

TDCC

2012

ANNUAL REPORT

一〇一年 年報

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DTAIWAN
DEPOSITORY &
CLEARING
CORP.



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Chairman
Ding, Kung-Wha

Ding, kung-wha



Letter to Shareholders

Dear Shareholders:

In retrospect of year 2012, we saw the recessionary atmosphere that had prevailed around the world at the end of 2011 beginning to ease. Temporary relief from the European debt crisis came with EU approval of a bailout plan for debt-laden Greece, while the US continued its low interest rate policy, factors which helped steady the major securities markets around the world. Starting from the second quarter, however, investor sentiment remained cautious and stock price fluctuations increased due to the release of poor economic data in the US and the EU, along with continuing high unemployment, concerns about a debt crisis in Spain, and slowing impetus for growth in China. These factors brought significantly lower trading volumes on major bourses around the world, which typically decreased by 20 percent or more. To revitalize their economies and reduce unemployment, the major nations of Europe and the US attempted to stimulate their economies through quantitative easing and inject new dynamism into stock market performance. In the fourth quarter, continuing quantitative easing in the US and worries about its unresolved "fiscal cliff" combined to introduce negative market factors, but major securities markets around the world nevertheless began to rally after a year of ups and downs as most of the bad news had already been priced in and cash began flowing back into the markets.

Taiwan, being integrally linked to the world economy, inevitably felt the effects of the poor consumption in Europe and the US and the slowing economic growth in China. The result was that export growth in Taiwan declined for six straight months and Taiwan's economic growth rate had to be revised downward 9 times. The effects of its poor economic performance were naturally felt in the stock market. In early June, the stock market's weighted index had fallen from its first-quarter high of 8,171 to a low of 6,857. As confidence waned and investors preferred to remain on the sidelines, trading volumes fell sharply, at one point by as much as 25 percent. The government took market stimulation measures and avoid further economic or financial crises triggered by lagging stock market performance. In addition, Taiwan and China made major breakthroughs in economic

and trade relations, including the signing of MOU on cross-strait currency settlement mechanisms. These actions, combined with the extra push from international quantitative easing, steadied Taiwan's stock market and helped lift it back above the 7,700-point level. The trading value in the Taiwan Stock Exchange (TWSE) was TWD 20.2381 trillion, a reduction of about 22.75 percent as compared to TWD 26.1974 trillion in 2011. The trading value of TWD 2.9519 trillion in GreTai Securities Market (GTSM), dropped about 26.07 percent as compared to TWD 3.993 trillion of the preceding year. The trading value in emerging stock market was TWD 154.8 billion, dropped about 23.89 percent as compared to TWD 203.4 billion in 2011.

Despite the turbulence in the international securities markets, I especially would like to report a good news in which each of our shareholders can take pride. TDCC has planned and built the Taiwan Stock Museum at the site of our previous vault for custody of stock certificates, highlighting the milestone achieved by the Taiwan securities markets on 29 July 2011, when the goal of total securities dematerialization was achieved 17 months ahead of schedule, and emphasizing the fact that in this new era of full scripless issuance, physical stock certificates have been relegated to history. TDCC staff launched this project from initial planning to design and building stage and finally get into actual operation in less than a year. The foundation of the Taiwan Stock Museum, a public welfare and educational institution that reflects the entire market, makes it the third of its type in Asia, following the museum established by the Korea Securities Depository (KSD) and China's Lidao Museum of Securities in Shanghai. Our museum chronicles the development of Taiwan's securities markets, and through its valuable collection of historical items and its documentary materials and interactive media, provides a detailed record of the evolutionary history of Taiwan stock market while highlighting the closely linked, parallel development of the stock market and the overall economy. In the future the museum will play the role of a platform to promote financial literacy and education with securities-related organizations, issuers and educational institutions.

To promote shareholder activism and to enhance corporate governance in Taiwan, TDCC is vigorously promoting electronic voting for shareholders meetings in line with the policies of the competent authority. TDCC also assisted in drafting subsidiary regulations related to split voting and handled related publicity measures to ensure that the electronic voting system and related operations were understood by all sectors. TDCC individually visited the business location of each issuer required to use electronic voting to push for a substantial increase in the percentage of voting carried out electronically relative to previous years. Currently 82 companies signed contracts to use the electronic voting system, while shareholders who have exercised voting rights electronically now number over 10,000, accounting for 27.54 percent of the total number of voting rights represented at shareholders meetings. This represents an outstanding success, one that will further increase the efficiency of operations in the securities markets and the protection of shareholder rights and benefits.

To enhance operational efficiency in domestic mutual funds industry, TDCC has taken note of methods from Europe and the US to provide automatic transmission of fund information by means of straight-through processing (STP), and since 2010, has made it available within the onshore fund information transmission platform for order placement information between fund distributors, such as banks, and securities investment trust companies. In 2012, TDCC further extended its original information transmission services for onshore funds by connecting to and cooperating with three fund information networks, Euroclear, Brown Brothers Harriman & Co. (BBH), and Calastone, thus completing a cross-



border framework of connections stretching across Europe, Asia, and the Americas to reach a total of 75 fund companies. This enables order placement information between domestic mutual funds distributors and offshore fund companies to transmit through the same platform. It integrates order placement information for domestic mutual funds and offshore funds into a single order placement window and solves the problem of the manual "many-to-many" fax method previously used, greatly enhancing the efficiency of operations in the funds market. This service will be of tremendous significance, since it allows standardization and automation of all fund-related transmissions. We initially estimated that operating and handling fees for the market as a whole may be reduced by nearly TWD 100 million, not to mention the millions of sheets of fax paper that will be saved.

In 2012, under the guidance of the competent authority, TDCC successfully promoted a number of operations to keep in line with the developments in the securities, bonds, and bills markets. A summary is provided below:

1. Centralized Depository Services

Stable development was seen in all areas, whether in terms of the number of participants, securities under custody, or book-entry transfer operations. At the end of 2012, there were 2,222 participants, with a total market value for all types of securities and short-term bills under custody of over TWD 30.5255 trillion. The subject securities held in custody included various securities and financial market products, of which TWSE listed, GTSM listed, and emerging stock company securities represented a total value of over TWD 26.8244 trillion. Corporate bonds, bank debentures, municipal bonds, and Formosa bonds totaled over TWD 2.6161 trillion; short-term bills totaled over TWD 1.85 trillion.

TDCC has actively responded to the government's initiatives for energy saving and carbon reduction by promoting the e-transformation of central depository operations. It has produced a manual for the handling of book-entry transfer operations, establishing integrated electronic voucher services, and promoted paperless procedures for inquiries from external agencies. In coordination with the competent authority's policy for implementation of total securities dematerialization, TDCC took the initiative to offer guidance to securities investment trust companies that offer private placement funds, actively promoting dematerialized registration for those funds. To reduce the burden on participants, TDCC has continued to provide them with electronic means for carrying out review, confirmation and retention of centralized depository account statements.

2. Book-entry Transfer Services

In 2012 TDCC handled book-entry transfers for equity securities transactions amounting to 919,484,828 thousand shares, including 791,881,835 thousand shares of TWSE listed securities, 121,807,522 thousand shares of GTSM listed securities, and 5,795,471 thousand shares of emerging stock company shares. Its clearing and settlement of short-term bills included over TWD 55.3151 trillion in exercise amounts for outright transactions and repo transactions. Settlements through the Central Bank's Interbank Funds Transfer System totaled more than TWD 22.7993 trillion. In a case involving claimants who were holders of Elpida Memory Inc. TDRs, TDCC provided related book-entry transfer operations and assisted both the Securities and Futures Investors Protection Center and investors with smoothly completing the necessary procedures to obtain monetary settlements.

In response to amendments to the Company Act, which now has additional requirements related to issuers' reporting of issues of new restricted employee shares, TDCC developed related procedures that include uncertificated registration and book-entry delivery and custody for new restricted employee shares. In coordination with the government's promotion of cross-strait financial policies, TDCC has undertaken planning for book-entry transfers related to RMB-denominated bonds to satisfy issuers' fund-raising needs and investors' asset-management needs.

3. Market services

To assist the competent authority in promoting applications for ISIN codes by all domestic securities investment trust funds, TDCC has provided a single window for enterprises, helping to effectively enhance the international visibility of domestic funds and make the application process more efficient. To provide participants with better service, TDCC has set up a system of on-line registration for its informative meetings, making its offering of educational and training activities for participants more efficient and reducing the work load on TDCC staff. To assist those securities firms which have established accounts for court-ordered sales to speedily liquidate the securities of a substantial owner, TDCC provides those firms with a mechanism for inquiries about the investor's account information, effectively aiding in speedy liquidation and reducing their operational burdens.

