

TAIWAN STOCK EXCHANGE CORPORATION
NON-CONSOLIDATED FINANCIAL
STATEMENTS AND REPORT OF INDEPENDENT
ACCOUNTANTS

31st DECEMBER 2012 AND 2011

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.



資誠

Report of Independent Accountants

To the Board of Directors and Stockholders of
Taiwan Stock Exchange Corporation

We have audited the accompanying non-consolidated balance sheets of Taiwan Stock Exchange Corporation as of 31st December 2012 and 2011, and the related non-consolidated statements of income, of changes in stockholders' equity and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits. We did not audit the 2012 and 2011 financial statements of Taiwan Depository and Clearing Corporation, Taiwan-Ca. Inc. and Taiwan Ratings Corporation, investees accounted for under the equity method. These long-term equity investments amounted to NT\$7,597,453 thousand and NT\$7,215,265 thousand as of 31st December 2012 and 2011, respectively, and their related investment income amounted to NT\$629,994 thousand and NT\$813,854 thousand for the years then ended. These financial statements were audited by other auditors, whose reports thereon were furnished to us and our opinion herein, insofar as it relates to the amounts included in the financial statements relative to these long-term investments, is based solely on the reports of other auditors.

We conducted our audits in accordance with the "Rules Governing the Examination of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China. Those 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 other auditors provide a reasonable basis for our opinion.

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資誠

In our opinion, based on our audits and the reports of other auditors, the non-consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Taiwan Stock Exchange Corporation as of 31st December 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with the “Criteria Governing Preparation of Financial Reports by Company-Type Stock Exchanges” and generally accepted accounting principles in the Republic of China.

PricewaterhouseCoopers, Taiwan

19th March 2013

The accompanying non-consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying non-consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

TAIWAN STOCK EXCHANGE CORPORATION
NON-CONSOLIDATED BALANCE SHEETS
31st DECEMBER
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2012		2011			2012		2011	
	Amount	%	Amount	%		Amount	%	Amount	%
ASSETS					LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Assets					Current Liabilities				
Cash and cash equivalents (Note 4(1))	\$ 27,066,666	42	\$ 27,331,794	42	Payable for securities settlement service (Note 5)	\$ 40,856	-	\$ 36,518	-
Available-for-sale financial assets (Note 4(2))	2,650,992	4	1,917,096	3	Accrued expenses	817,894	1	828,720	1
Held-to-maturity financial assets (Note 4(3))	3,360,208	5	2,050,242	3	Income tax payable (Note 4(11))	-	-	133,058	-
Accounts receivable-net (Notes 4(5) and 5)	251,667	-	234,925	-	Securities lending and borrowing collateral payable (Note 4(13))	20,988,801	32	21,816,597	34
Interest receivable	133,872	-	146,789	-	Other current liabilities	578,107	1	518,840	1
Other current assets (Note 4(11))	29,576	-	5,831	-	Total Current Liabilities	22,425,658	34	23,333,733	36
Total Current Assets	33,492,981	51	31,686,677	48	Other Liabilities				
Funds and Long-term Investments					Default damages reserve (Note 4(6))	8,279,248	13	8,192,994	12
Held-to-maturity financial assets-noncurrent (Note 4(3))	12,935,553	20	15,563,415	24	Deposits received	53,515	-	43,915	-
Financial assets carried at cost-noncurrent (Note 4(4))	821,652	1	821,652	1	Reserve for land value increment tax	44,599	-	44,599	-
Default damages fund (Notes 4(6)(7))	8,287,705	13	8,171,010	13	Total Other Liabilities	8,377,362	13	8,281,508	12
Long-term equity investments accounted for under the equity method (Note 4(8))	7,597,453	11	7,215,265	11	Securities Settlement Credit (Note 4(7))	-	-	-	-
Total Funds and Long-Term Investments	29,642,363	45	31,771,342	49	Total Liabilities	30,803,020	47	31,615,241	48
Property, Plant and Equipment (Note 4(9))					Stockholders' Equity				
Cost					Capital stock (Note 4(14))				
Land	779,882	1	129,496	-	Common stock	6,132,793	10	5,983,213	9
Buildings	180,233	-	180,233	-	Capital reserve (Note 4(15))	37,682	-	37,682	-
Computer equipment	756,756	1	449,942	1	Retained earnings				
Other equipment	300,668	1	285,686	1	Legal reserve (Note 4(16))	4,443,834	7	4,197,006	6
Appreciation - land	37,084	-	37,084	-	Special reserve (Note 4(16))	22,380,853	34	21,220,762	33
	2,054,623	3	1,082,441	2	Unappropriated earnings (Note 4(17))	1,546,125	2	2,472,842	4
Less: Accumulated depreciation	(736,744)	(1)	(515,015)	(1)	Other adjustments to Stockholders' Equity				
Construction in progress and prepayments for equipment	380,406	1	811,063	1	Unrealized gain or loss on financial instruments (Note 4(2))	29,485	-	(201,780)	-
Total Property, Plant and Equipment	1,698,285	3	1,378,489	2	Total Stockholders' Equity	34,570,772	53	33,709,725	52
Other Assets					Commitments (Note 6)				
Rental assets	84,749	-	85,203	-					
Operations guarantee deposits (Note 4(10))	310,000	1	300,000	1					
Refundable deposits and miscellaneous assets (Note 4(11))	145,414	-	103,255	-					
Total Other Assets	540,163	1	488,458	1					
Securities Settlement Debit (Note 4(7))	-	-	-	-					
TOTAL ASSETS	\$ 65,373,792	100	\$ 65,324,966	100	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 65,373,792	100	\$ 65,324,966	100

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated 19th March 2013.

TAIWAN STOCK EXCHANGE CORPORATION
NON-CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED 31st DECEMBER
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT FOR EARNINGS PER SHARE)

	<u>2012</u>		<u>2011</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Operating revenues				
Trading fees (Notes 4(18) and 5)	\$ 2,161,095	56	\$ 3,069,329	62
Market data fees	369,360	10	417,841	8
Listing fees	817,385	21	858,505	17
Computer and other equipment fees	80,602	2	82,252	2
Data processing fees (Note 5)	96,168	3	142,193	3
Others (Note 5)	<u>322,171</u>	<u>8</u>	<u>373,317</u>	<u>8</u>
Total Operating Revenues	<u>3,846,781</u>	<u>100</u>	<u>4,943,437</u>	<u>100</u>
Operating expenses				
Personnel (Notes 4(12)(21))	(1,315,543)	(34)	(1,223,911)	(25)
General and administrative (Notes 4(19)(21) and 5)	(2,030,560)	(53)	(2,388,686)	(48)
Total Operating Expenses	(3,346,103)	(87)	(3,612,597)	(73)
Operating income	<u>500,678</u>	<u>13</u>	<u>1,330,840</u>	<u>27</u>
Non-operating income				
Interest income	674,667	18	741,037	15
Equity in net income of investee companies (Note 4(8))	629,994	16	813,854	16
Other income	<u>58,432</u>	<u>2</u>	<u>36,449</u>	<u>1</u>
Total Non-operating Income	<u>1,363,093</u>	<u>36</u>	<u>1,591,340</u>	<u>32</u>
Non-operating expenses				
Interest expense	(12,793)	-	(13,093)	-
Loss on disposal of investments	(24,916)	(1)	(19,007)	(1)
Other expenses	(98,727)	(3)	(65,918)	(1)
Total Non-operating Expenses	(136,436)	(4)	(98,018)	(2)
Income before income tax	1,727,335	45	2,824,162	57
Income tax expense (Note 4(11))	(200,071)	(5)	(355,884)	(7)
Net income	<u>\$ 1,527,264</u>	<u>40</u>	<u>\$ 2,468,278</u>	<u>50</u>
	<u>Pre tax</u>	<u>After tax</u>	<u>Pre tax</u>	<u>After tax</u>
Basic earnings per share (Note 4(20))	<u>\$ 2.82</u>	<u>\$ 2.49</u>	<u>\$ 4.61</u>	<u>\$ 4.02</u>

The accompanying notes are an integral part of these financial statements.

See report of independent accountants dated 19th March 2013.

