) As of December 31, 2012 and 2011, the significant commitments of the Company and its subsidiaries were as follows:

	The year ended December 31, 2012	The year ended December 31, 2011
Contract guarantee on behalf of counter parties	$ 3,782,935	5,395,979
Traveler's checks held on consignment	1,173,028	1,087,707
Accrued securities held as custodian	1,552,906,874	1,613,920,171
Letters of credit	46,718,81	43,112,360
Goods held in custody	12,696,949	10,797,009
Issuance of New Taiwan Dollars	1,439,592,396	1,322,680,282
Guarantee notes payable	214,900	240,200
Registered government bonds for sale	400,317,500	331,884,300
Registered short term bills for sale	220,823,700	265,095,673
Consigned sales of goods	2,316,501	1,947,495
Trust liabilities	512,856,940	505,848,030
Guarantees	73,486,171	71,389,619
Total	$ 4,266,886,707	4,173,398,825

2) Construction in progress and significant purchase agreements:

The construction of Yi Lan Branch and Don Gang Branch was completed on June 9 and July 28, 2011, respectively.

3) Operating leases

All subsidiaries have entered into operating leases for their branches. As of December 31, 2012, the minimum payments on lease contract commitments for the next five years were as follows:

Period	Amount
2013.01.01~2013.12.31	$ 365,493
2014.01.01~2014.12.31	209,386
2015.01.01~2015.12.31	113,737
2016.01.01~2016.12.31	77,462
2017.01.01~2017.12.31	43,744
	$ 809,822

4) 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 obligations to the TSE, the proxies must then act pursuant to said obligations and responsibilities.

(40) Significant Disaster Loss: None.

(41) Significant Subsequent Events: None.

BOT was authorized to establish BankTaiwan Insurance Broker, held completely by BOT on January 23, 2013.

(42) Others

1) A summary of personnel costs and depreciation, depletion, and amortization expenses, categorized by function, for the six month periods ended December 31, 2012 and 2011, is as follows:

Function / Nature	2012			2011		
	Cost of goods sold	Operating expenses	Total	Cost of goods sold	Operating expenses	Total
Personnel costs						
Salaries	-	10,912,909	10,912,909	-	10,825,711	10,825,711
Labor and health insurance	-	611,457	611,457	-	589,987	589,987
Pension	-	1,123,615	1,123,615	-	1,401,456	1,401,456
Other employment	-	218,885	218,885	-	196,563	196,563
Depreciation	39,917	981,529	1,021,446	32,941	1,008,895	1,041,836
Amortization	-	352,969	352,969	-	446,304	446,304

2) Cross-selling with subsidiaries

1. Integrate business activities:

From June 2009, the Company established marketing plans consolidating subsidiaries' distribution of channels and products to allocate resources more efficiently. Moreover, to promote sales of insurance, securities and wealth management. By promoting sales cooperation aggressively, the Company is excepting to make it more effective and efficient.

2. Cross utilization of information:

In accordance to the amendment of "Financial Holding Company Act" on January 21, 2009 and Regulations governing mutual marketing in subsidiaries" on October 21, 2009, the Company and its subsidiaries concluded and signed "Agreement of Privacy Exchange" on December 16, 2009, to cope with the change of duties in the company and to enhance the protection of privacy. The Company and its subsidiaries also signed "Agreement of Customer Privacy" on February 25, 2010 to further protect and limit inappropriate use of private details.

3. Locations and business utilities:

The company applied to government for "Location set up for operating other business" and had been approved. By December 2012, the company had 150 branches, providing securities services; 159 branches and 5 simple functioned branches, providing insurance services. They provide securities and insurances services in banks.

4. Allocation on revenues, costs, expenses, profits and losses:

Allocation of Revenue, Cost and Expense is calculated based on the proportion of actual sales among subsidiaries.

3) Capital adequacy ratios

Unit: Thousand NTD, %

December 31, 2012			
Item / Entity	Ownership interest	Eligible capital	Legal capital
The Company	100.00	258,228,581	264,131,769
Bank of Taiwan	100.00	191,839,471	140,519,580
BankTaiwan Life Insurance	100.00	10,152,895	9,056,288
BankTaiwan Securities	100.00	2,010,497	641,957
Less: deductible item		(264,080,713)	(264,080,713)
Subtotal		198,150,731	150,268,881
Consolidated capital adequacy ratio			131.86

Unit: Thousand NTD, %

December 31, 2011			
Item / Entity	Ownership interest	Eligible capital	Legal capital
The Company	-	249,627,602	255,426,564
Bank of Taiwan	100.00	187,365,815	131,687,943
BankTaiwan Life Insurance	100.00	10,448,676	7,850,196
BankTaiwan Securities	100.00	1,846,923	658,278
Less: deductible item		(255,373,942)	(255,373,942)
Subtotal		193,915,074	140,249,039
Consolidated capital adequacy ratio			138.26

4) Eligible capital

Unit: Thousand NTD

December 31, 2012	
Item	Amount
Common stock	90,000,000
Additional paid-in capital	111,632,634
Legal reserve	2,758,570
Special reserve	5,924,552
Accumulated profit	8,449,361
Equity adjustments	39,567,513
Less: goodwill	-
Less: deferred assets	104,049
Less: treasury stock	-
Consolidated eligible capital	258,228,581

Unit: Thousand NTD

December 31, 2011	
Item	Amount
Common stock	90,000,000
Additional paid-in capital	112,095,429
Legal reserve	2,352,676
Special reserve	5,227,896
Accumulated profit	6,680,591
Equity adjustments	33,353,048
Less: goodwill	-
Less: deferred assets	82,038
Less: treasury stock	-
Consolidated eligible capital	249,627,602

5) The disclosures according to Statement of Financial Accounting Standards No 28:

1. Loan quality, concentration of credit risk, and policies on allowance for bad debts arising from loans and advances to customers

(a) Loan quality

Type / Item			December 31, 2012				
			Amount of overdue loans	Total amount of loans	Ratio	Allowance for bad debt	Coverage ratio
Enterprise	Secured		5,290,816	530,827,381	1.00%	6,278,407	118.67%
	Non-secured		2,076,615	994,440,253	0.21%	6,537,303	314.81%
Consumer finance	House mortgage		2,393,503	436,301,977	0.55%	2,742,327	114.57%
	Cash card		-	-	-	-	-
	Micro credit		83,822	6,576,139	1.27%	122,993	146.73%
	Others	Secured	417,130	72,704,772	0.57%	443,303	106.27%
		Non-secured	1,229,017	154,148,720	0.80%	1,741,649	141.71%
Total			11,490,903	2,194,999,242	0.52%	17,865,982	155.48%
			Overdue receivables	Account receivable	Ratio	Allowance bad debt	Cover ratio
Credit card business			4,222	969,820	0.44%	12,447	294.81%
Factoring receivables－non-recourse			-	17,657,859	-%	152,286	-

Type / Item			December 31, 2011				
			Amount of overdue loans	Total amount of loans	Ratio	Allowance for bad debt	Coverage ratio
Enterprise	Secured		3,063,664	529,151,229	0.58%	9,553,203	311.82%
	Non-secured		1,792,161	1,006,480,293	0.18%	4,104,641	229.03%
Consumer finance	House mortgage		2,883,236	408,856,119	0.71%	2,385,189	82.73%
	Cash card		-	-	-	-	-
	Micro credit		114,067	8,860,282	1.29%	87,705	76.89%
	Others	Secured	491,008	68,705,528	0.71%	305,373	62.19%
		Non-secured	1,316,419	149,486,023	0.88%	1,458,131	110.76%
Total			9,660,555	2,171,539,474	0.44%	17,894,242	185.23%
			Overdue receivables	Account receivable	Ratio	Allowance bad debt	Cover ratio
Credit card business			4,273	1,039,246	0.41%	12,012	281.11%
Factoring receivables－non-recourse			-	10,054,670	-	86,714	-

Note 1: For loan business: Overdue loans represent the amounts of reported overdue loans pursuant to the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" issued by the FSC. For credit card business: Overdue receivables are regulated by the Banking Bureau letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: For loan business: NPL Ratio = NPL/Total Loans. For credit card business: Delinquency Ratio = Overdue receivables/Accounts receivable.

Note 3: For loan business: Coverage Ratio = LLR/NPL. For credit card business: Coverage Ratio = Allowance for credit losses/Overdue receivables.

Note 4: Household mortgage means the purpose of financing is to purchase, build, or fix up a dwelling, and the dwelling owned by the borrower, spouse, or children fully secures the loan.

Note 5: Micro credit is regulated by the Banking Bureau letter dated December 19, 2005 (Ref. No. 09440010950)

Note 6: Others in consumer finance refer to secured or non-secured loans excluding mortgage, cash card, micro credit, and credit card.

Note 7: Account receivables－factoring with no recourse: As required by the Banking Bureau letter dated July 19, 2005 (Ref. No. 094000494), provision for bad debt is recognized once no compensation is received from the factoring or insurance company.

Note 8: Account receivable of credit card business in including overdue receivable, account receivable and other receivable.

(b) The amounts of excluded NPL and excluded overdue receivables

(Expressed in thousand of New Taiwan Dollars)

	December 31, 2012		December 31, 2011	
	Excluded NPL	Excluded overdue receivables	Excluded NPL	Excluded overdue receivables
As a result of debt consultation and loans agreement	3,065	-	5,309	-
As a result of debt solvency and restart plan	101,433	20,232	121,013	18,902
Total	104,498	20,232	126,322	18,902

2. The average amount of assets and liabilities, as well as the current rate, is disclosed as follows:

Subsidiary－BOT

	December 31, 2010		December 31, 2009	
	Average	Average interest rate (%)	Average	Average interest rate (%)
Interest earnings assets:				
Call loans and placement with banks	$ 136,317,368	0.84	79,446,442	0.89
Placement with Central Bank	440,315,997	0.93	427,424,964	0.88
Financial assets	707,049,105	1.26	760,840,638	1.23
Negotiation, discounts and total loans	2,188,000,987	1.87	2,104,126,925	1.77
Interest bearing liabilities:				
Deposit of Central Bank	13,892,548	-	14,907,629	-
Deposits and call loans from banks	199,105,438	0.62	169,216,584	0.66
Demand deposit	267,612,590	0.14	249,427,075	0.12
Demand savings	644,720,774	0.74	619,970,857	0.72
Time savings	1,604,141,748	1.86	1,577,427,974	1.78
Time deposits	456,604,102	1.12	459,641,375	1.02
Government deposits	213,139,982	0.35	216,911,936	0.32
Structured products	7,084,433	0.90	13,159,542	0.62

Note 1: Average is calculated by daily average of interest earning assets and interest bearing liabilities from January to current month.

Note 2: The calculation disclosed is from the banking department.

Note 3: Excess interest is included in the saving interest rate for demand and timed deposit.

3. Ratios of interest-rate-sensitive assets to liabilities and of interest-rate-sensitive spread to net equity

Interest rate-sensitivity－for NTD

Subsidiary－BOT

December 31, 2012

Unit: Thousand NTD, %

	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest-rate-sensitive assets	$ 1,584,552,712	1,323,790,947	57,238,684	117,818,450	3,083,400,793
Interest-rate-sensitive liabilities	648,671,866	2,054,125,689	279,726,015	90,375,107	3,072,898,677
Interest rate sensitivity gap	935,880,846	(730,334,742)	(222,487,331)	27,443,343	10,502,116
Net worth					249,708,732
Ratio of interest-rate-sensitive assets to liabilities					100.34
Ratio of interest rate sensitivity gap to net worth					4.21

December 31, 2011

	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest-rate-sensitive assets	$ 1,485,212,568	1,282,755,366	180,120,032	109,927,282	3,058,015,248
Interest-rate-sensitive liabilities	192,636,073	2,433,759,573	244,811,305	180,838,799	3,052,045,750
Interest rate sensitivity gap	1,292,576,495	(1,151,004,207)	(64,691,273)	(70,911,517)	5,969,498
Net worth					246,679,631
Ratio of interest-rate-sensitive assets to liabilities					100.20
Ratio of interest rate sensitivity gap to net worth					2.42

Note 1: The above amounts include only New Taiwan Dollar amounts held by the Bank subsidiary's onshore branches (i.e., excluding foreign currency).

Note 2: Interest rate sensitive assets and liabilities refer to the revenues or costs of interest earning assets and interest bearing liabilities which are affected by interest rate changes.