4. International cooperation and exchanges

TDCC has enhanced its visibility in international securities markets through active participation in a number of international meetings and activities, including the 37th annual meeting of the International Organization of Securities Commissions (IOSCO), the 16th annual meeting of the Asia-Pacific Central Securities Depository Group (ACG), and the 16th annual meeting of the International Securities Services Association (ISSA). To learn from the business development experience of overseas clearing and custody institutions and establish good channels for communication, TDCC signed a memorandum of understanding (MOU) with the Central Depository Company of Pakistan Limited in September of 2012, enabling mutual sharing of experience through exchanges of information or staff members. In addition, TDCC also assisted the competent authority in holding the 8th Taipei Corporate Governance Forum, effectively enhance the standard of corporate governance in Taiwan and make it compatible with international standards.

5. Enhancing information security and data protection mechanisms

As a back-office for the securities market, TDCC has always had the highest concern for ensuring that its information systems operate in a secure and stable manner. To ensure uninterrupted operation, TDCC has established a stable, secure information development policy for all aspects of its business, enhancing the relevant protection and management measures for information systems, networks, security controls, operating system software and hardware facilities, and information security to ensure stable back-office operations. In addition, in response to amendments to the Personal Information Protection Act, TDCC continues to build consensus among its employees regarding personal information protection and management. It has performed a comprehensive review of operating procedures and made timely adjustments and improvements, while also introducing new technology and systems as needed and engaging impartial professional institutions



to ensure adequate levels of protection and security. TDCC expects that these measures will enable it to establish a secure, efficient, and stable business continuity environment.

Under the guidance of the competent authorities, the support of shareholders, market participants and investors, the supervision of its directors and supervisors, and the efforts of all its employees, TDCC has experienced a steady growth of business. Looking ahead in 2013, TDCC will continue its mission of serving the market's enterprises and investors and responding to international developments, and will continue to enhance its functions in custody, book-entry, clearing and settlement. TDCC will continue expanding the scope of its market services to provide participants with more secure and efficient services. In addition to the business development in 2012, TDCC will maintain operation of the Taiwan Stock Museum and hold new exhibitions and activities there, providing the entire market with a platform for extending financial knowledge to the public. TDCC will also continue to promote and strengthen electronic voting systems to protect shareholder rights and benefits while elevating Taiwan's corporate governance evaluation. To provide more thorough measures for control and protection of personal information, TDCC will introduce the Taiwan Personal Information Protection and Administration System (TPIPAS) framework developed by the Institute for Information Industry to examine assets, procedures, and applications relating to personal information processing and to assess levels of risk under the current system for personal information management. TDCC will then work out a monitoring scheme which not only protects and manages personal information but also conforms the public third party standard.

In the future, TDCC with its role as a back-office service provider for the capital market will strive to enhance the efficiency, operation of custody, clearing and book-entry of its market services. Furthermore, TDCC will endeavor to provide the market with a more secure, more convenient and more efficient environment that will raise the international competitiveness of Taiwan capital market.



Business Report

I. Foreword

In 2012, average daily transaction value on Taiwan Stock Exchange (TWSE) was TWD 83.2 billion, and on GreTai Securities Market (GTSM) was TWD 12.5 billion, while on the Emerging Stock Market the figure was TWD 608 million. The total daily average of approximately TWD 96.3 billion represented a reduction of 24.23% from the 2011 daily average of TWD 127.1 billion. In the bond market, government bond issuance volume in 2012 was TWD 688.4 billion, financial debenture issuance stood at TWD 178.4 billion, and corporate bond issuance amounted to TWD 423.1 billion. In the bills market, short-term bills issues in 2012 amounted to a total of TWD 7.5032 trillion, with outright purchases and sells in the secondary market of TWD 14.6755 trillion and repo transactions amounting to TWD 20.2593 trillion.

Under the guidance of the competent authority, TDCC is fully committed to serving the securities markets and continues to provide efficient and secure services in the areas of registration, depository, and book-entry operations. TDCC has been working actively to promote fully dematerialized issuance of securities in line with the policies of the competent authority. It is also actively developing back-office service operations for fixed-income instruments and mutual funds to lower the cost of market operations. TDCC has also produced concrete achievements in terms of improved quality of service, efficiency of information systems, and development of international business. The following is a summary of TDCC operations in 2012 and its business plan for 2013.

II. 2012 Business Report

1. Major Tasks

(1) Establishing Taiwan's first Stock Museum, the third of its kind in Asia

In October of 2011, TDCC began planning operations for the "Taiwan Stock Museum." The museum highlights the fact that Taiwan's capital markets have reached the milestone of complete securities dematerialization, and that, in the new paperless era, physical stock certificates have taken their place in history. Construction of the museum began in June of 2012, and the grand opening was held on 24 December the same year. The site of the original TDCC vault of stocks was specially chosen as the location of the museum to emphasize the concept that "the entire vault has become a museum."

Only about 12 months were needed to move from planning to finished construction of the Taiwan Stock Museum. During the planning stage, TDCC was in contact with the Amsterdam Stock Exchange and the Lidao Museum of Securities in Shanghai, and as a result, the museum takes on added interest because it contains reproductions of both the world's first share certificate and China's first share certificate from the Amsterdam Stock Exchange and the Lidao Museum respectively. Its content has been further enriched by the loan of valuable cultural artifacts from the National Palace Museum, the Central Bank, the Ministry of Finance, the Taipei and Kaohsiung City Governments, the Land Bank of Taiwan, the Taiwan Cooperative Bank, the Mega International Commercial Bank, and the well-known collector, Professor Heng-Ching Kuo. The Taiwan Stock Museum is the first of its kind in Taiwan, and is only the third of its type in Asia, following the Securities Museum established by the Korea Securities Depository (KSD) and the Lidao Museum of Securities in Shanghai, China.



President
Sherman Lin

In addition, to effectively promote financial literacy and education, the museum is taking advantage of industrial-academic cooperation with schools such as the Takming University of Science and Technology, Ming Chuan University, Shih Chien University, the China University of Science and Technology, and the National Taipei College of Business, allowing students from finance-related departments of those schools to do internships at the museum. Students are provided with education and training, while long-term relationships are developed with these schools. The knowledge and skills gained by these students in the classroom is further extended by the practical on-the-job experience provided through these internships. The museum provides an in-depth record of the development of securities in Taiwan and their past, present, and future.

(2) Promotion of the STOCKVOTE platform for shareholders meetings

To protect the exercise of shareholders' rights and to coordinate with the competent authority's policy, TDCC established the STOCKVOTE electronic voting system for shareholders meetings, and has made the e-voting service available to public companies since 2009. To promote the system, TDCC individually visited each issuer that is required by law to use electronic voting. This, combined with advertisements in the media and special information pages on related websites, has brought about a significant increase in electronic voting over previous years. Currently 82 companies have entered into contracts to use the electronic voting system, while shareholders who have exercised voting rights electronically now number over 10,000, accounting for 27.54 percent of the

total number of voting rights represented at shareholders meetings. This represents an outstanding success. TDCC has also held a number of informational meetings for the benefit of corporate actions units and to explain the implementation of joint market simulations. TDCC will continue to improve the e-voting platform to further enhance operational efficiency in the market and protect shareholder rights and interests.

(3) Promoting operations relating to split voting

In coordination with amendments to the Company Act and the competent authority's promulgation and implementation of subsidiary regulations, TDCC established an electronic voting platform to provide a mechanism for split voting. It has also held informational meetings to explain split voting operations to the various corporate action units. TDCC visited foreign investment custodian banks, and at the same time, held a number of informational meetings to explain the subsidiary regulations relating to split voting in order to help protect shareholder rights and interests.

(4) Plans to expand the corporate action information platform

To enhance services to investors and custodian banks, TDCC in 2012 expanded its establishment of new platforms, adding a "basic securities information" inquiry function, which provides information services necessary for investors and for issuers and their transfer agents. The new functions formally became available online as of 30 November 2012.

