



The Export-Import Bank of the Republic of China

| Annual Report 2012 |





2012

The Export-Import Bank of the Republic of China

Address : 8F., No. 3, Nanhai Road, Taipei City 10066,
Taiwan, Republic of China

Tel : 886-2-2321-0511

Fax : 886-2-2394-0630

Website : <http://www.eximbank.com.tw>

E-Mail : eximbank@eximbank.com.tw

Credit Rating Agency: Fitch Ratings Limited, Taiwan Branch
Address: Suite 1306, 13F, 205, Tun Hwa N.Rd., Taipei City,
Taiwan, Republic of China.

Tel: 886-2-8175-7600



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Vision

Strengthen Trade Finance and Assist External Trade

Supporting government economic and trade policies by providing financial services to assist manufacturers in developing foreign trade.

Participating in international financial activities so as to enhance international economic cooperation.

Participating in major domestic economic construction programs in order to facilitate industrial development and increase employment.

[http : //www.eximbank.com.tw](http://www.eximbank.com.tw)



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Operating Performance Summary

TWD Million

| Year | FY 2012 | FY 2011 | FY 2010 |
|--------------------------------------|---------|---------|---------|
| Total Operating Revenues | 2,078 | 1,929 | 1,692 |
| Total Operating Expenses | 1,622 | 1,539 | 1,439 |
| Net Income before Tax | 456 | 390 | 253 |
| Profits per Employee before Tax | 2.28 | 1.94 | 1.25 |
| Loans Outstanding (Average) | 89,970 | 85,009 | 83,066 |
| Guarantees Undertaken | 9,796 | 8,349 | 7,012 |
| Export Credit Insurance Underwritten | 89,603 | 73,409 | 63,957 |
| Total Assets | 94,169 | 92,078 | 85,980 |
| Net Worth | 18,282 | 18,295 | 17,978 |
| BIS Ratio (%) | 28.84 | 28.73 | 31.60 |

* The final accounts of FY 2012 are subject to audit.

** Eximbank's fiscal year runs from January 1 to December 31.



▶ Business Report

1. Mission

The Export-Import Bank of the Republic of China (Eximbank) is a specialized financial institution owned by the Government. Its vision is to “strengthen trade finance and assist external trade.” Eximbank was founded with the aim to enhance employment and maintain domestic economic growth by coordinating government economic, trade and financial policies, facilitating financial and export credit insurance services, assisting local firms to expand foreign trade, and advancing international economic cooperation. Eximbank offers medium- and long-term financing and guarantee services to help local firms expand exports of capital goods, undertake overseas construction projects, import precision machinery and equipment and essential industrial raw materials, as well as introduce foreign technology into Taiwan. Meanwhile, Eximbank provides export credit insurance and overseas investment insurance to protect local exporters and investors against commercial and political risks. With Eximbank's services, local enterprises can expand external trade and overseas investments.

2. Key Operation Strategies and Achievements

Eximbank's average loans outstanding in 2012 was TWD89,970 million, a year-on-year increase of 5.84%, and guarantees totaled TWD9,796 million, an increase of 17.33% from 2011. Meanwhile the export credit insurance underwritten by Eximbank was TWD89,603 million, a year-on-year growth of 22.06%. Below is a summary of key operation strategies and achievements for 2012:

(1) Supporting Economic and Trade Policies while Assisting Enterprises in Expanding Target and Emerging Markets

- ① Eximbank supports government economic and trade policies. Focusing on target markets determined by the Ministry of Economic Affairs, its export financing and insurance portfolio provides exporters with the financial support and services to enhance their competitiveness. Primary target markets include Japan, Korea, Indonesia, Vietnam, India, Mainland

China (including Hong Kong), Brazil, Russia, Turkey, South Africa, the Middle East region, and Mexico. In 2012, Eximbank granted accumulated export financing of TWD5,500 million in these target markets, a year-on-year growth of 41%, while it underwrote export credit insurance of TWD40,283 million, an increase of 34.38% compared to 2011.

- ② Eximbank effectuates programs initiated by the Bureau of Foreign Trade in emerging markets. Through its export financing, relending, and export insurance, Eximbank's niche is to help Taiwanese enterprises enter emerging markets. In 2012 Eximbank's approved export loan to emerging markets accounted for 63.90% of the bank's total export loans amount. And 55.58% of the amount underwritten for Eximbank's export credit insurance went to emerging markets. Eximbank explores new business opportunities and helps local firms expand into the emerging markets in Southeast Asia, Central and South America, East Europe, East Asia, and South Asia. Business area covers Brazil, Peru, Colombia, Mexico, Russia, Belarus, Poland, Slovenia, Croatia, Portugal, Turkey, Cyprus, Pakistan, India, Bangladesh, Sri Lanka, Singapore, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam. Eximbank helps enterprises compete for orders



● Chair of the Board of Directors / Yen Chrystal Shih

in these countries and builds sales channels in emerging markets while diversifying the risks.

- ③ To help Taiwanese enterprises promote exports, Eximbank develops Relending Facility business by cooperating with prestigious banks around the world. In 2012, the relending credit lines granted by Eximbank totaled USD495 million, including USD425 million in emerging markets. By the end of 2012, Eximbank approved USD512 million in total credit lines, with a growth of 27.20% compared to USD402 million in 2011. Eximbank cooperates with banks located in the Americas, Europe, Asia, and the Middle East to provide relending facilities in 22 emerging



markets, including Argentina, Brazil, Chile, the Dominican Republic, Honduras, Nicaragua, Peru, Belarus, Bulgaria, the Czech Republic, Russia, Slovakia, Turkey, Ukraine, Morocco, Israel, India, Indonesia, Mongolia, the Philippines, Thailand and Vietnam, as well as in the United States. During 2012, the number of cooperating banks increased from 48 to 54.

(2) Strengthening Services and Assisting SMEs in Expanding Export Markets

The majority of Taiwan's enterprises are SMEs. To help these companies determine the creditworthiness of potential foreign buyers

and obtain insurance covers, Eximbank has cooperated with more than 30 international credit agencies over the years and widely promotes its customized credit insurance policy-GlobalSure. According to the practical needs of enterprises, Globalsure assists enterprises in managing risks of their accounts receivables, so as to avoid the bad debt risks associated with international trade. Out of all insurance clients, SMEs accounted for 80.37% in 2012 and the amount underwritten was TWD25,033 million, an increase of 9.25% compared to 2011.

To increase financing to SMEs, Eximbank also conducted the "Program to Encourage Lending by Domestic Banks to SMEs." The average balance of loans granted to SMEs in 2012 was TWD6,400 million.

(3) Cooperating with Domestic Trade Organizations to Promote Export Trade

To help domestic enterprises expand exports and to improve cooperation with trade organizations, Eximbank renewed a cooperation agreement with Taiwan External Trade Development Council (TAITRA) on March 30, 2012. The two organizations hold business promotion activities together, and Eximbank also partook in important TAITRA exhibitions to introduce its business. The agreement also called for greater exchanges and cooperation between the two organizations, including building mechanisms for the exchange of business data, so trade and financial information can be shared. By signing and



● President / Ruen-Fong Chu



- Finance Minister Chang Sheng-Ford (4th right) presented the 2012 award for “Excellent performance by financial institutions in export insurance referral” . (January 28, 2013)

fulfilling this agreement, the two parties can work closely together to provide enterprises with information to expand exports, resulting in increasing their competitive advantages, expanding overseas markets, providing more business opportunities and thereby accelerating Taiwan's economic development.

(4) Cooperating with Foreign Export Credit Agencies to Expand Markets for Taiwan Enterprises

To bolster cooperation with foreign export credit agencies, Eximbank participates vividly in activities held by Berne Union, a global association for export credit and investment insurance. In 2012 Eximbank attended the Spring Meeting in April, the RCG CEO Meeting in July, and the Annual General Meeting in October. Eximbank also took part in various training and discussion activities. Topics include: short, medium, and long-term export

insurance trends; foreign investment insurance trends; outlooks for European and Asian economies; development of the European debt crisis; analysis of the situation in the Middle East; Basel III; fundraising; and the condition of major industries. These activities and events let Eximbank communicate with and learn from foreign export credit agencies.

In 2012, Yen Chrystal Shih, Chair of the Board of Directors, signed cooperation memoranda with Mr. D. P. Mendis P.C., Chair of the Board of Directors at the Sri Lanka Export Credit Insurance Corporation (SLECIC), and Mr. Yong Hwan Kim, Chair of the Board of Directors and President of the Export-Import Bank of Korea (EXIM of Korea). The Chair of Eximbank also signed reinsurance contracts with Mr. Zaafril Razief Amir, President of the Indonesia Export Credit Agency (ASEI), and Ms. Karin Apelman, President of the Swedish Export Credits Guarantee Board (EKN).



By the end of 2012, Eximbank had signed cooperation agreements or reinsurance contracts with official export insurance organizations around the world, including: Poland, the Czech Republic, Hungary, Slovak Republic, Turkey, Thailand, Indonesia, Japan, Malaysia, Belarus, South Korea, Israel, Mainland China, Sweden and Sri Lanka. By working with these credit and insurance agencies, Eximbank obtains adequate information which can help Taiwan enterprises expand their overseas markets.

(5) Using Reinsurance to Enhance Eximbank's Export Insurance Underwriting Capacity

To increase underwriting performance and improve the basis of export insurance operations, Eximbank re-signed a reinsurance contract with Central Reinsurance Corporation in 2012. The agreement transferred some

of the risks to the Corporation, thereby raising Eximbank's insurance underwriting capacity and allowing its export insurance to continue to grow. Eximbank also expanded reinsurance cooperation by signing reinsurance agreements with Nippon Export and Investment Insurance (NEXI), the Indonesia Export Credit Agency (ASEI), and the Swedish Export Credits Guarantee Board (EKN).

(6) Promoting Export Insurance with Domestic Commercial Banks

To introduce the advantages of export insurance and advocate partnerships, Eximbank held islandwide seminars that focused on cooperation with commercial banks to boost exports together. By the end of 2012 Eximbank had signed cooperation agreements of promoting export insurance with 8 government banks, 1 foreign bank and 13 private banks. The branches of these



● Finance Minister Chang Sheng-Ford (left) honored Eximbank after it received a first-rate evaluation in the Executive Yuan's 2011 performance evaluations. (November 27, 2012)

banks could then promote Eximbank's services throughout the country. In 2012, the underwritten cases referred by these banks grew by 236.08% compared to 2011.

(7) Actively Participating in International Syndicated Loans to Expand Business Outreach and Enhance International Financial Cooperation

Eximbank participates actively in international syndicated loans to strengthen business ties with international financial institutions, expanding its business scope and niche. At the end of 2012, the outstanding amount of syndicated loans participated by Eximbank reached USD286 million, equivalent to TWD8,297 million, with borrowers covering more than 30 financial organizations. The loans originated in nearly 20 countries located in Asia, Central and South America, Africa, and the Middle East.

(8) Amending Internal Regulations to Streamline Workflow and Improve Service

- ① In light of changes of the financial environment, Eximbank revised its guidelines of short-term export loans and guarantees as well as principles for loan pricing in 2012. It also enacted new principles for enhancing export loans and principles for measuring the amount of the impairment loss relating to loans and receivables. The adjustments let Eximbank meet client's

satisfaction while providing flexibility suited to market conditions.

- ② Eximbank adjusted its guidelines for underwriting external trade, the authority granted to supervisors at each level for approving export insurance cases, as well as the procedures and standards for establishing credit limits of buyers or issuing banks. It also established guidelines for purchasing export insurance. Besides letting Eximbank respond to globalization in the international trade market while raising efficiency and service quality, these changes allowed it to meet the requirements of the Financial Consumer Protection Act.
- ③ Eximbank examined each of its export insurance regulations, built an information-based work environment, and simplified work processes and application forms. It also provided clients with a fast and convenient online platform to raise service quality and to expand the scope of business.

(9) Strengthening Country, Financial, and Industrial Risk Management

Due to the Eurozone crisis and the sluggish US economy, global economic growth was lackluster in 2012. This led to unprecedented actions by the central banks around the world. Several developed countries launched



quantitative easing programs on a scale never seen before as a means of stimulating their economies. One result was increasing of fluctuations in international financial markets. Also, major elections and changes in governments occurred worldwide in 2012, which led to new country risk variables. Facing such circumstances, Eximbank continued to strengthen its analysis and monitoring of country risk and financial risk in the areas it operates. Eximbank paid particularly close attention to changes in high-risk areas such as the Middle East and North Africa, and high-debt European nations. Risk analysis reports were compiled and presented to executives on a monthly basis. For industry risk, Eximbank continued to strengthen analysis and monitoring of risks associated with the DRAM, TFT-LCD, LED, and solar energy industries. It also revised guidelines for both country risk and industry risk. The revision would improve risk diversification and management.

(10) Training Finance Professionals to Raise Capability

- ① Eximbank established an annual training plan for employees as an on-job training. By actively training finance professionals, it strengthened execution capabilities. Employees attended meetings held by professional financial research training organizations and Eximbank's own theme-based training courses lectured by experts

and scholars. In 2012 Eximbank hosted 25 speeches on specialized and regulatory topics along with 13 seminars. By taking a proactive approach to strengthen employees' professional knowledge, Eximbank wishes to satisfy new needs arising from business development.

- ② Eximbank also encourages employees to take research and study activities held by international insurance organizations or export credit groups. Eight trips were made by employees for this purpose in 2012, as to gain and bring back new experiences. Employees also made 24 trips to international finance or insurance meetings, and visits to foreign export credit organizations. These trips resulted in valuable information sharing related to international finance and insurance business, enabling Eximbank to improve its business quality and effectiveness.

(11) Simplifying Case Procedures and Adjusting the Personnel Structure

Eximbank offered early retirement incentives in 2012 aimed at middle to upper-rank employees. The program intended to improve performance, better deploy workers, and lower personnel costs. Employees who retired under this program were replaced by young staff of



- Yen Chrystal Shih, Chair of the Board of Directors, hosted the July board meeting. (July 20, 2012)

new generations. Other benefits were lowering the average age and improving a top-heavy employment structure.

3. Credit Rating

(1) Fitch Ratings affirmed Eximbank's credit rating as the same of the year 2011 in November 2012, which was the highest IDR Rating among all banks in Taiwan. As a 100% state-owned bank, Eximbank's IDR rating is aligned with Taiwan's sovereign rating showing Eximbank's excellent credit and high capability of honoring its debts. Fitch's rating will help Eximbank raise additional credit lines and lower funding costs, letting it provide more competitive interest rates and services to clients.