Note 3: Interest rate sensitivity gap = Interest rate sensitive assets — Interest rate sensitive liabilities.

Note 4: Ratio of interest rate sensitive assets to liabilities = Interest rate sensitive assets/Interest rate sensitive liabilities (only interest rate sensitive assets and liabilities within one year, in New Taiwan Dollars).

Note 5: Ratio of interest rate sensitivity gap to net value = Interest rate sensitivity gap / net value.

Interest rate-sensitivity－for NTD

Subsidiary－BOT

December 31, 2012

Unit: Thousand USD, %

	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest-rate-sensitive assets	$ 22,111,962	4,156,013	1,880,869	1,272,292	29,421,136
Interest-rate-sensitive liabilities	22,510,858	5,229,725	1,495,166	143,912	29,379,661
Interest rate sensitivity gap	(398,896)	(1,073,712)	385,703	1,128,380	41,475
Net worth					(58,931)
Ratio of interest-rate-sensitive assets to liabilities					100.14
Ratio of interest rate sensitivity gap to net worth					(70.38)

December 31, 2011

	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest-rate-sensitive assets	$ 20,320,716	4,229,999	1,778,879	1,116,053	27,445,647
Interest-rate-sensitive liabilities	21,722,210	3,934,428	1,364,888	206,973	27,228,499
Interest rate sensitivity gap	(1,401,494)	295,571	413,991	909,080	217,148
Net worth					(41,843)
Ratio of interest-rate-sensitive assets to liabilities					100.80
Ratio of interest rate sensitivity gap to net worth					(518.96)

Note 1: The above amounts include only U.S. Dollar amounts held by the onshore branches, OBU, and offshore branches of the Bank and exclude contingent assets and contingent liabilities.

Note 2: Interest rate sensitive assets and liabilities refer to the revenues or costs of interest earning assets and interest bearing liabilities which are affected by interest rate changes.

Note 3: Interest rate sensitivity gap = Interest rate sensitive assets — Interest rate sensitive liabilities.

Note 4: Ratio of interest rate sensitive assets to liabilities = Interest rate sensitive assets/Interest rate sensitive liabilities (only interest rate sensitive assets and liabilities within 180 days, in U.S. Dollars).

Note 5: Ratio of interest rate sensitivity gap to net value = interest rate sensitivity gap / net value.

4. Profitability

(a) The Company

Unit: %

Item		December 31, 2012	December 31, 2011
Return on total assets (Note 6)	Before income tax	5.74	4.44
	After income tax	5.76	4.50
Return on net worth (Note 8)	Before income tax	6.00	4.63
	After income tax	6.06	4.69
Profit margin		98.52	100.47

(b) The company and subsidiaries

Unit: %

Item		December 31, 2012	December 31, 2011
Return on total assets (Note 7)	Before income tax	0.39	0.31
	After income tax	0.37	0.30
Return on net worth (Note 8)	Before income tax	6.26	4.92
	After income tax	6.02	4.69
Profit margin		7.45	5.09

(c) Subsidiary－BOT

Unit: %

Item		December 31, 2012	December 31, 2011
Return on total assets (Note 7)	Before income tax	0.43	0.33
	After income tax	0.40	0.31
Return on net worth (Note 8)	Before income tax	6.45	4.96
	After income tax	6.10	4.65
Profit margin		24.77	18.94

(d) Subsidiary－BTLI

Unit: %

Item		December 31, 2012	December 31, 2011
Return on total assets	Before income tax	-	0.09
	After income tax	0.06	0.11
Return on net worth	Before income tax	0.26	3.46
	After income tax	3.09	4.28
Profit margin		0.41	0.73

(e) Subsidiary－BTS

Unit: %

Item		December 31, 2012	December 31, 2011
Return on total assets	Before income tax	0.48	2.03
	After income tax	0.44	1.52
Return on net worth	Before income tax	0.77	2.99
	After income tax	0.70	2.23
Profit margin		5.68	15.32

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

Note 2: Return on net worth = Income before (after) income tax/Average net worth.

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

Note 4: Income before (after) income tax is the income in the first months accumulated to the current quarter.

Note 5: Return on total assets and net worth has been annualized.

Note 6: Return on total assets is calculated by the before or after tax earnings plus excess favorable interest expense.

Note 7: The return on total assets of the Company and subsidiaries is calculated by the assets which are deducted the temporary advances and public servants and teachers department's asset and the before or after tax earnings plus the excess favorable interest expense.

Note 8: Return on net worth is calculated by before or after tax earnings plus excess favorable interest expense.

5. Major foreign currency position, net

Subsidiary－BOT

(expressed in thousands of New Taiwan Dollars)

December 31, 2012			December 31, 2011		
Currency	Amount in functional currency	Amount in New Taiwan Dollars	Currency	Amount in functional currency	Amount in New Taiwan Dollars
USD	86,291	2,505,459	USD	28,276	1,319,924
GBP	29,834	1,395,635	JPY	9,406	284,767
SGD	12,143	288,275	GBP	11,289	263,034
CNY	31,093	144,831	CNY	35,211	168,907
HKD	10,313	38,632	SGD	6,270	23,262

Note 1: The major foreign currencies are the top five amounts after all functional currencies are converted to New Taiwan Dollars.

Note 2: The major foreign currency net position is the absolute value of each foreign currency net position.

6. Duration analysis of assets and liabilities

Term Structure Analysis of NTD-denominated Assets and Liabilities

Subsidiary－BOT

December 31, 2012

Unit: Thousand NTD

	Total	December 31, 2012				
		Less than 30 days	31~90 days	91~180 days	181~365 days	Over 1 year
Main matured capital inflow	$ 3,998,398,279	1,035,701,188	519,430,197	425,992,939	439,593,611	1,577,680,344
Main matured capital outflow	4,362,009,529	466,517,604	587,441,948	511,283,536	1,013,987,589	1,782,778,852
Capital gap	(363,611,250)	569,183,584	(68,011,751)	(85,290,597)	(574,393,978)	(205,098,508)

December 31, 2011

	Total	Amount for each remaining period to maturity				
		Day 1 to day 30	Day 31 to day 90	Day 91 to day 180	Day 181 to 1 year	Over 1 year
Main capital inflow on maturity	$ 3,822,254,738	802,311,389	678,469,732	385,900,252	373,328,997	1,582,244,368
Main capital outflow on maturity	4,176,475,777	478,582,783	556,460,135	508,071,726	915,866,757	1,717,494,376
Interval gap	(354,221,039)	323,728,606	122,009,597	(122,171,474)	(542,537,760)	(135,250,008)

Note: The table includes only assets and liabilities denominated in NTD held in head office and domestic and overseas branches; assets and liabilities denominated in foreign currencies are excluded.

Term Structure Analysis of USD-denominated Assets and Liabilities

Subsidiary－BOT

December 31, 2012

Unit: Thousand USD

	Total	Amount for each remaining period to maturity				
		Day 1 to day 30	Day 31 to day 90	Day 91 to day 180	Day 181 to 1 year	Over 1 year
Main capital inflow on maturity	$ 25,739,974	8,960,164	9,730,974	3,798,624	1,551,565	1,698,647
Main capital outflow on maturity	25,075,322	13,179,430	7,096,890	2,636,286	1,421,480	741,236
Interval gap	664,652	(4,219,266)	2,634,084	1,162,338	130,085	957,411

December 31, 2011

	Total	Amount for each remaining period to maturity				
		Day 1 to day 30	Day 31 to day 90	Day 91 to day 180	Day 181 to 1 year	Over 1 year
Main capital inflow on maturity	$ 23,314,824	6,889,263	9,450,063	3,625,532	1,574,075	1,775,891
Main capital outflow on maturity	22,818,079	11,880,343	6,980,792	2,006,354	1,343,291	607,299
Interval gap	496,745	(4,991,080)	2,469,271	1,619,178	230,784	1,168,592

Note 1: The above amounts are book values of the assets and liabilities of the onshore branches and offshore banking unit of the subsidiary BOT in U.S. dollars, without off-balance-sheet amounts (for example, the issuance of negotiable certificates of deposits, bonds or stocks).

Note 2: If the overseas assets are at least 10% of the total assets, there should be additional disclosures.

7) Financial information classified by business type

For the year ended December 31, 2012

Unit: thousand NTD

Businesses / Items	Banking business	Insurance business	Securities business	Government Insurance	Other operations	Total
Net interest income	23,246,298	8,862,295	87,678	1,444,841	-	33,641,112
Net non-interest income	4,360,467	44,306,190	326,558	15,323,853	(4,142)	64,312,926
Net revenues	27,606,765	53,168,485	414,236	16,768,694	(4,142)	97,954,038
Bad debt expense	3,107,865	(464)	504	-	-	3,107,905
Provision for insurance reserves	-	51,071,712	-	16,637,602	-	67,709,314
Operating expense	17,824,863	796,630	335,591	131,092	131,654	19,219,830
Net income before cumulative effect of changes in accounting principle and income tax	6,674,037	1,300,607	78,141	-	(135,796)	7,916,989
Income tax expense	861,112	(194,389)	2,338	-	(48,433)	620,628
Cumulative effect of changes in accounting principle	-	-	-	-	-	-
Net income	5,812,925	1,494,996	75,803	-	(87,363)	7,296,361

For the year ended December 31, 2011

Unit: thousand NTD

Businesses Items	Banking business	Insurance business	Securities business	Government Insurance	Other operations	Total
Net interest income	22,197,716	8,047,261	108,848	1,033,254	-	31,387,079
Net non-interest income	11,510,225	38,288,675	367,672	(1,772,167)	(57,126)	48,337,279
Net revenues	33,707,941	46,335,936	476,520	(738,913)	(57,126)	79,724,358
Net revenues	5,044,908	8,285	252	566	5	5,054,016
Provision for insurance reserves	4,363,935	47,224,441	-	(837,055)	-	50,751,321
Operating expense	17,977,928	824,807	313,176	97,576	63,633	19,277,120
Net income before cumulative effect of changes in accounting principle and income tax	6,321,170	(1,721,597)	163,092	-	(120,764)	4,641,901
Income tax expense	785,160	(67,076)	24,720	-	(159,837)	582,967
Cumulative effect of changes in accounting principle	-	-	-	-	-	-
Net income	5,536,010	(1,654,521)	138,372	-	39,073	4,058,934

8) The balance sheets and statements of income of government employees insurance department of BOT

1. Balance sheets

	Government employees insurance department	
	December 31, 2012	December 31, 2011
Cash and cash equivalents	$ 21,373,048	24,911,164
Financial assets at fair value through profit or loss	85,703,614	65,802,579
Receivables, net	22,497,581	23,330,050
Held to maturity financial assets, net	54,942,943	50,321,722
Fixed assets, net	13,902	6,832
Intangible assets, net	4,791	442
Other assets, net	10,162,144	13,690,111
Total assets	$ 194,698,023	178,062,900
Financial liabilities at fair value through profit or loss	$43	5,254
Payables	35,883	33,146
Other liabilities	194,662,097	178,024,500
Total liabilities	194,698,023	178,062,900
Total Liabilities and Shareholders' Equity	$ 194,698,023	178,062,900

2. Statements of income

	Government employees insurance department	
	2012	2011
Net interest income	$ 1,444,841	1,396,332
Non interest income, net		
Service fee expenses	88,678	114,692
Gain (loss) on financial assets and liabilities at fair value through profit or loss	8,636,730	(8,021,468)
Foreign exchange gain (loss)	(1,651,528)	838,664

Other non interest income		
Premium income	17,992,149	17,695,580
Government grant income (Note)	18,525,118	18,619,038
Insurance payments	(28,267,159)	(26,971,342)
Provision for insurance premium reserve	(16,637,602)	(3,526,880)
Miscellaneous expense	(597,034)	(7,221)
Miscellaneous revenue	596,899	-
Net revenue	131,092	137,395
Bad debt expense	-	566
Operating expense		
Personnel expense	114,866	120,411
Depreciation and amortization expense	2,340	3,295
Other business and administrative expense	13,886	13,123
	131,092	136,829
Net income	$ -	-

Note: Government subsidy mesh that losses incurred by Government employee's insurance department prior to May 30, 1999 are audited and subsidized by the ministry of finance in accordance with "Civil Servant and Teacher Insurance Act" 5. Losses incurred after May 31, 1999 shall be covered by adjusting insurance rate. According to the same Act, the related expense will be paid by Ministry of Civil service.