(5) Onshore fund order routing services

To meet the needs of fund operators, TDCC provides "onshore fund order routing services" for use in transmitting the order placement information between trust enterprises and securities investment trust enterprises (SITEs). As of the end of 2012, contracts for use of the services had been signed with a total of 18 trust enterprises, 30 SITEs, and 2 securities firms that concurrently operate trust enterprises. In 2012, a total of 2 banks, including Far Eastern International Bank, began formally using the services, along with 7 SITEs, including J.P. Morgan. Thus a cumulative total of 4 banks, including the Land Bank of Taiwan, and 20 SITEs, including ING Securities Investment & Trust Co., now formally make use of this TDCC fund order routing platform for automatic transmission of order placement and trade confirmation information for onshore funds. The platform adds to the efficiency and security of the investment funds market in Taiwan.

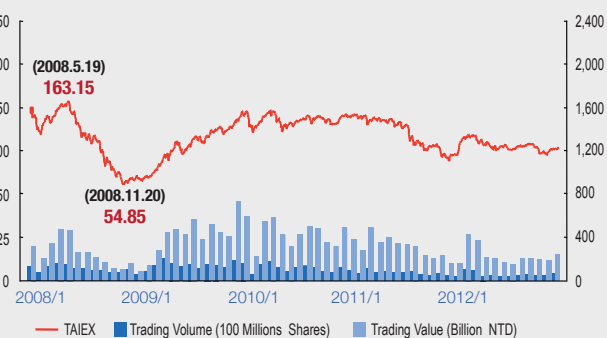
(6) Promotion of order-routing services for offshore funds

To help enhance operating efficiency for the offshore fund industry, TDCC established a fund order-routing platform on 5 November 2012. The platform is available for use between domestic trust enterprises and master agents and offshore fund institutions, for transactions including subscriptions, redemptions and transfers of funds. TDCC also continues its visits to these trust enterprises and master agents to promote the services, in order to further enhance the efficiency and security of investment funds market in Taiwan.

Statistics of TWSE Market



Statistics of GTSM Market





(7) Promoting applications by all domestic investment trust funds for ISIN codes

In coordination with the policy to promote applications for ISIN (International Securities Identification Number) codes by all domestic investment trust funds, TDCC, in cooperation with the Taiwan Stock Exchange and the Securities Investment Trust and Consulting Association (SITCA), has formulated working procedures for future ISIN code applications by investment trust funds. TDCC is also serving as a single, integrated window for those applications; when an investment trust fund applies to TDCC to carry out uncertificated registration, it can submit at the same time the application documents for an ISIN code through Taiwan Stock Exchange. Public announcement of the working procedures was made to investment trust fund operators in July of 2012. ISIN codes are expected to help distinguish Taiwan's domestic funds and raise their visibility on the international market.

(8) Handling government agency inquiries for information on onshore fund beneficial certificates

TDCC was requested by the SITCA to provide assistance in handling government agency inquiries for information relating to onshore fund beneficial certificates. Providing such assistance helps reduce the burden on SITCA member companies in terms of the administrative manpower and resources required for taking the inquiries and providing information to government agencies in response. TDCC has completed development of the necessary information systems, which were made available online as of 1 March 2012.

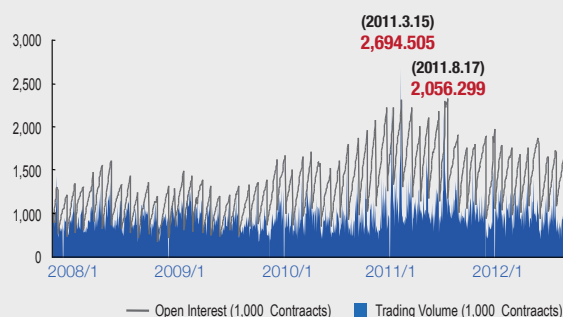
(9) Establishment of a electronic manual for book-entry operations and integrated electronic voucher services, and promotion of paperless procedures for inquiries from external agencies

To provide more effective central depository services for market participants, and in response to energy saving and carbon reduction policies, TDCC took the initiative to establish a electronic manual for book-entry operations and to integrate electronic voucher services. These measures allow for immediate connection and inquiries about online trading procedures. The services were implemented online as of 29 October 2012, and allow convenient inquiries by participants for information on as many as 500 different trades. TDCC has also promoted paperless procedures for inquiries from external agencies, including providing a single integrated and paperless window for inquiries on public employees' declarations of assets and a dedicated line for paperless Judicial Yuan e-mail inquiries. TDCC will continue to support the government in its energy saving and carbon reduction policies, while making further efforts to simplify inquiry procedures and further enhance efficiency.

(10) Providing participants with electronic means for carrying out review, confirmation, and retention of centralized depository account statements

To reduce the burden on participants, TDCC has continued to provide them with electronic means for carrying out review, confirmation, and retention of account statements. Paperless procedures for statement confirmation were completed during 2012. Since 11 December 2012, participants have been able to utilize electronic files for those statements, importing the files into their own internal systems for signature approval and subsequent retention to achieve the goal of paperless operations in this area.

Statistics of Futures Market



Note: Trading Volume includes contracts of TAIEX Futures (1998.7.21 launched), Electronic Sector Index Futures (1999.7.21 launched), Finance Sector Index Futures (1999.7.21 launched), Mini-TAIEX Futures (2001.4.9 launched), TAIEX Options (2001.12.24 launched), Equity Options (2003.1.20 and 2004.9.27 launched), TAIWAN 50 Futures (2003.6.30 launched), 10-Year Government Bond Futures (2004.1.2 launched), 30-Day Commercial Paper Interest Rate Futures (2004.5.31 launched), Electronic Sector Index Options and Finance Sector Index Options (2005.3.28 launched), TAIFEX Gold Futures and TAIFEX MSCI Taiwan Index Futures, TAIFEX MSCI Taiwan Index Options (2006.3.27 launched), NonFinance NonElectronics Sub-Index Futures, NonFinance NonElectronics Sub-Index Options, GreTai Securities Market Stock Index Futures, GreTai Securities Market Stock Index Options (2007.10.8 launched), TAIFEX NT Dollar Gold Future (2008.1.28 launched), Gold Options (2009.1.19 launched), and Single Stock Futures (2010.1.25 launched).

(11) Establishment of electronic applications for dematerialized registration and book-entry delivery of fixed-income securities

TDCC has made the transition from written applications to electronic application procedures to better handle issuer applications for dematerialized registration and book-entry delivery of their fixed-income securities, including corporate bonds, bank debentures, and beneficial securities. This enhances the level of service it provides to issuers while also achieving effective energy savings and carbon reductions. The new application procedures were implemented from 24 December 2012.

(12) Handling calculation procedures for inclusion of interest income from fixed-income products in the second-generation National Health Insurance premiums base

In coordination with the 26 January 2011 announcement of amendments to the National Health Insurance Act, TDCC is handling operations relating to the collection of supplemental premiums based on interest income from fixed-income products, which will help enhance market efficiency. TDCC implemented the operations on 1 January 2013.

(13) Developing services for payment and receipt of funds for negotiable certificates of deposit (NCDs)

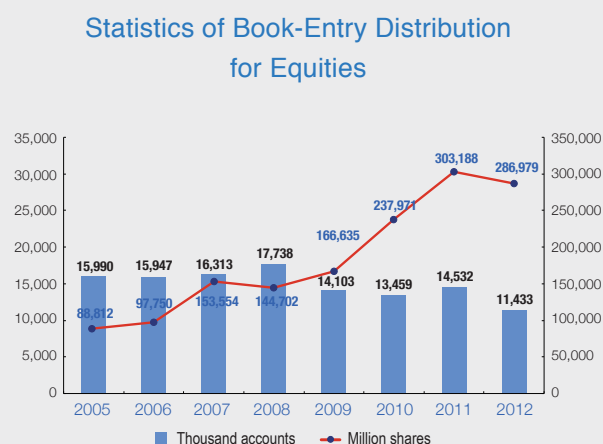
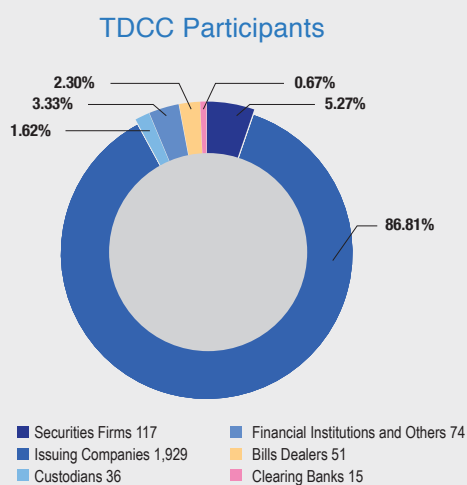
To continue to enhance the domestic market's payment system and provide service to NCD issuing banks, TDCC provides services through the Central Bank's Interbank Funds Allocation and Clearing System for payment and receipt of funds in redemptions of NCDs, thus helping enhance market efficiency. The services were implemented from 7 May 2012.