(2) Fitch announced its ratings for Eximbank on November 16, 2012:

The long-term foreign currency issuer default rating (IDR) was A+; outlook stable

The short-term foreign currency IDR was F1

The national long-term rating was AAA(twn); outlook stable

The national short-term rating was F1+(twn)

The support rating was 1



▶ Bank Profile

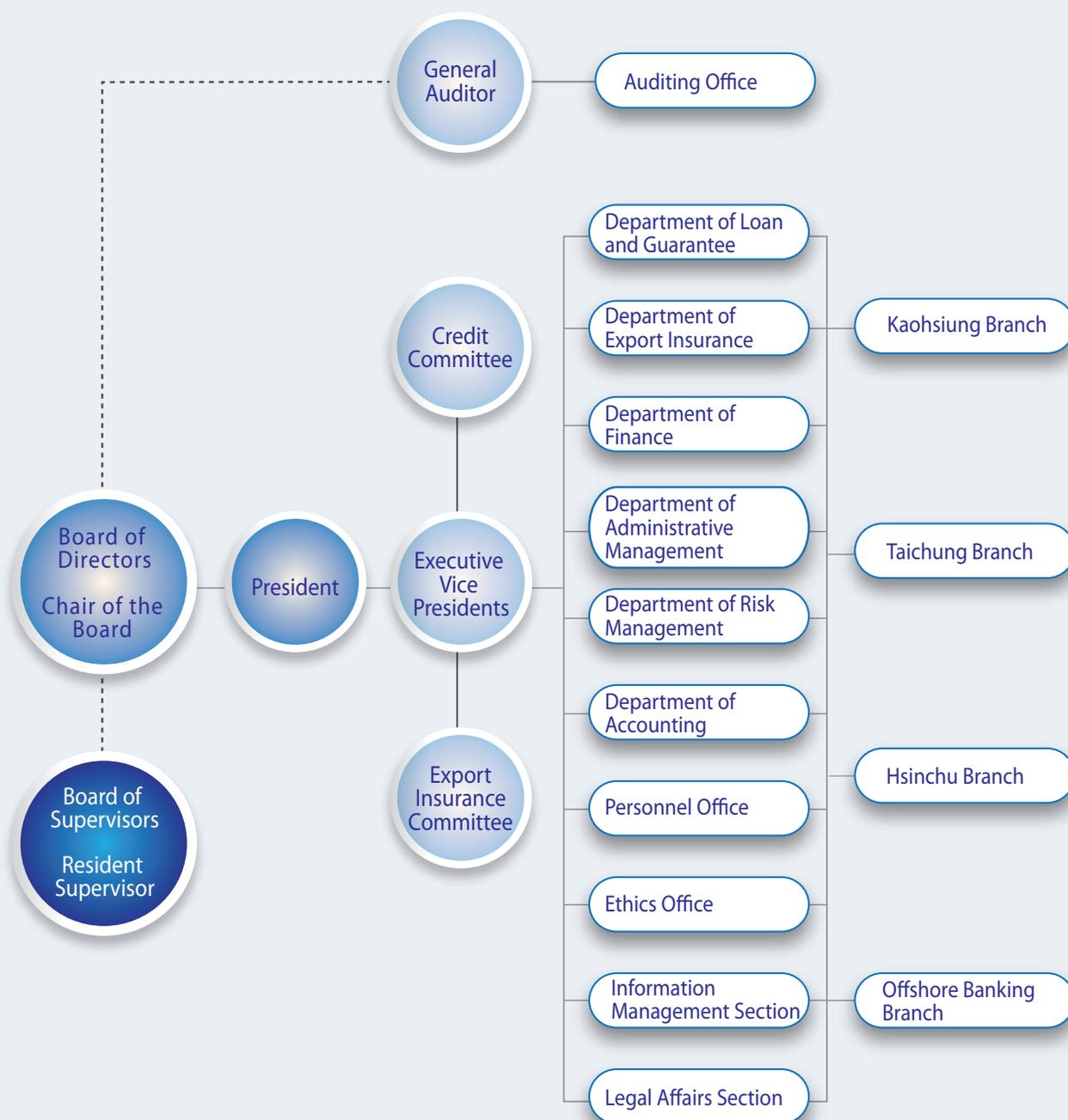
1. Profile

Eximbank was established on January 11, 1979, under the Statute of the Export-Import Bank of the Republic of China Act. It is a state-owned bank supervised by the Ministry of Finance. Its mission is to “promote export trade and develop the economy” while its vision is to “strengthen trade finance and assist external trade.” Eximbank’s main objective is to support government economic and trade policies by providing financing, guarantees as well as export credit insurance to help enterprises expand external trade and overseas investments. Eximbank also engages in international cooperation to ensure the steady and continuous development of Taiwan’s economy.

To assist exporters, Eximbank provides export financing facilities and export credit insurance. For better services, it has established three domestic branches in Kaohsiung, Taichung and Hsinchu.

2. Organization

(1) Organization Chart





(2) Board of Directors and Supervisors



Chair of the Board of Directors
Yen Chrystal Shih



Managing Director
Ruen-Fong Chu



Managing Director
Hau-Min Chu



Director
Chun-Fu Chang



Director
Sun-Yuan Lin



Director
Ting-Chieh Wang



Director
Hsin-Chung Chen



Resident supervisor
Dun-Jin Luh



Supervisor
Yu-Jer Sheu



Supervisor
Hui-Mei Chen

| Board of Directors | | Board of Supervisors | |
|--------------------|---------------------------------|----------------------|---------------------|
| Yen Chrystal Shih | Chair of the Board of Directors | Dun-Jin Luh | Resident Supervisor |
| Rueen-Fong Chu | Managing Director | Yu-Jer Sheu | Supervisor |
| Hau-Min Chu | Managing Director | Hui-Mei Chen | Supervisor |
| Chun-Fu Chang | Director | | |
| Sun-Yuan Lin | Director | | |
| Ting-Chieh Wang | Director | | |
| Hsin-Chung Chen | Director | | |

(3) Principal Managers and General Auditor

| Name | Title |
|------------------|--|
| Rueen-Fong Chu | President |
| Shui-Yung Lin | Executive Vice President |
| Song-Bin Huang | Executive Vice President (Senior Officer of Regulatory Compliance) |
| Hwa-Yu Mo | General Auditor |
| Pei-Jean Liu | Advisor (Senior Officer of Information Management Section and Legal Affairs Section) |
| Chin-Huo Tsai | Senior Vice President and General Manager Department of Loan and Guarantee |
| Liao Cheng-Tsung | Senior Vice President and General Manager Department of Export Insurance |
| Fu-Sheng Huang | Senior Vice President and General Manager Department of Finance and Offshore Banking Branch |
| Ih-Li Peng | Senior Vice President and General Manager Department of Risk Management |
| J.S.Chen | Senior Vice President and General Manager Department of Administrative Management |
| Yu-Huai Wang | Senior Vice President and General Manager Department of Accounting |
| Tung-Meng Lin | Senior Vice President and General Manager Personnel Office |
| Wu Hsueh Hsun | Senior Vice President and General Manager Ethics Office |



Executive Vice President

Song-Bin Huang

President

Rueen-Fong Chu

Chair of the Board of Directors

Yen Chrystal Shih

Executive Vice President

Shui-Yung Lin

General Auditor

Hwa-Yu Mo

IV ▶ Operations Overview

1. Business Overview

(1) Loans

Eximbank offers medium and long-term export credits, general export credits, short-term export credits, medium and long-term import credits, overseas investment credits, overseas construction credits, shipbuilding credits, international syndicated loans, relending facilities and major public construction credits.

In 2012, Eximbank granted an average balance of TWD89,970 million in loans, a year-on-year increase of 5.84% .

Eximbank's loan portfolio mainly consists of medium and long-term loans. In 2012, the average balance of these loans totaled TWD 82,136 million, accounting for 91.29 % of total loans.

(2) Guarantees

Guarantee services include overseas construction guarantees, import guarantees, export guarantees, domestic major public construction and infrastructure project guarantees, and shipbuilding guarantees.

In 2012, guarantees totaled TWD9,796 million, a year-on-year increase of 17.33%.

Eximbank's guarantees are mainly composed of domestic major public construction guarantees and import guarantees, which accounted for 48.65% and 40.93% of total guarantees, respectively.

(3) Export Credit Insurance

Eximbank's export credit insurance includes comprehensive export credit insurance for document against payment (D/P) and document against acceptance (D/A) transactions, comprehensive export credit insurance for open account (O/A) transactions, safety export credit insurance for small and medium enterprises, GlobalSure Credit Insurance, export credit insurance for letter of credit (L/C) transactions, medium and long-term deferred payment insurance, overseas investment insurance, and overseas construction credit insurance.

Export credit insurance underwritten in 2012 totaled TWD89,603 million, a year-on-year increase of 22.06%.



2. Market Overview

(1) Domestic and Global Financial Conditions

2012 was a period of turmoil for the global financial environment. At the beginning of the year the Eurozone crisis spread from Greece, Spain to Italy, severely affecting the financial systems in the Eurozone. The turmoil was reflected in financial markets. Austerity, high unemployment, and a slowdown in external demand contributed to a second round of economic contraction in the Eurozone.

Several factors contributed to the IMF projection of 2012 global economic growth to 3.2%, lower than that of 2011 and well below the forecast of 3.9% the Fund had made in 2011. It was the second straight year that growth slowed. These factors included:

(1) Negative effects of the Eurozone crisis continued to expand, (2) The U.S. economy showed a weak recovery due to the threat of fiscal cliff and (3) The rate of growth in emerging economies slowed.

Crude oil supplies were affected by the U.S.-led sanctions against Iran. But weak demand attributed to the sluggish world economy limited the impact of the sanctions on oil prices, which remained stable though relatively high. Extreme weather conditions continued to disrupt global foodstuffs supplies, causing sharp price fluctuations, but overall inflation eased relative to 2011.

In terms of monetary policy, the European Union, the United States and Japan undertook quantitative easing measures. At the beginning of September, the European Central Bank announced the Outright Monetary Transactions



- Yen Chrystal Shih, Chair of the Board of Directors, and Mr. Yong Hwan Kim, Chair of the Board of Directors and President of the Export-Import Bank of Korea, signed a cooperation memorandum. (September 6, 2012)

to directly purchase sovereign bonds of five European peripheral countries. In the United States, the Federal Reserve undertook a third and fourth round of quantitative easing in September and December, respectively. They imposed no limit on monetary easing, flooding markets with cash, some of which ended up in Asian emerging markets. And the Bank of Japan joined the quantitative easing process on five occasions in 2012, primarily relying on asset purchases that contributed to a 12.55% depreciation in the yen in 2012. In December, Shinzo Abe took over as prime minister and pledged to weaken the yen further to boost exports and stimulate the economy.

Interest rates were dropped to record lows in major countries in 2008 as a response to the global financial crisis. Before they could be raised, the Eurozone crisis exploded on the scene. Despite a lack of significant improvements in the economy or employment of advanced nations in the European Union and the United States, there was little space to drop interest rates further. Among the few central banks to lower rates in 2012, two of the most representative were those in the European Union and mainland China. The former dropped its main rates by 25 basis points in July, and the latter cut rates in June and July. The United States maintained the federal funds rate at between zero and 0.25% while Japan kept its main rates between 0 and 0.1%.

Our financial environment was affected by outside factors, such as the prolonged Eurozone crisis, the weak recovery in the United States, and the slowdown of the economy in mainland China. These factors severely affected export growth, causing economic growth in 2012 to be just 1.32%. CPI inflation rate, however, remained relatively stable, prompting our Central Bank to keep interest rates unchanged. Its discount rate, rate on accommodations with collateral, and rate on accommodations without collateral remained at 1.875%, 2.25%, and 4.125%, respectively.

As for the exchange rate, international capital inflow put pressure on the New Taiwan Dollar (TWD) to appreciate. With the weak export performance, the Central Bank maintained a “dynamic stability.” The TWD appreciated by 4.2% in 2012, from 30.270 against the greenback at the end of 2011 to 29.050 at the end of 2012.

(2) Credit Market Overview

The world economy remained weak in 2012, dragged down by expansion of the European debt crisis, slower growth in Mainland China, and the dangers of the fiscal cliff in the United States. In Taiwan, global economic trends hurt external trade over the first half of the year. But until September, the global economy showed signs of stability. Taiwan's external trade, industrial production and export orders



improved. Among Taiwan's business indicators, the overall monitoring indicator switched from yellow-blue to green in December, showing that the economy had been on the way to be stable.

Slower global economic growth led to many uncertainties in international financial markets as well as a lukewarm domestic recovery. These factors, together with easing inflationary pressure, led ROC Central Bank to announce in every quarter of 2012 that it would remain interest rates unchanged. The stable and low market interest rates eased financing restrictions, leading to fierce competition in the credit industry.

In this climate, Eximbank continued to stimulate and strengthen export loans, a goal of the "Gold Dragon Sub-project" contained within the Ministry of Economic Affairs' "Soaring Dragon Plan." It assisted government promotion of major domestic public construction and infrastructure projects. And it strengthened export credits, major public construction credits, medium and long-term import credits, overseas investment credits, and loans for international enterprises. In 2012 its credit and guarantee businesses grew by 5.84% and 17.34%, respectively.

(3) Export Credit Insurance Market Overview

Based on statistics from customs, Taiwan's external trade was USD 571.84 billion in 2012. The total export value was USD 301.11 billion

and the total import value was USD 270.73 billion. Trade surplus reached USD 30.38 billion. Export orders showed that Taiwan maintained close relationships with its major trading partners. About 84.5% of all exports went to five countries/regions: Mainland China (including Hong Kong), Association of Southeast Asian Nations (ASEAN) countries, the United States, Europe and Japan, with 26.8% going to Mainland China.

The top two regions for Eximbank's export insurance underwriting business in 2012 were Asia and Europe. Underwriting grew rapidly in Asia, with growth of 39.66% compared to 2011. Included was 82.61% underwriting growth to Mainland China compared to 2011.

The data shows that Eximbank's insurance business was in line with Taiwan's trade development. By assisting enterprises to mitigate trade risks, Eximbank helped them expand emerging markets, achieving Taiwan's goals of deeper cultivation with global strategies.

3. Social Responsibility

(1) Environmental Awareness of Saving Energy and Reducing Carbon

In accordance with government's energy-saving, carbon reduction and green purchasing policies, Eximbank launched a special project to save electricity, gas, water and paper. To use ever possible means, Eximbank's energy-saving

effects were remarkable in 2012 : electricity, gas and paper consumption dropped by 11.22%, 13.33% and 11.95%, respectively, compared to 2011, while water consumption increased by only 0.43%. Besides benefiting from operational cost reduction, Eximbank demonstrated its commitment toward a sustainable environment.