TAIWAN STOCK EXCHANGE CORPORATION
NON-CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED 31st DECEMBER
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Retained Earnings				Unrealized Gain or		Total
	Common Stock	Capital Reserve	Legal Reserve	Special Reserve	Unappropriated Earnings	Loss on Financial Instruments	
<u>2011</u>							
Balance at 1st January 2011	\$ 5,837,281	\$ 37,682	\$ 3,933,324	\$ 19,849,613	\$ 2,660,919	\$ 49,966	\$ 32,368,785
Appropriations of 2010 earnings:							
Legal reserve	-	-	263,682	-	(263,682)	-	-
Special reserve	-	-	-	1,371,149	(1,371,149)	-	-
Cash dividends	-	-	-	-	(875,592)	-	(875,592)
Stock dividends	145,932	-	-	-	(145,932)	-	-
Net income for 2011	-	-	-	-	2,468,278	-	2,468,278
Unrealized loss on available-for-sale financial assets	-	-	-	-	-	(251,746)	(251,746)
Balance at 31st December 2011	<u>\$ 5,983,213</u>	<u>\$ 37,682</u>	<u>\$ 4,197,006</u>	<u>\$ 21,220,762</u>	<u>\$ 2,472,842</u>	<u>(\$ 201,780)</u>	<u>\$ 33,709,725</u>
<u>2012</u>							
Balance at 1st January 2012	\$ 5,983,213	\$ 37,682	\$ 4,197,006	\$ 21,220,762	\$ 2,472,842	(\$ 201,780)	\$ 33,709,725
Appropriations of 2011 earnings:							
Legal reserve	-	-	246,828	-	(246,828)	-	-
Special reserve	-	-	-	1,160,091	(1,160,091)	-	-
Cash dividends	-	-	-	-	(897,482)	-	(897,482)
Stock dividends	149,580	-	-	-	(149,580)	-	-
Net income for 2012	-	-	-	-	1,527,264	-	1,527,264
Unrealized gain on available-for-sale financial assets	-	-	-	-	-	231,265	231,265
Balance at 31st December 2012	<u>\$ 6,132,793</u>	<u>\$ 37,682</u>	<u>\$ 4,443,834</u>	<u>\$ 22,380,853</u>	<u>\$ 1,546,125</u>	<u>\$ 29,485</u>	<u>\$ 34,570,772</u>

Note: Employees' bonuses of \$106,592 and \$102,609 were deducted from the statement for income for 2011 and 2010, respectively.

The accompanying notes are an integral part of these financial statements.

See report of independent accountants dated 19th March 2013.

TAIWAN STOCK EXCHANGE CORPORATION
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31st DECEMBER
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2012	2011
Cash flows from operating activities		
Net income	\$ 1,527,264	\$ 2,468,278
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Loss on disposal of investments	24,916	19,007
Reversal of allowance for bad debts	(604)	(2,324)
Equity in net income of investee companies-net of cash dividends received	(382,188)	(615,190)
Depreciation (rental assets included)	229,554	235,318
Loss on obsolescence of property, plant and equipment	96	191
Amortization	50,881	56,460
Provision for default damages	86,254	156,741
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(16,138)	221,510
Decrease in interest receivable	12,917	1,316
Increase in other receivables	-	(7)
(Increase) decrease in other current assets	(23,736)	124
Decrease in deferred income tax assets	211	93
Increase (decrease) in payable for securities settlement services	4,338	(46,142)
(Decrease) increase in accrued expenses	(10,826)	51,489
Decrease in income tax payable	(133,058)	(73,614)
Decrease in securities lending and borrowing collateral payable	(827,796)	(18,905,805)
Increase in other current liabilities	59,267	2,252
Net cash provided by (used in) operating activities	601,352	(16,430,303)
Cash flows from investing activities		
(Increase) decrease in available-for-sale financial assets-net	(527,547)	3,009,560
Decrease in held-to-maturity financial assets-net	1,317,896	1,752
Increase in default damages fund	(116,695)	(175,764)
Proceeds from capital reduction of long-term investments accounted for under the equity method	-	25,987
Acquisition of property, plant and equipment	(603,920)	(833,750)
Increase in operations guarantee deposits	(10,000)	-
Increase in refundable deposits-net	(5,849)	(471)
Increase in deferred expenses	(32,483)	(28,786)
Net cash provided by investing activities	21,402	1,998,528
Cash flows from financing activities		
Increase (decrease) in deposits received-net	9,600	(1,885)
Cash dividends paid	(897,482)	(875,592)
Net cash used in financing activities	(887,882)	(877,477)
Net decrease in cash and cash equivalents	(265,128)	(15,309,252)
Cash and cash equivalents at beginning of year	27,331,794	42,641,046
Cash and cash equivalents at end of year	\$ 27,066,666	\$ 27,331,794
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	\$ 12,478	\$ 23,543
Income tax	\$ 356,328	\$ 429,734

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated 19th March 2013.

TAIWAN STOCK EXCHANGE CORPORATION
NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS
31st DECEMBER 2012 AND 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

Taiwan Stock Exchange Corporation (the Company) was established in December 1961. The main activities of the Company are providing location and facilities for trading and settlement of securities, and other services as approved by the Competent Authority. As of 31st December 2012, the Company had 601 employees.

On 11th October 2011, the Competent Authority authorized the Company to continue existing in its current corporate form for the next ten years until a change into a membership-type organization is approved.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements were prepared in accordance with the “Criteria Governing Preparation of Financial Reports by Company-Type Stock Exchanges” and generally accepted accounting principles in the Republic of China. A summary of the significant accounting policies of the Company is as follows:

1) Classification of assets and liabilities

A. Assets that meet one of the following conditions are regarded as current; otherwise they are classified as non-current:

- (A) Assets arising from operating activities that are expected to be realized or consumed, or are intended to be sold within the normal operating process;
- (B) Assets held mainly for trading purposes;
- (C) Assets expected to be converted to cash within twelve months from the balance sheet date;
- (D) Unrestricted cash and cash equivalents, excluding those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following conditions are regarded as current; otherwise they are classified as non-current:

- (A) Liabilities accrued for operating purposes and expected to be paid in the normal course of the business operating cycle;
- (B) Liabilities arising mainly from trading activities;
- (C) Liabilities expected to be paid within twelve months after the balance sheet date;

(D) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date.

2) Cash equivalents

Cash equivalents are short-term and highly liquid investments which are readily convertible to known amount of cash and which are subject to insignificant risk of changes in value resulting from fluctuations in interest rates.

3) Available-for-sale financial assets

A. Available-for-sale financial assets are recognized and derecognized using settlement date accounting. They are recognized initially at their fair value plus transaction costs.

B. The financial assets are remeasured and stated at fair value, and the gain or loss is recognized in equity. The fair value of listed stocks, OTC stocks and closed-end mutual funds is based on latest quoted fair prices of the accounting period. The fair value of open-end and balanced mutual funds is based on the net asset value at the balance sheet date.

C. If there is any objective evidence that the financial asset is impaired, the cumulative loss that had been recognized directly in equity should be removed and recognized in profit or loss. Impairment losses recognized previously in profit or loss for an investment in an equity instrument shall not be reversed through profit or loss, and if, subsequently, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

4) Held-to-maturity financial assets

A. Held-to-maturity financial assets are recognized and derecognized using settlement date accounting. They are recognized initially at their fair value plus transaction costs.

B. The financial assets are carried at amortized cost.

C. If there is any objective evidence that financial assets are impaired, the impairment loss is recognized in profit or loss. If, subsequently, the fair value of the asset subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the previously recognized impairment loss shall be reversed to the extent of the loss previously recognized in profit or loss.

5) Financial assets carried at cost

A. The financial assets are recognized and derecognized using settlement date accounting. They are recognized initially at their fair value plus transaction costs.

B. If there is any objective evidence that the financial asset is impaired, the impairment loss shall be recognized in loss. Such impairment loss cannot be

reversed.

6) Notes, accounts and other receivables

- A. Notes and accounts receivable are claims resulting from the sale of goods or services. Receivables arising from transactions other than the sale of goods or services are classified as other receivables. Notes, accounts and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.
- B. The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. If such evidence exists, a provision for impairment of financial asset is recognized. The amount of impairment loss is determined based on the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the fair value of the asset subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed to the extent of the loss previously recognized in profit or loss. Such recovery of impairment loss shall not result to the asset's carrying amount greater than its amortized cost where no impairment loss was recognized. Subsequent recoveries of amounts previously written off are recognized in profit or loss.

7) Long-term equity investments accounted for under the equity method

- A. Long-term investments in which the Company owns at least 20% of the investee company's voting rights or can exercise significant influence over the management of the investee company are accounted for by the equity method.
- B. The Company prepares annual consolidated financial statements which includes all subsidiaries wherein the Company or the Company and other subsidiaries own at least 50% of the investee company's voting rights or the investee company is a controlled entity.