9) Subsidiaries' condensed consolidated balance sheets and statements of income

1. Condensed balance sheets.

	BOT	
	The year ended December 31, 2012	The year ended December 31, 2011
Cash and cash equivalents	$ 72,812,404	76,426,176
Placement with Central Bank and call loans to banks	549,627,869	488,555,403
Financial assets at fair value through profit or loss	146,534,038	110,886,008
Bonds and bills purchased under resell agreements	4,980,621	3,231,949
Receivables, net	91,268,044	86,439,780
Discounts and loans, net	2,177,133,260	2,153,591,118
Available for sale financial assets, net	734,870,751	757,373,465
Held to maturity financial assets, net	61,999,046	50,942,589
Investments under equity method, net	35,393,882	32,479,598
Other financial assets, net	69,672,866	72,207,332
Fixed assets, net	97,253,348	97,864,904
Intangible assets	1,164,105	821,057
Other assets, net	11,951,655	15,119,109
Total assets	$ 4,054,661,889	3,945,938,488
Deposits of Central Bank and other banks	$ 213,374,465	208,926,475
Financial liabilities at fair value through profit or loss	4,876,954	3,902,885
Bonds and bills sold under repurchase agreements	11,998,398	14,906,165
Payables	42,156,062	39,471,580
Deposits and remittances	3,294,903,719	3,218,010,687
Accrued pension liability	4,959,970	4,566,752
Other financial liabilities	8,499,403	5,756,183
Other liabilities	221,158,900	204,028,632
Total liabilities	3,801,927,871	3,699,569,359
Common stock	70,000,000	70,000,000
Additional paid in capital	105,682,871	106,077,872
Retained earnings	33,701,906	30,901,653
Other shareholder's equity	43,349,241	39,389,604
Total shareholders' equity	252,734,018	246,369,129
Total Liabilities and Shareholders' Equity	$ 4,054,661,889	3,945,938,488

	BTLI	
	The year ended December 31, 2012	The year ended December 31, 2011
Current assets	$ 137,652,352	39,081,370
Loans	10,788,882	10,436,679
Funds and investments	224,085,062	272,198,966
Fixed assets	893,222	891,852
Intangible assets	11,674	236,786
Other assets, net	9,288,471	8,875,541
Total assets	$ 382,719,663	331,721,194
Current liabilities	$ 27,079,292	30,533,072
Long term liabilities	397,351	359,877
Reserve for operations and other liabilities	339,012,687	288,493,364
Other liabilities	8,202,032	6,657,642
Total liabilities	374,691,362	326,043,955
Common stock	11,000,000	11,000,000
Additional paid in capital	377,580	445,373
Retained earnings	485,497	273,573
Other shareholders' equity	(3,834,776)	(6,040,707)
Total shareholders' equity	8,028,301	5,678,239
Total Liabilities and Shareholders' Equity	$ 382,719,663	331,722,194

	BTS	
	The year ended December 31, 2012	The year ended December 31, 2011
Current assets	$ 4,773,019	4,023,383
Fixed assets	282,510	285,281
Intangible assets	1,303	1,522
Other assets, net	577,408	548,454
Net brokering accounts－debit	9,447	38,738
Total assets	$ 5,643,687	4,897,378
Current liabilities	$ 2,152,743	1,453,604
Other liabilities	172,533	155,175
Total liabilities	2,325,276	1,608,779
Common stock	3,000,000	3,000,000
Non-appropriated surplus	256,553	284,449
Unrealized incremental value from revaluation	145,232	145,232
Unrealized net loss not recognized as pension cost	(76,562)	(61,314)
Unrealized gains on financial instruments	(6,812)	(79,768)
Total shareholders' equity	3,318,411	3,288,599
Total Liabilities and Shareholders' Equity	$ 5,643,687	4,897,378

2. Condensed income statements

	BOT	
	The year ended December 31, 2012	The year ended December 31, 2011
Net-interest income	$ 24,675,639	23,186,559
Non-interest income, net	4,519,424	4,422,055
Net revenue	29,195,063	27,608,614
Bad debt expenses	3,107,865	5,045,474
Operating expenses	17,993,929	18,114,175
Income before tax	8,093,269	4,448,965
Income after tax	7,232,157	3,663,805
EPS－before tax (NTD)	1.16	0.64
EPS－after tax (NTD)	1.03	0.52

	BTLI	
	The year ended December 31, 2012	The year ended December 31, 2011
Operating revenues	$ 68,642,099	62,771,485
Operating costs	67,820,712	61,619,108
Gross Profit	821,387	1,152,377
Operating expenses	840,423	871,158
Operating income	(19,036)	281,219
Non operating revenue	57,781	24,879
Non operating expenses	21,208	20,546
Income before tax	17,535	285,552
Income after tax	211,924	352,628
EPS－before tax (dollars)	0.02	0.26
EPS－after tax (dollars)	0.19	0.32

	BTS	
	The year ended December 31, 2012	The year ended December 31, 2011
Revenue	$ 482,009	568,072
Expenses	456,660	470,628
Income before tax	25,349	97,444
Income after tax	23,011	72,724
EPS－before tax (dollars)	0.08	0.32
EPS－after tax (dollars)	0.08	0.24

10) Government audit adjustments for fiscal years ended December 31, 2011 and 2010

The Company and its subsidiaries' accounting records as of and for the years ended 2011 and 2010, has been audited by the MoA, and the resulting adjustments are summarized are as follows:

December 31, 2011

Balance sheet	As audited by auditors December 31, 2011	Adjustments －Increase (decrease)	As audited by the MOA, December 31, 2011
Assets			
Receivable, net	$ 91,051,049	33,167	91,084,216
Loans and Discounts, net	2,158,381,911	(54,117)	2,158,327,794
Liabilities			
Payable	69,230,298	707	69,231,005
Stockholders' equity			
Unappropriated retained earnings	6,680,591	(21,657)	6,658,934

Income statement	As audited by auditors December 31, 2011	Adjustments －Increase (decrease)	As audited by the MOA, December 31, 2011
Net revenue of service charges and commissions	$ 3,778,928	(48,595)	3,730,333
Other non interest income, net	10,462,563	4,661	10,467,224
Bad debt expense	4,999,902	54,114	5,054,016
Operating expense	19,333,759	(56,639)	19,277,120
Income before income taxes	4,683,310	(41,409)	4,641,901
Income tax expense	602,719	(19,752)	582,967
Net income	4,080,591	(21,657)	4,058,934

December 31, 2010

Balance sheet		As audited by auditors December 31, 2010	Adjustments —Increase (decrease)	As audited by the MOA, December 31, 2010
Assets				
Cash and cash equivalents	$	60,551,598	1,152	60,552,750
Receivables, net		90,593,396	440	90,593,836
Liabilities				
Payables		70,926,682	(329)	70,926,353
Other liabilities		28,288,062	1,624	28,289,686
Stockholders' equity				
Unappropriated retained earnings		9,729,697	(19)	9,729,678

Income statement		As audited by auditors December 31, 2010	Adjustments —Increase (decrease)	As audited by the MOA, December 31, 2010
Interest revenue	$	53,578,753	637	53,579,390
Net revenue of service charges and commissions		3,805,135	1,244	3,806,379
Realized gains or losses on available for sale financial assets		5,076,259	(1,776)	5,074,483
Foreign exchange gains (losses)		(3,600,578)	(23)	(3,600,601)
Other non interest income		9,684,862	41	9,684,903
Income before taxes		7,882,998	121	7,883,119
Income tax benefits		458,878	141	459,019
Net income		7,424,120	(20)	7,424,100

11) Significant effect of foreign currency assets and liabilities is summarized as follows:

1. BOT

	December 31, 2012			December 31, 2011		
	Currency (thousand)	Exchange rate	NT (thousand)	Currency (thousand)	Exchange rate	NT (thousand)
Financial assets:						
Monetary items						
USD	9,601,837	29.0350	278,789,337	9,019,870	30.2750	273,076,564
HKD	13,339,674	3.7460	49,970,419	12,422,465	3.8970	48,410,346
MYR	4,311	9.4850	40,890	3,989	9.5360	38,039
GBP	483,945	46.7800	22,638,947	429,575	46.6800	20,052,561
AUD	736,859	30.1250	22,197,877	580,397	30.7450	17,844,306
CAD	34,933	29.1900	1,019,694	42,915	29.6700	1,273,288
SGD	1,499,681	23.7400	35,602,427	1,569,290	23.3000	36,564,457
CHF	4,090	31.8050	130,082	5,017	32.1850	161,472
JPY	149,668,877	0.3360	50,288,743	111,121,496	0.3897	43,304,047
ZAR	2,102,973	3.4300	7,213,197	1,617,914	3.7100	6,002,461
SEK	4,629	4.4700	20,692	6,255	4.3900	27,459
NZD	7,176	23.8100	170,861	6,725	23.4100	157,432
THB	222,762	0.9526	212,203	218,376	0.9583	209,270
PHP	29,701	0.7063	20,978	32,161	0.6906	22,210
IDR	3,449,610	0.0030	10,349	3,491,497	0.0034	11,871
EUR	342,287	38.4500	13,160,935	364,612	39.2200	14,300,083
KRW	6,697,963	0.0271	181,515	7,128,657	0.0262	186,771
CNY	791,922	4.6580	3,688,773	366,597	4.7970	1,758,566
VND	7,999,070	0.0014	11,199	8,005,820	0.0015	12,009

	December 31, 2012			December 31, 2011		
	Currency (thousand)	Exchange rate	NT (thousand)	Currency (thousand)	Exchange rate	NT (thousand)
Non-monetary items						
USD	783,178	29.0350	22,739,573	486,948	30.2750	14,742,351
GBP	14,682	46.7800	686,824	11,870	46.6800	554,092
JPY	10,546	0.3360	3,543	7,889	0.3897	3,074
EUR	115,615	38.4500	4,445,397	116,978	39.2200	4,587,877
Financial liabilities:						
Monetary items						
USD	12,492,792	29.0350	362,728,216	11,446,050	30.2750	346,529,164
HKD	12,918,450	3.7460	48,392,514	12,187,584	3.8970	47,495,015
MYR	5	9.4850	47	6	9.5360	57
GBP	521,897	46.7800	24,414,342	492,548	46.6800	22,992,141
AUD	711,520	30.1250	21,434,540	654,621	30.7450	20,126,323
CAD	120,814	29.1900	3,526,561	123,792	29.6700	3,672,909
SGD	1,406,782	23.7400	33,397,005	1,334,091	23.3000	31,084,320
CHF	15,584	31.8050	495,649	19,240	32.1850	619,239
JPY	54,186,395	0.3360	18,206,629	87,527,135	0.3897	34,109,325
ZAR	11,359,551	3.4300	38,963,260	9,577,014	3.7100	35,530,722
SEK	19,825	4.4700	88,618	34,305	4.3900	150,599
NZD	273,340	23.8100	6,508,225	364,478	23.4100	8,532,430
THB	3,013	0.9526	2,870	254	0.9583	243
EUR	301,366	38.4500	11,587,523	320,918	39.2200	12,586,404
CNY	578,023	4.6580	2,692,431	145,223	4.7970	696,635
Non-monetary items						
USD	13,578	29.0350	394,237	11,193	30.2750	338,868
HKD	55,395	3.7460	207,510	54,490	3.8970	212,348
GBP	1,737	46.7800	81,257	2,397	46.6800	111,892
SGD	11,072	23.7400	262,849	13,041	23.3000	303,855
JPY	946,097	0.3360	31,889	962,268	0.3897	374,996
ZAR	1,315	3.4300	4,510	15,892	3.7100	58,959

2. BTLI

	December 31, 2012			December 31, 2011		
	Currency (thousand)	Exchange rate	NT (thousand)	Currency (thousand)	Exchange rate	NT (thousand)
Financial assets:						
Monetary items						
AUD	319,249	30.1250	9,617,380	259,694	30.7450	7,984,304
CAD	77,573	29.1900	2,264,350	42,044	29.6700	1,247,436
EUR	0.107	38.4500	4.12	59,439	39.2200	2,331,204
HKD	283,673	3.7460	1,062,640	182,302	3.8970	710,430
JPY	0.056	0.3360	0.019	300	0.3897	117
NZD	206	23.8100	4,895	298	23.4100	6,966
USD	3,584,098	29.0350	104,064,282	3,557,058	30.2750	107,689,929
CNY	2,727,777	4.6580	12,705,987	462,041	4.7970	2,216,409
Financial liabilities:						
Monetary items						
USD	509,172	29.0350	14,783,823	282,089	30.2750	8,540,243