(2) Social Responsibility

Eximbank takes social care as an integral part of operation. In 2012 Eximbank engaged in “Premises Environmental Cleanliness Program”, donated secondhand goods to certain public-benefit institutions and helped clean up Zhinan mountain trail voluntarily, etc.

Eximbank will continue to fulfill its corporate social responsibility in the long run.

4. Prospects

To respond accordingly to the changing of financial environment, Eximbank continues to revise business guidelines and develop new ideas. It will also continue to facilitate government's special funds to stimulate and strengthen loans for machinery and equipment exports, as well as other export loans. Meanwhile it will carry out an Export Insurance Reserves Plan to provide an incentive for exporters in developing new markets and as an impetus to industry to create job opportunities.



- Mr. Tatsuo Sato (2nd right) of Japan's NEXI Singapore office, and Mr. Yoshifumi Yoshikawa (1st right), manager of the Planning Department, visited to advance bilateral relations. (December 12, 2012)



V

Financial Statements

1. Balance Sheets

TWD Thousand

| Item | Notes | December 31, | December 31, | Percentage Change (%) |
|--|-------------|-------------------|-------------------|-----------------------|
| | | 2012 | 2011 | |
| | | Amount | Amount | |
| Assets | | | | |
| Cash and Cash Equivalents | Note 5 (1) | 394,016 | 71,436 | 451.57 |
| Due from the Central Bank and Call Loans to other Banks | Note 5 (2) | 73,050 | 151,897 | -51.91 |
| Financial Assets at Fair Value through Profit or Loss | Note 5 (3) | 191,335 | 299,555 | -36.13 |
| Receivables – Net | Note 5 (4) | 575,741 | 796,328 | -27.70 |
| Loans and Discounts – Net | Note 5 (5) | 89,848,616 | 87,855,973 | 2.27 |
| Held-to-Maturity Financial Assets – Net | | 2,300,000 | 2,100,000 | 9.52 |
| Other Financial Assets – Net | Note 5 (6) | 215,063 | 236,046 | -8.89 |
| Fixed Assets – Net | Note 5 (7) | 485,024 | 495,608 | -2.14 |
| Intangible Assets – Net | Note 5 (8) | 31,629 | 25,068 | 26.17 |
| Other Assets – Net | Note 5 (9) | 55,009 | 45,675 | 20.44 |
| Total Assets | | 94,169,483 | 92,077,586 | 2.27 |
| Liabilities | | | | |
| Due to the Central Bank and other Banks | | 28,983,095 | 23,526,637 | 23.19 |
| Borrowed Funds from the Central Bank and other Banks | Note 5 (10) | 17,126,680 | 18,777,587 | -8.79 |
| Financial Liabilities at Fair Value through Profit or Loss | Note 5 (11) | 5,893,825 | 7,256,471 | -18.78 |
| Payables | Note 5 (12) | 673,555 | 669,257 | 0.64 |
| Financial Debentures Payable | Note 5 (13) | 9,999,420 | 8,750,000 | 14.28 |
| Accrued Pension Liabilities | | 25,660 | 29,351 | -12.58 |
| Other Financial Liabilities | Note 5 (14) | 10,825,058 | 12,350,544 | -12.35 |
| Other Liabilities | Note 5 (15) | 2,359,979 | 2,422,732 | -2.59 |
| Total Liabilities | | 75,887,272 | 73,782,579 | 2.85 |
| Equity | | | | |
| Capital | | 12,000,000 | 12,000,000 | |
| Retained Earnings | | 6,154,585 | 5,893,679 | 4.43 |
| Legal Reserve | | 6,051,414 | 5,880,068 | 2.91 |
| Special Reserve | | 103,171 | 13,611 | 658.00 |
| Other Equity | | 127,626 | 401,328 | -68.20 |
| Unrealized Revaluation Increments | | 145,041 | 145,041 | |
| Cumulative Translation Adjustments | | -17,415 | 256,287 | -106.80 |
| Total Equity | | 18,282,211 | 18,295,007 | -0.07 |
| Total Liabilities and Equity | | 94,169,483 | 92,077,586 | 2.27 |

Notes: 1. The disclosure of major contingencies or commitments:

(1) Loan commitments that customers have yet to draw down totaled TWD15,056.9 million.

(2) Various guarantees totaled TWD9,075.4 million.

2. The 2011 account has been recognized by the Ministry of Audit, ROC. The final accounts of 2012 are still subject to audit.

2. Income Statements

TWD Thousand

| Item | Notes | January 1, 2012 – December 31, 2012 | | January 1, 2011 – December 31, 2011 | | Percentage Change (%) |
|---|-------------|--|-----------|--|-----------|--------------------------|
| | | Subtotal | Total | Subtotal | Total | |
| Interest Revenue | | 1,413,012 | | 1,176,710 | | 20.08 |
| Minus: Interest Expenses | | 586,916 | | 522,047 | | 12.43 |
| Net Interest Income | | | 826,096 | | 654,663 | 26.19 |
| Non-Interest Income | | | 304,313 | | 376,217 | -19.11 |
| Net Fees and Commissions | Note 5 (16) | 23,251 | | 19,047 | | 22.07 |
| Gains (Losses) on Financial Assets and Liabilities at Fair Value through Profit or Loss | Note 5 (17) | 110,324 | | 138,707 | | -20.46 |
| Foreign Exchange Gains (Losses) | | -2,303 | | 2,939 | | -178.36 |
| Net Export Credit Insurance Income | Note 5 (18) | 149,266 | | 13,611 | | 996.66 |
| Other Non-Interest Income | Note 5 (19) | 23,775 | | 201,913 | | 88.23 |
| Net Operating Income | | | 1,130,409 | | 1,030,880 | 9.65 |
| Bad Debt Expense | Note 5 (20) | | 216,626 | | 169,646 | 27.69 |
| Operating Expenses | | | 458,148 | | 471,703 | -2.87 |
| Personnel Expenses | | 339,981 | | 347,286 | | -2.10 |
| Depreciation and Amortization | | 25,372 | | 21,893 | | 15.89 |
| Other Business and Administrative Expenses | | 92,795 | | 102,524 | | -9.49 |
| Net Income Before Tax | | | 455,635 | | 389,531 | 16.97 |
| Income Tax Income (Expense) | | | -27,269 | | -36,689 | 25.68 |
| Net Income (Net Loss) | | | 428,366 | | 352,842 | 21.40 |

Note: 1. The 2011 account has been recognized by the Ministry of Audit, ROC. The final accounts of 2012 are still subject to audit.

2. The Executive Yuan issued Ji-Ying-Zi NO. 1010200699 on June 8, 2012, agreed Eximbank to set aside additional Net Export Credit Insurance Income as special reserve under equity from 2012. Before December 31, 2011, the amount of reserve was recorded under liabilities. To compare to the preceding year, the impact of recognizing net export credit insurance business income amounted to TWD96.9 million as income increased the net income for 2011 to TWD449.7 million.



3. Statements of Cash Flows

TWD Thousand

| Item | January 1, 2012 – December 31, 2012 | | January 1, 2011 – December 31, 2011 | |
|---|--|------------|--|------------|
| | Subtotal | Total | Subtotal | Total |
| Cash Flows from Operating Activities | | | | |
| Net Income (Net Loss) | | 428,366 | | 352,842 |
| Adjustments | | 402,570 | | 126,118 |
| Non-Cash Items Included in Net Income | | 250,420 | | 333,144 |
| Depreciation and Amortization | 25,372 | | 21,965 | |
| Bad Debt Expenses | 201,062 | | 159,667 | |
| Losses (Gains) on Disposal of Assets | -12,777 | | 983 | |
| Other Adjustments | 36,763 | | 150,529 | |
| Decrease (Increase) in Operating Assets | | 287,289 | | -432,718 |
| Decrease (Increase) in Receivables | 189,078 | | -463,901 | |
| Decrease (Increase) in Deferred Income Tax Assets | -3,022 | | 1,069 | |
| Decrease (Increase) in Financial Assets at Fair Value through Profit or Loss | 108,220 | | 25,247 | |
| Decrease (Increase) in other Financial Assets | -751 | | 863 | |
| Decrease (Increase) in other Assets | -6,236 | | 4,004 | |
| Increase (Decrease) in Operating Liabilities | | -135,139 | | 225,692 |
| Increase (Decrease) in Payables | -24,186 | | 187,143 | |
| Increase (Decrease) in Financial Liabilities at Fair Value through Profit or Loss | -112,646 | | -26,668 | |
| Increase (Decrease) in other Liabilities | 1,693 | | 65,217 | |
| Net Cash Provided by (Used in) Operating Activities | | 830,936 | | 478,960 |
| Cash Flows from Investing Activities | | | | |
| Decrease (Increase) in Loans and Discounts | -2,480,480 | | -6,287,121 | |
| Proceeds from the Disposal of Equipment | 4 | | 274 | |
| Decrease (Increase) in other Financial Assets | 40,175 | | | |
| Decrease (Increase) in other Assets | -22,330 | | -10,856 | |
| Net Cash Provided by (Used in) Investing Activities | | -2,462,631 | | -6,297,703 |
| Cash Flows from Financing Activities | | | | |
| Increase (Decrease) in Amount Due to the Central Bank and other Banks | 5,456,458 | | 1,295,121 | |
| Increase (Decrease) in Borrowed Funds from the Central Bank and other Banks | -1,650,907 | | -491,512 | |
| Increase (Decrease) in Financial Debentures Payable | 1,250,000 | | 3,000,000 | |

| Item | January 1, 2012 – December 31, 2012 | | January 1, 2011 – December 31, 2011 | |
|--|--|-----------|--|-----------|
| | Subtotal | Total | Subtotal | Total |
| Increase (Decrease) in Long-Term Liabilities | -4,083 | | -8,837 | |
| Increase (Decrease) in other Financial Liabilities | -2,775,694 | | 1,549,861 | |
| Increase (Decrease) in other Liabilities | -94,635 | | -39,500 | |
| Cash Dividends | -105,498 | | -243,382 | |
| Net Cash Provided by (Used in) Financing Activities | | 2,075,641 | | 5,061,751 |
| Effects of Exchange Rate Changes | | -213 | | 4,580 |
| Increase (Decrease) in Cash and Cash Equivalents | | 443,733 | | -752,412 |
| Cash and Cash Equivalents at the Beginning of the Period | | 2,323,333 | | 3,075,745 |
| Cash and Cash Equivalents at the End of the Period | | 2,767,066 | | 2,323,333 |

4. Statements of Changes in Equity

January 1 – December 31,
2011 and 2012

TWD Thousand

| Item | Capital | Retained Earnings | | | Equity Adjustments | | Total |
|---|------------|-------------------|-----------------|-------------------------|------------------------------------|-----------------------------------|------------|
| | | Legal Reserve | Special Reserve | Unappropriated Earnings | Cumulative Translation Adjustments | Unrealized Revaluation Increments | |
| Balance, January 1, 2011 | 12,000,000 | 5,738,931 | | | 94,191 | 145,041 | 17,978,163 |
| Provision for Legal Reserve | | 141,137 | | -141,137 | | | |
| Provision for Special Reserve | | | 13,611 | -13,611 | | | |
| Cash Dividends Appropriated | | | | -198,094 | | | -198,094 |
| Net Income for FY 2011 | | | | 352,842 | | | 352,842 |
| Changes in Cumulative Translation Adjustments | | | | | 162,096 | | 162,096 |
| Balance, December 31, 2011 | 12,000,000 | 5,880,068 | 13,611 | | 256,287 | 145,041 | 18,295,007 |
| Provision for Legal Reserve | | 171,346 | | -171,346 | | | |
| Provision for Special Reserve | | | 89,560 | -89,560 | | | |
| Cash Dividends Appropriated | | | | -167,460 | | | -167,460 |
| Net Income for FY 2012 | | | | 428,366 | | | 428,366 |
| Changes in Cumulative Translation Adjustments | | | | | -273,702 | | -273,702 |
| Balance, December 31, 2012 | 12,000,000 | 6,051,414 | 103,171 | | -17,415 | 145,041 | 18,282,211 |



5. Financial Analysis

TWD Thousand; %

| Item | | FY 2012 | FY 2011 |
|----------------------|--|---------|---------|
| Operating Ability | Non-Performing Loan Ratio | 0.12% | 0.18% |
| | Ratio of Interest Income to Annual Average Loans | 1.57% | 1.38% |
| | Total Asset Turnover (Times) | 1.20 | 1.12 |
| | Average Operating Income per Employee | 5,652 | 5,129 |
| | Average Profit per Employee | 2,142 | 1,755 |
| Profitability | Return on Tier 1 Capital | 2.52% | 2.17% |
| | Return on Assets | 0.46% | 0.40% |
| | Return on Equity | 2.34% | 1.95% |
| | Net Income to Net Operating Income | 37.89% | 34.23% |
| | Earnings per Share (NT\$) | 0.36 | 0.29 |
| Financial Structure | Ratio of Liabilities to Assets | 80.59% | 80.13% |
| | Ratio of Fixed Assets to Equity | 2.65% | 2.71% |
| Growth Rate | Asset Growth Rate | 2.27% | 7.09% |
| | Profit Growth Rate | 16.97% | 54.22% |
| Cash Flow | Cash Flow Ratio | 2.34% | 1.30% |
| | Cash Flow Adequacy Ratio | 337.34% | 292.90% |
| | Cash Flow Sufficiency Ratio | -33.74% | -7.61% |
| Liquid Reserve Ratio | | 26.20% | 24.59% |
| Operating Scale | Market Share of Assets | 0.26% | 0.27% |
| | Market Share of Net Worth | 0.76% | 0.83% |
| | Market Share of Loans | 0.41% | 0.41% |

Analysis of major financial ratio changes over the past two fiscal years.

1. The decline in the non-performing loan ratio in 2012 was attributed to efforts to clean up overdue loans.
2. The increase in the operating ability and profitability ratios in 2012 was attributed to the Executive Yuan agreed Eximbank to set aside additional Net Export Credit Insurance Income as special reserve under equity rather than liabilities from 2012, leading to an increase in net income. If this factor is eliminated the ratios decrease slightly due to relatively low bad debt collection in 2012 and the FSC requiring additional allowance for doubtful accounts.
3. The decrease in profit growth rate in 2012 was attributed to higher collection of bad debt in 2011.
4. The decrease in asset growth rate in 2012 was attributed to the relatively high growth rate of loans in 2011.
5. The increase in cash flows ratio in 2012 was attributed to the decrease in Receivables which led to an increase in cash flows from operating activities.
6. The decrease in cash flow sufficiency ratio was attributed to the relatively small increase in loans and discounts in 2012 which led to a decrease in net cash flows from investing activities.