(14) Handling of information reporting and statistics for treasury bills transactions

In order to completely disclose statistics on all types of short-term bills products, and to establish more comprehensive infrastructure, TDCC developed operations to handle information reporting and statistics on treasury bills transactions. Following approval by the competent authority and the Central Bank, the operations were implemented as of 29 October 2012. Complete statistical information on all types of short-term bills products is now available, adding to the channels through which investors can obtain such product information and the categories of products included.

(15) Development of book-entry operations for RMB-denominated bonds

In coordination with the issuance of RMB-denominated overseas corporate bonds by domestic public companies, TDCC began developing book-entry procedures for RMB-denominated bonds. By the end of October 2012, TDCC had completed development of dematerialized registration and book-entry service functions for RMB offshore banking units (OBUs) and domestic banking units (DBUs), and public announcement was made on 27 November that relevant participants could begin using the services from that date forward. The new services will help satisfy the fund-raising needs of domestic and foreign issuers as well as investors' asset-management needs, and will enhance the efficacy of fund utilization.





(16) Development of operations for the issuance, registration, and redemption of the municipal notes

In coordination with the competent authority's approval for issuance of the municipal notes by the New Taipei City Government in the form of short-term bills, TDCC has made provisions for dematerialized issuance and registration of the municipal notes, transmission of the guarantor's guarantee order, verification of underwriting bills dealers information, redemptions, and operations and statistical reports. TDCC also organized institutions, including bills dealers and physical certificate custody banks, to carry out tests and simulation drills. The relevant operations were implemented as of 30 November 2012, and will increase the funding channels available to domestic public companies.

(17) Continuing implementation of the Central Depository and Book-Entry System Improvement Plan

In order to maintain a high quality in the information system services provided to participants, TDCC continued the planning and implementation of its "Central Depository and Book-Entry System Improvement Plan." The first phase of development for the statement generating system was completed during 2012, and various testing operations are currently being carried out to ensure the stability and smooth operation of our back office operations for the market.

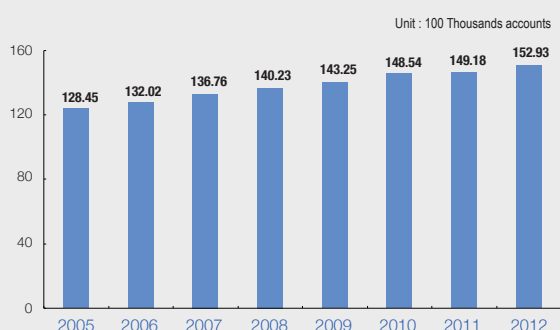
(18) Setting up on-line registration for informational meetings

To enhance the efficiency with which TDCC provides educational and training activities for participants, TDCC has set up a system of on-line registration for its informational meetings. By providing these e-registration services, TDCC makes it possible for the depository personnel of participants to register for TDCC training courses anytime and anyplace. Participants will be aided in obtaining the necessary information on the numbers of their personnel who are registering and participating in the informational meetings, what courses they are taking, and the number of course hours, as well as the number of hours certified by their relevant industry association. These measures will enhance the efficiency of the participants and the Taiwan Securities Association in carrying out registration for TDCC informational meetings and certification of course hours. The relevant operations were implemented by TDCC as of 1 October 2012.

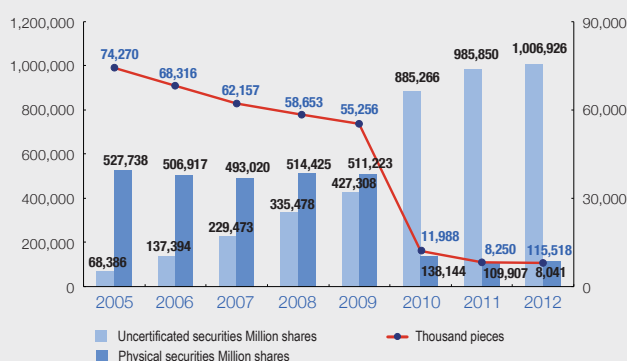
(19) TDCC personnel sent for business comprehension and interaction at securities firms, bills dealers and bonds dealers

Given the growing internationalization of securities markets and the related easing of regulatory restrictions, TDCC participants have been engaging in more diverse business operations. To gain an understanding of the way the securities markets are developing and the business needs of participants, TDCC arranged to send a number of its personnel for study and observation at various participants. The subject participants during 2012 included bills dealers, bonds dealers, securities firms, custodian banks, and SITEs. From among the issues proposed by the participants, a total of 16 items were chosen after consideration by TDCC for cooperation in handling or for enhanced guidance; 22 were to undergo further consideration, and for 41 others, it was decided to maintain the

Statistics for Accumulated Book-Entry Accounts



Statistics of Equities in Custody



status quo. Actual participation and experience by TDCC personnel at various participants will bring a deeper understanding of participants' operations, which will be useful in planning services to meet their needs and will encourage closer communication and contact between TDCC and participants, thus increasing the operational efficiency of the market and lowering participants' operating costs.

(20) Promoting international business

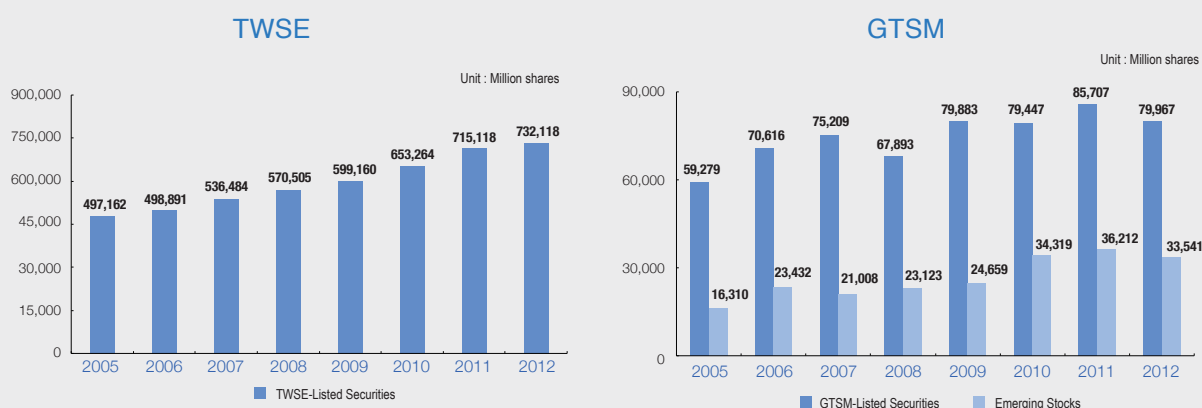
In keeping with the government's promotion of an internationalized capital market, and to further strengthen its connections with the CSDs of other Asian countries, TDCC on 21 September 2012 signed a memorandum of understanding on cooperation with the Central Depository Company of Pakistan Limited. The MOU allows for broad-based future sharing of experience between the two in the areas of business operations, personnel training, and directions for future development. TDCC will additionally continue to actively participate in international organizations such as IOSCO, ISSA, and ACG, while entering into exchanges and cooperation with foreign institutions to raise its international visibility.

2. Operational Performance

(1) Clearing and Settlement Operations

1. TDCC has 2,222 participants, which along with their 1,057 additional branches, makes a total of 3,279.
2. TDCC handled book-entry operations for 791,881,835,000 shares traded on the TWSE, with a daily average of 3,167,527,000 shares.
3. TDCC handled book-entry operations for 121,807,522,000 shares traded on the GTSM, with a daily average of 487,230,000 shares.
4. TDCC handled book-entry operations for 5,795,471,000 shares of emerging stocks processed through the GTSM, with a daily average of 23,182,000 shares. The total transaction amount was TWD 152.1 billion, with a daily average of TWD 608 million.
5. TDCC handled DVP settlement for fixed income securities with a total turnover in both the primary and secondary markets of TWD 2.596 trillion.
6. TDCC carried out transfers for 275 OTC negotiated outright trades in AUD-denominated international bonds of AUD 11.77 million, 45 bond passbook transactions of AUD 4.02 million, 3 related outward international remittances of AUD 12.35 million and 2 inward international remittances of AUD 1.11 million. TDCC carried out transfers for 40 OTC negotiated outright trades in USD-denominated international bonds of USD 5.85 million, 268 bond passbook transactions of USD 112.65 million, 1 trade through the GTSM International Bond Trading System of USD 100,000, 1 related outward international remittance of USD 1.74 million and 2 inward international remittances of USD 2.01 million.
7. TDCC carried out short-term bills clearing and settlement operations including TWD 7.5032 trillion in underwriting and initial purchases, TWD 7.2412 trillion in redemptions, outright transactions of TWD 14.6755

Statistics of Equities in Custody





trillion, repo transactions of TWD 20.2593 trillion, and repo exercise transactions of TWD 20.3803 trillion, and a daily average clearing volume of TWD 278 billion in the primary and secondary markets. Settlements through the Central Bank's Interbank Funds Transfer System totaled TWD 22.7993 trillion.