8) Property, plant and equipment

- A. With the exception of the fixed assets revalued based on government regulations, fixed assets are stated at cost.
- B. Depreciation is provided on the straight-line method using the estimated useful lives of the assets except for computer equipment. Depreciation of computer equipment is provided using the fixed-percentage-on-declining balance method over 3 years. The estimated useful lives are 55 years for buildings and 3 to 17 years for the other property and equipment. Salvage values of fixed assets still in use after the end of their original estimated useful lives are depreciated based on the new estimated remaining useful lives of the assets.
- C. Upon revaluation of properties, any appreciation is added to the cost of properties. Reserve for land value increment tax, if any, is recognized, and

the resulting net increment is credited to capital surplus.

D. Significant renewals or betterments are capitalized. Maintenance and repairs are charged to expense as incurred. When an asset is sold or retired, the cost and accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in current results of operations.

9) Retirement and pension

Monthly contributions to the employees' pension funds are charged to current expense and pension funds will be used exclusively to pay for pension obligation.

10) Default damages

Monthly provision for a default damages reserve which is determined based on the fixed ratio of trading fees is charged to expense according to related regulations. If a securities company defaults its obligations, the related expenses should be paid from its securities settlement fund. If its fund is insufficient, any shortfall will be paid from the default damages fund. The default damages reserve is debited for this shortfall and credited when the shortfall is refunded by the defaulting company.

11) Impairment of non-financial assets

The Company recognizes impairment loss when there is indication that the recoverable amount of an asset is less than its carrying amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. When the impairment no longer exists, the impairment loss recognized in prior years shall be recovered.

12) Revenue, cost and expense

Revenue is recognized when the earning process is substantially completed and the payment is realized or realizable. Costs and expenses are recognized as incurred.

13) Income tax

A. According to R.O.C SFAS No. 22, "Accounting for Income Taxes", provision for income tax includes deferred income tax on items reported in different periods for tax and financial reporting purposes. Deferred income tax consequences attributable to deductible temporary differences, taxable temporary differences and investment tax credits are recognized as deferred income tax assets or liabilities. The deferred income tax assets and liabilities are classified as current and non-current according to the nature of the underlying assets and liabilities and the timing of their expected realization. A valuation allowance is provided for deferred income tax assets to the extent that it is more likely than not that the tax benefit will not be realized. Over or under provision of prior year's income tax liability is included in the current year's income tax expense.

B. According to R.O.C SFAS No. 12 "Accounting for Income Tax Credit", the Company's income tax credits are recognized during the period the tax

credits arise. However, if the amount is significant and there is a high uncertainty on the amount of tax credit, the expense or benefit is recognized when it is approved by the Tax Authority.

- C. The additional 10% corporate income tax on undistributed earnings derived on or after 1st January 1998, is included in the income tax expense in the following year when shareholders approve the resolution to retain the earnings.

14) Employees' bonuses

Effective 1st January 2008, pursuant to EITF 96-052 of the R.O.C. Accounting Research and Development Foundation, "Accounting for Employees' Bonuses and Directors' and Supervisors' Remuneration" dated 16th March 2007, the cost of employees' bonuses is accounted for as an expense and liability, provided that such recognition is required under legal or constructive obligation and the amount can be estimated reasonably. However, if the accrued amount for employees' bonuses is significantly different from the actual distributed amount resolved by the stockholders at their annual stockholders' meeting subsequently, the difference shall be recognized as gain or loss in the following year.

15) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the revenues and expenses during the reporting period. Actual results could differ from those assumptions and estimates.

16) Settlement date accounting

If an entity recognizes financial assets using settlement date accounting, any change in the fair value of the asset to be received during the period between the trade date and the settlement date is not recognized for assets carried at cost or amortized cost. For financial asset or financial liability classified as at fair value through profit or loss, the change in fair value is recognized in profit or loss. For available-for-sale financial asset, the change in fair value is recognized directly in equity.

3. EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

Effective January 1, 2011, the Company adopted the amendments to R.O.C. SFAS No. 34, "Financial Instruments: Recognition and Measurement". A provision for impairment (bad debts) of notes, accounts and other receivables is recognized when there is objective evidence that the receivables are impaired. This change in accounting principle had no significant effect on the net income and earnings per share for the year ended December 31, 2011.

4. DETAILS OF SIGNIFICANT ACCOUNTS

1) Cash and cash equivalents

	<u>31st December</u>	
	<u>2012</u>	<u>2011</u>
Cash		
Checking and savings deposits	\$ 5,260,255	\$ 2,868,675
Time deposits	18,599,613	21,878,030
Negotiable certificates of deposits	200,000	800,000
Cash equivalents		
Commercial papers	3,006,798	1,785,089
	<u>\$ 27,066,666</u>	<u>\$ 27,331,794</u>
Annual interest rates of time deposits	<u>0.52%~1.355%</u>	<u>0.37%~1.91%</u>
Annual interest rates of negotiable certificates of deposits	<u>0.87%</u>	<u>1.05%~1.17%</u>
Annual interest rates of commercial papers	<u>0.76%~0.80%</u>	<u>0.78%~0.87%</u>

Time deposits as of 31st December 2012 and 2011 are all due within one year.

2) Available-for-sale financial assets

	<u>31st December</u>	
	<u>2012</u>	<u>2011</u>
Current items:		
Beneficiary certificates	\$ 2,621,507	\$ 2,118,876
Valuation adjustment	29,485	(201,780)
	<u>\$ 2,650,992</u>	<u>\$ 1,917,096</u>

3) Held-to-maturity financial assets

	31st December	
	2012	2011
Current items:		
Financial bonds	\$ 1,865,122	\$ 649,853
Corporate bonds	1,390,710	1,198,395
Beneficiary securities	-	201,994
Assets securitization- short-term notes and bills	104,376	-
	<u>\$ 3,360,208</u>	<u>\$ 2,050,242</u>
Non-current items:		
Financial bonds	\$ 9,502,530	\$ 10,463,435
Corporate bonds	3,433,023	4,995,566
Assets securitization- short-term notes and bills	-	104,414
	<u>\$ 12,935,553</u>	<u>\$ 15,563,415</u>

4) Financial assets carried at cost

	31st December	
	2012	2011
Unlisted stocks	\$ 938,528	\$ 938,528
Accumulated impairment	(116,876)	(116,876)
	<u>\$ 821,652</u>	<u>\$ 821,652</u>

As the financial assets held by the Company are not quoted in active markets and their fair value cannot be measured reliably, they are carried at cost.

5) Accounts receivable - net

	31st December	
	2012	2011
Accounts receivable	\$ 251,667	\$ 235,529
Less: Allowance for doubtful accounts	-	(604)
	<u>\$ 251,667</u>	<u>\$ 234,925</u>

6) Default damages fund/Default damages reserve

A. The Company, as required by Securities and Exchange Law and related regulations, makes cash contributions to a default damages fund (DDF) at certain percentages of trading fees within 15 days at the end of each quarter (Dr. default damages fund; Cr. cash), except for the first draft of \$50,000. However, the Company stops making cash contributions to the DDF when the accumulated amount of the DDF is equal to or greater than the total amount of the Company's capital. In addition, following the regulations of the Competent Authority No. 00480 bulletin (1986), an equivalent amount of default damages reserve has been recontributed starting from 1986. Additionally, following Article 6 of "Taiwan Stock Exchange Corporation Securities Borrowing and Lending Rules", from June, 2003, the Company contributes 3% of each loan service fee it receives as default damages fund

and default damages reserve as well.