Note 1: The 2011 account has been recognized by the Ministry of Audit, ROC. The final accounts of 2012 are still subject to audit.

Note 2: Financial Formulae

1. Operating Ability

- (1) Non-Performing Loan Ratio = Non-Performing Loans / Total Loans Outstanding
- (2) Ratio of Interest Income to Annual Average Loans = Total Interest Income / Annual Average Loans
- (3) Total Assets Turnover = Net Operating Income / Total Assets
- (4) Average Operating Income per Employee (Note 5) = Net Operating Income / Number of Employees
- (5) Average Profit per Employee = Net Income / Number of Employees

2. Profitability

- (1) Return on Tier 1 Capital = Net Income Before Tax / Average Total Tier 1 Capital
- (2) Return on Assets = Net Income / Average Total Assets
- (3) Return on Equity = Net Income / Average Net Equity
- (4) Net Income to Net Operating Income = Net Income / Net Operating Income
- (5) Earnings per Share = (Net Income – Dividends from Preferred Stocks) / Weighted Average Outstanding Shares (Note 4)

3. Financial Structure

- (1) Ratio of Liabilities to Assets = Total Liabilities (Note 3) / Total Assets
- (2) Ratio of Fixed Assets to Equity = Net Fixed Assets / Net Equity

4. Growth Rate

- (1) Asset Growth Rate = (Total Assets for Current Year – Total Assets for Previous Year) / Total Assets for Previous Year
- (2) Profit Growth Rate = (Net Income Before Tax for Current Year – Net Income Before Tax for Previous Year) / Net Income Before Tax for Previous Year

5. Cash Flows (Note 6)

- (1) Cash Flow Ratio = Net Cash Flows from Operating Activities / (Due to Banks + Commercial Papers Payable + Financial Liabilities at Fair Value through Profit or Loss + Securities Sold Under Agreements to Repurchase + Payables Within One Year)
- (2) Cash Flow Adequacy Ratio = Net Cash Flows from Operating Activities for the Past Five Years / (Capital Expenditures + Cash Dividends) for the Past Five Years
- (3) Cash Flow Sufficiency Ratio = Net Cash Flows from Operating Activities / Net Cash Flows from Investing Activities

6. Liquid Reserve Ratio = Central Bank Liquid Asset Requirements / Liabilities Requiring the Provision of Liquid Reserves

7. Operating Scale

- (1) Market Share of Assets = Total Assets / Total Assets of All Financial Institutions Available for Deposits and Loans (Note 7)
- (2) Market Share of Net Worth = Net Worth / Total Net Worth of All Financial Institutions Available for Deposits and Loans
- (3) Market Share of Loans = Total Loans / Total Loans of All Financial Institutions Available for Deposits and Loans

Note 3: Liabilities exclude guarantee reserve, reserve for losses from securities trading, reserve for default losses, and reserve for accident losses.

Note 4: Eximbank is a non-company entity. For ease of analysis, the number of shares are calculated based on a hypothetical value of NT\$10 per share.

Note 5: Net operating income refers to the sum of interest income and non-interest income.

Note 6: Comments on Cash Flow Analysis

1. Net cash flows from operating activities refer to the same item in the statements of cash flows.
2. Capital expenditures refer to cash outflows required for capital investments each year.
3. Cash dividends include cash dividends for common stock and preferred stock.

Note 7: Financial institutions handling deposits and loans include domestic banks, the local branches of foreign banks, credit cooperatives, credit departments of farmers' and fishermen's associations, and investment and trust companies.



6. Capital Adequacy

TWD Thousand; %

| | | Item | FY 2012 | FY 2011 |
|-------------------------------|-------------------|--|------------|------------|
| Self- Owned Capital | Tier 1 Capital | Common Equity | 12,000,000 | 12,000,000 |
| | | Non-Cumulative Perpetual Preferred Stock | | |
| | | Non-Cumulative Perpetual Subordinated Debt | | |
| | | Capital Collected in Advance | | |
| | | Capital Reserve (Excluding Reserves Arising from Fixed Assets Revaluation) | | |
| | | Legal Reserve | 6,051,414 | 5,880,068 |
| | | Special Reserve | | |
| | | Accumulated Gains or Losses | | |
| | | Minority Interest | | |
| | | Equity Adjustments | 17,416 | 256,287 |
| | | Less: Goodwill | | |
| | | Less: Unamortized Losses on Sale of Non-Performing Loans | | |
| | | Less: Capital Deductions | 51,250 | 51,250 |
| | | Tier 1 Capital | 18,017,580 | 18,085,105 |
| | Tier 2 Capital | Cumulative Perpetual Preferred Stock | | |
| | | Cumulative Perpetual Subordinated Debt | | |
| | | Reserves Arising from Fixed Assets Revaluation | 145,041 | 145,041 |
| | | 45% of Unrealized Gains on Available-for-Sale Equities | | |
| | | Convertible Bond | | |
| | | General Reserves / Loan-Loss Reserves | 820,497 | 826,838 |
| | | Long-Term Subordinated Debt | | |
| | | Non-Perpetual Preferred Stock | | |
| | | Total of Non-Cumulative Perpetual Preferred Stock and Non-Cumulative Perpetual Subordinated Debt Exceeding Tier 1 Capital by 15% | | |
| | | Less: Capital Deductions | 51,250 | 51,250 |
| | Tier 2 Capital | 914,288 | 920,629 | |
| | Tier 3 Capital | Short-Term Subordinated Debt | | |
| Non-Perpetual Preferred Stock | | | | |
| Tier 3 Capital | | | | |
| Self-Owned Capital | | | 18,931,868 | 19,005,734 |

| Item | | FY 2012 | FY 2011 | |
|-------------------------------------|----------------------------|---|------------|------------|
| Total Risk-Weighted Assets | Credit Risk | Standardized Approach | 63,799,357 | 64,202,929 |
| | | Internal Ratings-Based Approach | | |
| | | Assets Securitization | | |
| | Operational Risk | The Basic Indicator Approach | 1,723,700 | 1,922,263 |
| | | The Standardized Approach / The Alternative Standardized Approach | | |
| | | Advanced Measurement Approach | | |
| | Market Risk | Standardized Approach | 116,690 | 21,795 |
| | | Internal Models Approach | | |
| | Total Risk-Weighted Assets | | 65,639,747 | 66,146,987 |
| Capital Adequacy Ratio | | 28.84% | 28.73% | |
| Tier 1 Risk-Based Capital Ratio | | 27.45% | 27.34% | |
| Tier 2 Risk-Based Capital Ratio | | 1.39% | 1.39% | |
| Tier 3 Risk-Based Capital Ratio | | | | |
| Common Equity to Total Assets Ratio | | 12.74% | 13.03% | |

Note: Self-Owned Capital and Total Risk-Weighted Assets have been filled in accordance with the “Regulations Governing the Capital Adequacy of Banks” and related instructions for capital adequacy calculations.

Financial Formulae

1. Self-Owned Capital = Tier 1 Capital + Tier 2 Capital + Tier 3 Capital
2. Total Risk-Weighted Assets = Credit Risk-Weighted Assets + (Operational Risk + Market Risk) Capital Requirement × 12.5
3. Capital Adequacy Ratio = Self-Owned Capital / Total Risk-Weighted Assets
4. Tier 1 Risk-Based Capital Ratio = Tier 1 Capital / Total Risk-Weighted Assets
5. Tier 2 Risk-Based Capital Ratio = Tier 2 Capital / Total Risk-Weighted Assets
6. Tier 3 Risk-Based Capital Ratio = Tier 3 Capital / Total Risk-Weighted Assets
7. Common Equity to Total Assets Ratio = Common Equity / Total Assets



7. Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies and Basis of Measurement

(1) Foreign Currency Transactions and Foreign Currency Financial Statements

- ① Foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange gains or losses derived from foreign-currency transactions or monetary assets and liabilities denominated in foreign currencies are recognized in earnings. On the balance sheet date, monetary assets and liabilities denominated in foreign currencies are revalued at prevailing exchange rates with the resulting gains or losses recognized in earnings. However, any foreign exchange gain or loss arising from foreign currency advances with a long-term investment nature to offshore branches not intended for settlement in the foreseeable future is entered as an owners' equity adjustment item under "Cumulative Translation Adjustment."
- ② Translation of foreign currency financial statements into local currency financial statements is based on the Schedule of Foreign Currency Settlement Rates published by the Bank of Taiwan.

(2) Taxes

- ① Under the Ministry of Finance Circular 68 Tai-Tsai-Shui 37537, Eximbank's income from export credit insurance business is exempt from corporate income tax, business tax and stamp duty.
- ② The Alternative Minimum Tax has been applicable from the 2006 tax year for filing of business income tax returns. Eximbank's tax-exempt income from its Offshore Banking Branch is included in its basic business income for computation of basic tax amount.

(3) Financial Products

Based on Eximbank's Financial Product Accounting Policies, which were approved by the Board of Directors, apart from forex spot and financial derivatives trading which are based on trade-day accounting, other transactions are based on settlement-day accounting.

Eximbank's financial products are divided into the following key categories:

- ① Investment in Bills Held To Maturity
Book value as of closing date was TWD2,300 million. To maintain the CBC Interbank Funds Transfer System's pledge requirement, Eximbank purchased the Central Bank's

negotiable certificate of deposits to be held to maturity. These certificates are recognized at cost and interest is calculated monthly.

② Loans and Receivables

Initial value is recognized as the trading price plus the acquisition cost. Valuation is subsequently measured at amortized cost using the effective interest rate method of amortization, and gains or losses are recognized at the time of derecognition, impairment, or amortization.

③ Long-Term Equity Investments

Eximbank invested TWD7 million in the Taipei Forex Incorporation, TWD45.5 million in the Financial Information Service Co., Ltd, and TWD50 million in Taiwan Asset Management Company. Individually, Eximbank controls less than 20% of all outstanding shares, so it does not exercise significant influence in the companies. As the companies are neither listed in the stock exchange nor over-the-counter, they do not have a quoted market price in an active market, so their fair value cannot be reliably measured. Therefore, the investments are classified as financial assets carried at cost. Accounting treatment for subsequent valuation is based on the cost method.

④ Financial Liabilities Designated at Fair Value through Profit or Loss

Although Eximbank's derivatives are traded to provide an economic hedge, they do not fit the definition of hedging instruments in strict terms. Therefore, such transactions are recognized as “non-hedging transactions” . Derivatives that do not meet the criteria for hedge accounting are initially recognized at fair value, with transaction costs expensed as incurred. The derivatives are remeasured at fair value with changes in fair value recognized in earnings. To reduce inconsistencies during accounting calculation and recognition, the corresponding financial debentures, valued at TWD5,700 million, are recognized as financial liabilities designated at fair value through profit or loss. The changes in fair value shall also be stated in the income statement. Subsequent valuation thereof is based on a model developed by Eximbank. The model adopts the discounted cash flow method, which is widely used by market investors, to determine fair value. (Book value on the day of closing of accounts was TWD5,893.8 million.) The change in fair value is recognized as a profit or a loss for the current period.

⑤ Trading of Financial Derivatives

Eximbank trades financial derivatives to manage assets and liabilities so as to pursue long-term capital, reduce cost



of capital, and control risk. Subsequent valuation of financial derivatives is based on Eximbank's proprietary valuation model, which derives fair value by adopting the discounted cash flow method. This method is widely used among investors. On the accounts closing day, the positive fair value was TWD191.3 million and was recognized as a financial asset. Change in fair value is recognized as profit or loss of the current period.

Trading of derivatives with unexpired maturity on the accounts closing day is detailed as follows:

i Interest Rate-Related Contracts

Instrument: Interest Rate Swaps

Purpose: To meet demand for Eximbank's NTD-denominated loans, financial debentures are issued with interest rate swaps agreements to tap floating money as a long-term source of funds.

Notional Principal: TWD5,700 million.

Credit Risk: Trading counterparts are financial institutions with fair international credit standing. Hence, credit risk is within Eximbank's control.

Market Risk: This is for hedging purposes. Funding costs for financial debentures may be converted into more favorable benchmark rates. Also, financial debentures issued under fixed interest rates may convert positions

with substantial risk exposure to floating rate to reduce interest rate risk.

ii Foreign Exchange Rate-Related Contracts

Instrument: Foreign Exchange Swaps

Purpose: Foreign exchange swaps are used to meet demand for Eximbank's loans and track exchange rate differences between different currencies, thereby improving capital benefits.

Foreign Exchange Rate Principal: USD 1.9 million.

Credit Risk: Trading counterparts are financial institutions with good international credit standing. Hence, credit risk is within Eximbank's control.

Market Risk: The Eximbank's surplus funds of 1.8 million Swiss francs were exchanged for USD funds to meet the Eximbank's USD loan demand. USD funds were paid and Swiss francs were collected at maturity. This transaction is of the funds movement nature and the rate difference adequately reflects the rate difference between the two currencies.

(4) Valuation and Depreciation of Fixed Assets

Fixed assets include land, buildings, machinery & equipment, transportation vehicles, miscellaneous equipment, and leasehold improvements. Eximbank's

land is all carried on the accounts at cost, except for land belonging to the head office, which was revalued in October 2001, July 2005 and March 2010. Valuation of other fixed assets is based on historical cost with accumulated depreciation deducted. Depreciation is calculated using the straight-line depreciation method.

(5) Asset Impairment

As of December 31, 2012, the “book value” of Eximbank's real estate totaled TWD462.5 million, while its estimated “fair value” totaled TWD1,098 million. After deducting disposal costs of TWD33.5 million, the “net fair value” totaled TWD1,064.5 million, indicating there was no asset impairment situation as described in the SFAS No. 35.

(6) Valuation and Amortization of Intangible Assets

Eximbank's intangible assets are computer software, amortized using the straight-line depreciation method.

(7) The Methods of Deferred Asset Valuation Basis and Amortization

Eximbank's deferred assets are deferred income tax assets and other deferred assets, where other deferred assets are accounted by actual expenditure amount and will be equally amortized within five years. Meanwhile, due to tax effects of temporary differences, deferred income tax assets will be reversed in the upcoming recognized year.

(8) Employee Retirement Plan and Pension Cost

The Labor Standards Act became applicable to the financial industry in May 1997. Net pension cost for the head office and branches was calculated based on the Regulations Governing the Allocation and Management of Labor Pension Fund Contributions and the SFAS No. 18. Such cost is recognized under the Employee Pension and Redundancy Package and the Accrued Pension Liabilities.