12) Disclosure on adopting IFRSs:

1. Under the order No. 10000073410 issued by the Financial Supervisory Commission on April 7, 2011, starting from 2013, financial holding company is required to disclose the financial report in conformity with the International Financial Reporting Standard (IFRSs), interpreted and issued by Accounting Research and Development Foundation. To assist the adjustment. The Company and its subsidiaries has formed a special task force and established an IFRSs adoption plan. General Manager (or vice general manager) is responsible for the conversion plan. Significant plan contents, expected schedules and completion status are summarized as follows:

(a) The Company

Plan Content	Responsible Department (or Responsible Person	Status
Phase 1 Evaluation: (2009.10.01 ~ 2010.06.30):		
◎ Form a special task force for IFRS conversion	Accounting Department	Completed
◎ Initial understanding towards IFRS	Accounting Department	Completed
◎ Establish a conversion plan and timeline and report to the Board of Directors	Accounting Department	Completed
◎ Evaluate the need for assistance from external expert	Accounting Department	Completed
◎ Establish task team for IFRS conversion	All Departments	Completed
◎ Establish IFRS site in the Company's intranet	I.T, legal and accounting departments	Completed
◎ Establish IFRS studying group	Accounting Department	Completed
◎ Compare and analyze the differences between the current Accounting Policies and IFRS	Accounting Department	Completed
◎ Evaluate all unit's daily potential operational influence	All Departments	Completed
◎ Evaluate the adoption of IFRS 1 "First time Adoption of IFRS"	Accounting Department	Completed
◎ Perform internal training for employees	Human Resources (the support of all units)	Completed
Phase 2 Preparation: (2010.07.01 ~ 2011.12.31):		
◎ Devise a complete conversion plan	Accounting Department	Completed
◎ Complete the comparison and evaluation between the ROC GAAP and IFRS	Accounting Department	Completed
◎ Determine relevant IFRS policies	Accounting Department	Completed
◎ Determine how to revise the current Accounting Policies to comply with IFRS	All Departments	Completed
◎ Adjust and review the standard operational procedure, information technology and financial reporting of all units	All Departments	Completed
◎ Continue internal training for employees	Human Resources (support from all units)	Completed
Phase 3 Implementation: (2012.01.01 ~ 2012.03.31):		
◎ Prepare balance sheet on IFRS conversion date in accordance with IFRS 1 in parallel with the ROC GAAP	Accounting Department	Completed
◎ Prepare the first financial statements accordance in with IFRS	Accounting Department	Completed
◎ Identify and prepare process analysis for areas of improvement regarding the preparation of first IFRS financial report	All Departments	Completed
◎ Establishment for performance evaluation standard	Financial Department	Completed
◎ Measure and Adjust relative internal control system	All Departments	Completed
◎ Awareness towards the continuous impact of IFRS on preparation of financial statements	Accounting Department	Completed
◎ Prepare 2012 Compared Financial information accordance with IFRS	Accounting Department	Completed
◎ Continue internal training for employees	Human Resources	Completed

Phase 4 Implementation and adjustment: (2013.04.01 ~ 2013.12.31)		
◎ Integrate management information	All Departments	In Progress
◎ Process analysis and improvement procedures for IFRS conversion	All Departments	In Progress
◎ Ensure the disclosure and preparation of financial statements in compliance with the requirements of IFRS and formulate necessary response to changes	Accounting Department	In Progress

(b) BOT

Plan Content	Responsible Department (or Responsible Person	Status
Phase 1 Evaluation: (2009.09.30 ~ 2010.06.30):		
◎ Form a special task force for IFRS conversion	All operational units and accounting Department	Completed
◎ Initial understanding towards IFRS	Accounting Department	Completed
◎ Establish a conversion plan and timeline and report to the Board of Directors	Accounting Department	Completed
◎ Evaluate he need for assistance from external expert	Accounting Department	Completed
◎ Establish task team for IFRS conversion	All operational units and accounting Department	Completed
◎ Establish IFRS site in the Company's intranet	I.T, legal and accounting department	Completed
◎ Compare and analyze the differences between the current Accounting Policies and IFRS	All operational units, I.T and accounting Department	Completed
◎ Evaluate all units' daily potential operational influence	All operational units, I.T and accounting Department	Completed
◎ Evaluate the adoption of IFRS 1 "First time Adoption of IFRS"	All operational units, I.T and accounting Department	Completed
◎ Perform internal training for employees	Human Resources (the support of all units)	Completed
◎ Establish studying group	All operational units and accounting Department	Completed
Phase 2 Preparation: (2010.09.30 ~ 2011.12.31):		
◎ Devise a complete conversion plan	All operational units and accounting Department	Completed
◎ Complete the comparison and evaluation between the ROC GAAP and IFRS	All operational units and accounting Department	Completed
◎ Determine relevant IFRS policies	All operational units and accounting Department	Completed
◎ Determine how to revise the current Accounting Policies to comply with IFRS	All operational units and accounting Department	Completed
◎ Studying group	All operational units, IT and accounting Department	Completed
◎ Adjust and review the standard operational procedure , information technology and financial reporting of all units	All operational units, IT and accounting Department	Completed
◎ Perform simulated system test, identify the area requiring revised SOP and system	All operational units, IT and accounting Department	
◎ Complete paperwork and relevant controls for IFRS	All operational units, IT and accounting Department	Completed
◎ Continue internal training for employees	Human Resources (support from all units)	Completed
◎ Prepare balance sheet on IFRS conversion date (2012.01.01) in accordance with IFRS 1	All operational units, IT and accounting Department	Completed

Phase 3 Implementation: (2012.01.01 ~ 2012.12.31):		
◎ Prepare balance sheet on IFRS conversion date in accordance with IFRS 1 in parallel with the ROC GAAP	All operational units, IT and accounting Department	Completed
◎ Internal controls adjustment	All operational units	Completed
◎ Prepare the first IFRS financial statement for the the three month periods ended March 31, 2012	All operational units, IT and accounting Department	Completed
◎ Identify and prepare process analysis for areas of improvement regarding the preparation of first IFRS financial report	All operational units, IT and accounting Department	Completed
◎ Establishment for performance evaluation standard	International, domestic operations and planning Department	Completed
◎ Awareness towards the continuous impact of IFRS on preparation of financial statements	All operational units and accounting Department	Completed
◎ Continue internal training for employees	Human Resources (support from all units)	Completed
Phase 4 Implementation and adjustment: (2013.01.01 ~ 2013.12.31)		
◎ Consolidate management information	All operational units, IT and accounting Department	In Progress
◎ Process analysis and improvement procedures for IFRS conversion	All operational units, IT and accounting Department	In Progress
◎ Ensure the disclosure and preparation of financial statements in compliance with the requirements of IFRS and formulate necessary response to changes	All operational units, IT and accounting Department	In Progress

(C) BTLI

Plan Content	Responsible Department (or Responsible Person	Status
Phase 1 Evaluation: (2009.09.30 ~ 2010.06.30):		
◎ Form a special task force for IFRS conversion	Accounting Department	Completed
◎ Establish a conversion plan and timeline and report to the Board of Directors	Accounting Department	Completed
◎ Perform internal training for employees	Management and relative Department	Completed
◎ Establish task team for IFRS conversion	Accounting and relative Department	Completed
◎ Access the needs of outside experts	Accounting Department	Completed
◎ Establish IFRS site in the Company's intranet	Accounting and I.T. Department	Completed
◎ Establish IFRS studying group	Accounting and relative Department	Completed
◎ Compare and analyze the differences between the current Accounting Policies and IFRS	Accounting and relative Department	Completed
◎ Evaluate all units' daily potential operational influence	Accounting and relative Department	Completed
◎ Evaluate the adoption of IFRS 1 "First time Adoption of IFRS"	Accounting and relative Department	Completed
Phase 2 Preparation: (2010.09.30 ~ 2011.12.31):		
◎ Devise a complete conversion plan	Accounting Department	Completed
◎ Complete the comparison and evaluation between ROC GAAP and IFRS	Accounting and relative Department	Completed
◎ Determine relevant IFRS policies	Accounting and relative Department	Completed

◎ Complete solutions to operational impact due to IFRS conversion	Accounting and relative Department	Completed
◎ Adjust and review the standard operational procedure, information technology and financial reporting of all units	IT and relative Department	Completed
◎ Perform simulated system test, identify the area requiring revised SOP and system	IT and relative Department	Completed
◎ Continue internal training for employees	Management and relative Department	
Phase 3 Implementation: (2012.01.01 ~ 2016.06.30):		
◎ Prepare balance sheet on IFRS conversion date in accordance with IFRS 1 in parallel with ROC GAAP	Accounting and relative Department	Completed
◎ Complete Guidelines of accounting and other operations	Accounting and relative Department	Completed
◎ Prepare the first IFRS financial statement for the March 31, 2012 three month periods	Accounting and relative Department	Completed
◎ Complete internal controls evaluation and adjustment	Accounting and relative Department	Completed
◎ Identify and prepare process analysis for areas of improvement regarding the preparation of first IFRS financial report	Accounting and relative Department	Completed
◎ Establishment for performance evaluation standard	Planning Department	Completed
◎ Awareness towards the continuous impact of IFRS on preparation of financial statements	Accounting and relative Department	Completed
◎ Continue internal training for employees	Management and relative Department	Completed
◎ Complete 2012 and 2011 compared financial information according to IFRS	Accounting and relative department	Completed
Phase 4 Implementation and adjustment: (2013.01.01 ~ 2013.12.31)		
◎ Consolidate management information	Planning Department	In Progress
◎ Process analysis and improvement procedures for IFRS conversion	Accounting and relative Department	In Progress
◎ Ensure the disclosure and preparation of financial statements in compliance with the requirements of IFRS and formulate necessary response to changes	Accounting Department	In Progress

(d) BTS

Plan Content	Responsible Department (or Responsible Person	Status
Phase 1 Evaluation: (2009.06.30 ~ 2010.06.30):		
◎ Form a special task force for IFRS conversion	Accounting Department	Completed
◎ Initial understanding toward IFRS accounting department	Accounting Department	Completed
◎ Establish a conversion plan and timeline and report to the Board of Directors	Accounting Department	Completed
◎ Perform internal training for employees	Management and relative Department	Completed
◎ Establish task team for IFRS conversion	Accounting and relative Department	Completed
◎ Access the needs of outside experts	Accounting Department	Completed
◎ Establish IFRS site in the Company's intranet	Accounting and I.T. Department	Completed
◎ Establish IFRS studying group	Accounting and relative Department	Completed
◎ Compare and analyze the differences between the current Accounting Policies and IFRS	Accounting and relative Department	Completed

◎ Evaluate all units' daily potential operational influence	Accounting and relative Department	Completed
◎ Evaluate the adoption of IFRS 1"First time Adoption of IFRS"	Accounting and relative Department	
Phase 2 Preparation: (2010.06.30 ~ 2011.06.30):		
◎ Devise a complete conversion plan	Accounting Department	Completed
◎ Complete the comparison and evaluation between ROC GAAP and IFRS	Accounting Department	Completed
◎ Determine relevant IFRS policies	Accounting Department	Completed
◎ Complete solutions to operational impact due to IFRS conversion	Accounting Department	Completed
◎ Adjust and review the standard operational procedure, information technology and financial reporting of all units	Relative Department	Completed
◎ Perform simulated system test, identify the area requiring revised SOP and system	Relative Department	
◎ Continue internal training for employees	Management and relative Department	
◎ Complete Guidelines of accounting operations	All Relative department	Completed
Phase 3 Implementation: (2012.01.01 ~ 2012.12.31):		
◎ Prepare balance sheet on IFRS conversion date in accordance with IFRS 1 in parallel with ROC GAAP	Accounting Department	Completed
◎ Prepare the first IFRS financial statement for the March 31, 2012 three month periods	Accounting Department	Completed
◎ Complete internal controls evaluation and adjustment	Relative department	Completed
◎ Identify and prepare process analysis for areas of improvement regarding the preparation of first IFRS financial report	Accounting and relative Department	Completed
◎ Establishment for performance evaluation standard	Management Department	Completed
◎ Awareness towards the continuous impact of IFRS on preparation of financial statements	Accounting Department	Completed
◎ Continue internal training for employees	Management Department	Completed
◎ Complete 2012 and 2011 compared financial information according to IFRS	Accounting Department	Completed
Phase 4 Implementation and adjustment: (2013.01.01 ~ 2013.12.31)		
◎ Integrate management information	Relative Department	In Progress
◎ Process analysis and improvement procedures for IFRS conversion	Relative Department	In Progress
◎ Ensure the disclosure and preparation of financial statements comply with the requirements of IFRS and formulate necessary response to changes	Accounting Department	In Progress