- B. As the accumulated amount of the DDF has exceeded the total amount of the Company's capital, the Company has stopped making contributions to the DDF and default damages reserve since November 2006. However, in accordance with the Competent Authority No.0980026755 bulletin (June 2009), the Company has contributed 5% of trading fees to the DDF within 15 days after the end of every quarter since 1st January 2010.
- C. For the preparation of financial statements in accordance with IFRSs from January 1, 2013, following Jin-Guan-Zheng-Jiao-Zi Order No. 1010047392 of the regulatory authority, dated October 30, 2012, the default damages reserve the Company has contributed should be reclassified to 'special reserve', which cannot be used for other purposes except for the use to cover accumulated deficit or for other uses approved by the Financial Supervisory Commission. In addition, as specified by Jin-Guan-Zheng-Jiao-Zi Letter No. 10100473923 of the regulatory authority, dated October 30, 2012, the regulations about the accounting for contribution to the default damages fund in (75)Tai-Cai-Zheng(2)-Zi Letter No. 00480 of the former regulatory authority are no more effective from October 30, 2012.
- D. In September 1996, the Competent Authority approved a common fund, the Securities Settlement Fund ("SSF"), to be used in settling defaults by securities companies. The Company established the special settlement fund ("SF") with an initial funding of \$1,000,000. If the Company's DDF exceeds \$1,000,000, the excess should be contributed to the SF until the contribution reaches \$2,000,000. As of 31st December 2012 and 2011, the balance of the SF was \$3,000,000 for both years.
- E. The movements of the DDF and default damages reserve are as follows:

A) Default damages fund (DDF)

	<u>For the years ended 31st December</u>	
	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 5,171,010	\$ 4,995,246
Contributions		
Based on the amounts of trading fees	113,337	172,616
3% of securities lending and borrowing service fees	<u>3,358</u>	<u>3,148</u>
	5,287,705	5,171,010
Settlement fund (SF)	<u>3,000,000</u>	<u>3,000,000</u>
Balance, end of year	<u>\$ 8,287,705</u>	<u>\$ 8,171,010</u>

B) Default damages reserve

	<u>For the years ended 31st December</u>	
	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 8,192,994	\$ 8,036,253
Contributions		
Based on the amounts of trading fees	83,697	153,467
3% of securities lending and borrowing service fees	<u>2,557</u>	<u>3,274</u>
Balance, end of year	<u>\$ 8,279,248</u>	<u>\$ 8,192,994</u>

F. As of 31st December 2012, the DDF is invested in time deposits.

7) Securities settlement fund

A. As required by the Competent Authority, securities companies make cash deposits to the Securities Settlement Fund (“SSF”), which is administered by a committee and deposited in the name of the Company, and this account is distinguished from the others owned by the Company. Under the Securities and Exchange Law, the SSF can only be (a) invested in government bonds; (b) deposited in banks or in the postal savings system; or (c) invested in other instruments as approved by the Competent Authority. The income on the SSF, less related expenses and taxes, is distributed to the securities companies every six months.

B. The obligation of a defaulting securities company and expenses incurred in meeting obligations are settled using the balance of the defaulting company’s contributions to the SSF and any undistributed income thereon. If the obligation of the defaulting company still cannot be fully settled, the SF portion in excess of \$1,000,000 will be used. If any obligation remains, then the initial SF of \$1,000,000 plus the contributions to the SSF by other securities companies will be used proportionately.

C. As required by the Competent Authority, the year-end balances of the asset and liability accounts and related income of the SSF which are recorded as “securities settlement debit” and “securities settlement credit,” with equal amounts, are netted in the balance sheets.

D. As of 31st December 2012 and 2011, the balances of the SSF were \$3,529,433 and \$5,123,838, respectively, and the balances of the SF were \$3,000,000 for both years. The funds are invested in time deposits pursuant to the regulation. In addition, as of 31st December 2012, the Company had entered into a loan agreement with financial institutions in the amount of NT\$12,800,000 and US\$10,000,000 and provided time deposit of \$2,000,000 to financial institutions as collateral for the need of Securities firms’ application of the advance settlements for finalizing the funds to the Company and emergency revolving fund due to Securities firms violation of settlement obligation or natural disaster. As of 31st December 2012, the loan amount had not been drawn down. The foregoing time deposit was recognized as DDF of \$750,000, SF of \$550,000, and SSF of \$700,000.

E. In line with the adjustments to the calculation of SSF specified in Article 10, Item 1 of Regulations Governing Securities Firms and the Competent Authority No. 1010002007 bulletin (3rd February 2012), the net SSF returnable from the Company to securities firms amounted to \$1,680,263. Such funds had been returned on 15th February 2012.

8) Long-term equity investments accounted for under the equity method

A. List of long-term equity investments

Investee companies	Ownership percentage as of 31st December 2012	31st December	
		2012	2011
Taiwan Depository & Clearing Corporation (TDCC)	50.43%	\$ 7,486,229	\$ 7,114,645
Taiwan-Ca. Inc. (TWCA)	30.25%	80,842	72,398
Taiwan Ratings Co. (TRC)	19.99%	30,382	28,222
		<u>\$ 7,597,453</u>	<u>\$ 7,215,265</u>

B. The investment income on long-term equity investments accounted for under the equity method is as follows:

Investee companies	For the years ended 31st December	
	2012	2011
TDCC	\$ 608,400	\$ 794,143
TWCA	11,676	11,087
TRC	9,918	8,624
	<u>\$ 629,994</u>	<u>\$ 813,854</u>

C. The investment income in 2012 and 2011 were based on the investee companies' financial statements which were audited by other independent accountants.

9) Property, plant and equipment

Item	31st December 2012			
	Original Cost	Revaluation	Accumulated Depreciation	Net Book Value
Land	\$ 779,882	\$ 37,084	\$ -	\$ 816,966
Buildings	180,233	-	(84,413)	95,820
Computer equipment	756,756	-	(501,851)	254,905
Other equipment	300,668	-	(150,480)	150,188
Construction in progress and prepayments for equipment (Note)	380,406	-	-	380,406
	<u>\$ 2,397,945</u>	<u>\$ 37,084</u>	<u>(\$ 736,744)</u>	<u>\$ 1,698,285</u>

Item	31st December 2011			
	Original Cost	Revaluation	Accumulated Depreciation	Net Book Value
Land	\$ 129,496	\$ 37,084	\$ -	\$ 166,580
Buildings	180,233	- (81,194)	99,039
Computer equipment	449,942	- (319,813)	130,129
Other equipment	285,686	- (114,008)	171,678
Construction in progress and prepayments for equipment (Note)	811,063	-	-	811,063
	<u>\$ 1,856,420</u>	<u>\$ 37,084</u>	<u>(\$ 515,015)</u>	<u>\$ 1,378,489</u>

Note: The Company purchased land from Chunghwa Telecom Co., Ltd. in the amount of \$648,176, which will be used as the location for the construction of the computer center. This amount had been reclassified to 'land' in 2012.

10) Operations guarantee deposits

As of 31st December 2012 and 2011, the Company deposited time deposits and financial bonds amounting to \$310,000 and \$300,000, respectively, in the Central Bank of China as guaranty bond.

11) Income tax

Income tax expense and income tax payable are reconciled as follows:

	For the years ended 31st December	
	2012	2011
Income tax expense	\$ 200,071	\$ 355,884
Effect of deferred income tax-net	(211)	(93)
Under provision of prior year's income tax	(5,363)	(6,659)
Prepaid income tax	(217,914)	(222,729)
Income tax (receivable) payable	<u>(\$ 23,417)</u>	<u>\$ 126,403</u>

A. As of 31st December 2012 and 2011, the deferred income tax assets were as follows:

	31st December	
	2012	2011
Total deferred income tax assets	<u>\$ 80,774</u>	<u>\$ 73,715</u>
Valuation allowance	<u>\$ 79,711</u>	<u>\$ 72,441</u>

B. As of 31st December 2012 and 2011, details of deferred income tax assets were as follows:

Item	31st December 2012		31st December 2011	
	Amount	Tax Effect	Amount	Tax Effect
Current:				
Employees' welfare	\$ 2,307	\$ 392	\$ 2,251	\$ 383
Noncurrent:				
Employees' welfare	3,532	600	3,446	586
Contributions to retirement fund	468,888	79,711	426,125	72,441
Others	415	71	1,797	305
		80,382		73,332
Less: valuation allowance		(79,711)		(72,441)
		671		891
Total		\$ 1,063		\$ 1,274

C. All of the 2010 earnings were distributed as resolved by the shareholders at the shareholders' meeting. The 10% additional income tax expense of \$1,430 on the undistributed earnings for 2011 was recognized in 2012.

D. The Company's income tax returns through 2008 have been assessed and approved by the Tax Authority.

12 Retirement and termination plans

Based on the Company's internal regulations for employee hiring and management, both the Company and its employees contribute monthly to the workers' pension fund and employees' retirement fund, respectively. The Company contributes based on certain percentages of salary expenses to a common retirement fund. These funds are administered by the independent pension fund committee and employees' retirement fund committee, respectively. The contributed amounts are deposited to the Bank of Taiwan and other financial institutions under the name of the respective committees. Employees who have retired and resigned will receive benefits from the relevant pension fund, retirement fund and common fund.