Pension cost is based on total annual salaries. Allocation is 8.56% for executive staff and 11.26% for non-executive staff. Contributions to staff are administered by Eximbank's Retirement Fund Supervisory Committee, and contributions for non-executive staff and security guards are deposited under the account of the Eximbank Workers Pension Monitoring Committee in the Bank of Taiwan.

Eximbank contributes an amount equivalent to 6% of employees' salary for employees opting for the new pension schedule. Such contribution is deposited to the employees' personal pension accounts within the Bureau of Labor Insurance.

(9) Income Recognition

Except for financial products stated under part (3) hereof, income is recognized on an accrual basis.



(10) Differentiation of Capital Expenditure and Expenses

Expenditures exceeding TWD10,000 with a minimum two-year economic life are recognized as assets; otherwise, as expenses.

(11) Gains and Losses from the Disposal of Fixed Assets

Losses from the disposal of fixed assets due to asset write-offs are treated as non-operating expenses.

(12) Impairment of Financial Assets Measured at Amortized Cost

① At the end of each reporting date, Eximbank conducts an evaluation to determine if any objective evidence exists that would indicate an asset may have been impaired. If such evidence is found, an impairment loss is recognized. The amount of impairment loss is the difference between the book value of the financial asset and the estimated present value based on future cash flow discounted with the original effective interest rate. In cases where there is no objective evidence of impairment for an financial asset, losses are estimated based on a collective assessment of assets with similar credit risk characteristics. Estimated future cash flows of portfolios, including estimated

consolidated losses, are based on the historical losses of each portfolio.

- ② The book value of financial assets is reduced by the allowance account. The amount of impairment loss is recognized as the profit or loss of the current period. When determining the amount of impairment loss, the estimate of expected future cash flow includes the recoverable amount from collateral and related insurance.
- ③ Debt which is confirmed to be uncollectible is written off upon approval by the Board of Directors.
- ④ If the amount of impairment loss decreases in the subsequent period, and the respective reduction is related to incidents after the loss was recognized (i.e., improvement of credit ratings of the debtor), then previously recognized impairment losses will be adjusted by reversing the allowance account. Such reversal shall not cause the carrying value of the financial asset to be greater than the amortized cost as if the loss was not recognized. The reversal amount shall be recognized as the profit or loss of the current period.
- ⑤ With respect to loan assets, on the date of balance sheets, allowances for doubtful accounts are evaluated in accordance with the “Regulations

Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-Performing / Non-Accrual Loans” enacted by the FSC.

(13) Provision of Reserves for Guaranteed Liability

The guarantee cases of Eximbank currently involved are mainly performance obligations, which are not classified as Financial Guarantee Contracts. The reserve for guarantee obligation is conducted in accordance with the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-Performing / Non-Accrual Loans,” which requires a reserve based on 0.5% of the remaining balance of guarantee.

(14) Provisions for Various Insurance Reserves

Among various insurance reserves, claim reserve, special claim reserves, unearned premium reserves, and export credit insurance reserves are prepared in compliance with relevant regulations. Of these, Eximbank began to record additional special claim reserves and export credit insurance reserves as special reserve in equity from 2011 and 2012, respectively. Export credit insurance reserves recognized under liabilities for the current fiscal year

includes allocations from the Ministry of Finance and the Bureau of Foreign Trade of the Ministry of Economic Affairs.

Note 2: Significant Commitments and Contingent Liabilities

- (1) The following are not recognized on the balance sheet but are addressed in the footnotes: assets (liabilities) under trust, agency, and guarantee of TWD 9,491.8 million, including guarantee receivables of TWD9,075.4 million, custodial collections receivables of TWD 354.1million, joint loans receivables (memo account) of TWD61.6 million, and collateral of TWD608,000.**
- (2) No bills receivable (or payable).**
- (3) Undisbursed loan commitments of TWD 15,056.9 million.**

Note 3: Financial Information of the Operating Segments

Eximbank's results of operating segments are periodically reviewed by the executives in order to develop policies regarding resource allocation and performance assessment. The information used is classified by the nature of the business activities in which it engages in accordance with the SFAS No.41 “Operating Segment.” The reportable operating segments are the Credit Business Segment and the Export Credit Insurance Business Segment.



Eximbank
Financial Information of Operating Segments
Fiscal Years 2012 and 2011

TWD Thousand

| | FY 2012 | | | FY 2011 | | |
|---|-----------------|----------------------------------|-----------|-----------------|----------------------------------|-----------|
| | Credit Business | Export Credit Insurance Business | Total | Credit Business | Export Credit Insurance Business | Total |
| Net Interest Income | 821,043 | 5,053 | 826,096 | 649,543 | 5,120 | 654,663 |
| Non-Interest Income | 171,857 | 132,456 | 304,313 | 378,811 | 94,353 | 473,164 |
| Net Fees and Commissions | 20,667 | 2,584 | 23,251 | 16,772 | 2,275 | 19,047 |
| Gains (Losses) on Financial Assets and Liabilities at Fair Value through Profit or Loss | 110,324 | | 110,324 | 138,707 | | 138,707 |
| Foreign Exchange Gains (Losses) | -2,303 | | -2,303 | 2,939 | | 2,939 |
| Net Export Credit Insurance Income | | 149,266 | 149,266 | | 110,558 | 110,558 |
| Other Non-Interest Income | 43,169 | -19,394 | 23,775 | 220,393 | -18,480 | 201,913 |
| Net Operating Income | 992,900 | 137,509 | 1,130,409 | 1,028,354 | 99,473 | 1,127,827 |
| Bad Debt Expenses | 216,626 | | 216,626 | 169,646 | | 169,646 |
| Operating Expenses | 287,438 | 170,710 | 458,148 | 300,210 | 171,493 | 471,703 |
| Net Income (Losses) before Tax | 488,836 | -33,201 | 455,635 | 558,498 | -72,020 | 486,478 |

Note 1: The Executive Yuan agreed with Eximbank to set aside additional Net Export Credit Insurance Income as special reserve under equity from 2012. Before December 31, 2011, the amount of reserve was recorded under liabilities. To compare to the preceding year, the impact of recognizing net export credit insurance business income amounted to TWD96.9 million, increasing the pretax net income amount from TWD389.5 million for 2011 to TWD486.5 million.

2: As Eximbank provides only the amount of loans and the export insurance business volume for the evaluation of the assets and liabilities, evaluation of the assets is zero as per the 2010 Ji-Mi-Zi No.151 directive from the Accounting Research and Development Foundation Interpretation.



- Yen Chrystal Shih, Chair of the Board of Directors, visited Sri Lanka in 2012 to sign a cooperation memorandum with Mr. D. P. Mendis P.C., Chair of the Board of Directors of the Sri Lanka Export Credit Insurance Corporation. (July 20, 2012)

Note 4: Pre-Disclosure of the Adoption of IFRSs

(1) Contents, schedules and implementation status of IFRSs adoption:

Under the Jin-Kuan-Yin No.10000073410, issued by the FSC on April 7, 2011, The banks in Taiwan shall begin adopting the IFRSs in 2013 to prepare financial statements and pre-disclose the relevant information about the the adoption of

Taiwan IFRSs in the financial statement in accordance with “The Roadmap of IFRSs Adopting by Corporations” released by the FSC on May 14, 2011. To comply with this adjustment, Eximbank has formed a task force and established an IFRSs adoption plan which was led by Mr. Sui-Yung Lin, Executive Vice President of Eximbank. The main contents of the plan, expected schedule, and current status of execution are as follows:

| IFRS Plan Contents | Responsible Departments | Expected Completion Date | Current Status of Execution |
|--|---|--------------------------|-----------------------------|
| 1. Set up a task force | Department of Accounting Other related units | 3Q 2009 | Completed |
| 2. Establish a conversion plan for adopting IFRSs | Department of Accounting Other related units | 4Q 2009 | Completed |
| 3. Identify the differences between current accounting policies and Taiwan IFRSs | Department of Accounting Other related units | 4Q 2010 | Completed |
| 4. Identify IFRSs consolidated entity practices | Department of Accounting Department of Finance | 4Q 2010 | Completed |
| 5. Evaluate the impact from various exemptions of IFRS 1 “First-Time Adoption of IFRSs” | Department of Accounting Other related units | 4Q 2010 | Completed |
| 6. Evaluate adjustments need for IT system | Department of Accounting Information Management Section Other related units | 4Q 2011 | Completed |
| 7. Evaluate adjustments needed for internal controls | Auditing Office Other related Units | 4Q 2012 | Completed |
| 8. Determine IFRSs accounting policies | Department of Accounting Other related units | 4Q 2011 | Completed |
| 9. Determine various exemptions and option of IFRS 1 “First-Time Adoption of IFRSs” | Department of Accounting Other related units | 4Q 2011 | Completed |
| 10. Prepare the opening balance sheet in conformity with IFRSs | Department of Accounting | 1Q 2012 | Completed |
| 11. Prepare the IFRSs comparative financial information for 2012 | Department of Accounting | End of April, 2013 | Completed |
| 12. Adjust relevant internal controls (including financial reporting process and IT systems) | Department of Accounting Information Management Section Other related units | 4Q 2012 | Completed |



- Eximbank held a charitable event to donate secondhand computers and equipment. Triple-E Institute President Yunchang Jeffrey Bor (2nd right) was on hand to receive the donations. (December 26, 2012)

(2) The significant differences between the existing accounting policies and the accounting policies to be adopted under IFRS are as follows:

1. January 1, 2012, Balance Sheet Adjustments

Unit: TWD Thousand

| Generally Accepted Accounting Principles in ROC | | Impact of IFRS Adoption | | IFRSs approved by the FSC | | Remarks |
|---|------------|--|--------------------------|---------------------------|---|---------|
| Item | Amount | Recognition and Evaluation Differences | Presentation Differences | Amount | Item | |
| Assets | | | | Assets | | |
| Cash and Cash Equivalents | 71,436 | | | 71,436 | Cash and Cash Equivalents | |
| Due from the Central Bank and Call Loans to other Banks | 151,897 | | | 151,897 | Due from the Central Bank and Call Loans to other Banks | |
| Financial Assets at Fair Value through Profit or Loss | 299,555 | | | 299,555 | Financial Assets at Fair Value through Profit or Loss | |
| Receivables – Net | 796,328 | | | 796,328 | Receivables – Net | |
| Loans and Discounts – Net | 87,855,973 | | | 87,855,973 | Loans and Discounts – Net | |
| Held-to-Maturity Financial Assets – Net | 2,100,000 | | | 2,100,000 | Held-to-Maturity Financial Assets – Net | |
| Other Financial Assets – Net | 236,046 | | | 236,046 | Other Financial Assets – Net | |
| Fixed Assets – Net | 495,608 | | | 495,608 | Property and Equipment – Net | |

| Generally Accepted Accounting Principles in ROC | | Impact of IFRS Adoption | | IFRSs approved by the FSC | | Remarks |
|--|-------------------|--|--------------------------|---------------------------|--|---------|
| Item | Amount | Recognition and Evaluation Differences | Presentation Differences | Amount | Item | |
| Intangible Assets – Net | 25,068 | | | 25,068 | Intangible Assets – Net | |
| | | 16,535 | 20,315 | 36,850 | Deferred Income Tax Assets – Net | 1、6 |
| Other Assets – Net | 45,675 | | (20,315) | 25,360 | Other Assets – Net | 6 |
| Total Assets | 92,077,586 | 16,535 | - | 92,094,121 | Total Assets | |
| Liabilities | | | | | Liabilities | |
| Due to the Central Bank and other Banks | 23,526,637 | | | 23,526,637 | Due to the Central Bank and other Banks | |
| Borrowed Funds from the Central Bank and other Banks | 18,777,587 | | | 18,777,587 | Borrowed Funds from the Central Bank and other Banks | |
| Financial Liabilities at Fair Value through Profit or Loss | 7,256,471 | | | 7,256,471 | Financial Liabilities at Fair Value through Profit or Loss | |
| Payables | 669,257 | | (33,675) | 635,582 | Payables | 6 |
| | | | 33,675 | 33,675 | Current Period Income Tax Liabilities | 6 |
| Financial Debentures Payable | 8,750,000 | | | 8,750,000 | Financial Debentures Payable | |
| Accrued Pension Liabilities | 29,351 | | (29,351) | | | 5 |
| Other Financial Liabilities | 12,350,544 | | | 12,350,544 | Other Financial Liabilities | |
| | | 178,785 | 279,032 | 457,817 | Provisions | 1、5 |
| | | | 41,379 | 41,379 | Deferred Income Tax Liabilities | 6 |
| Other Liabilities | 2,422,732 | | (969,520) | 1,453,212 | Other Liabilities | 4 ~ 6 |
| Total Liabilities | 73,782,579 | 178,785 | (678,460) | 73,282,904 | Total Liabilities | |
| Equity | | | | | Equity | |
| Capital | 12,000,000 | | | 12,000,000 | Capital | |
| Retained Earnings | 5,893,679 | 239,078 | 678,460 | 6,811,217 | Retained Earnings | |
| Legal Reserve | 5,880,068 | | | 5,880,068 | Legal Reserve | |
| Special Reserve | 13,611 | 239,078 | 678,460 | 931,149 | Special Reserve | 1 ~ 4 |
| Other Equity | 401,328 | (401,328) | | | | |
| Unrealized Revaluation Increments | 145,041 | (145,041) | | | | 2 |
| Cumulative Translation Adjustments | 256,287 | (256,287) | | | | 3 |
| Total Equity | 18,295,007 | (162,250) | 678,460 | 18,811,217 | Total Equity | |
| Total Liabilities and Equity | 92,077,586 | 16,535 | - | 92,094,121 | Total Liabilities and Equity | |



- Eximbank held a charitable event for Bethany Children's Home where it presented a donation to Bao Ji-Hui, president of the organization. (August 27, 2012)

Remarks for adjustments to January 1, 2012 balance sheet in accordance with ROC GAAPs and IFRSs

1. Adjustments to the Bank's obligations to employees' Benefits

According to the report prepared in accordance with International Accounting Standard No.19 by the actuary, the bank should set aside an employee benefits liability reserve of TWD178,785,000 under Liability Reserve at the date of transition, indicate the estimated relevant income tax effects, and include a Deferred Income Tax Asset of TWD16,535,000 in the statement, a reduction of TWD162,250,000 of Special Reserve.

2. Adjustment to appreciation at revaluation of property, plant and equipment

Eximbank selects to apply for the exemption as stipulated in IFRS No. 1 and bases the deemed cost of the head office's land on the previous revaluation of the said land in accordance with ROC GAAPs and reclassifies the unrealized appreciation at revaluation of TWD 145,041,000 as Special Reserve. The total equity shall not change as a result of the said adjustment.