8. TDCC handled clearing and settlement for onshore USD-denominated bills, including underwriting and initial purchases of USD 40.22 million, redemptions of USD 40.22 million, and exercise prices in outright and repo transactions of USD 144.72 million, and a daily average clearing volume of USD 890,000 in the primary and secondary markets. Fund settlements through US Dollar clearing banks totaled USD 81.29 million.

(2) Book-Entry Operations

1. TDCC recorded 168,026 registrations of dematerialized equities and 169 registrations of dematerialized debt-type securities.
2. TDCC handled a total of 688 registration operations for dematerialized open-ended beneficial certificates, including 609 issuance by 39 issuers, as well as 79 private placements of beneficial certificates.
3. TDCC handled book-entry transfer of 104,437,876,000 shares in margin trading of equity securities, with a daily average of 414,436,000 shares.
4. TDCC handled book entry transfer for deliveries of pledged equity securities totaling 14,849,286,000 shares, on a total balance of 54,237,793,000 shares of pledged securities; there was a balance of TWD 6.139 billion in pledged debt-type securities; balances of pledged international bonds were USD 3.63 million and AUD 2.59 million; the balance of pledged short-term bills was TWD 4.4051 billion.
5. TDCC handled book-entry operations for 29,513 distributions of equity securities, making distributions of 286,979,012,000 shares to a total of 11,432,780 accounts, for a monthly average of about 2,459 distributions; TDCC handled book-entry operations for a total distribution amount of TWD 626,735,590,000 for debt-type securities to a total of 1,967 accounts, with a total of 171 distributions and a monthly average of about 14 distributions.
6. TDCC handled 9,046,226 book-entry delivery operations for a total of 197,552,692,367.62 units, or a total of 138,499 book-entry deliveries and a monthly average of about 11,542 deliveries.

(3) Securities Depository Operations

1. As of 29 July 2011, dematerialization had been achieved for all TWSE-listed, GTSM-listed, and emerging market securities. The total number of exchange TWSE-listed shares under custody was 732,118,499,000. The total number of GTSM-listed shares under custody was 79,966,919,000 shares, and for emerging market shares, the total was 33,541,441,000. The overall total for TWSE-listed, GTSM-listed, and emerging market shares under custody was 845,626,859,000.

In addition, 276,817,507,000 shares of delisted stocks and unlisted stocks held for the Central Bank's Department of the Treasury were under custody, including 115,518,303,000 physical securities (or 8,040,689

Ratio of Equities in Custody



lots) and 161,299,204,000 dematerialized shares.

To summarize, there is a total of 1,006,926,063,000 shares of equity securities under custody of TDCC, with a total market value of TWD 25.6631 trillion.

2. The principle amount of fixed income securities under custody totaled TWD 2.6161 trillion, including international bonds of USD 109.82 million and AUD 57.59 million.
3. TDCC has placed 4,764,774,000 shares under special custody, and has released special custody control on 4,720,325,000 shares, for a remaining balance of 4,511,970,000 shares.
4. There was a balance of TWD 1.085 trillion in short-term bills under custody (including onshore USD-denominated bills of USD 390,000). Custody of physical certificates for TWD-denominated short-term bills is currently entrusted to Taiwan Cooperative Commercial Bank, while custody of physical certificates for USD-denominated bills is entrusted to Mega International Commercial Bank.

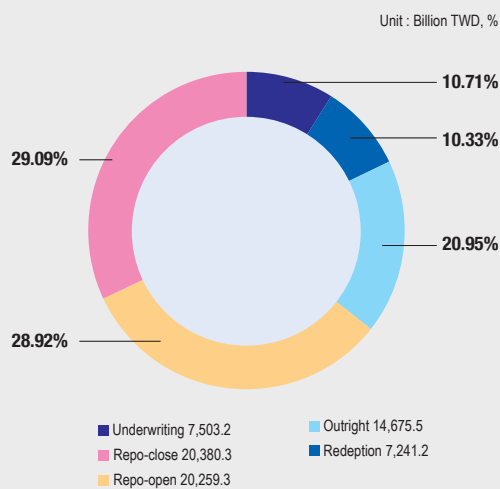
(4) Computer Linkages with Participants

1. Computer links have been established with 1,086 securities firms (including 998 branches) and 94 bills houses.
2. A total of 15,293,422 depository accounts have been opened by investors.
3. A total of 17,136 account statements and reports of various kinds were produced by TDCC on behalf of securities firms.
4. A total of 173,829,934 book-entry transactions were handled on behalf of securities firms.
5. TDCC Network Communications Center provided 35,791 consultations to connected securities firms, for an average of about 142 inquiries per day.
6. Voice query passwords for depository balances were created for 169,483 accounts, for a cumulative total to date of 7,439,867; 26,136 voice queries were made, for a cumulative total to date of 3,620,682.

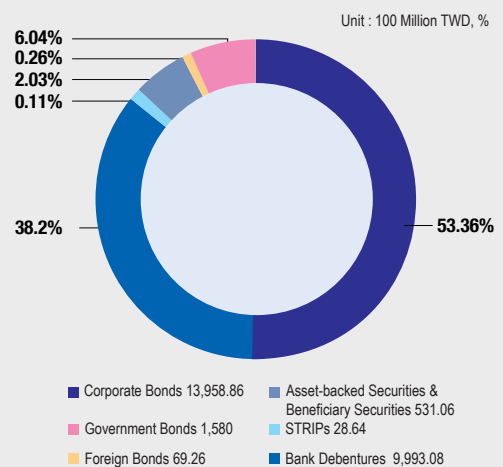
(5) Offshore Funds Information Reporting, Announcement and Payment Operations

1. A total of 39 master agents are conducting offshore funds information reporting and announcement through TDCC's Fund Clear reporting system.
2. A total of 64 entities have been administering their offshore funds information transmission and payment and receipt operations through Fund Clear, including 39 master agents and 25 distributors.
3. TDCC provided offshore funds payment and receipt operations including TWD 11.459 billion in subscriptions, TWD 7.52 billion in redemptions and TWD 2.093 billion in conversions.

Statistics of Clearing & Settlement of Fixed Income Instruments in Custody



Amount Balance of Fixed Income Instruments in Custody





III. 2013 Business Plan

In its business development for 2013, TDCC will follow international trends in development, enhancing the efficiency of operations in its domestic clearing and custody systems, continuing to strengthen its book-entry transfer functions for centralized securities custody, and effectively utilizing the fund payment and receipt mechanisms of the CBC Interbank Funds Transfer System, expanding the scope of services offered to the securities, bond, and bills markets and providing market participants with even more secure and efficient service. TDCC will continue to develop the benefits of integration in back-office operations in the securities, bond, and bills markets in order to reduce market costs and enhance operational efficiency. The key points of TDCC business development in 2013 will be as follows:

1. Maintaining Taiwan Stock Museum operations and holding exhibitions

Following the establishment of the Taiwan Stock Museum, TDCC continues to maintain the museum facilities, manage its exhibition pieces, and handle museum security matters while also holding various kinds of themed exhibitions. TDCC continues to handle the acquisition and preservation of exhibition pieces as well as exchanges promoting knowledge regarding these cultural artifacts. Through its management of the museum, TDCC provides opportunities for the general public as well as students to better understand the capital markets, helping to promote financial literacy and contributing its efforts to developing future talents for Taiwan's capital markets.

2. Active implementation and promotion of an electronic voting platform for shareholders' meetings

In conformance with the requirements of Article 177 of the Company Act, TDCC in 2013 will provide more intensive guidance for issuers and market participants. In addition to its plan to individually visit the offices of each issuer required to use electronic voting, it will carry out trial runs of the "STOCKVOTE" transmission platform, giving all related participants a chance to become familiar with the system's operation and providing a picture of its performance that will be useful in actual future operations.