The details of changes in the pension fund and retirement funds are as follows:

	For the years ended 31st December	
	2012	2011
Balance, beginning of year	\$ 2,166,334	\$ 2,321,088
Contributions	142,834	138,541
Interest income	24,008	24,370
Valuation adjustment	11,687	(21,525)
Payments of benefits	(127,198)	(296,140)
Balance, end of year	\$ 2,217,665	\$ 2,166,334

13) Securities lending and borrowing collateral payable

The Company has provided securities lending and borrowing services since June 2003. The borrower is required to deposit collaterals based on certain percentages (the stipulated collateral ratio) of borrowed securities daily market prices to the Company. In addition, individual collateral maintenance ratio of each transaction will be calculated on a daily basis, and further collateral will be required if the maintenance ratio is below the collateral ratio. As of 31st December 2012 and 2011, the Company has received collaterals consisting of cash of \$20,988,801 and \$21,816,597 (Note A), bank draft of \$4,338,657 and \$1,315,751 (Note B), and securities of \$42,163,869 and \$19,057,718, respectively (Notes B and C).

Note A: Interest will be added based on the bank's current interest rate on refund of cash collateral.

Note B: Bank draft, securities and collaterals are to be returned to borrowers upon the completion of the transaction. Accordingly, these are not reflected as assets of the Company. The Company is only responsible for the custodianship of these assets.

Note C: Securities are revalued according to their closing prices at 31st December 2012 and 2011. After the completion of application for securities lending and borrowing service, the borrowers' securities are under the custodianship of Taiwan Depository & Clearing Corporation. Upon the rendering of service, the securities are turned over to the Company as collaterals. However, effective from 1st April 2010, the securities are turned over to the Company as collateral before the rendering of services as long as the Company has ensured that the borrowers' designated securities are correct.

14) Capital stock

- A. In accordance with the resolution adopted at the stockholders' meeting on 14th June 2011, the Company issued common stock by capitalizing the unappropriated retained earnings totaling 14,593 thousand shares. The registration of this capital increase was approved by the Competent Authority.
- B. In accordance with the resolution adopted at the stockholders' meeting on 22nd June 2012, the Company issued common stock by capitalizing the unappropriated retained earnings totaling 14,958 thousand shares. The registration of this capital increase was approved by the Competent Authority.
- C. As of 31st December 2012, the Company's authorized, issued and outstanding common stock consisted of 613,279 thousand shares at \$10 dollars par value per share.
- D. Under an amendment to Article 128 of the Securities and Exchange Law promulgated on 19th July 2000, the Company's common stocks can only be sold to authorized securities companies starting 15th January 2001.

15) Capital reserve

Pursuant to the R.O.C. Company Law, capital reserve arising from paid-in

capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit.

16) Legal reserve / Special reserve

- A. According to the R.O.C. Company Law, the annual net income should be used initially to cover any accumulated deficit; thereafter 10% of the annual net income should be set aside as legal reserve until it has reached 100% of contributed capital. Legal reserve shall be exclusively used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership and shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the balance of the reserve exceeds 25% of the Company's paid-in capital.
- B. Special reserve, as required by regulations of the Securities and Futures Bureau (SFB), of at most 80% of the annual net income was determined by the Competent Authority, and special reserve as resolved by the stockholders can only be used, upon the Competent Authority's approval, to offset deficit or transferred to capital.

17) Unappropriated earnings

- A. The annual net income should be used initially to cover any accumulated deficit; 10% of the annual net income should be set aside as legal reserve and special reserve upon the Competent Authority's approval. The remaining balance can be distributed as follows:
 - a) Between 1% and 12% for employees' bonus following the resolution by the Board of Directors.
 - b) The remaining amount can be distributed by a resolution passed during a meeting of the Board of Directors and approved at the stockholders' meeting.
- B. As approved by the stockholders during their meeting, cash dividends declared for 2012 and 2011 were \$1.5 (in dollars) per share for both years, and the stock dividends for 2012 and 2011 were \$0.25 (in dollars) per share for both years.
- C. The amount of employees' bonus for 2012 was estimated at \$122,287 based on a certain percentage of the Company's distributable earnings which was prescribed by the Company's Articles of Incorporation after taking into account the historical employees' bonus distribution experience, surplus reserve and other factors, and was recognized as operating expense for that year. However, if the estimated amount is different from the amount resolved by the stockholders subsequently, the difference shall be recognized as gain or loss for 2013. Employees' bonus for 2011 as resolved by the stockholders was lower compared to the amount recognized in the 2011 financial statements. The difference of \$10,597 had been adjusted in the statement of income for 2012.

D. The creditable tax rate of distributed dividends in 2011 was 18.64%. As of 31st December 2012, the imputation tax credit account balance was \$217,275, and the estimated creditable tax ratio was 14.05%. As of 31st December 2012, the Company's undistributed earnings derived before and after the adoption of the imputation tax system were \$156 and \$1,545,969, respectively.

18) Trading fees

Trading fees mainly represent fees collected for the use of the Company's facilities for trading and settlement of securities. The fees are computed as a percentage of the value of the transactions of securities traded and the rate is 0.000065 per dollar for dealers and brokers. After reaching an agreement with Taiwan Securities Association, which was approved by the Board of Directors of the Company and the Competent Authority in No. 0950156625 bulletin (14th December 2006), the rate has been reduced by 12% during the time that the Company stopped to make cash contributions to the DDF. Effective 1st December 2011, as approved by the Board of Directors of the Company and the Competent Authority in No. 1000058644 bulletin (29th November 2011), the rate (0.000065 per dollar) has been reduced by 20%.

19) Expense of investors' protection

In accordance with the regulations of the "Securities and Futures Investors Protection Law", the Company contributes 5% of monthly trading fees to Securities and Futures Investors Protection Center as a protection fund.

20) Earnings per common share

For the year ended 31st December 2012					
Amount		Outstanding shares at the end of the year (in thousands)	Earnings per common share (in dollars)		
Before income tax	After income tax		Before income tax	After income tax	
Net income	\$ 1,727,335	\$ 1,527,264	613,279	\$ 2.82	\$ 2.49

For the year ended 31st December 2011					
Amount		Retroactively adjusted shares at the end of the year (in thousands)	Earnings per common share (in dollars)		
Before income tax	After income tax		Before income tax	After income tax	
Net income	\$ 2,824,162	\$ 2,468,278	613,279	\$ 4.61	\$ 4.02

The number of shares outstanding for the year ended 31st December 2011 was retroactively adjusted in accordance with the ratio of capital increase. The earnings per common share before and after income tax in 2011 were reduced from \$4.72 (in dollars) and \$4.13 (in dollars) to \$4.61 (in dollars) and \$4.02 (in dollars), respectively.

21) Personnel expenses, depreciation and amortization

The Company's personnel, depreciation and amortization expenses are as follows:

	For the year ended 31 st December 2012		
	Operating costs	Operating expenses	Total
Personnel expenses			
Salaries	\$ -	\$ 1,121,579	\$1,121,579
Insurance	-	68,558	68,558
Pension	-	182,935	182,935
Others	-	11,029	11,029
Depreciation	-	229,554	229,554
Amortization	-	50,881	50,881

	For the year ended 31 st December 2011		
	Operating costs	Operating expenses	Total
Personnel expenses			
Salaries	\$ -	\$ 1,046,224	\$1,046,224
Insurance	-	63,223	63,223
Pension	-	165,107	165,107
Others	-	12,580	12,580
Depreciation	-	235,318	235,318
Amortization	-	56,460	56,460

5. RELATED PARTY TRANSACTIONS

1) Names of related parties and their relationship with the Company

<u>Names of Related Parties</u>	<u>Relationship with the Company</u>
Taiwan Depository & Clearing Corporation (TDCC)	A subsidiary of the Company
Taiwan-Ca Inc. (TWCA)	A subsidiary of the Company
Taiwan Ratings Co.	The investee company accounted for under the equity method
Taiwan Futures Exchange (TFE)	The Company is a director of TFE
Gre Tai Securities Market (OTC)	President of the Company is a director of OTC (Note)
Securities and Futures Investors Protection Center (SFIPC)	Senior Executive Vice President of the Company is a director of SFIPC
Securities and Futures Institute (SFI)	President of the Company is a director of SFI
Accounting Research and Development Foundation (ARDF)	President of the Company is a director of ARDF
Taipei Financial Center Corporation (TFCC)	The Company is a supervisor of TFCC
Yuanta Securities Co., Ltd. (YCPS)	An institutional director of the Company

<u>Names of Related Parties</u>	<u>Relationship with the Company</u>
Fubon Securities Finance Co., Ltd. (FB)	An institutional director of the Company
Land Bank of Taiwan Co., Ltd.	An institutional director of the Company
Bank of Taiwan Co., Ltd.	An institutional director of the Company
Hua Nan Commercial Bank Co., Ltd.	An institutional supervisor of the Company

Note: In February, 2013, the chairman of the Company was changed to Mr. Sush Der Lee; a director of the Taiwan Over-The-Counter Securities Exchange was changed from president of the Company to the chairman of the Company.