3. Adjustment to exchange difference caused by translation of financial statements of offshore branches

Eximbank selects to apply for the exemption as stipulated in IFRS No. 1 and resets its cumulative translation adjustment on January 1, 2012 to zero

and reclassifies cumulative translation adjustment previously recognized under ROC GAAP TWD256,287,000 as Special Reserve at the date of transition. The total equity shall not change as a result of the said adjustment.

4. Adjustment to export credit insurance-related reserve
 - (1) At the date of transition, the Special Claim Reserve of TWD85,501,000 of set aside and placed under Other Liabilities until the end of 2011 shall be reclassified as Special Reserve under Equity effective from 2013 in accordance with Article 8.4 of the Rules Governing the Setting Aside of Various Reserves by Insurance Enterprises announced by the FSC.
 - (2) As Export Credit Insurance Reserve set aside from Net Export Credit Insurance Income is an equalisation provision, in accordance with Jin-Guan-Pao : No.09902513540 directive issued on December 6, 2010, the aforementioned regulation shall be followed, with Export Credit Insurance Reserve of TWD592,959,000 set aside and placed under Other Liabilities until the end of 2011 reclassified as Special Reserve under Equity at the date of transition.
 - (3) The above shall reduce liabilities by TWD678,460,000 and increase equity by TWD678,460,000.
5. Adjustment to provisions

Guarantee liability reserve, Unearned Premium Reserve, and Claim Reserve of TWD249,681,000 originally placed under Other Liabilities are reclassified under Provisions. Accrued Pension Liabilities of TWD29,351,000 is reclassified as employee benefits liability reserve under Liability Reserve. The total liability shall not change as a result of the said adjustment.
6. Income tax

Deferred income tax assets of TWD 20,315,000 originally placed under Other Assets is reclassified under Deferred Income Tax Assets. Tax Payable of TWD 33,675,000 originally placed under Payables is reclassified under Current Period Income Tax Liability. Estimated Land Value-Added Tax Payable of TWD 41,379,000 originally placed under Other Liabilities is reclassified under Deferred Income Tax Liabilities. Total assets and total liabilities will not change as a result of the said adjustment.
7. In summary, when compared with the balance sheet prepared in accordance with ROC GAAPs, January 1,2012 balance sheet prepared in accordance with IFRSs has an increased asset of TWD16,535,000 a decreased liability of TWD499,675,000 and an increased equity of TWD516,210,000.



2. December 31, 2012, Balance Sheet Adjustments

TWD Thousand

| Generally Accepted Accounting Principles in ROC | | Impact of IFRS Adoption | | IFRSs approved by the FSC | | Remarks |
|--|-------------------|--|--------------------------|---------------------------|--|---------|
| Item | Amount | Recognition and Evaluation Differences | Presentation Differences | Amount | Item | |
| Assets | | | | | Assets | |
| Cash and Cash Equivalents | 394,016 | | | 394,016 | Cash and Cash Equivalents | |
| Due from the Central Bank and Call Loans to other Banks | 73,050 | | | 73,050 | Due from the Central Bank and Call Loans to other Banks | |
| Financial Assets at Fair Value through Profit or Loss | 191,335 | | | 191,335 | Financial Assets at Fair Value through Profit or Loss | |
| Receivables – Net | 575,741 | | | 575,741 | Receivables – Net | |
| Loans and Discounts – Net | 89,848,616 | | | 89,848,616 | Loans and Discounts – Net | |
| Held-to-Maturity Financial Assets – Net | 2,300,000 | | | 2,300,000 | Held-to-Maturity Financial Assets – Net | |
| Other Financial Assets – Net | 215,063 | | | 215,063 | Other Financial Assets – Net | |
| Fixed Assets – Net | 485,024 | | | 485,024 | Property and Equipment – Net | |
| Intangible Assets – Net | 31,629 | | | 31,629 | Intangible Assets – Net | |
| | | 25,823 | 23,337 | 49,160 | Deferred Income Tax Assets | 3、4 |
| Other Assets – Net | 55,009 | | (23,337) | 31,672 | Other Assets – Net | 4 |
| Total Assets | 94,169,483 | 25,823 | - | 94,195,306 | Total Assets | |
| Liabilities | | | | | Liabilities | |
| Due to the Central Bank and other Banks | 28,983,095 | | | 28,983,095 | Due to the Central Bank and other Banks | |
| Borrowed Funds from the Central Bank and other Banks | 17,126,680 | | | 17,126,680 | Borrowed Funds from the Central Bank and other Banks | |
| Financial Liabilities at Fair Value through Profit or Loss | 5,893,825 | | | 5,893,825 | Financial Liabilities at Fair Value through Profit or Loss | |
| Payables | 673,555 | | (27,555) | 646,000 | Payables | 3、4 |
| | | | 26,456 | 26,456 | Current Period Income Tax Liability | 4 |
| Financial Debentures Payable | 9,999,420 | | | 9,999,420 | Financial Debentures Payable | |
| Accrued Pension Liabilities | 25,660 | | (25,660) | | | 8 |
| Other Financial Liabilities | 10,825,058 | | | 10,825,058 | Other Financial Liabilities | |
| | | 236,537 | 306,629 | 543,166 | Provisions | 3、8 |

| Generally Accepted Accounting Principles in ROC | | Impact of IFRS Adoption | | IFRSs approved by the FSC | | Remarks |
|---|-------------------|--|--------------------------|---------------------------|---|---------|
| Item | Amount | Recognition and Evaluation Differences | Presentation Differences | Amount | Item | |
| | | | 41,379 | 41,379 | Deferred Income Tax Liabilities | 4 |
| Other Liabilities | 2,359,979 | | (999,709) | 1,360,270 | Other Liabilities | 4、7、8 |
| Total Liabilities | 75,887,272 | 236,537 | (678,460) | 75,445,349 | Total Liabilities | |
| Equity | | | | | Equity | |
| Capital | 12,000,000 | | | 12,000,000 | Capital | |
| Retained Earnings | 6,154,585 | 190,614 | 678,460 | 7,023,659 | Retained Earnings | |
| Legal Reserve | 6,051,414 | | | 6,051,414 | Legal Reserve | |
| Special Reserve | 103,171 | 190,614 | 678,460 | 972,245 | Special Reserve | 3 ~ 7 |
| Other Equity | 127,626 | (401,328) | | -273,702 | Other Equity | |
| Unrealized Revaluation Increments | 145,041 | (145,041) | | | | 5 |
| Cumulative Translation Adjustments | -17,415 | (256,287) | | -273,702 | Foreign Exchange Differences caused by Translation of Financial Statements of Offshore Branches | 6 |
| Total Equity | 18,282,211 | (210,714) | 678,460 | 18,749,957 | Total Equity | |
| Total Liabilities and Equity | 94,169,483 | 25,823 | | 94,195,306 | Total Liabilities and Equity | |



- To strengthen its commitment to environmental protection, Eximbank hosted a clean up activity on trails in Maokong near Muzha's Zhinan Temple. (May 26, 2012)



3. 2012 Comprehensive Income Statements Adjustments

TWD Thousand

| Generally Accepted Accounting Principles in ROC | | Impact of IFRS Adoption | | IFRSs approved by the FSC | | Remarks |
|---|-----------|--|--------------------------|---------------------------|---|---------|
| Item | Amount | Recognition and Evaluation Differences | Presentation Differences | Amount | Item | |
| Interest Revenue | 1,413,012 | | | 1,413,012 | Interest Revenue | |
| Minus: Interest Expenses | 586,916 | | -166,223 | 420,693 | Minus: Interest Expenses | 1 |
| Net Interest Income | 826,096 | | 166,223 | 992,319 | Net Interest Income | |
| Non-Interest Income | 304,313 | -15,335 | -208,998 | 79,980 | Non-Interest Income | |
| Net Fees and Commissions | 23,251 | | | 23,251 | Net Fees and Commissions | |
| Gains (Losses) on Financial Assets and Liabilities at Fair Value through Profit or Loss | 110,324 | | -166,223 | -55,899 | Gains (Losses) on Financial Assets and Liabilities at Fair Value through Profit or Loss | 1 |
| Foreign Exchange Gains (Losses) | -2,303 | | | -2,303 | Foreign Exchange Gains (Losses) | |
| Net Export Credit Insurance Income | 149,266 | | | 149,266 | Net Export Credit Insurance Income | |
| Other Non-Interest Income | 23,775 | -15,335 | -42,775 | -34,335 | Other Non-Interest Income | 2、3 |
| Net Operating Income | 1,130,409 | -15,335 | -42,775 | 1,072,299 | Net Operating Income | |
| Bad Debt Expense | 216,626 | | -42,775 | 173,851 | Bad Debt Expense and Provision of Reserves for Guaranteed Liability | 2 |
| Operating Expenses | 458,148 | 2,415 | | 460,563 | Operating Expenses | |
| Personnel Expenses | 339,981 | 2,415 | | 342,396 | Employee Benefits Expenses | 3 |
| Depreciation and Amortization | 25,372 | | | 25,372 | Depreciation and Amortization | |
| Other Business and Administrative Expenses | 92,795 | | | 92,795 | Other Business and Administrative Expenses | |
| Net Income before Tax | 455,635 | -17,750 | | 437,885 | Net Income before Tax | |
| Income Tax Income (Expense) | -27,269 | 2,391 | | -24,878 | Income Tax Income (Expense) | 4 |
| Net Income after Tax | 428,366 | -15,359 | - | 413,007 | Net Income | |
| | | | | | Other Comprehensive Income | |

| Generally Accepted Accounting Principles in ROC | | Impact of IFRS Adoption | | IFRSs approved by the FSC | | Remarks |
|---|--------|--|--------------------------|---------------------------|---|---------|
| Item | Amount | Recognition and Evaluation Differences | Presentation Differences | Amount | Item | |
| | | | | -273,702 | Foreign exchange differences caused by translation of Financial Statements of Offshore Branches | 6 |
| | | | | -33,202 | Actuarial gains and losses of defined benefit plans | 3 |
| | | | | -306,904 | Other Comprehensive Income (After Tax) | 3、6 |
| | | | | 106,103 | Total Comprehensive Income | |

Remarks for adjustments to December 31, 2012 balance sheet and income statement for year 2012 in accordance with ROC GAAPs and IFRSs

1. Presentation of Gains (Losses) on Financial Assets and Liabilities at Fair Value through Profit or Loss

In 2012, financial debentures in conjunction with swap transactions were previously designated by the Bank as Financial Liabilities at Fair Value Through Profit or Loss, with an interest expense of TWD166,223,000, which are now classified as Losses on Financial Assets and Liabilities at Fair Value through Profit or Loss.

The total profit and loss will not change as a result of the reclassification.

2. Presentation of bad debts of previous years that have been collected

In 2012, collected bad debts of TWD 42,775,000 originally placed under Other Non-Interest Profits/Losses are presented as a reduction in Bad Debt Expense and Provision of Reserves for Guaranteed Liability. The total profit and loss will not change as a result of the reclassification.

3. Adjustments to the Bank's obligations to employees' Benefits

(1) For first-time IFRS-applicable adjustments, please refer to Note 1 to the aforementioned January 1, 2012 adjustments.



- (2) According to the report prepared in accordance with IAS No. 19 by the actuary hired by Eximbank, the bank should, at the end of 2012, provide for an employee benefits liability reserve of TWD40,002,000 under Provisions. After indicating the estimated relevant income tax effects, TWD6,800,000 of Deferred Income Tax Asset should be added, with the net amount of TWD 33,202,000 recognized in 2012 as Actuarial Loss of defined benefit plans under Other Comprehensive Income and Special Reserve under Retained Earnings reduced accordingly.
- (3) The 2012 Employee Benefits Expenses and Other Non-Interest Income recognized in the actuarial report prepared in accordance with IAS No.19 by the actuary hired by Eximbank were increased by TWD2,415,000 and decreased by TWD15,335,000, respectively. The above adjustments reduce 2012 Net Income before Tax by TWD17,750,000, reduce Equity by TWD 17,750,000, reduce Accrued Expenses under Payables by TWD1,099,000, and increase employee welfare liability reserve under Liability Reserve by TWD 18,849,000.

4. Income tax

- (1) Income tax expense in 2012: 2012 Net income before tax in 2012 was

TWD17,750,000 less than the year before. After deducting the deductible temporary difference, a Deferred Income Tax Asset was added with an Income Tax Expense of TWD2,488,000 reduced. An Income Tax Expense and a Special Reserve of TWD97,000 under Retained Earnings were added. As a result, Income Tax Expense was TWD2,391,000 less.

- (2) Deferred Income Tax Assets: Deferred Income Tax Assets of TWD23,337,000 originally placed under Other Assets were reclassified under Deferred Income Tax Assets. A total of TWD 49,160,000 is obtained after adding the income tax effects of TWD23,335,000 relevant to the employee welfare liability mentioned in 3.(1) and (2) above, and the income tax effects TWD 2,488,000 of the deductible temporary difference mentioned in (1) above.
- (3) Income tax payable: Income tax Payable of TWD26,456,000 originally placed under Payables is reclassified under Current Period Income Tax Liability.
- (4) Estimated Land Value-Added Tax Payable: Estimated Land Value-Added Tax Payable of TWD41,379,000 originally placed under Other Liabilities is reclassified under Deferred Income Tax Liabilities.

5. Adjustment to appreciation at revaluation of property, plant and equipment

In response primarily to first-time IFRS-applicable adjustments, please refer to Note 2 to the aforementioned January 1, 2012 adjustments.

6. Adjustment to exchange difference caused by translation of financial statements of offshore branches

(1) In response primarily to first-time IFRS-applicable adjustments, please refer to Note 3 to the aforementioned January 1, 2012 adjustments.

(2) In accordance with IAS No. 1 Presentation of Financial Statements, Other Comprehensive Income was added to the Income Statements. The amount was TWD-273,702,000 in 2012.

7. Adjustment to export credit insurance-related reserve

The purpose is to reclassify the liability which was designed as an equalization provision to Special Reserve under Equity. Please refer to Note 4 to the aforementioned January 1, 2012 adjustments.

8. Adjustment to liability reserve

Guarantee liability reserve, Unearned Premium Reserve, and Claim Reserve of TWD279,870,000 originally placed under Other Liabilities are reclassified under Provisions. Accrued Pension Liabilities of TWD25,660,000 is reclassified as employee benefit liability reserve under Provisions.

9. In summary, when compared with the income statements and balance sheets prepared at the end of 2012 in accordance with ROC GAAPs, those prepared in accordance with IFRSs has a net income that is TWD15,359,000 less, with the Special Reserve under Retained Earnings reduced accordingly. In addition, Assets are increased by TWD25,823,000, Liabilities decreased by TWD441,923,000, and Equity increased by TWD467,746,000.