With respect to users such as custodian banks, SITEs, and investors, TDCC will make use of promotional materials, advertisements, the media, and websites to provide guidance and to promote the use of electronic voting, helping to establish a brand image for TDCC's electronic voting platform.

3. Establishing systems to protect and manage personal information

In response to implementation of the Personal Information Protection Act, TDCC has formulated a number of programs to address its operations and the security of its information transmission, and continues to scrutinize the appropriateness of all TDCC operating procedures involving personal information. TDCC follows standards established by the competent authority when adopting its own plans for maintaining the security of personal information files or its methods for handling personal information after termination of particular business operations, and is implementing inventories of personal information files. Under the guidance of professional agencies, TDCC has developed systems for the protection and management of personal information. It continues to train and educate its personnel in the area of personal information protection and management, and to devote efforts to obtaining certification for information privacy and protection from international trusted third-party in Taiwan.

4. Continued implementation of the Securities Depository System Improvement Plan

TDCC will continue to execute its 2012 Securities Depository System Improvement Plan to develop and establish a statement generating system. By means of open system platform software tools for statement generation currently in common use, it will access data from a relational database system to generate the various statements needed by users. This will replace the system for printing statements based on individual formats for each statement generated through the previous mainframe-based system. It is expected that manpower and maintenance costs for issuance of statements will be effectively reduced and users will be provided with more efficient services for information statements. TDCC also plans to migrate the static data inquiry function and transaction confirmations processing of the current system from the IBM mainframe to an open environment.

5. Providing automated transmission of corporate action services information

To conform with international norms and enhance the efficiency of market operations, TDCC will look at international developments in corporate action and corporate action information standards. It will study means of providing automated information exchange services for standardized corporate action information, such as exchanges of information between transfer agents and custodian banks in regard to positions at book closure date for shareholders' meetings, distributions of stock dividends and cash dividends, and clients applicable to tax preferences.

6. Setting up electronic transmission services for applications for split voting

To enhance the efficiency of market operations, TDCC is planning to set up a connection mechanism allowing custodian banks to make use of a TDCC platform through which they can apply with public companies for electronic transmission services for shareholder split voting operations.

7. Studying development of onshore fund information transmission and cash payment operations

To enhance the efficiency of onshore fund operations, TDCC will assess the establishment of an operating platform for the transmission of trading information such as subscriptions and redemptions and related payments and receipts. It will also study providing securities investment trust enterprise customers with payment and receipt services in relation to the use of New Taiwan Dollars to trade in onshore funds denominated in foreign currencies.

8. Planning of relevant book-entry transfer operations in response to market needs

To meet practical needs related to front-office market development, TDCC will plan the drafting of additional rules and the provision of relevant book-entry transfer functions. These measures will coordinate operations such as GTSM enhancement of negotiated trades of convertible (exchangeable) corporate bonds, control and management of book-entry delivery in relation to new restricted employee shares, and new developments or the launch of new products in the securities or futures markets.

9. Strengthening automatic inquiry services for short-term bills clearing and settlement operations

In response to the needs of participants, TDCC will plan enhancements to the bills custody and clearing system's settlement status inquiry function. These will include additionally providing participants with service functions allowing simultaneous inquiries on trading orders for outright trades and for repo transactions, to enhance the efficiency of participants' settlement operations.

10. Implementing value-added services for short-term bills market statistical information

To meet the needs of business promotion in the short-term bills market, TDCC will study the enrichment of value-added services relating to providing statistical information on short-term interest rates in the primary and secondary markets, for bills dealers' reference in doing business.

11. Enhancing network transmission protection measures

Following the promulgation of the Personal Information Protection Act and measures to enhance network transmission protection, TDCC will study ways of enhancing transmission security between important internally used terminals and server mainframes. TDCC plans to use VPN encoding for the protection of confidential information. In response to amendments to the Personal Information Protection Act, to prevent any leaks of such information, TDCC plans to establish a system for prevention of information leaks from the network to strengthen the protection of personal information.

12. Studying the use of an active-active system

In order to strengthen on-site backup and recovery for back-office information systems, heighten their resource utilization rate, and enhance system reliability, TDCC will study the feasibility of switching to active-active systems for important systems such as futures clearing system, short-term bills settlement system, offshore fund transaction platforms, and electronic voting platforms. Cost-benefit analysis will be performed with respect to the degree of adjustment to systems and the system architecture. The results will provide a reference for future assessment of the need to establish an active-active system.



13. Establishing a network transfer environment for the "Internet Communications Protocol Upgrade Promotion Plan"

In coordination with the Executive Yuan's "Internet Communications Protocol Upgrade Promotion Plan," TDCC will study its network transfer operations and provide Internet IPv6 users with connection. In addition, because some suppliers of network, security control, and fiber-optic equipment will cease provision of their services, planning will be undertaken for overall adjustments to the system framework and replacement of new equipment.

14. Studying the introduction of ISO 20000 for information service quality management

More attention is being given to "IT service management" in the financial services industry. More and more domestic organizations and enterprises look forward to introducing the Information Technology Infrastructure Library standard as they move toward the goal of achieving ISO 20000 certification. TDCC will plan and study the use of the ISO 20000 standard to strengthen the quality of TDCC's information services.

15. Continued enhancement of information and communication security operations

To maintain the secure and stable operation of the market's back-office information systems, and due to the needs of disaster notification and response mechanisms, TDCC will continue to examine related backup and recovery operations and to enhance the current information services and business continuity management mechanisms. TDCC will enhance all aspects of the management of its current information systems with regard to demand and capacity, upgrading its current level of business continuity management.

16. Continued promotion of international business

TDCC will continue to work with the competent authority in its planning for the holding of various international conferences, and to actively promote all types of international business. In addition, it will seek to sign memorandums of understanding with central depository companies around the world and to seek opportunities for cooperation on account opening. It will continue to collect information from both domestic and foreign sources on the operating systems for the clearing, settlement, custody, and shareholder services in the related securities, futures, financial, and currency markets, and perform research on related issues as a reference for TDCC in planning its future business development.

IV. Conclusion

In the past year, under the guidance of the competent authority and with the full support of market participants, TDCC's custody, clearing and settlement, and book-entry transfer operations enjoyed steady growth, while at the same time we developed more diversified services. Looking ahead in 2013, TDCC will continue to provide services in various areas, such as holding exhibitions at the Taiwan Stock Museum and coordinating with implementation of the competent authority's policy initiatives and amendments of the Company Act. TDCC will also actively promote greater awareness of the competent authority's electronic voting policies, and will promote use of the "STOCKVOTE" to assist all sectors in understanding the electronic voting system and related operations, making possible greater shareholder activism. TDCC will devote efforts to obtaining certification for implementing information privacy and protection from trusted international third-party certification agencies. TDCC will also continue to strengthen its central custody, book-entry transfer, and clearing and settlement functions, expand the range of its market services, and provide participants with even more secure and efficient service. In all these ways TDCC hopes to generate the synergies of an integrated provider of back-office services for the securities, bond, and bills markets. Beyond this, in order to respond to new developments in the global capital and financial markets, and in response to the amendment of related laws and regulations and market development domestically, TDCC, under the guidance of the competent authority, will continue to actively develop new types of services and establish professional, efficient, and internationalized mechanisms. Through these measures, TDCC will be able to provide secure, convenient, and diverse services, maintaining the secure operation of the markets and enhancing the efficiency of market operations, while also creating even broader future potentials for our provision of services.



Major Events of the Company

STOCK
MUSEUM

臺灣股票博物館
TAIWAN STOCK MUSEUM



Jan

1/9

TDCC invited corporate action executives from issuing companies to attend the "Corporate Action Operation Forum".

Feb

2/16,3/3,3/7

TDCC invited custodian banks, issuing companies and transfer agents to attend three sessions of the "Testing Seminar of Electronic Voting Platform for Shareholders Meeting".

2/20-23

TDCC sent representatives to attend the 6th Clearing, Settlement & Custody Asia Forum in Singapore.

Mar

3/1,2,5,6,7,9

TDCC invited issuing companies and transfer agents to attend six sessions of the "Operations of Proxy Solicitation and Exercise for Shareholders Meeting and Electronic Voting Seminar" in northern, central, and southern Taiwan.