2) Significant transactions and balances with related parties

A. Trading fees

	<u>For the years ended 31st December</u>			
	<u>2012</u>		<u>2011</u>	
	<u>Amount</u>	<u>% of trading fees</u>	<u>Amount</u>	<u>% of trading fees</u>
YCPS	\$ 282,742	13	\$ 333,075	11
FB	126,683	6	188,147	6
Others	30,116	1	43,229	1
	<u>\$ 439,541</u>	<u>20</u>	<u>\$ 564,451</u>	<u>18</u>

Terms are at arms length.

B. Data processing fees

	<u>For the years ended 31st December</u>			
	<u>2012</u>		<u>2011</u>	
	<u>Amount</u>	<u>% of data processing fees</u>	<u>Amount</u>	<u>% of data processing fees</u>
OTC	\$ 91,678	95	\$ 136,751	96

According to the agreement signed by the Company and OTC in June 2000, the Company receives data processing fees from OTC based on 25% of OTC's business service revenue.

C. License fees (recorded as operating revenue- others)

	For the years ended 31st December			
	2012		2011	
	Amount	% of license fees	Amount	% of license fees
TFE	\$ 143,866	81	\$ 191,926	87
FB	300	-	-	-
	<u>\$ 144,166</u>	<u>81</u>	<u>\$ 191,926</u>	<u>87</u>

According to the agreement signed by the Company and TFE, the Company authorizes TFE to use the Taiwan Stock Exchange Capitalization Weighted Stock Indices (TAIEX) as the objects of index futures contracts and index options contracts. TFE should pay the Company monthly royalties for the TAIEX use based on monthly trading volume of the above contracts multiplied by agreed-upon royalty for each contract.

D. Securities settlement service fees (part of operating expenses)

	For the years ended 31st December			
	2012		2011	
	Amount	% of securities settlement service fees	Amount	% of securities settlement service fees
TDCC	\$ 485,250	100	\$ 689,468	100

Under the "Engagement Agreement" signed between the Company and TDCC in October 2003, the service fee is charged at 0.000014625 per dollar of the monthly trading amounts. However, the Company and TDCC reached an agreement that TDCC will adjust the securities settlement service fees by the same percentage of any adjustment made by the Company to the trading fees, effective November 2006.

E. Rental and administrative expense (part of operating expenses)

	For the years ended 31st December			
	2012		2011	
	Amount	% of rental and administrative expenses	Amount	% of rental and administrative expenses
TFCC	\$ 162,604	89	\$ 156,673	75

F. Expense of investors' protection

	For the years ended 31st December			
	2012		2011	
	Amount	% of expense of investors' protection	Amount	% of expense of investors' protection
SFIPC	\$ 108,055	100	\$ 153,466	100

G. Accounts receivable

	31st December			
	2012		2011	
	Amount	% of accounts receivable	Amount	% of accounts receivable
YCPS	\$ 28,709	11	\$ 19,039	8
FB	11,677	5	10,801	5
TFE	11,416	5	11,883	5
OTC	8,264	3	5,429	2
Others	2,429	1	3,047	1
	<u>\$ 62,495</u>	<u>25</u>	<u>\$ 50,199</u>	<u>21</u>

H. Payable for securities settlement services

	31st December			
	2012		2011	
	Amount	% of payable for securities settlement services	Amount	% of payable for securities settlement services
TDCC	\$ 40,856	100	\$ 36,518	100

6. COMMITMENTS

- 1) As of 31st December 2012, the Company leased certain offices. The total future minimum lease payments and administrative expense under these operating lease agreements are as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 214,071
2014	206,041
2015	196,605
2016	196,605
2017	194,970
2018~2020 (The present value of \$506,558) (Note)	546,735
	<u>\$ 1,555,027</u>

Note: Starting the sixth year, the present value of lease payments and administrative expense was calculated by "Chunghwa Post Co., Ltd." based on the time deposit rate for one year (1.1%).

- 2) As of 31st December 2012, future payments required for the contracts in relation to the acquisitions of computer equipment and information system amounted to \$650,735.

7. OTHERS

1) The fair values of the financial instruments

	31st December 2012		
	Book value	Fair value	
		Quotation in an active market	Estimated using a valuation technique
Non-derivative financial instruments			
Assets			
Financial assets with book value equal to fair value	\$ 27,452,205	\$ -	\$ 27,452,205
Available-for-sale financial assets	2,650,992	2,650,992	-
Financial assets carried at cost	821,652	-	2,345,413
Held-to-maturity financial assets	16,295,761	5,842,520	10,563,993
Liabilities			
Financial liabilities with book value equal to fair value	21,847,551	-	21,847,551

	31st December 2011		
	Book value	Fair value	
		Quotation in an active market	Estimated using a valuation technique
Non-derivative financial instruments			
Assets			
Financial assets with book value equal to fair value	\$ 27,713,508	\$ -	\$ 27,713,508
Available-for-sale financial assets	1,917,096	1,917,096	-
Financial assets carried at cost	821,652	-	1,795,102
Held-to-maturity financial assets	17,613,657	9,056,484	8,738,534
Liabilities			
Financial liabilities with book value equal to fair value	22,681,835	-	22,681,835

The methods and assumptions used to estimate the fair values of the above financial instruments are summarized below:

- A. The fair values of short-term instruments were determined based on their carrying values because of the short maturities of the instruments. This method was applied to cash and cash equivalents, accounts receivable, interest receivable and the current liability accounts, excluding other current liabilities and income tax payable
- B. For available-for-sale instruments, the market value is regarded as the fair value.
- C. For held-to-maturity instruments, the quoted price is regarded as the fair value, if it is readily and regularly available from an active market. If the market for a financial instrument is not active, the Company establishes fair value by using a valuation technique.

- 2) As of 31st December 2012 and 2011, the financial assets with cash flow risk due to the changes in interest rates amounted to \$9,728,569 and \$8,044,885, respectively, and the financial liabilities with cash flow risk due to the changes in interest rates amounted to \$20,988,801 and \$21,816,597, respectively.
- 3) For the years ended 31st December 2012 and 2011, total interest revenue for financial assets and financial liabilities that are not at fair value through profit or loss amounted to \$674,667 and \$741,037, respectively, and total interest expense amounted to \$12,793 and \$13,093, respectively. For available-for-sale financial assets, the amount of unrealized gain (loss) recognized directly in equity in 2012 and 2011 was \$29,485, and \$201,780, respectively.
- 4) Procedure of financial risk control
- A. The Company's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and cash flow interest rate risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.
- B. Risk management is carried out by a central financial department (Financial Department) in accordance with the policies approved by the Board of Directors. The Company's Financial Department identifies and evaluates a variety of financial instruments, the procedure of the transaction, and transaction parties. Moreover, the Company regularly proposes recommendation reports and reviews the business performance. The internal auditor is in charge of conducting the audit of the business function.
- 5) Information of material financial risk
- A. Market risk

(1) Exchange rate risk

The Company has operations involving several non-functional currencies that are influenced by exchange rate fluctuations. The Company's foreign currency denominated assets and liabilities that are significantly affected by exchange rate fluctuations are as follows (expressed in thousands of dollars):

	<u>31st December 2012</u>			<u>31st December 2011</u>		
	<u>Foreign</u>			<u>Foreign</u>		
	<u>currency</u>	<u>Rate</u>	<u>NT amount</u>	<u>currency</u>	<u>Rate</u>	<u>NT amount</u>
<u>Financial assets</u>						
<u>Currency</u>						
USD	\$657,294	29.04	\$19,087,818	\$684,743	30.28	\$20,734,018
<u>Financial liabilities</u>						
<u>Currency</u>						
USD	608,039	29.04	17,657,453	675,603	30.28	20,457,259

(2) Price risk

The Company invests in available-for-sale financial assets, which are traded in active markets and influenced by fluctuations in the market price. However, no material market risk is expected to arise.

B. Credit risk

The Company's policy requires that all transactions be conducted with the counterparties that meet the specified credit rating requirement. As the counterparties are all well-known domestic financial institutions with good credit standing, defaults by the counterparties are not expected to occur. As for transaction objects, the default on financial assets investment objects held by the Company might cause the Company's losses. However, the Company controls such risk by setting transaction ceiling and assessing their credit condition strictly. Thus, the Company expects no significant credit risk would arise.