(3) According to IFRS No. 1, except for entities granted exemption or eligible for exception, all entities that adopt IFRSs for the first time shall prepare their financial statements in accordance with the accounting standards already effective and apply retrospectively. Exemptions the bank selects to apply are as below:



| | |
|-----------------------------------|---|
| Employee benefits | Eximbank selects to recognize all its cumulative actuarial gains and losses at once and place them under Retained Earnings at the date of transition and then implement the relevant accounting procedures in accordance with IAS No. 19 Employee Benefits. |
| Cumulative translation difference | Eximbank selects to recognize the cumulative translation difference of its offshore branches as zero at the date of translation and subsequently implement the transition difference accounting procedures in accordance with IAS No. 21 The Effects of Changes in Foreign Exchange Rates. |
| Property, plant and equipment | If the property, plant and equipment owns by Eximbank were previously revalued in accordance with ROC GAAPs, at the date of transition Eximbank selects to recognize their revaluations as their costs. |
| Financial Instruments | Eximbank selects to reexamine its financial instruments and take appropriate action in accordance with IAS No.39 Financial Instruments: Recognition and Measurement on the date of transition. |
| Insurance Contracts | Eximbank selects to adopt for the transitional clause stipulated in IFRS No.4 Insurance Contracts, i.e. disclosure of claim development trend information is not required for the five years prior to the end of the year IFRS 4 Insurance Contracts becomes applicable for the first time. |

(4) Eximbank bases its aforementioned evaluations on the IFRSs currently approved by the FSC. Major differences and possible effects between the current accounting policies and the accounting policies in accordance with the IFRSs, as well as IFRS No.1 First-time Adoption of IFRSs, are concluded from the currently approved regulations, accounting principles, and certain circumstances, and are subject to changes of regulations, accounting principles, and certain circumstances.



● Eximbank's senior officials joined a year-end banquet with employees and clients. (January 6, 2012)

Note 5: Details of Significant Accounts**1. Cash and Cash Equivalent**

| Item | Date | December 31, 2012 | December 31, 2011 |
|------------------------------|--------------|-------------------|-------------------|
| | Cash on Hand | | 9 |
| Petty Cash & Revolving Funds | | 241 | 241 |
| Checks for Clearance | | 125 | 702 |
| Due from Banks | | 393,641 | 70,484 |
| Total | | 394,016 | 71,436 |

2. Due from the Central Bank and Call Loans to other Banks

| Item | Date | December 31, 2012 | December 31, 2011 |
|---------------------------|---------------------------|-------------------|-------------------|
| | Due from the Central Bank | | 5,565 |
| Call Loans to other Banks | | 67,485 | 57,933 |
| Total | | 73,050 | 151,897 |

3. Financial Asset at Fair Value through Profit or Loss

| Item | Date | December 31, 2012 | December 31, 2011 |
|-------|--|-------------------|-------------------|
| | Financial Assets Held for Trading-Adjustment Valuation | | 191,335 |
| Total | | 191,335 | 299,555 |

4. Receivables – Net

| Item | Date | December 31, 2012 | December 31, 2011 |
|--|---------------------------|-------------------|-------------------|
| | Earned Revenue Receivable | | 685 |
| Interest Receivable | | 243,271 | 230,821 |
| Accounts Receivable Factoring without Recourse | | 59,159 | 336,265 |
| Premium Receivable | | 3 | 1 |
| Claims Recoverable from Reinsurers | | | 9,844 |
| Other Receivable | | 12,680 | 40,391 |
| Forex Spot Receivable | | 261,375 | 181,650 |
| Total | | 577,173 | 799,728 |
| Allowance for Doubtful Accounts | | -1,432 | -3,400 |
| Net Amount | | 575,741 | 796,328 |



5. Loans and Discounts – Net

| Item | Date | |
|---------------------------------|-------------------|-------------------|
| | December 31, 2012 | December 31, 2011 |
| Short-Term Loans | 9,121,901 | 6,626,987 |
| Short-Term Secured Loans | 30,000 | 5,000 |
| Medium-Term Loans | 50,504,793 | 48,710,434 |
| Medium-Term Secured Loans | 4,976,371 | 5,731,559 |
| Long-Term Loans | 2,211,841 | 2,850,240 |
| Long-Term Secured Loans | 23,606,746 | 24,286,187 |
| Overdue Loans | 88,251 | 127,359 |
| Total | 90,539,903 | 88,337,766 |
| Allowance for Doubtful Accounts | -682,273 | -481,793 |
| Discount of Premium | -9,014 | |
| Net Amount | 89,848,616 | 87,855,973 |

6. Other Financial Assets – Net

| Item | Date | |
|--|-------------------|-------------------|
| | December 31, 2012 | December 31, 2011 |
| Reinsurance Reserve Assets | 112,563 | 107,800 |
| Financial Assets Carried at Cost | 102,500 | 102,542 |
| Accumulated Impairment – Financial Assets at Cost | | -42 |
| Debt Investment with No Active Market | | 26,498 |
| Accumulated Impairment – Debt Investment with No Active Market | | -752 |
| Net Amount | 215,063 | 236,046 |



- Ruen-Fong Chu, President of Eximbank, gave a lecture in Asia Taiwanese Chambers of Commerce. (November 18, 2012)

7. Fixed Assets – Net

| Item | Date | December 31, 2012 | December 31, 2011 |
|---|------|-------------------|-------------------|
| Land | | 80,203 | 80,203 |
| Revaluation Increments – Land | | 186,420 | 186,420 |
| Buildings | | 352,812 | 351,936 |
| Accumulated Depreciation – Building | | -156,978 | -150,775 |
| Machinery and Equipment | | 49,826 | 50,391 |
| Accumulated Depreciation – Machinery and Equipment | | -35,789 | -33,752 |
| Transportation Equipment | | 11,124 | 11,244 |
| Accumulated Depreciation – Transportation Equipment | | -8,906 | -7,737 |
| Miscellaneous Equipment | | 26,755 | 27,125 |
| Accumulated Depreciation – Miscellaneous Equipment | | -21,130 | -20,614 |
| Leasehold Improvements | | 2,401 | 2,401 |
| Accumulated Depreciation – Leasehold Improvements | | -1,714 | -1,234 |
| Net Amount | | 485,024 | 495,608 |

8. Intangible Assets – Net

| Item | Date | December 31, 2012 | December 31, 2011 |
|----------|------|-------------------|-------------------|
| Software | | 31,629 | 25,068 |
| Total | | 31,629 | 25,068 |

9. Other Assets – Net

| Item | Date | December 31, 2012 | December 31, 2011 |
|--|------|-------------------|-------------------|
| Inventory of Supplies | | 218 | 137 |
| Prepaid Expenses | | 28,997 | 22,717 |
| Other Prepayments | | 6 | 131 |
| Refundable Deposits | | 803 | 640 |
| Temporary Payments and Suspense Accounts | | 1,300 | 1,306 |
| Deferred Income Tax Assets | | 23,338 | 20,316 |
| Other Deferred Assets | | 347 | 428 |
| Total | | 55,009 | 45,675 |



10. Borrowed Funds from the Central Bank and other Banks

| Item | Date | |
|--------------------------------------|-------------------|-------------------|
| | December 31, 2012 | December 31, 2011 |
| Borrowed Funds from the Central Bank | 16,522,931 | 18,138,838 |
| Borrowed Funds from other Banks | 603,749 | 638,749 |
| Total | 17,126,680 | 18,777,587 |

11. Financial Liabilities at Fair Value through Profit or Loss

| Item | Date | |
|--|-------------------|-------------------|
| | December 31, 2012 | December 31, 2011 |
| Financial Liabilities Designated at Fair Value through Profit or Loss | 5,700,000 | 6,950,000 |
| Financial Liabilities Designated at Fair Value through Profit or Loss – Adjustment Valuation | 193,825 | 306,471 |
| Total | 5,893,825 | 7,256,471 |

12. Payables

| Item | Date | |
|---|-------------------|-------------------|
| | December 31, 2012 | December 31, 2011 |
| Accrued Expenses | 97,632 | 97,902 |
| Accrued Interest | 154,836 | 146,070 |
| Tax Payable | 29,355 | 36,507 |
| Dividends (Official) and Bonuses Payable | 28,485 | |
| Accounts Payable Factoring without Recourse | 8,874 | 100,140 |
| Custodial Collections Payable | 4,627 | 2,486 |
| Commissions Payable | 625 | 201 |
| Reinsurance Benefits Payable | 18,107 | 11,500 |
| Other Payable | 69,699 | 92,801 |
| Forex Spot Payable | 261,315 | 181,650 |
| Total | 673,555 | 669,257 |

13. Financial Debentures Payable

| Item | Date | |
|--|-------------------|-------------------|
| | December 31, 2012 | December 31, 2011 |
| Financial Debentures Payable | 10,000,000 | 8,750,000 |
| Discount on Financial Debentures Payable | 580 | |
| Total | 9,999,420 | 8,750,000 |

14. Other Financial Liabilities

| Item | Date | |
|--------------------------------------|-------------------|-------------------|
| | December 31, 2012 | December 31, 2011 |
| Commercial Paper Payable | | 5,300,000 |
| Discount on Commercial Paper Payable | | -208 |
| Funds Appropriated for Loans | 10,825,058 | 7,050,752 |
| Total | 10,825,058 | 12,350,544 |

15. Other Liabilities

| Item | Date | |
|--|-------------------|-------------------|
| | December 31, 2012 | December 31, 2011 |
| Unearned Premiums | 1,036 | 806 |
| Unearned Revenues | 69,421 | 67,957 |
| Estimated Land Value-Added Tax Payable | 41,379 | 41,379 |
| Guarantee Liability Reserve | 45,377 | 36,734 |
| Unearned Premium Reserve | 89,687 | 70,373 |
| Claim Reserve | 144,806 | 142,574 |
| Export Credit Insurance Reserve | 1,854,695 | 1,859,275 |
| Special Claim Reserve | 85,501 | 85,501 |
| Refundable Deposits | 1,595 | 1,761 |
| Custodial Deposits | 2,156 | 2,021 |
| Temporary Receipts and Suspense Accounts | 24,326 | 114,351 |
| Total | 2,359,979 | 2,422,732 |

16. Net Fees and Commissions

| Item | Date | |
|------------------------------------|--|--|
| | January 1, 2012 – December 31, 2012 | January 1, 2011 – December 31, 2011 |
| Revenue from Fees and Commissions | 42,216 | 38,030 |
| Expenses from Fees and Commissions | 18,965 | 18,983 |
| Net Amount | 23,251 | 19,047 |

**17. Gains (Losses) on Financial Assets and Liabilities at Fair Value through Profit or Loss**

| Item | Date | January 1, 2012 – December 31, 2012 | January 1, 2011 – December 31, 2011 |
|---|------|--|--|
| Gain on Disposal of Financial Assets (+) | | 108,063 | 139,090 |
| Gain (+) / Loss (-) on Valuation of Financial Assets | | -110,164 | -25,247 |
| Loss on Disposal of Financial Liabilities (-) | | -217 | |
| Gain (+) / Loss (-) on Valuation of Financial Liabilities | | 112,642 | 24,864 |
| Net Amount | | 110,324 | 138,707 |

18. Net Export Credit Insurance Income

| Item | Date | January 1, 2012 – December 31, 2012 | January 1, 2011 – December 31, 2011 |
|---|------|--|--|
| Export Credit Insurance Income | | 325,024 | 294,372 |
| Premium Income | | 244,018 | 218,201 |
| Reinsurance Commissions Income | | 20,983 | 23,363 |
| Claims Recovered from Reinsurers | | 60,023 | 40,602 |
| Unearned Premium Reserve Released | | | 12,206 |
| Export Credit Insurance Costs | | 175,758 | 280,761 |
| Reinsurance Premium | | 99,261 | 93,759 |
| Commission Expenses | | 2,389 | 2,214 |
| Insurance Claims Payments | | 57,325 | 34,969 |
| Provision for Unearned Premium Reserve | | 11,136 | |
| Provision for Claim Reserve | | 5,647 | 52,872 |
| Provision for Export Credit Insurance Reserve | | | 96,947 |
| Net Amount | | 149,266 | 13,611 |

Note: The Executive Yuan agreed that starting from 2012 Eximbank may reclassify Net Export Credit Insurance Income from Liabilities to Special Reserve under Equity. However, in 2011 the Export Credit Insurance Reserve set aside was still placed under Liabilities through the income statement.

19. Other Non-Interest Income

| Item | Date | January 1, 2012 – December 31, 2012 | January 1, 2011 – December 31, 2011 |
|--|------|--|--|
| Other Non-Interest Profits | | 77,138 | 253,240 |
| Gains from Financial Assets Carried at Cost | | 19,351 | 11,460 |
| Gains from Debt Investment With No Active Market | | 13,672 | |
| Miscellaneous Income | | 44,115 | 241,780 |
| Other Non-Interest Losses | | 53,363 | 51,327 |
| Loss on Disposal of Fixed Assets | | 900 | 1,037 |
| Preferential Deposit Interest in Excess | | 51,498 | 49,096 |
| Loss on Assets Impairment | | 965 | 752 |
| Other | | | 442 |
| Net Amount | | 23,775 | 201,913 |

20. Bad Debt Expenses

| Item | Date | January 1, 2012 – December 31, 2012 | January 1, 2011 – December 31, 2011 |
|---|------|--|--|
| Bad Debt Expenses for Loans | | 209,752 | 154,374 |
| Bad Debt Expenses for Factoring Receivables | | -2,118 | 2,570 |
| Bad Debt Expenses for Guarantee Receivables | | 8,769 | 13,771 |
| Bad Debt Expenses for Other Receivables | | 223 | -1,069 |
| Total | | 216,626 | 169,646 |



- H.R.H. Prince Hlangusemphi (3rd right), Minister of Economic Planning and Development, Swaziland, led a delegation on a visit to Eximbank. (October 26, 2012)