3/6

Delegates from Vietnam Securities Depository (VSD) visited TDCC to conduct exchanges in personnel and operating experiences.

3/8

Delegates from Hong Kong Securities Clearing Company (HKSCC) visited TDCC to conduct exchanges in personnel and operating experiences.

3/20

Taiwan Corporate Governance Association held the "Electronic Voting for Shareholders Meeting Seminar", where TDCC Chairman Ding was invited to give a speech. President Lin also gave one of the keynote speeches.

3/21

The 15th "TFF-Bloomberg Best Fund Award" was held at Far Eastern Plaza Hotel, and TDCC was awarded a Commendation for Charity.

3/21-28 ,4/11-5/11

In order to promote financial literacy and deliver proper investment concepts to students, TDCC organized 16 sessions of "Finance Workshop in Campus" throughout major universities in northern, central, and southern Taiwan.



Apr

4/13

A group of 80 teachers and students from the Department of Insurance & Financial Management of Takming University of Science and Technology visited TDCC and were given a briefing on clearing, settlement and custody systems of securities markets, and dematerialization issuance operations.

4/14

TDCC participated in "The 9th Securities Cup Tai Chi Exhibition" and won the 42 Form Tai Chi championship.

4/15

TDCC and the Taoyuan branch of the Taiwan Fund for Children & Families co-hosted a "Children's Day Out in Puxin" at Weichuan Puxin Ranch to offer aid to disadvantaged families.

4/17-25

TDCC invited securities firms to participate six sessions of "Basic Training Courses for Depository Personnel of Securities firms".

4/18

Delegates from China Soochow Securities Co., Ltd. visited TDCC and exchanged business opinions.

4/25-26

TDCC invited issuing companies and transfer agents to attend two sessions of the "Amendment to Standards of Internal Controls for Corporate Action".

and Settlement System Market-Wide Remote Site Backup Drill Information Session".

5/13-17

TDCC sent delegates to attend the 37th IOSCO Annual Conference in Beijing.

5/14-25

TDCC invited securities firms to participate nine sessions of "Depository Operation Seminar" held in northern, central, and southern Taiwan.

5/18

A group of 55 new staff members from the Securities and Futures Bureau of Financial Supervisory Commission visited TDCC, and were given a briefing on business operations, followed by a tour of the business units.

May

5/3

TDCC invited staff members from bill-dealers to the "2012 Bills Clearing





5/26

TDCC participated in "The 2nd Securities Cup Basketball Game" and performed well.

5/28-6/1

TDCC sent delegates to attend the 14th ACG Cross-Training Seminar in India.

Jun

6/4-12

TDCC sent delegates to attend the 16th ISSA Symposium in Switzerland.

6/10-12

TDCC sent delegates to visit Mainland Chinese institutions including the China Securities Depository and Clearing Corporation (SD&C), the IBM China System Center, the Suzhou International Science Park Data Center, and Industrial and Commercial Bank of China (ICBC).



6/15

A group of 16 delegates from Mainland Chinese financial and securities institutions visited TDCC and were given a briefing on business operations and exchanged opinions.

6/20

TDCC convened the 2012 shareholders meeting in which Chairman Ding thanked all employees for their devotion to their job responsibilities over the past year and announced that full dematerialization was achieved last year.

6/28

TDCC sponsored the "Young Artist Program" of Shiding Elementary School, New Taipei City, and was honored with a Gratitude Certificate at the 2011 second semester achievement presentation ceremony from their Principal.

6/30

TDCC staff participated in the successful "Beach Cleanup Day" and uniform invoice donation drive organized by First Securities Investment Trust and co-sponsored by the National Tax Administration of Northern Taiwan Province, the Environmental Protection Department of New Taipei City Government, and peripheral securities units.

6/30

As of June 30, a total of 34,461 shareholders have exercised their voting rights electronically through TDCC's Shareholders Meeting Electronic Voting Platform (STOCKVOTE) this year.



Jul

7/7-16

To gain a greater understanding of international securities markets, TDCC sent delegates to participate in the GREAT seminar organized by the U.S. Depository Trust & Clearing Corporation (DTCC).

7/8-11

TDCC sent delegates to attend "2012 IIA International Conference" in Boston, United States.

7/17

TDCC held a public raffle for the "E-vote through STOCKVOTE, Win iPad Prize Draw", and drew 575 winners for prizes including iPads and gift certificates.

7/25

In order to enhance transfer agents' professional knowledge, TDCC invited corporate action supervisors from issuing companies to attend the "Corporate Action Operation Forum".

Aug

8/7

TDCC invited staff from bill-dealers and physical certificate custodian banks to the "Short-Term Bills Operation Seminar".

8/17

TDCC completed the 2012 ISO9001 audit on hardcopy documentation and was regarded as complying with the ISO standard.

8/27,30,31

TDCC invited transfer agents to attend three sessions of the "2012 Depository Operation Seminar".

Sep

9/15

TDCC was a sponsor of the charity basketball game organized by the Syin-Lu Social Welfare Foundation. TDCC employees, in addition to tickets purchase, served as volunteers at the event.

9/18

Delegates from Calastone Transaction Network visited TDCC and exchanged opinions with President Lin.

9/19-22

President Lin led delegates to attend the ACG 16th General Meeting in Indonesia.

9/21

TDCC signed a Memorandum of Understanding (MOU) with the Central Depository Company of Pakistan Limited (CDC) in Indonesia. The MOU was signed by President Sherman Lin and CEO Muhammad Hanif Jakhura on behalf of TDCC and CDC Pakistan respectively during the ACG16 General Meeting.

9/24-29

TDCC sent delegates to Singapore and Malaysia to visit institutions including the Singapore Stock Exchange (SGX), IBM Singapore Briefing Center, and Bursa Malaysia Depository.



Oct

10/12

TDCC's Compassionate Heart club organized the "One Donation from Everyone Creates Unlimited Love" event and raised a total of NT\$173,000. The amount was donated to the "Family Angel Foundation" and the "Kids Alive International – Christian Care for Children at Risk", and some was used to purchase school supplies to be donated to students at Shiding Elementary School, and Wulai Elementary and Junior High School in New Taipei City.

10/17

Three delegates from the Training Institute for Judges and Prosecutors visited TDCC and were given a briefing on clearing and settlement system of securities markets, followed by a tour of the business units.

10/17-11/29

In order to promote financial literacy and deliver proper investment concepts to students, TDCC organized 10 sessions of "Finance Workshop in Campus" throughout major universities in northern, central, and southern Taiwan.

10/17

Dr. Tran Dac Sinh, Chairman of Ho Chi Minh Stock Exchange, led delegates to visit TDCC and exchanged opinions with Chairman Ding.

10/18

Delegates from the China Financial Futures Exchange visited TDCC and were given a briefing on the latest business developments and exchanged opinions.

10/22-11/6

TDCC invited securities firms to attend nine sessions of "Depository Operation Seminar" held in Taipei, Taoyuan, Hsinchu, Taichung, Chiayi, Tainan, and Kaohsiung.

10/24-27

President Lin led delegates to visit institutions in Japan including the Japan Securities Depository Center, Inc. (JASDEC), the Japan Securities Clearing Corporation (JSCC), and the electronic proxy voting platform Investor Communications Japan (ICJ).

10/25-26

TDCC co-worked with the competent authorities to organize the 8th Taipei Corporate Governance Forum.

10/28-11/1

President Lin led delegates to attend "2012 SIBOS-SWIFT Conference" in Japan.



Nov

11/4

TDCC celebrated its 23rd anniversary by arranging a hiking event, during which, Chairman Ding thanked all employees for their devotion to work and encouraged them to continue their efforts to better serve the securities market.

11/5

TDCC organized the "Fund Information Transmission Services Launching Ceremony" and officially announced that firms may transmit fund transaction information via a standard automated system through the TDCC platform for both domestic and offshore funds.

11/7

TDCC invited representatives from industry, the competent authorities, and academia to attend the "IT Security Seminar" and discussed how to enhance financial information security and respond to potential challenges.

11/8-10

TDCC sent delegates to attend the "Asian Confederation of Institutes of Internal Auditors (ACIIA) Conference" in Bangkok, Thailand.

11/12

A group of 50 teachers and students from the Department of Finance and Risk Management of Ling Tung University visited TDCC and were given

a briefing on clearing and settlement system of securities markets, followed by a tour of the business units.

11/17

TDCC participated in 11th Securities and Futures Peripheral Institutions Badminton Tournament and won the championship.