C. Liquidity risk

- a) The Company invests in financial securities, which are traded in active markets and can be readily converted into certain amount of cash that approximate their fair values. The liquidity risk exposure is low.
- b) Although the Company holds financial assets carried at cost which are not traded in active markets, these assets represent a small percentage of the Company's assets and the Company has adequate working capital. Therefore, no significant liquidity risk is expected to arise.

D. Cash flow interest rate risk

The Company has adequate working capital, so cash flow interest rate risk would be effectively reduced.

8. ADDITIONAL DISCLOSURES

A. Related information of significant transactions

In accordance with the “Criteria Governing Preparation of Financial Reports by Company – Type Stock Exchanges”, the Company’s related information of significant transactions are as follows:

- a) Lending to others: None.
- b) Endorsements and guarantees for others: None.
- c) Marketable Securities at 31st December 2012:

(1) Available-for-sale financial assets-current

<u>Name of the securities</u>	<u>Due Date</u>	<u>Units/Shares (in thousand)</u>	<u>Rate</u>	<u>Book value</u>	<u>Market value or net worth per share (in dollars)</u>	<u>Total amount</u>	<u>Amount of securities pledged</u>
Beneficiary Certificates							
SinoPac Balance Fund	-	3,201	-	\$ 82,623	\$ 25.3900	\$ 81,278	None
SinoPac Balance 2 Fund	-	3,158	-	84,929	25.1000	79,276	"
JF (Taiwan) Balanced Fund	-	3,090	-	66,642	21.8700	67,569	"
UPAMC QUALITY GROWTH Fund	-	15,504	-	305,593	19.1600	297,063	"
Yuanta Taiwan Weighted Stock Index Fund	-	9,615	-	133,000	14.6510	140,873	"
Yuanta Global Bond ETF Fund of Funds	-	25,000	-	233,250	8.5300	213,250	"
Fubon Taiwan Strategy I ETF Private Equity Fund	-	48,454	-	537,620	11.5600	560,123	"
Fubon Strategy II Private Equity Fund	-	24,678	-	250,000	10.7200	264,548	"
Fubon Strategy III Taiwan EMP Fund	-	25,000	-	250,000	10.0400	251,000	"
Fuh Hwa Global Thematic Fund	-	25,000	-	250,000	10.1700	254,250	"
ING Global Luxury Brands Fund	-	4,752	-	80,000	18.1400	86,194	"
SinoPac Luxury and Lifestyle Fund	-	4,563	-	50,000	11.2700	51,420	"
Mega Diamond Money Market Fund	-	25,023	-	297,850	12.1549	304,148	"
				2,621,507		<u>\$ 2,650,992</u>	
Valuation adjustment				29,485			
Total available-for-sale financial assets-current				<u>\$ 2,650,992</u>			

(2)Held-to-maturity financial assets-current

<u>Name of the Securities</u>	<u>Due Date</u>	<u>Face value</u>	<u>Rate</u>	<u>Book value</u>	<u>Amount of securities pledged</u>
Financial bonds					
Tcb-Bank 2006 1st Subordinate Class A Financial Bond	2013.04.24	\$ 237,000	1.59% Note 1	\$ 237,000	None
China Development Industrial Bank 94-2 Bank Debenture	2013.05.17	700,000	2.00%	698,122	"
Taipei Fubon Subordinated Bank Debentures 96-1	2013.06.28	200,000	2.90%	200,000	"
Bank SinoPac 97-1 Subordinate Classes Financial Bond	2013.09.17	200,000	3.05%	200,000	"
Taishin Bank 2005 4th A subordinate Classes Financial Bond	2017.06.06	230,000	2.70% Note 2	230,000	"
Taishin Bank 2005 4th C subordinate Classes Financial Bond	2017.06.06	300,000	2.35% Note 2	<u>300,000</u>	"
				<u>1,865,122</u>	
Corporate bonds					
Mega International 99 Unsecured 1	2013.02.04	\$ 200,000	1.45%	200,000	"
Huanan Bank Subordinate Classes Corporate Bond	2013.06.29	150,000	2.85%	150,453	"
Taiwan Power a5-3 Secured B	2013.11.15	400,000	2.20%	402,701	"
Formosa Chemical & Fibre Corporation 2008-2 Unsecured	2013.12.08	150,000	2.62%	153,080	"
CPC Corporation , Taiwan97-1 Unsecured A	2013.12.12	400,000	2.40%	403,700	"
Taiwan Power 97-8 secured A	2013.12.30	80,000	2.15%	<u>80,776</u>	"
				<u>1,390,710</u>	
Assets securitization- short-term notes and bills					
Hua Nan Bank ABCP	2013.02.18	-	2.25%	<u>104,376</u>	"
Total held-to-maturity financial assets-current				<u>\$ 3,360,208</u>	

Note 1 : Based on the one-year time deposit floating rate of Bank plus 0.25%.

Note 2 : Taishin Bank redeemed its 2005 4th A~C subordinated debentures in a mandatory manner on January 2, 2013 and repaid the principal to the holders of these debentures. These debentures were delisted from the Taiwan Over-The-Counter Securities Exchange on January 3, 2013.

(3)Held-to-maturity financial assets-noncurrent

Name of the securities	Due date	Face value	Rate	Book value	Amount of securities pledged
Financial bonds					
HSBC Bank (Taiwan) Limited 1st Financial Debenture - E Issue in 2011	2014.03.10	\$ 300,000	1.23%	\$ 300,000	None
E.Sun Bank 98-2 Subordinate Classes Financial Bond	2014.09.05	300,000	2.15%	300,000	"
Taiwan Agribank 98-1 Subordinate Classes Financial Bond	2014.11.08	200,000	2.30%	200,000	"
Tcb-Bank 2009 2nd Subordinate Financial Bond	2015.03.28	400,000	2.10%	400,000	"
Chinatrust 97-3 Subordinate Classes Financial Bond	2015.04.25	200,000	3.10%	200,000	"
First Bank stripped Subordinate Classes Financial Bond	2015.06.23	300,000	3.10%	300,987	"
E.Sun Bank 97-1 Subordinate Classes Financial Bond	2015.10.24	300,000	3.15%	300,000	"
Mega International 97-9 Subordinate Classes Financial Bond	2015.12.23	300,000	3.00%	300,000	"
Shanghai Commercial 97-2 Subordinate Classes Financial Bond	2015.12.26	200,000	3.05%	200,000	"
Land Bank 97-2 Subordinate Classes Financial Bond	2015.12.29	300,000	2.80%	300,000	"
E.Sun Bank 98-3 Subordinate Classes Financial Bond	2016.04.03	300,000	2.50%	300,000	"
Bank SinoPac 98-1 Subordinate Classes Financial Bond	2016.04.29	200,000	2.80%	200,000	"
Standard Chartered Bank Taiwan Limited 1st Financial Debenture-D Issue in 2011	2016.05.19	200,000	1.45%	200,000	"
Shin Kong 95-1 Subordinate Classes Financial Bond-B	2016.11.13	200,000	2.72%	201,544	"
Taipei Fubon Subordinated Bank Debentures 98-2	2016.12.22	300,000	2.20%	300,000	"
E.Sun Bank 99-1 Subordinate Classes Financial Bond	2017.05.28	400,000	2.20%	400,000	"
Bank SinoPac 97-3 Subordinate Classes Financial Bond	2014.03.09	100,000	1.81%	100,000	"
Tcb-Bank 2007 2nd Subordinate Class A Financial Bond	2014.09.28	200,000	2.56%	200,000	"
Yuanta Unsecured Subordinated Bank Debentures 99-1	2017.06.10	300,000	2.30%	300,000	"
First Bank 99-2 Subordinate Classes Financial Bond	2017.09.28	200,000	1.50%	200,000	"
Bank SinoPac 99-1 Subordinate Classes Financial Bond	2017.12.09	500,000	1.80%	500,000	"
Land Bank 99-2 Subordinate Classes Financial Bond	2017.12.15	500,000	1.53%	500,000	"
Mega International 99-1 Subordinate Classes Financial Bond	2017.12.24	500,000	1.53%	500,000	"
SinoPac Bank 100-1 Subordinate Financial Debentures-A	2018.03.11	200,000	1.92%	200,000	"
E.Sun Bank 100-1 Subordinate Classes Financial Bond	2018.05.24	100,000	1.73%	100,000	"
Yuanta Subordinated Bank Debentures 100-1	2018.06.27	200,000	1.75%	200,000	"
Tcb-Bank 100-2 Subordinate Financial Debentures-B	2018.07.28	100,000	1.70%	100,000	"
Taipei Fubon Subordinated Bank Bond 100-2	2018.08.05	200,000	1.70%	200,000	"
SinoPac Bank 100-2 Subordinate Financial Debentures-A	2018.08.18	150,000	1.95%	150,000	"
Yuanta Subordinated Bank Debentures 100-2	2018.08.22	150,000	1.85%	150,000	"
E.Sun Bank 100-2 Subordinate Classes Financial Bond	2018.10.28	100,000	1.80%	100,000	"
SinoPac Bank 100-3 Subordinate Financial Debentures-A	2018.11.04	200,000	1.85%	199,999	"
SinoPac Bank 101-1 Subordinate Financial Debentures-A	2019.09.18	200,000	1.53%	200,000	"
Taiwan Agribank 101-1 Subordinate Classes Financial Bond	2019.10.17	100,000	1.43%	100,000	"
Land Bank 101-3 Subordinate Classes Financial Bond	2019.10.22	200,000	1.43%	200,000	"
Standard Chartered 2009-1 Subordinate Classes Financial Bond	2019.10.28	100,000	2.90%	100,000	"
Hua Nan Bank 2007 3rd Subordinate Classes Financial Bond	2014.09.20	200,000	2.56%	200,000	"
Hua Nan Bank 99-1 Subordinate Classes Financial Bond	2020.11.23	500,000	1.65%	500,000	"
Taiwan Agribank 101-1 Subordinate Classes Financial Bond-B	2022.10.17	100,000	1.53%	100,000	"
				<u>\$ 2,502,530</u>	