VI

Risk Management

1. Credit Risk Management System and Capital Requirement

(1) Credit Risk Management System

January 1~December 31, 2012

| Item | Contents |
|--|--|
| 1. Credit Risk Strategy, Objective, Policy and Procedure | <p>Eximbank is a specialized, state-owned bank established to support export and import trade. Its main assets are used to provide loans. As a result, the major risks are credit risks of loans. Its primary risk management goals are strengthening credit risk management and preventing risk from becoming too concentrated. The strategy includes conducting risk analyses of countries, banks, sectors, and enterprises while determining the credit rating. To ensure that risk is properly diversified, Eximbank sets limits on country risk, bank risk, industry risk, group/enterprise risk, and the risk associated with each client.</p> <p>The credit risk management process includes identifying, evaluating, monitoring, and reporting risk. Its range extends to credit risk both on and off the balance sheet items (including existing and potential).</p> <p>Whenever Eximbank undertakes its daily business or starts new financial products, it must first determine the related credit risks. Also, when conducting business with associated credit risks, it needs to assess the potential losses for each loan, investment, or trade thoroughly. An appropriate countermeasures, including risk avoidance, transfer, or mitigation is then adopted, ensuring that business fits the bank's risk management and acceptance conditions.</p> |
| 2. Organizational Structure of Credit Risk Management | <p>The Board of Directors is the supreme decision-making level of Eximbank's credit risk management. The Credit Committee is responsible for reviewing the credit risk of each case at and above the level of executive vice presidents' authorization. The Department of Risk Management is in charge of Eximbank's overall credit risk management. Each business segment supervises and monitors the credit risk implementation of its subordinate units, which shall all follow the relevant regulations and provisions on credit risk management.</p> |

| Item | Contents |
|---|--|
| 3. Scope and Characteristics of the Credit Risk Report and Evaluation System | <p>Eximbank has established a customer data integration system, a risk assessment system, a credit register system, and a risk management system, in order to manage risks associated with its credit extension business and to monitor loans to all borrowers. The customer data integration system is used to compile basic data for individual clients, the credit system is used for approving and granting loans. An objective analysis must be executed using the risk assessment system before a credit is granted. The risk management system runs up daily exposure for analysis and for executives on decision-making.</p> <p>Risk management includes monthly reporting on domestic and international economic conditions, exposure changes in countries where loans are granted, and financial and industrial risks. Eximbank compiles data on relevant country risks, exposure associated with key credit risks, and risk limit management. Above information is reviewed by Board of Directors, and is used for risk managing and for credit policymaking.</p> <p>Based on the regulations of the financial supervisor, Eximbank discloses the qualitative and quantitative data on its website associated with its credit risks.</p> |
| 4. Credit Risk Hedging and Risk Mitigation Policies / Strategies and Procedures of Monitoring Tools for Hedging and Risk Mitigation | <p>Eximbank has also established Country Risk, Financial Risk and Corporate Credit Risk early warning indicators. For each debtor, it established a rating system and sought assistance from international credit agencies. For countries with a relatively high risk-level (Level C- and below), financial institutions or credit customers at Level C- or below, or when a particular country or bank presented with negative reports, Eximbank analyzes warning indicators to interpret risk. When Eximbank considers to extend its business, those data are examined as a reference to strengthen risk management.</p> <p>To lower credit risk, export financing cases exceeding USD1 million must include technical evaluations and reports along with credit evaluation reports for reference. In addition, for relatively high-risk financial cases, clients are encouraged to arrange export insurance through Eximbank to mitigate risk.</p> <p>Eximbank's risk management system also monitors risk concentration. The Executives, account officers, risk management officials and related departments are alerted daily by email of countries, banks, or industries that reached 85% of their risk limit to aid in early response.</p> <p>To improve its lending operations, Eximbank has strengthened its credit approval process and conducts follow-up measures.</p> |
| 5. Method Applied for Legal Capital Requirement | <p>Eximbank has applied the capital requirement for credit risk based on the "Standardized Approach" of the Basel II Capital Accord.</p> |



(2) Credit Risk Exposures and Capital Requirement Regulated by Standardized Approach After Mitigation

December 31, 2012

TWD Thousand

| Type of Exposure | Credit Risk Exposures After Mitigation | Capital Requirement |
|--|--|---------------------|
| Sovereign | 17,449,661 | 279,195 |
| Public Sector Entities/ Non-Central Government | 1,049,198 | 16,787 |
| Banks (Including Multilateral Development Banks) | 14,119,246 | 536,961 |
| Corporates (Including Securities and Insurance Corp.) | 63,179,198 | 4,111,028 |
| Regulatory Retail Portfolios | 2,455,924 | 83,318 |
| Residential Property | | |
| Rights of Securities Investment | | |
| Other Assets | 958,361 | 76,660 |
| Total | 99,211,588 | 5,103,949 |

2. Operational Risk Management System and Capital Requirement

(1) Operational Risk Management System

January 1~December 31, 2012

| Item | Contents |
|--|--|
| 1. Operational risk strategy and procedure | <p>Operational risk strategy at Eximbank includes strengthening internal controls, ensuring that employees abide by regulations, and conducting training. Standard operating procedures are displayed on internal website for staff to refer to and to comply. Eximbank has also established guidelines for work delegation, assigning responsibility and facilitating daily operations.</p> <p>Operational risk management includes determining and evaluating risk along with monitoring and reporting. It encompasses important products, business activities, and operating procedures, along with establishing operational risk management mechanisms.</p> <p>Operational risk management is objective, consistent, transparent, complete, and comprehensive.</p> |

| Item | Contents |
|--|--|
| 2. Organizational structure of operational risk management | Operational risk management involves the entire organization. The Board of Directors serves as the highest policymaking body that determines operational risk management standards and important policies. Meanwhile the Department of Risk Management is responsible for evaluating the entire bank's operational risk management strategies and procedures to build management mechanisms. When bank units determine operational management rules, they consider rules related to operational risk management. Each unit adheres to these rules to ensure the operational risks are under their control. |
| 3. Scope and characteristics of the operational risk report and evaluation system | <p>Eximbank operates a risk self-assessment approach. Operational risk is managed and mitigated by tight compliance, internal control and internal auditing systems and procedures.</p> <p>Data of major loss are gathered and reported to related units and supervisors, response measures are then formulated. Also, Eximbank has established an information protection system and a contingency plan. When urgent problems arise, operations can be continued and losses can be kept to a minimum.</p> <p>Based on the regulations of the financial supervisor, Eximbank discloses on its website qualitative and quantitative data associated with its operational risks.</p> |
| 4. Operational risk hedging or risk mitigation / strategies and procedures of monitoring tools for hedging and risk mitigation | <p>Eximbank's operational risk management standards include methods for clearly identifying, evaluating, monitoring, controlling, and mitigating risk. It also uses insurance and risk transfer methods to mitigate and manage risk.</p> <p>Based on its guidelines for work delegation, Eximbank has assigned responsibility and authority for each aspect of its business and established a reporting system, as responsibilities assumed by each staff are explicit.</p> <p>To avoid litigation risks, each banking unit should abide by the compliance system of the Export-Import Bank of the ROC.</p> <p>On developing new products, business activities, procedural changes, or system promotions, banking units should ascertain that operational risk evaluations should be done beforehand.</p> <p>By conducting risk management training, Eximbank improves employee knowledge and strengthens the operational risk management.</p> |
| 5. Method applied for legal capital requirement | Eximbank has applied the capital requirement for operational risk based on the Basic Indicator Approach of the Basel II Capital Accord. |

(2) Operational Risk-Based Capital Requirement

December 31, 2012

TWD Thousand

| FY | Gross Profit | Capital Requirement |
|-------|--------------|---------------------|
| 2010 | 847,873 | |
| 2011 | 839,986 | |
| 2012 | 1,139,657 | |
| Total | 2,827,516 | 141,376 |



3. Market Risk Management System and Capital Requirement

(1) Market Risk Management System

January 1~December 31, 2012

| Item | Contents |
|---|--|
| <p>1. Market risk strategy and procedure</p> | <p>Eximbank is an official export credit institution. Much of its financial operations focuses on hedging risk. It wishes to keep its exposure to low risks while adopting prudent market risk management policies. The bank carefully evaluates trade content while managing risk.</p> <p>Eximbank recognizes, evaluates, weighs, monitors, and reports any market risk.</p> <p>For each of its financial products, Eximbank recognizes the potential market risks carefully. This serves as the foundation to weigh the risks it is exposed to. The bank also builds a effective evaluation mechanisms for risk monitoring as part of daily operations. Monitoring includes having each unit carefully look at every transaction it undertakes while considering how it affects the overall picture. The transaction's objective, model, position, and potential effects on income must adhere to authorized limitations.</p> <p>Market risk management is independent, objective, consistent, transparent, comprehensive, and timely.</p> |
| <p>2. Organizational structure of market risk management</p> | <p>The Board of Directors is the supreme decision-making level of Eximbank's market risk management and undertakes responsibility of market risk. The Department of Risk Management is responsible for managing market risk management and passing its findings on to the Board of Directors. Meanwhile, the Department of Finance, which also oversees the Offshore Banking Branch, controls operational risks, emphasizes further monitoring on limits and conducts position management.</p> |
| <p>3. Scope and characteristics of the market risk report and evaluation system</p> | <p>Eximbank's market risk system is part of its funding system. It provides real-time control over transaction position amounts. Eximbank also established a daily control mechanism to observe changes in exchange market transaction positions and foreign exchanges gains or losses.</p> <p>When undertaking a transaction, a unit shall report to the supervising authority. It also ensures that the information is accurate and valid. If limits are surpassed, major market changes occur, or abnormal situations arise, the relevant units must provide with prompt reports.</p> <p>To manage market risks effectively, Eximbank regularly reports on how it controls market exposures, positions and amounts to the Board of Directors. The information serves as a reference for policymaking.</p> <p>Based on the regulations of the financial supervisors, Eximbank discloses on its website qualitative and quantitative data associated with its market risks.</p> |



● Rueen-Fong Chu, President of Eximbank, led staff to visit clients in Penghu. (May 7, 2012)

| Item | Contents |
|---|--|
| 4. Market Risk Hedging or Risk Mitigation/Strategies and Procedures of Monitoring Tools for Hedging and Risk Mitigation | <p>To lower market risk, Eximbank has established various transaction limits and stop-loss mechanisms. When major events occur in domestic or global financial markets during working hours, as the events could affect bank's profits or losses, managers should immediately report to the executive vice president. Immediate responses are then made.</p> <p>Before committing a transaction, related units should be consulted and evaluations should be conducted as a due diligence.</p> |
| 5. Method Applied for Legal Capital Requirement | Eximbank has applied the capital requirement for market risk based on the "Standardized Approach" of the Basel II Capital Accord. |

(2) Market Risk-Based Capital Requirement

December 31, 2012

TWD Thousand

| Risk | Capital Requirement |
|-----------------------|---------------------|
| Interest Rate Risk | |
| Equity Position Risk | |
| Foreign Exchange Risk | 9,335 |
| Commodity Risk | |
| Total | 9,335 |



4. Liquidity Risk

(1) Duration Analysis of Assets and Liabilities

Term-Structure Analysis of NTD-Denominated Assets and Liabilities

December 31, 2012

TWD Thousand

| | Total | Amounts by Time Remaining before Maturity | | | | | |
|---------------------------------|------------|---|------------|------------|-------------|-----------------|-------------|
| | | 0-10 Days | 11-30 Days | 31-90 Days | 91-180 Days | 181 Days-1 Year | Over 1 Year |
| Major Inflows of Matured Funds | 49,330,668 | 3,270,239 | 680,994 | 3,024,656 | 4,439,129 | 8,317,317 | 29,598,333 |
| Major Outflows of Matured Funds | 55,617,726 | 7,519,718 | 706,746 | 3,713,980 | 2,348,182 | 3,348,476 | 37,980,624 |
| Gap | -6,287,058 | -4,249,479 | -25,752 | -689,324 | 2,090,947 | 4,968,841 | -8,382,291 |

Note : The table includes only New Taiwan Dollar Amounts held in head office and domestic branches, excluding foreign currencies.



- Rueen-Fong Chu, President of Eximbank, gave a lecture about cooperation in promoting export insurance in Tainan area (December 3, 2012)



- At the Yang-De Building where the Eximbank head office is located, staff held a spring cleaning event in the courtyard and garden. (April 26, 2013)

Term Structure Analysis of USD-Denominated Assets and Liabilities

December 31, 2012

USD Thousand

| | Total | Amounts by Time Remaining before Maturity | | | | |
|---------------------------------|-----------|---|------------|-------------|-----------------|-------------|
| | | 0-30 Days | 31-90 Days | 91-180 Days | 181 Days-1 Year | Over 1 Year |
| Major Inflows of Matured Funds | 1,536,232 | 32,282 | 162,513 | 49,334 | 108,419 | 1,183,684 |
| Major Outflows of Matured Funds | 1,736,415 | 661,703 | 216,389 | 45,256 | 42,506 | 770,561 |
| Gap | -200,183 | -629,421 | -53,876 | 4,078 | 65,913 | 413,123 |

Note 1: The table includes assets and liabilities denominated in USD held in head office, domestic branches and Offshore Banking Branch.

Note 2: If offshore assets account for 10% or more of the bank's total assets, supplementary information must be provided.

(2) Management of Asset Liquidity and Funding Gap

Eximbank seeks to diversify funding sources and enhance funding stability. It also refrains from over-concentration on the use of remaining funds and embraces earning assets with liquidity.

As to the management of liquidity risks, Eximbank not only complies with the related requirements by the supervisory authority, but also stipulates the liquidity risk management indicators in the Eximbank's internal guideline. It contains the limits to the liquidity gaps for various periods, strategies to obtain funds in an emergency, and early warning mechanisms so as to ensure Eximbank's adequate liquidity.



VII

▶ Head Office and Branches

Head Office

8 F., No. 3, Nanhai Road,
Taipei City 10066, Taiwan, R.O.C.
Tel : (886) 2-2321-0511
Fax : (886) 2-2394-0630
[http : //www.eximbank.com.tw](http://www.eximbank.com.tw)
e-mail : eximbank@eximbank.com.tw

Hsinchu Branch

8 F-6, No. 251, Fuxing 1st St.,
Zhupei City 30271, Hsinchu County,
Taiwan, R.O.C.
Tel : (886) 3-658-8903
Fax : (886) 3-658-8743
e-mail : tb@eximbank.com.tw

Kaohsiung Branch

8 F., No. 74, Chung Cheng 2nd Road,
Kaohsiung 80271, Taiwan, R.O.C.
Tel: (886) 7-224-1921
Fax: (886) 7-224-1928
e-mail : kh@eximbank.com.tw

Offshore Banking Branch

7 F., No. 3, Nanhai Road,
Taipei City 10066, Taiwan, R.O.C.
Tel : (886) 2-2321-0511
Fax : (886) 2-2341-2517
e-mail : obu@eximbank.com.tw

Taichung Branch

5F., No. 659, Taiwan Blvd., Sec. 2,
Taichung 40759, Taiwan, R.O.C.
Tel : (886) 4-2322-5756
Fax : (886) 4-2322-5755
e-mail : tc@eximbank.com.tw



中國輸出入銀行

The Export-Import Bank of the Republic of China

| Annual Report 2012 |



The Export-Import Bank of the Republic of China

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