2. The significant differences of preparing financial statements which the Company and subsidiaries evaluated between current GAAP and IFRSs are listed below:

(a) Reconciliation of statements of Financial Position January 1, 2012

Unit: In Thousand of New Taiwan Dollars

GAAP			IFRS		
Item	Amount	IFRS Conversion Impact	IFRSs Amount	Item	Note
Assets				Assets	
Cash and cash equivalents	$ 97,988,304	(15,900,000)	82,088,304	Cash and cash equivalents	N
Placement with Central Bank and call loans to banks	488,555,403	-	488,555,403	Placement with Central Bank and call loans to banks	
Financial assets measured at fair value through profit or loss, net	111,746,984	-	111,746,984	Financial assets measured at fair value through profit or loss, net	
Available for sale financial assets, net	802,058,331	-	802,058,331	Available for sale financial assets, net	A
	-	3,074	3,074	Derivative financial assets hedging	N
Bonds and bills purchased under resell agreements	12,402,851	-	12,402,851	Bonds and bills purchased under resell agreements	
Receivables, net	91,084,216	1,534,682	92,618,898	Receivables, net	A, B, E, N
	-	2,468,548	2,468,548	Current income tax assets	E
Loans and Discounts, net	2,158,327,794	-	2,158,327,794	Loans and Discounts, net	
Held to maturity financial assets, net	-	22,701	22,701	Reinsurance assets, net	N
Investments under equity method, net	227,724,845	(31,419)	227,693,426	Held to maturity financial assets, net	A
Other financial assets, net	37,544,129	(182,089)	37,362,040	Investments under equity method, net	J
Real estate investment, net	110,755,243	16,362,183	127,117,426	Other financial assets, net	A, B, N
Fix assets, net	4,057,036	(495,579)	3,561,457	Investment property, net	I
Intangible assets	99,049,681	1,540,055	100,589,736	Fix assets, net	G, I
Other assets, net	830,361	-	830,361	Intangible assets	
	-	1,648,226	1,648,226	Deferred income tax assets, net	A, E, L
	19,082,920	(3,671,281)	15,411,639	Other assets, net	A, C, E, G, N
Total assets	4,261,208,098	3,299,101	4,264,507,199	Total assets	

GAAP			IFRS		
Item	Amount	IFRS Conversion Impact	IFRSs Amount	Item	Note
Liabilities					
Deposits of Central Bank and other banks	$ 208,926,475	-	208,926,475	Deposits of Central Bank and other banks	
Financial liabilities measured at fair value through profit or loss	4,274,874	-	4,274,874	Financial liabilities measured at fair value through profit or loss	
	-	409,907	409,907	Derivative financial liabilities hedging	N
Bonds and bills sold under repurchase agreements	15,638,050	-	15,638,050	Bonds and bills sold under repurchase agreements	
Commercial paper payables, net	499,537	-	499,537	Commercial paper payables, net	
Payables	69,231,005	4,295,684	73,526,689	Payables	B, E, M, N
	-	80,797	80,797	Current income tax liabilities	E
Deposits and remittances	3,202,888,078	-	3,202,888,078	Deposits and remittances	
Provisions	467,108,298	14,734,226	481,842,524	Provisions	A, C, D, M
Other financial liabilities	11,246,261	(409,907)	10,836,354	Other financial liabilities	N
	-	18,427,976	18,427,976	Deferred income tax liabilities	A, E, F, H, M
Other liabilities	31,707,537	(23,412,364)	8,295,173	Other liabilities	C, E, M
Total liabilities	$4,011,520,115	14,126,319	4,025,646,434	Total liabilities	
Stock holder's Equity				Total Stock holder's Equity	
Equity	$ 90,000,000	-	90,000,000	Equity	
Common stock	90,000,000	-	90,000,000	Common stock	
Additional paid in capital	112,095,429	(710,212)	111,385,217	Additional paid in capital	J
Retained earning	14,239,506	15,647,215	29,886,721	Retained earning	
Legal reserve	2,352,676	-	2,352,676	Legal reserve	
Special reserve	5,227,896	(204,699)	5,023,197	Special reserve	J, M
Undistributed earnings	6,658,934	15,851,914	22,510,848	Undistributed earnings	A, C, D, E, F, H, J, L
Other equities	33,353,048	(25,764,221)	7,588,827	Other equities	A, C, F, H, J, L
Total Stock holder's Equity	249,687,983	(10,827,218)	238,860,765	Total Stock holder's Equity	
Total liabilities and shareholders' equity	$4,261,208,098	3,299,101	4,264,507,199	Total liabilities and shareholders' equity	

(b) Reconciliation of statements of Financial Position December 31, 2012

Unit: In Thousand of New Taiwan Dollars

GAAP			IFRS		
Item	Amount	IFRS Conversion Impact	IFRSs Amount	Item	Note
Assets					
Cash and cash equivalents	$ 120,604,340	(41,900,000)	78,704,340	Cash and cash equivalents	N
Placement with Central Bank and call loans to banks	549,627,869	-	549,627,869	Placement with Central Bank and call loans to banks	
Financial assets measured at fair value through profit or loss, net	147,512,761	(1,157)	147,511,604	Financial assets measured at fair value through profit or loss, net	K
Available for sale financial assets, net	777,192,341	-	777,192,341	Available for sale financial assets, net	A
	-	3,543	3,543	Derivative financial assets hedging	N
Bonds and bills purchased under resell agreements	23,106,942	-	23,106,942	Bonds and bills purchased under resell agreements	
Receivables, net	98,341,071	(1,216,934)	97,124,137	Receivables, net	A, B, E, N
	-	2,786,825	2,786,825	Current income tax assets	E
Loans and Discounts, net	2,182,122,142	-	2,182,122,142	Loans and discounts, net	
	-	22,133	22,133	Reinsurance assets, net	N
Held to maturity financial assets, net	244,048,117	(91,639)	243,956,478	Held to maturity financial assets, net	A
Investments under equity method, net	40,936,053	(826,576)	40,109,477	Investments under equity method, net	J
Other financial assets, net	114,965,947	42,260,453	157,226,400	Other financial assets, net	A, B, N
Real estate investment, net	4,773,134	(492,372)	4,280,762	Investment property, net	I
Fix assets, net	98,436,106	1,522,153	99,958,259	Fix assets, net	G, I
Intangible assets	1,177,207	-	1,177,207	Intangible assets	
	-	2,184,449	2,184,449	Deferred income tax assets, net	A, E, L
Other assets, net	16,919,776	(3,694,074)	13,225,702	Other assets, net	A, C, E, G, N
Total assets	$4,419,763,806	556,804	4,420,320,610	Total assets	

GAAP			IFRS		
Item	Amount	IFRS Conversion Impact	IFRSs Amount	Item	Note
Liabilities					
Deposits of Central Bank and other banks	$ 213,374,465	-	213,374,465	Deposits of Central Bank and other banks	
Financial liabilities measured at fair value through profit or loss	4,508,508	-	4,508,508	Financial liabilities measured at fair value through profit or loss	
	-	301,390	301,390	Derivative financial liabilities hedging	N
Bonds and bills sold under repurchase agreements	13,341,805	-	13,341,805	Bonds and bills sold under repurchase agreements	
Commercial paper payables, net	519,880	-	519,880	Commercial paper payables, net	
Payables	69,404,869	1,663,337	71,068,206	Payables	A, B, D, E, H, M, N
	-	136,126	136,126	Current income tax liabilities	E
Deposits and remittances	3,277,797,765	-	3,277,797,765	Deposits and remittances	
Provisions	534,299,189	15,574,485	549,873,674	Provisiona	A, C, D, M
Other financial liabilities	13,185,447	(301,390)	12,884,057	Other financial liabilities	N
	-	18,802,039	18,802,039	Deferred income tax liabilities	A, E, F, H, M
Other liabilities	34,999,248	(23,832,650)	11,166,598	Other liabilities	C, E, M
Total liabilities	$4,161,431,176	12,343,337	4,173,774,513	Total liabilities	
Stock holder's Equity				Total Stock holder's Equity	
Equity				Equity	
Common stock	$ 90,000,000	-	90,000,000	Common stock	
Additional paid in capital	111,632,634	(247,417)	111,385,217	Additional paid in capital	J
Retained earning	17,132,483	15,094,749	32,227,232	Retained earning	
Legal reserve	2,758,570	-	2,758,570	Legal reserve	
Special reserve	5,924,552	(204,699)	5,719,853	Special reserve	J, M
Undistributed earnings	8,449,361	15,299,448	23,748,809	Undistributed earnings	A, C, D, E, F, H, J, K, L, M
Other equities	39,567,513	(26,633,865)	12,933,648	Other equities	A, C, F, H, J, L
Total Stock holder's Equity	$ 258,332,630	(11,786,533)	246,546,097	Total Stock holder's Equity	
Total liabilities and shareholders' equity	$4,419,763,806	556,804	4,420,320,610	Total liabilities and shareholders' equity	

(c) Reconciliation of statements of Comprehensive Income in 2012

Unit: In Thousand of New Taiwan Dollars

GAAP			IFRS		
Item	Amount	IFRS Conversion Impact	IFRSs Amount	Item	Note
Interest income	$ 66,827,124	(1,602,325)	65,224,799	Interest income	A, N
Less: interent expenses	33,186,012	(1,073,761)	32,112,251	Less: interent expenses	N
Net interest inocme	33,641,112	(528,564)	33,112,548	Net interest inocme	
Non interest income, net	-	-	-	Non interest income, net	
Fee and commission income, net	3,172,020	8,770	3,180,790	Fee and commission income, net	C, D
Revenue from insurance business, net	33,433,548	-	33,433,548	Revenue from insurance business, net	
Gains (losses) on financial assets and liabilities measured at fair value through profit or loss	14,029,859	732,880	14,762,739	Gains (losses) on financial assets and liabilities measured at fair value through profit or loss	A, K, N
Gains or losses on real estate investment	87,898	6,621	94,519	Gains and losses on investment property	H, I
Realized gains on available for sale financial assets	2,933,880	440	2,934,320	Realized gains on available for sale financial assets	A
Realized gains on held to maturity financial assets	60,083	(72,163)	(12,080)	Realized gains on held to maturity financial assets	A
Foreign exchange gains and lossess, net	(1,799,868)	(12,039)	(1,811,907)	Foreign exchange gains and lossess, net	A
Reversal gains (losses) on asset impairment	(72,267)	(12,061)	(84,328)	Reversal gains (losses) on asset impairment	F
Gains on investments under equity method	2,304,262	226,335	2,530,597	Gains on investments under equity method	J
Other non interest income	10,089,751	(700,722)	9,389,029	Other non interest income	A, D, F, G, I, N
Net revenues	97,880,278	(350,503)	97,529,775	Net revenues	
Bad debt expenses	3,107,905	-	3,107,905	Bad debt expenses and reserve for guarantees	
Insurance reserves	67,635,554	(962)	67,634,592	Insurance reserves, net	A, M
Operating costs	19,219,830	(258,911)	18,960,919	Operating costs	C, D, F, G, H, I
Continuing operating income before income tax	7,916,989	(90,630)	7,826,359	Continuing operating income before income tax	
Income tax expenses	620,628	3,367	623,995	Income tax expense	F, H
Continuing operating income after inocme tax	7,296,361	(93,997)	7,202,364	Continuing operating income after inocme tax	
Net income	$ 7,296,361	(93,997)	7,202,364	Net inocme	

3. Notes to the above reconciliation reports

(a) Effective interest rate method

According to IAS No. 39 accepted by FSC, the amortization of financial assets will be calculated by using the effective interest rate method rather than straight line method. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for available for sale financial assets, a decrease of $6,646 and $2,527, respectively; for held to maturity financial assets, a decrease of $31,419 and$91,639, respectively; for other financial assets, an increase of $12,178 and $1,739, respectively; for other assets, an increase of $110,877 and $97,563, respectively;for provision, an increase of $15,220 and $10,327, respectively; for accounts receivable, a decrease of $2,196 and $1,311, respectively; for available for sale financial assets adjustment valuation, an increase of $6,646 and $2,527, respectively; for deferred income tax assets, an increase of $54,908 and $260,511, respectively; for deferred income tax liabilities, an increase of $52 and $258,142, respectively; for other equities, an increase of $61,502 and $5,219, respectively; for other assets, an decrease of $0 and $39, respectively; for accounts payable, an decrease of $0 and $39, respectively; and for retained earnings, an increase of $67,574 and a decrease of $6,825, respectively. Also, for the consolidated comprehensive income statement for the year 2012, this adjustment increases interest income by $28,450, reduces gains or losses on financial assets and liabilities measured at fair value through profit or loss by $12, increases realized gains on available for sale financial assets by $440, realized losses on held to maturity financial assets by $72,163, foreign exchange losses by $12,039, reduces non interest income by $23,968, and insurance reserve by $4,893.