Note 1 : Based on 90-day commercial paper interest rate plus 0.95%.

Note 2 : Based on 90-day commercial paper interest rate plus 0.34%.

Note 3 : The annual interest rate for first 5 years and from 6th to 10th year is 2.90% and 3.40%, respectively.

Note 4 : Based on 90-day commercial paper interest rate plus 0.35%.

<u>Name of the securities</u>	<u>Due date</u>	<u>Face value</u>	<u>Rate</u>	<u>Book value</u>	<u>Amount of securities pledged</u>
Corporate bonds					
Taiwan Power 98-2 secured B	2014.08.31	\$ 300,000	1.43%	\$ 300,426	None
Taiwan Power 98-3 secured B	2014.10.21	300,000	1.34%	299,997	"
CPC Corporation, Taiwan 98-1 Secured A	2014.12.02	300,000	1.20%	299,055	"
E.SUN Financial Holding Co., Ltd. 96 1st Unsecured Corporate Bond	2014.12.13	200,000	1.46%	200,000	"
Fubon bank 98-2 Unsecured corporate Bond A	2015.01.28	100,000	1.70%	100,297	"
China Development Financial Holding Co., Ltd.98-1 Unsecured A	2015.03.01	200,000	1.80%	200,000	"
Shin Kong Bank 97-2 Unsecured Subordinate Classes Corporate Bond A	2015.09.29	300,000	3.65%	307,948	"
Cathay Financial Holdings 97 Unsecured Subordinate Classes Corporate Bond	2015.12.24	300,000	3.10%	300,000	"
Mega International 97-2 Unsecured Corporate Bond	2015.12.26	600,000	3.26%	615,560	"
Cathay Financial Holdings 98-1 Unsecured Subordinate Classes Corporate Bond	2016.10.08	300,000	2.65%	300,000	"
Taiwan Power 99-4 secured B	2017.08.20	300,000	1.64%	303,158	"
CPC Corporation, Taiwan 99-1 Secured B	2017.11.01	100,000	1.29%	100,000	"
CPC Corporation, Taiwan 97-1 Unsecured C	2018.12.16	100,000	2.65%	106,582	"
				<u>3,433,023</u>	
Total held-to-maturity financial assets-noncurrent				<u>\$ 12,935,553</u>	

Note 1 : Based on 90-day commercial paper interest rate plus 0.6%

(4) Financial assets carried at cost-noncurrent

<u>Name of the securities</u>	<u>Nature of securities</u>	<u>Units/Shares (in thousand)</u>	<u>Book value</u>	<u>Amount of securities pledged</u>
Taiwan International Futures Exchange Corporation	Stock	13,929	\$ 100,000	None
Taipei Financial Center Corporation	"	83,853	<u>838,528</u>	"
			938,528	
Accumulated Impairment			(<u>116,876</u>)	
Total financial assets carried at cost-noncurrent			<u>\$ 821,652</u>	

(5) Long-term equity investments accounted for under the equity method

<u>Name of the securities</u>	<u>Nature of securities</u>	<u>Relationship with the Company</u>	<u>Units/Shares (in thousand)</u>	<u>Book value</u>	<u>Shares held by the Company</u>	<u>Market value or net value of the stock rights</u>	<u>Amount of securities pledged</u>
Taiwan Depository & Clearing Co.	Stock	The Company's subsidiary	161,824	\$ 7,486,229	50.43%	\$ 7,486,229	None
Taiwan-Ca. Inc.	"	"	6,087	80,842	30.25%	77,880	"
Taiwan Ratings Co.	"	The investee company accounted for under the equity method	1,399	<u>30,382</u>	19.99%	30,382	"
Total				<u>\$ 7,597,453</u>			

(6) Operations guarantee deposits

<u>Name of the securities</u>	<u>Due Date</u>	<u>Face Value</u>	<u>Rate</u>	<u>Book value</u>
Time deposits	2013.11.23	\$ 1,300	1.35%	\$ 1,300
Time deposits	2013.11.23	308,700	1.35%	<u>308,700</u>
Total				<u>\$ 310,000</u>

d) Acquisition or sale of the same security with the accumulated cost exceeding \$100 million or 20% of the Company's paid-in capital during the year ended 31st December 2012

Name of the securities	Counter party	Balance as at 1st January 2012		Addition		Disposals			Gain (loss) from disposal	Balance as at 31st December 2012		Note
		Number of shares (in thousands)	Amount	Number of shares (in thousands)	Amount	Number of shares (in thousands)	Sales price	Book value		Number of shares (in thousands)	Amount	
Fubon Strategy III Taiwan EMP Fund	-	-	\$ -	25,000	\$ 250,000	-	-	-	-	25,000	\$ 251,000	Note A
Fubon Strategy II Private Equity Fund	-	5,000	50,000	19,678	200,000	-	-	-	-	24,678	264,548	Note A
Fuh Hwa Global Thematic Fund	-	-	-	25,000	250,000	-	-	-	-	25,000	254,250	Note A
SinoPac Bank 101-1 Subordinate Financial Debentures-A	-	-	-	200,000	200,000	-	-	-	-	200,000	200,000	
Taiwan Agribank 101-1 Subordinate Classes Financial Bond	-	-	-	100,000	100,000	-	-	-	-	100,000	100,000	
Taiwan Agribank 101-1 Subordinate Classes Financial Bond-B	-	-	-	100,000	100,000	-	-	-	-	100,000	100,000	
Land Bank 101-3 Subordinate Classes Financial Bond	-	-	-	200,000	200,000	-	-	-	-	200,000	200,000	

Note A: Due to valuation adjustment, ending balance is not equal to beginning balance.

e) Acquisition of real estate properties exceeding \$100 million or 20% of the Company's paid-in capital during the year ended 31st December 2012: None

f) Disposal of real estate properties exceeding \$100 million or 20% of the Company's paid-in capital during the year ended 31st December 2012: None

g) Purchases from or sales to related parties exceeding \$100 million or 20% of the Company's paid-in capital during the year ended 31st December 2012: None

h) Derivative financial instruments undertaken during the year ended 31st December 2012: None

B. Related information of investee companies for the year ended 31st December 2012:

Investor	Investee	Address	Major operating activities	Initial investment amount		No. of shares (in thousand)	Holding Status			Investment income (loss) recognized by the Company	Note
				At the end of this year	At the end of last year		Ownership (%)	Book value	Net income (loss) of the investee		
Taiwan Stock Exchange Corporation	Taiwan Depository & Clearing Co.	11F., No.363, Fusing N.Rd., Taipei City	Custodian service for marketable securities	\$ 550,000	\$ 550,000	161,824	50.43%	\$ 7,486,229	\$ 1,206,469	\$ 608,400	The Company's subsidiary
"	Taiwan-Ca Inc.	10F., No. 85, Yanping S. Rd, Taipei City	Internet certification	102,898	102,898	6,087	30.25%	80,842	38,600	11,676	"
"	Taiwan Ratings Co.	49F., No.7, Sec. 5, Sinyi Rd., Taipei City	Credit rating services	15,045	15,045	1,399	19.99%	30,382	49,631	9,918	The investee company accounted for under the equity method