(b) Regular way purchase or sale

In accordance with the International Accounting Standards No. 39 accepted by FSC, the adjustment on January 1 and December 31, 2012 increases other financial assets by $453,079 and $362,257, respectively, receivables by $1,413 and $908, respectively; and payables by $545,492 and $363,165, respectively.

(c) Employee benefits adjustments to pension actuarial gains and losses and pension obligations

Elect to adopt the exemption related to employee benefits in IFRS 1, On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for provisions, an increase of $3,545,151 on both dates; and for retained earnings, a decrease of $3,545,151 on both dates.

The Bank applied the retroactive application of IAS19, and adjusted the related balances of net unrecognized transitional benefit obligation and pension liability under the R.O.C. GAAP.

On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for provisions, an increase of $673,752 and $890,232, respectively; for retained earnings, a decrease of $673,752 and $890,232, respectively; for other assets, a decrease of $622,896 and $540,663, respectively; for other liability, a decrease of $1,491,540 and $1,781,673, respectively; and for other equities, an increase of $868,644 and $1,241,010, respectively.

For the consolidated comprehensive income statement for the year 2012, the adjustments increase the fee and commission revenue by 14,361 and reduce the operating expense by $227,628.

(d) Employee benefits retiree deposits with favorable rates and bonus, special care fund

According to IAS 19 and the Regulations Governing the Preparation of Financial Reports by Publicly Held Banks, effective 2013, retiree deposits with favorable rates should be recognized as post employment benefits with actuarial amount. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for provisions, an increase of $6,887,557 and $7,355,997, respectively; for retained earnings, a decrease of $6,887,557 and $7,301,584, respectively; and for payable, a decrease of $0 and $54,413. Also, for the consolidated comprehensive income statement for the year 2012, this adjustment increases a non interest income by $408,447 reduces the fee and commission revenue by $5,580 and the operating expense by $12,499.

Also, the bonus and special care fund should be recognized as post employment benefits with actuarial amount. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for provisions, an increase of $221,462 and $209,505, respectively; and for retained earnings, a decrease of $221,462 and $209,505, respectively. For the consolidated comprehensive income statement for the year 2012, this adjustment reduces fee and commission revenue by $11 and non interest revenue by $532.

(e) Income tax

Following IAS 12, the Company should revaluate and adjust the deferred tax assets. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for deferred income tax assets, a decrease of $355,116 and $355,116, respectively; for retained earnings, a decrease of $355,116 and $355,116, respectively.

The temporary difference of the land revaluation increments tax payable under taxable should be reclassified to deferred tax liabilities. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for other liabilities, a decrease of $18,367,918 and $18,290,592, respectively; and for deferred income tax liabilities, an increase of $18,367,918 and

$18,290,592, respectively.

In accordance with IAS 1, current tax assets, current tax liabilities and deferred tax assets should be recorded separately in financial statement. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for current income tax assets, an increase of $2,433,730 and $2,713,903, respectively; for retained earnings, a decrease of $0 and $4,818, respectively; for receivables, a decrease of $2,433,730 and $2,718,721, respectively; for current income tax assets, an increase of $34,818 and $72,922, respectively; for other assets, a decrease of $34,818 and $72,922, respectively; for deferred tax assets, an increase of 2,827,015 and $4,585,676, respectively; for other assets, a decrease of $2,018,959 and $2,121,702, respectively; for current income tax liabilities, an increase of $80,797 and $136,126, respectively; for payable, a decrease of $80,797 and $136,127, respectively; for deferred tax liabilities, an increase of $0 and $37,363, respectively; and for other liabilities, a decrease of $0 and $37,363.

Following IAS 12, the Bank must consider the statutory tax set off rights of deferred tax assets and liability. Both deferred tax assets and liabilities were increased by $157,385 dollars. As the evaluation of assets, liabilities, equities, revenue and expense are different between GAAP and IFRS, operating performance and financial condition have different result, and income tax expense increased by $3,367.

(f) Deemed costs of property and equipment

According to the exemption about deem cost of property and equipment, the revaluation of land in accordance with the ROC GAAP was transferred to retained earnings. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for other equities, a decrease of $24,429,414 and $24,356,256, respectively; and for deferred liabilities, an increase of $10,043 and $9,726, respectively and for retained earnings, an increase of $24,419,371 and $24,346,530. Also, for the consolidated comprehensive income statement for the year 2012, this adjustment increases the impairment loss of assets by $12,061, reduces the non interest income by $59,230 and increases the operating expense by $1,868.

(g) Reclassification of property and equipment

The Company reclassified other assets to property and equipment. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for other assets, a decrease of $1,044,476 and $1,029,781, respectively; and for property and equipment, an increase of $1,044,476 and $1,029,781, respectively. Also, for the consolidated comprehensive income statement for the year 2012, this adjustment reduces the operating expense by $32,906 and increases a non interest income by $32,906.

(h) Deem cost of Investment Property

Adopt the exemption of IFRS 1 for the deem cost of investment property, and transfer the revaluation of land and buildings to retained earnings.

On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for other equities, a decrease of $123,179 and $118,940, respectively; for payables, a decrease of $0 and $2, respectively; for retained earnings, an increase of $102,239 and $98,722, respectively; and for deferred liabilities, an increase of $20,940 and $20,220, respectively. Also, for the consolidated comprehensive income statement for the year 2012, this adjustment decreases the gains on investment property by $4,097 and increases the operating expense by $140.

(i) Reclassification of Investment Property

On January 1 and December 31, 2012, the Company reclassified the property and equipment to investment property by $66,548 and $66,545, respectively.

Following IFRS 40, the Company also reclassified the real estate investments which were not the investment property to operational property. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follow: for investment property, a decrease of $562,127 and $557,917, respectively; and for property and equipment, an increase of $562,127 and $557,917, respectively. Also, for the consolidated comprehensive income statement for the year 2012, this adjustment reduces the gains on investment property by $122, increases the operating expense by $1,274 and a non interest income by $1,396.

Reclassifying the investment property of intra transaction to property and equipment increases the gains on investment property by $10,840 and increases the operating expense by $10,840 on consolidated income statement for the year 2012.

(j) Investments under equity method, net

The Bank retrospectively applies IAS 28 to adjust items related to invest related enterprises. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for investments under equity method, a decrease of $182,089 and $826,576, respectively; for APIC, a decrease of $710,212 and $247,417, respectively; for special reserves, a decrease of $346,396, on both dates; for other equities, a decrease of $2,614,652 and $3,948,268, respectively; and for retained earnings, an increase of $3,489,171 and $3,715,505. Also, for the consolidated comprehensive income statement for the year 2012, this adjustment increases the gains on investments of related enterprises and joint venture under equity method by $226,335.

According to IAS 28, when the Company loses influence on related enterprises, the related gains and losses should be transferred from equity to net income. The adjustment on January 1 and December 31, 2012 increases other equity by $128,551 and reduces retained earnings by $128,551.

(k) Financial instruments are altered to measure at fair value

The Company recorded the emerging stock held by securities subsidiary at cost according to "Regulations Governing the Preparation of Financial Reports by Securities Firms". In accordance with the IAS 39 financial instruments: recognition and measurement, the equity investment without active market should be measured at fair value if it is possible. This adjustment on December 31, 2012 decreases the financial assets measured at fair value through profit of loss and retained earnings by $1,157. Also, for the consolidated comprehensive income statement for the year 2012, this adjustment decreases the gains on financial assets measured at fair value through profit or loss by $1,157.

(l) Translation of financial statements of the foreign operation

The Company adopts the exemption of IFRS 1 about cumulative translation differences of foreign branches. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for retained earnings, a decrease of $414,852 on both dates; for other equities, an increase of $344,327 and $414,819, respectively; and for deferred income tax assets, a decrease of $70,525 and $32, respectively.

(m) Provisions

According to IFRS 1, provisions should be recognized separately, and accrued pension liabilities would be eliminated. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for other liabilities, a decrease of $3,552,906 and $3,723,021, respectively; for payables, a decrease of $832 and $86, respectively; and for provisions, an increase of $3,553,738 and $3,723,107, respectively.

The provision of decommissioning liabilities under payables was reclassified to provision, and this adjustment on January 1 and December 31, 2012 reduces the payables by $8,066 and $6,955, respectively and increases the provision by $8,066 and $6,955, respectively.

According to IFRS 4 Recognition of Insurance Reserves, the after tax balance of the special reserve significant incident and special reserve – significant changes on January 1, 2012 deducting the foreign exchange volatility reserve recognized on March 1, 2012 is transferred to special reserve. The effect of this adjustment on January 1 and December 31, 2012 to related accounts is as follow: for provision, a decrease of $170,720 and $166,789, respectively; for special reserve, an increase of $141,697 on both dates; for deferred tax liabilities, an increase of $29,023 and $28,610, respectively; and for retained earnings, a decrease of $0 and $3,518, respectively. Also, for the consolidated comprehensive income statement for the year 2012, this adjustment increases the insurance liabilities reserve by $3,931.

(n) Others

a) According to IAS 7, the timed deposit over three months can't be regarded as cash and cash equivalents. Therefore the Company transferred it to other financial assets. The effect of this adjustment on January 1 and December 31, 2012 on related accounts is as follow: for cash and cash equivalents, a decrease of $15,900,000, and $41,900,000, respectively; and for other financial assets, an increase of $15,900,000, and $41,900,000, respectively.

b) Consigned securities transaction was recognized in net according to the original regulation. After adopting IFRS, the related debit and credit accounts should be recorded separately. The effect of this adjustment on January 1 and December 31, 2012 on related accounts is as follow: for receivable, an increase of $3,969,195 and $1,505,738, respectively; for payables, an increase of $3,930,887 and $1,497,793, respectively; and for other assets, a decrease of $38,308, and $7,945, respectively.

c) Following the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, effective 2013, the Company records the hedging derivative financial assets and liabilities separately. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for other financial assets, a decrease of $3,074 and $3,543, respectively; for hedging derivative financial assets, an increase of $3,074 and $3,543, respectively; for other financial liabilities, a decrease of $409,907 and $301,390, respectively; and for hedging derivative financial liabilities, an increase of$409,907 and $301,390, respectively.

d) According to the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, effective 2013, the Company records reinsurance assets. On January 1 and December 31, 2012, the effect of this adjustment on related accounts is as follows: for receivable, a decreased of $0 and $3,548, respectively; for other assets, a decrease of $22,701 and $18,585, respectively; and for reinsurance assets, an increase of $22,701 and $22,133.

e) According to the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, effective 2013, the Company reclassifies the interest revenue and expense of financial assets or liabilities measured at fair value through profit or loss to gains and losses of the financial assets and the interest revenue and expense of the hedging instrument to other non interest income. For the consolidated comprehensive income statement for the year 2012, this adjustment reduces interest income by $ 1,630,775, reduces interest expense by $ 1,073,761, increases the gains and losses on financial assets or liabilities measured at fair value through profit or loss by $ 730,049 and decrease a non interest income by $177,035.

(o) Special reserve

In accordance with Permit No. 1010012865 (see note 2) issued by FSC on April 6, 2012, when adopting IFRS at the first time, special reserves should be recorded as the same amount as that of the unrealized revaluation surplus, and the cumulative translation differences are transferred to retained earnings while applying the exemption of IFRS 1. However, special reserve could be recognized as the increment of retained earnings due to IFRS adoption. The special reserves should be reversed in proportion to using, disposing or reclassifying the related accounts subsequently. Because the balance of unrealized gains on revaluation and cumulative translation differences is $0 on December 31, 2011, the special reserve is $0.

4. According to IFRS 1 First time Adoption of International Financial Reporting Standards, except for adopting optional exemptions or mandatory exceptions, the company should prepare the financial statements following effectively the accounting standards, and it should also make retroactive application to past years.

The instructions of adopted optional exemptions are as follow:

(a) Do not apply IFRS3 for enterprise mergers conducted before the adoption date of IFRS. Therefore, we didn’t take any retroactive application for related accounts.

(b) Use the revaluated amount of fixed asset according to the ROC GAAP to be deemed at cost on adoption date.

(c) Transfer all cumulative actuarial gains and losses to retained earnings on adoption date.

(d) Infer the cumulative translation differences as zero and not to take any retroactive application to past years.

(e) The Company and its subsidiaries apply the exemption of IFRS 4 Insurance Contract, and they don’t have to disclose the compensation information for past five years before the end of the first IFRS adoption year.

(43) Notes to Disclosure Items

1) Information on significant transactions:

1. Information regarding long-term equity investment for which the purchase or sale amount for the period exceeded $300 million or 10% of the Company and its subsidiaries' capital: none.
2. Information on the acquisition of real estate for which the purchase amount exceeded $300 million or 10% of the Company and its subsidiaries' capital: none.
3. Information on the disposal of real estate for which the sale amount exceeded $300 million or 10% of the Company and its subsidiaries' 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 and its subsidiaries' capital: none.
6. Information regarding selling non-performing loans: 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 long term investments:

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

Name	Location	Main operations	Percentage of shares	Invested amount	Gain (loss) on investment	Consolidated Information				Remarks
						Number of shares	Proforma shares	Total		
								Number of shares	Percentage of shares	
Bank of Taiwan Co., Ltd.	No.120, Sec. 1, Chongqing S. Rd., Zhongzheng Dist., Taipei City,Taiwan (R.O.C.)	Operation of banks	100.00%	252,734,018	7,232,157	7,000,000	-	7,000,000	100.00%	Note 4
BankTaiwan Life Insurance Co. Ltd.	6F., No.69, Sec. 2, Dunhua S. Rd., Da-an Dist., Taipei City, Taiwan (R.O.C.)	Life insurance	100.00%	8,028,301	211,924	1,100,000	-	1,100,000	100.00%	Note 4
BankTaiwan Securities Co. Ltd.	6~9F.,No.58, Sec. 1, Chongqing S. Rd., Zhongzheng Dist., Taipei City, Taiwan (R.O.C.)	Securities	100.00%	3,318,411	23,011	300,000	-	300,000	100.00%	Note 4
Hua Nan Financial Holding Co. Ltd.	No. 38, Sec.1, Chongching S. Rd. Taipei City	Investment according to Financial Holding Company Act	25.07%	33,287,676	1,992,954	2,162,627,690	-	2,162,627,690	25.07%	-
Taiwan Life Insurance Co. Ltd.	No.17 and 18, Syuchang St., Taipei City	Life insurance	21.59%	3,601,128	437,561	185,040,012	-	185,040,012	21.59%	-
Kaohsiung Ammonium Sulfate Co., Ltd.	8F., No.53, Tonghua 4th Rd., Kaohsiung	Liquidating	91.86%	2,393,485	(27,413)	303,131,576	-	303,131,576	91.86%	-
Tang Eng Iron Works Co., Ltd.	5F, No. 53, Tonghua 4th Rd., Kaohsiung	Iron industry	21.37%	1,636,179	(101,303)	74,802,414	-	74,802,414	21.37%	-
Tai Yi Real Estate Management Co., Ltd.	3F., No.56, Dunhua N. Rd., Taipei City	Real estate appraisal	30.00%	17,686	2,463	1,500,000	-	1,500,000	30.00%	-

Note 1: The investees' shares or pro-forma shares held by the Company's board of directors, supervisor, CEO, vice CEO and affiliates conforming to the Company Act should be included.

Note 2: (1) Pro-forma shares are the "securities having equity property" 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 purposes.

(2) The above "securities having equity property" means the securities that conform to the regulation in Article 11, Paragraph 1 of the Securities and Exchange Act Enforcement Rules, for example, convertible bonds and stock warrants.

(3) The abovementioned "derivative instrument contracts" conformed to the definition of derivative instrument in SFAS No. 34 "Financial Instruments: Recognition and Measurement", for example, stock options.

Note 3: The statement can be omitted in the 1st and 3rd quarters.

Note 4: The above transactions had been eliminated in preparing consolidated financial statements.

2. Lending to other parties: none.
3. Guarantees and endorsements for other parties: none.
4. Information regarding securities held as of December 31, 2010: none.
5. Information regarding securities for which the purchase or sale amount for the period exceeded $300 million or 10% of the Company and its subsidiaries' capital: none.
6. Information on the acquisition of real estate for which the purchase amount exceeded NT$300 million or 10% of the Company and its subsidiaries' capital: none.
7. Information on the disposal of real estate for which the sale amount exceeded NT$300 million or 10% of the Company and its subsidiaries' capital: none.
8. Information regarding discounted processing fees on transactions with related parties for which the amount exceeded $5 million: none.
9. Information on regarding receivables from related parties for which the amount exceeded NT$300 million or 10% of the Company and its subsidiaries' capital: none.
10. Information regarding trading in derivative financial instruments: please see note 4(32).
11. Information regarding selling non-performing loans: none.
12. The type of and related information on securitized instruments which were authorized to be engaged in according to the "Financial Asset Securitization Act" or the "Real Estate Securitization Act": none.
13. Other material transaction items which were significant to people who use the information in the financial statements: none.

3) Information on subsidiaries' investment in China:

In order to accelerate the investment speed in China approved by the Board of Directors, BOT has agreed to upgrade the representative office in Shang hai as branch approved by the Financial Supervisory Commission and Ministry of Economy on February 10, 2011 and March 31, 2011, respectively. Obtain branch registration certificate on July 2, 2012 and operate on July 10, 2012.

(44) Operational Department:

1) Segment Information

	December 31, 2012								
	Bank department		Government employees Procurement department	Trade department	Life insurance department	Securities department	Other department	Offset amount	Total
Assets									
Cash and cash equivalents	$ 50,331,493	21,373,048	562,759	545,104	64,259,744	48,371	309,775	(16,825,954)	120,604,340
Placement with Central Bank and call loans to banks	549,627,869	-	-	-	-	-	-	-	549,627,869
Financial assets at fair value through profit or loss	0,830,424	85,703,614	-	-	834,218	560,594	-	(416,089)	147,512,761
Bonds and bills purchased under resell agreements	4,980,621	-	-	-	17,787,544	338,777	-	-	23,106,942
Receivables, net	68,680,333	22,497,581	5,557	84,573	4,830,354	2,214,519	2,590,262	(2,562,108)	98,341,071
Loans and discounts, net	2,177,133,260	-	-	-	10,788,882	-	-	(5,800,000)	2,182,122,142
Available for sale financial assets, net	734,870,751	-	-	-	40,809,899	1,511,691	-	-	777,192,341
Held to maturity financial assets, net	7,056,103	54,942,943	-	-	182,049,071	-	-	-	244,048,117
Long term investment under equity method, net	35,393,882	-	-	-	5,542,170	-	264,080,731	(264,080,730)	40,936,053
Other financial assets, net	69,672,866	-	-	-	45,293,081	-	-	-	114,965,947
Real estate investments, net	-	-	-	-	4,773,134	-	-	-	4,773,134
Fixed assets, net	97,227,369	13,902	8,261	3,816	893,222	282,510	7,026	-	98,436,106
Intangible assets, net	1,153,781	4,791	5,372	161	11,674	1,303	125	-	1,177,207
Other assets, net	10,051,630	10,162,144	3,208,240	1,836,731	4,846,670	685,922	4,511,342	(18,382,903)	16,919,776
Total assets	$3,867,010,382	194,698,023	3,790,189	2,470,385	382,719,663	5,643,687	271,499,261	(308,067,784)	4,419,763,806
Liabilities									
Deposit of Central Bank and other banks	$ 213,374,465	-	-	-	-	-	-	-	213,374,465
Financial liabilities measured at fair value through profit or loss	4,876,911	43	-	-	35,267	12,376	-	(416,089)	4,508,508
Bonds and bills sold under repurchase agreements	11,998,398	-	-	-	-	1,343,407	-	-	13,341,805
Payables	41,334,550	35,883	69,238	716,391	27,024,069	275,269	2,511,577	(2,562,108)	69,404,869
Deposits and remittances	3,294,903,719	-	-	-	-	-	-	(17,105,954)	3,277,797,765
Other loans	-	-	-	-	-	-	5,800,000	(5,800,000)	-
Other financial liabilities	8,499,403	-	-	-	4,686,044	-	-	-	13,185,447
Reserve for operations and liabilities	624,406	194,662,097	-	-	339,012,687	-	-	(1)	534,299,189
Other liabilities	39,588,153	-	3,346,772	1,204,532	3,933,295	694,224	4,855,054	(18,102,902)	35,519,128
Total liabilities	3,615,200,005	194,698,023	3,416,010	1,920,923	374,691,362	2,325,276	13,166,631	(43,987,054)	4,161,431,176

December 31, 2012									
	Bank department		Government employees Procurement department	Trade department	Life insurance department	Securities department	Other department	Offset amount	Total
Common stock	70,000,000	-	-	-	11,000,000	3,000,000	90,000,000	(84,000,000)	90,000,000
Capital surplus	105,682,871	-	-	-	377,580	-	111,632,634	(106,060,451)	111,632,634
Legal reserve	25,218,428	-	-	-	-	28,758	2,758,570	(25,247,186)	2,758,570
Special reserve	98,322	-	-	-	-	204,784	5,924,552	(303,106)	5,924,552
Unappropriated retained earnings	7,461,515	-	374,179	549,462	485,497	23,011	8,449,361	(8,893,664)	8,449,361
Unrealized increment on revaluation	27,383,086	-	-	-	584,199	145,232	28,112,517	(28,112,517)	28,112,517
Cumulative foreign currency translation	(800,300)	-	-	-	(10,353)	-	(810,653)	810,653	(810,653)
Net loss not recognized as pension	(1,163,205)	-	-	-	(9,718)	(76,562)	(1,258,296)	1,249,485	(1,258,296)
Unrealized gain (loss) on financial instruments	17,929,660	-	-	-	(4,398,904)	(6,812)	13,523,945	(13,523,944)	13,523,945
cost									
Total stockholders' equity	251,810,377	-	374,179	549,462	8,028,301	3,318,411	258,332,630	(264,080,730)	258,332,630
Total liabilities and stockholders' equity	$3,867,010,382	194,698,023	3,790,189	2,470,385	382,719,663	5,643,687	271,499,261	(308,067,784)	4,419,763,806

2012									
	Bank department		Government employees Procurement department	Trade department	Life insurance department	Securities department	Other department	Offset amount	Total
Assets									
Interest revenue	$ 56,218,164	1,444,841	67	9	9,189,774	108,383	210	(134,324)	66,827,124
Less: interest expense	(32,987,442)	-	-	-	(256,652)	(16,830)	(59,412)	134,324	(33,186,012)
Interest income, net	23,230,722	1,444,841	67	9	8,933,122	91,553	(59,202)	-	33,641,112
Non interest income, net									
Service fee income, net	4,080,372	88,678	503,921	27,040	(1,819,418)	280,425	-	11,002	3,172,020
Net insurance business income, net	-	-	-	-	43,708,558	-	-	(10,275,010)	33,433,548
Gain (loss) on financial assets and liabilities measured at fair value through profit or loss	3,471,105	8,636,730	-	-	2,646,457	28,037	-	(752,470)	14,029,859
Realized gain on available for sale financial assets	929,157	-	-	-	1,997,647	7,076	-	-	2,933,880
Realized gain on hold to maturity financial assets	-	-	-	-	60,083	-	-	-	60,083
Gain on long term investment under equity method	1,948,134	-	-	-	356,128	-	-	-	2,304,262
Gain on real estate investment	-	-	-	-	116,443	-	-	(28,545)	87,898
Foreign exchange gain (loss)	3,332,492	(1,651,528)	-	(1,210)	(4,158,332)	-	-	752,470	(1,726,108)
Gain on asset revaluation (impairment loss)	(72,267)	-	-	-	-	-	-	-	(72,267)
Other non interest income	(8,985,723)	(8,387,629)	(6,751)	606,903	88,518	(2,271)	(1,753)	26,778,457	10,089,751
Net revenue	27,933,992	131,092	497,237	632,742	51,929,206	404,820	(60,955)	16,485,904	97,954,038

2012									
	Bank department		Government employees Procurement department	Trade department	Life insurance department	Securities department	Other department	Offset amount	Total
Provisions for insurance policy reserves	-	-	-	-	51,071,712	-	-	16,637,602	67,709,314
Operating expense	17,656,501	131,092	123,057	83,279	840,423	378,967	158,209	(151,698)	19,219,830
Net income before tax	7,169,626	-	374,180	549,463	17,535	25,349	(219,164)	-	7,916,989
Income tax expense	861,112	-	-	-	(194,389)	2,338	(48,433)	-	620,628
Net income	$ 6,308,514	-	374,180	549,463	211,924	23,011	(170,731)	-	7,296,361

December 31, 2011									
	Bank department		Government employees Procurement department	Trade department	Life insurance department	Securities department	Other department	Offset amount	Total
Assets									
Cash and cash equivalents	$ 50,489,558	24,911,164	624,645	400,809	36,200,692	47,687	171,358	(14,857,609)	97,988,304
Placement with Central Bank and call loans to banks	488,555,403	-	-	-	-	-	-	-	488,555,403
Financial assets measured at fair value through profit or loss	45,083,429	65,802,579	-	-	979,164	425,168	-	(543,355)	111,746,985
Bonds and bills purchased under resell agreements	3,231,949	-	-	-	8,993,341	177,561	-	-	12,402,851
Receivables, net	62,899,885	23,330,050	9,076	200,769	2,857,977	1,811,155	73,774	(98,473)	91,084,213
Loans and discounts, net	2,153,591,118	-	-	-	10,436,679	-	-	(5,700,000)	2,158,327,797
Available for sale financial assets, net	757,373,465	-	-	-	43,264,835	1,420,031	-	-	802,058,331
Held to maturity financial assets, net	620,867	50,321,722	-	-	176,782,256	-	-	-	227,724,845
Long term investment under equity method, net	32,479,598	-	-	-	5,064,531	-	255,285,059	(255,285,059)	37,544,129
Other financial assets, net	72,207,332	-	-	-	38,547,881	-	-	30	110,755,243
Real estate investments, net	-	-	-	-	4,057,036	-	-	-	4,057,036
Fixed assets, net	97,845,861	6,832	7,875	4,336	891,852	285,281	7,644	-	99,049,681
Intangible ass ets, net	815,019	442	3,375	2,221	7,751	1,522	31	-	830,361
Other assets, net	9,020,337	13,690,111	3,384,358	6,020,484	3,637,199	728,973	4,305,803	(21,704,346)	19,082,919
Total assets	$3,774,213,821	178,062,900	4,029,329	6,628,619	331,721,194	4,897,378	259,843,669	(298,188,812)	4,261,208,098
Liabilities									
Deposit of Central Bank and other banks	$ 208,926,475	-	-	-	-	-	-	-	208,926,475
Payable commercial paper, net	-	-	-	-	-	499,537	-	-	499,537
Financial liabilities at fair value through profit or loss	3,897,631	5,254	-	-	915,132	212	-	(543,355)	4,274,874
Bonds and bills sold under repurchase agreements	14,906,165	-	-	-	-	731,885	-	-	15,638,050

Payables	37,312,050	33,146	121,551	2,004,832	29,617,940	220,344	75,904	(154,760)	69,231,007
Deposits and remittances	3,218,010,687	-	-	-	-	-	-	(15,122,609)	3,202,888,078
Other loans	-	-	-	-	-	-	5,700,000	(5,700,000)	-
Other financial liabilities	5,756,183	-	-	-	5,490,078	-	-	-	11,246,261
Reserve for operations and liabilities	591,434	178,024,500	-	-	288,492,364	-	-	-	467,108,298
Other liabilities	39,235,445	-	3,488,963	4,251,224	1,527,441	156,801	4,379,782	(21,332,121)	31,707,535
Total liabilities	3,528,636,070	178,062,900	3,610,514	6,256,056	326,042,955	1,608,779	10,155,686	(42,852,845)	4,011,520,115
Stockholders' equity									
Common stock	70,000,000	-	-	-	11,000,000	3,000,000	90,000,000	(84,000,000)	90,000,000
Capital surplus	106,077,872	-	-	-	445,373	-	112,095,429	(106,523,245)	112,095,429
Legal reserve	24,119,287	-	-	-	-	21,486	2,352,676	(24,140,773)	2,352,676
Special reserve	518,561	-	-	-	-	190,239	5,227,896	(708,800)	5,227,896
Unappropriated retained earnings	5,472,427	-	418,815	372,563	273,573	72,724	6,658,934	(6,610,102)	6,658,934
Unrealized increment on revaluation	26,581,673	-	-	-	448,649	145,232	27,175,554	(27,175,554)	27,175,554
Cumulative foreign currency translation	(366,046)	-	-	-	(4,006)	-	(370,052)	370,052	(370,052)
Unrealized gain (loss) on financial instruments	13,983,157	-	-	-	(6,485,091)	(79,768)	7,418,299	(7,418,298)	7,418,299
Net loss not recognized as pension cost	(809,180)	-	-	-	(259)	(61,314)	(870,753)	870,753	(870,753)
Total stockholders' equity	245,577,751	-	418,815	372,563	5,678,239	3,288,599	249,687,983	(255,335,967)	249,687,983
Total liabilities and stockholders' equity	$3,774,213,821	178,062,900	4,029,329	6,628,619	331,721,194	4,897,378	259,843,669	(298,188,812)	4,261,208,098

	2011								
	Bank department		Government employees Procurement department	Trade department	Life insurance department	Securities department	Other department	Offset amount	Total
Assets									
Interest revenue	$ 52,367,793	1,396,332	63	1	8,339,231	125,951	190	(141,055)	62,088,506
Less: interest expense	(30,577,630)	-	-	-	(203,516)	(13,109)	(48,227)	141,055	(30,701,427)
Interest income, net	21,790,163	1,396,332	63	1	8,135,715	112,842	(48,037)	-	31,387,079
Non interest income, net									
Service fee income, net	4,330,980	114,692	535,869	(21,245)	(1,551,492)	371,128	-	(49,599)	3,730,333
Net insurance business income, net	-	-	-	-	40,600,835	-	-	(9,275,762)	31,325,073
Gain (loss) on financial assets and liabilities at measured fair value through profit or loss	3,892,395	(8,021,468)	-	-	(4,233,289)	(17,546)	-	927,800	(7,452,108)
Realized gain on available for sale financial assets	1,363,849	-	-	-	1,283,560	4,056	-	-	2,651,465
Realized gain on held to maturity financial assets	-	-	-	-	64,704	-	-	-	64,704
Gain on long term investment under equity method	2,255,273	-	-	-	391,451	-	-	-	2,646,724
Gain on real estate investment	-	-	-	-	72,399	-	-	(29,170)	43,229

Foreign exchange gain (loss)	1,757,424	838,664	-	293	3,154,023	-	-	(926,796)	4,823,608
Gain on asset revaluation (impairment loss)	37,027	-	-	-	-	-	-	-	37,027
Other non interest income	(8,996,515)	5,803,211	6,856	471,610	471,530	4,314	(1,290)	12,707,508	10,467,224
Net revenue	26,430,596	131,431	542,788	450,659	48,389,436	474,794	(49,327)	3,353,981	79,724,358
Bad debt expense	5,044,978	566	-	-	8,285	252	-	(65)	5,054,016
Provisions for insurance policy reserves	-	-	-	-	47,224,441	-	-	3,526,880	50,751,321
Operating expense	17,778,708	136,829	123,973	78,095	871,158	377,098	84,093	(172,834)	19,277,120
Net income before tax	3,606,910	-	418,815	372,564	285,552	97,444	(133,420)	-	4,641,901
Income tax expense	785,160	-	-	-	(67,076)	24,719	(159,836)	-	582,967
Net income	$ 2,821,750	-	418,815	372,564	352,628	72,725	26,416	-	4,058,934

2) Geographical information:

The Company and its subsidiaries categorizes oversea operational department in accordance to their location. As the income and non current assets do not meet the substantial material amount, the Bank will not disclose the information.

3) Information of important clients

As the company and its subsidiaries do not contain any client of more than 10% of income, the information will not be disclosed.

VII. Financial Status, Business Results and Risk Management

1. Financial Status

Unit: NT$1,000

Item \ Year	2012	2011	Difference	
			Amount	%
Cash and Cash Equivalents	309,775	171,358	138,417	80.78
Receivables-Net	2,590,262	73,774	2,516,488	3411.08
Long-Term Investment at Equity-Net	264,080,731	255,335,967	8,744,764	3.42
Fixed Assets-Net	7,026	7,644	-618	-8.08
Intangible Assets-Net	125	31	94	303.23
Other Assets-Net	4,511,342	4,305,803	205,539	4.77
Total Assets	271,499,261	259,894,577	11,604,684	4.47
Short-Term Borrowing	5,800,000	5,700,000	100,000	1.75
Payables	2,511,577	19,616	2,491,961	12703.72
Accrued Pension Liabilities	71,364	56,288	15,076	26.78
Other Debt	4,783,690	4,430,690	353,000	7.97
Total Debt	13,166,631	10,206,594	2,960,037	29.00
Capital	90,000,000	90,000,000	0	0.00
Additional Paid-In Capital	111,632,634	112,095,429	-462,795	-0.41
Retained Earnings	17,132,483	14,239,506	2,892,977	20.32
Other Items of Shareholders' Equity	39,567,513	33,353,048	6,214,465	18.63
Total Shareholders' Equity	258,332,630	249,687,983	8,644,647	3.46

2. Business Results

Unit: NT$1,000

Item \ Year	2012	2011	Difference	
			Amount	%
Investment Income Recognized Under Equity Method	7,467,092	4,089,157	3,377,935	82.61
Other Income	2,626	2,821	-195	-6.91
Operating Expenses	158,209	140,732	17,477	12.42
Other Expenses & Losses	63,581	52,148	11,433	21.92
Earnings Before Taxes	7,247,928	3,899,098	3,348,830	85.89
Earnings After Taxes	7,296,361	4,058,934	3,237,427	79.76

3. Cash Flows

(1) Analysis of Cash Flow Changes in 2012

Item \ Year	2012	2011	Change
Cash Flow Ratio	23692.67%	23090.18%	2.61%
Cash Flow Adequacy Ratio	102.29%	102.67%	-0.37%
Cash Flow Reinvestment Ratio	285848.61%	253462.17%	12.78%

(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	
				Investment Plan	Financing Plan
309,775	-147,475	251,481	413,781	None	None

4. Impact of Material Capital Expenditures in 2012

None

5. 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) The Risk Management Department at TFH and each of its subsidiaries reports regularly to the Board of Directors 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 groupwide 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 mechanism, 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 groupwide 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 groupwide 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 groupwide 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.

(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 indentified 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.

(2) Impact of important policy and legislative changes at home and abroad on the company's financial and operating status, and response measures

Since 2013, the Taiwan government has reinstated a capital gains tax on securities, it is forcast that the volume of trade in stock market may decline. TFH therefore makes efforts to integrate group resources and fine-tune investment strategies so as to establish a more robust business model, overhaul our business development, and propel groupwide performance to new heights of success.

The liberalization of cross-strait is generating tremendous business opportunities, and TFH intends to capitalize on these opportunities. In this regard, BOT has a key role to play. In addition to excellent foundation provided by the BOT Shanghai branch, we will apply to open other locations, and will also study the feasibility of setting up banking subsidiaries in the mainland.

The Memorandum on Currency Clearing Cooperation Across the Straits has now taken effect, and BOT serves for the indefinite future as the NT Dollar clearing bank in the mainland. BOT has deep experience in administering NT Dollar payments and regulating currency supply and demand, which is why Taiwan's Central Bank in September 2012 selected the BOT's Shanghai branch to serve at the NT Dollar clearing bank in the mainland. As the cross-strait currency clearing mechanism gets up and running, BOT will come to play a major role in cross-strait financial business.

(3) 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.

(4) 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.)

(5) Impact from Change of Ownership

None (TFH is a state-run enterprise wholly owned by the government, with its shares owned by MOF. There has been no change in top management.)

(6) Litigious or Non-Litigious Matters

None

6. 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.

Taiwan Financial Holdings

Chairman

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