11/22-23

Deputy General Manager Suyi Liu of the China Securities Depository and Clearing Corporation (SD&C) led delegates to visit TDCC, where they were given a briefing on the latest business developments and exchanged opinions.





11/24

TDCC conducted the second 2012 Business Continuity Plan (BCP) Drill and practiced manual operation as required as a result of partial system malfunctions. The drill was concluded smoothly and successfully.

12/21

TDCC invited corporate action staff from issuing companies to attend the "Corporate Action Operation Forum".

12/27

A group of 20 new staff from the Financial Examination Bureau of the Financial Supervisory Commission visited TDCC, and were given a briefing on business operation, followed by a tour of the Taiwan Stock Museum.

Dec

12/6

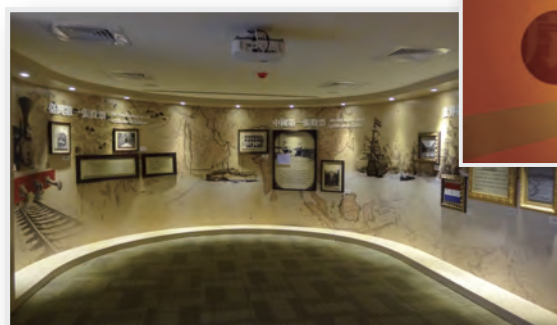
A group of 20 teachers and students from the Department of Finance of Lunghwa University of Science and Technology visited TDCC, and were given a briefing on clearing and settlement system of securities markets and dematerialization issuance operations.

12/24

Taiwan Stock Museum officially opened. In addition to a detailed history of the securities market in Taiwan, the museum also safeguards precious historical materials regarding securities in an effort to promote financial literacy.

12/28

To fulfill its corporate social responsibilities (CSR), TDCC held a "Blood Donation Campaign" and total of 170 bags of blood and 10,000 blood collection bags were donated to Taipei Blood Center.





Introduction of TDCC

I. Overview

After the merger with Debt Instruments Depository and Clearing Co., Ltd. (DIDC), Taiwan Securities Central Depository (TSCD) was renamed as Taiwan Depository and Clearing Corporation (TDCC).

To enhance market efficiency, reduce operational burden of processing paper securities and provide a secure and reliable central depository, the Securities and Futures Bureau (SFB) of the Financial Supervisory Commission (FSC) drafted the Rules Governing Centralized Securities Depository Enterprises and the framework of book-entry settlement in January 1988 in accordance with the newly amended Securities Exchange Act as a prelude to the establishment of TSCD in October 1989 through joint venture of Taiwan Stock Exchange Corporation (TWSE), Yuanta Securities Finance Co., Ltd. and a number of securities brokers. The company started its business in January 1990 and provided services including central depository and book-entry transfer for securities, settlement of securities traded on TWSE and GreTai securities market (GTSM), clearing and settlement for both cash and securities for the Emerging Stocks, and registration of securities issued in dematerialized form. Entrusted by the SFB, TSCD was also responsible for auditing the corporate action operations carried out by the transfer agents of issuing companies.

To promote securities dematerialization and central clearing and settlement system in the short-term bills market, the Ministry of Finance promulgated the Regulations Governing Short-term Bills Clearing and Depository Organizations in June 2002. DIDC was then incorporated in August 2003 through the joint venture among local bills dealers, Financial Information Service Co., Ltd. (FISC) and other financial institutions and started operation in April 2004. In addition to the management of the central depository of short-term bills, the company provided clearing and settlement services on Delivery Versus Payment (DVP) basis via the linkage with the Inter-bank Fund Transfer System of the Central Bank.

With the growing trend of cross-industry operations in domestic financial sector, securities firms and bills dealers who have businesses across securities, bonds and bills market experienced a steady increase in transaction volume. In July 2005,



the FSC encouraged the merger between TSCD and DIDC with a view to providing convenience to market participants, avoiding duplicate investment and following the trend of back-office integration in global securities markets. It was anticipated that the integration of clearing, settlement and central depository infrastructures would help reduce costs and improve market efficiency, expand service scope, and stimulate market development. The two companies completed the merger on March 27, 2006, and TSCD was the surviving entity and renamed Taiwan Depository and Clearing Corporation. TDCC's business scope and eligible securities for the book-entry operation are listed as follows:

1. Major businesses of TDCC

- Custody of securities and of short-term bills in certificate form.
- Registration of issuance of dematerialized securities and short-term bills.
- Settlement, pledge and book-entry operations for securities and short-term bills
- Computer processing of securities book-entry transfer matters
- Distribution of securities through book-entry transfer
- Clearing and settlement of emerging stocks
- Payment processing of offshore fund transactions
- Presentment and redemption of short-term bills upon maturity, and payments and receipts in connection with underwriting, initial purchases, and redemptions upon maturity
- Settlement confirmation and account reconciliation for short-term bill
- Compilation of short-term bill interest rate indices
- Transmission and exchange of participants' business-related information
- Provide consultation and planning services on participant IT system backup and automation operation
- Other services approved by the competent authorities

2. Types of eligible securities for book-entry operation:

- Stocks, new share certificates, subscription payment certificates, preferred stocks with warrant and warrants listed on the centralized market
- Beneficiary certificates traded on the centralized market
- Depository receipts traded on the centralized market
- Convertible corporate bonds, exchangeable corporate bonds, corporate bonds with warrant, corporate bonds and bond conversion certificates traded on the centralized market
- Bonds traded on the centralized market
- Call (put) warrants traded on the centralized market
- Beneficiary certificates and asset-backed securities traded on the centralized market
- Stocks, new share certificates, subscription payment certificates, and preferred stocks with warrant traded over-the-counter
- Beneficiary certificates traded over-the-counter
- Depository receipts traded over-the-counter
- Convertible corporate bonds, exchangeable corporate bonds, corporate bonds with warrant, corporate bonds, bank debentures, and bond conversion certificate traded over-the-counter
- Bonds traded over-the-counter
- Call (put) warrants traded over-the-counter
- Beneficiary certificates and asset-backed securities traded over-the-counter
- Employee stock warrants
- Stocks issued by public companies that are printed in consolidated form representing the total number of the new shares in one issue or issued in dematerialized form
- Privately placed stocks, subscription payment certificates, bond conversion certificates, corporate bonds, and bank

debentures issued by public company that are printed in consolidated form representing the total number in one issue or issued in dematerialized form

- Privately placed preferred stocks with warrant, corporate bonds with warrant, convertible corporate bonds, and exchangeable corporate bonds issued in dematerialized form by public company
- Open-end beneficiary certificates and bank debentures issued in dematerialized form
- Privately placed beneficiary certificates or asset-backed securities issued in dematerialized form by trust institution or special-purpose company
- Negotiable certificates of deposit, NCD
- Commercial paper I, CPI
- Commercial paper II, CPII
- USD-dominated commercial paper
- Bank acceptance
- Short-term beneficiary securities and asset-backed securities
- Other securities or short-term debt certificates approved by the competent authorities.

II. Organization

The Board of Directors is the highest executive body of the company. The chairman convenes and presides over the Board meetings and represents the company. Following the chairman's order, the president executes the resolutions of the Board meetings and the shareholder meetings and manages all businesses pursuant to relevant laws, regulations and bylaws. One to two senior executive vice presidents are assigned to assist the president and handle company business. One secretary general is assigned to supervise documentation and coordination across departments and to assist the president and senior executive vice presidents in administrative management. One general auditor, being the head of the Internal Auditing Department, is in charge of internal control and internal audit. The Internal Auditing Department reports directly to the Board.

TDCC has nine business departments including Operation, Fixed Income Operation, Depository, Shareholder Affairs, System Development, Fixed Income Information Planning, Computer Operation, Planning, and Administration and five functional departments including Labor Safety, Auditing, Legal, Finance, and Internal Auditing. Headed by one senior vice president, each department carries out businesses with subordinate functional divisions. Two independent committees, the Risk Control Committee and the Research, Development and Fee Committee, directly report to the Board of Directors. Duties of the committees and the organizational structure are outlined as follows:

1. Committees

(1) Risk Control Committee

Pursuant to Article 27 of the Regulations Governing Central Depository and Clearing Institutions for Short-Term Bills, TDCC establishes the Risk Control Committee in charge of the risk control on operational flows of depository, clearing and settlement of short-term bills, computer system operation, and the operational flows between TDCC and participants. The Committee establishes risk control standards and auditing policies for participants and conducts periodic audit on participants risk management.

(2) Research, Development and Fee Committee

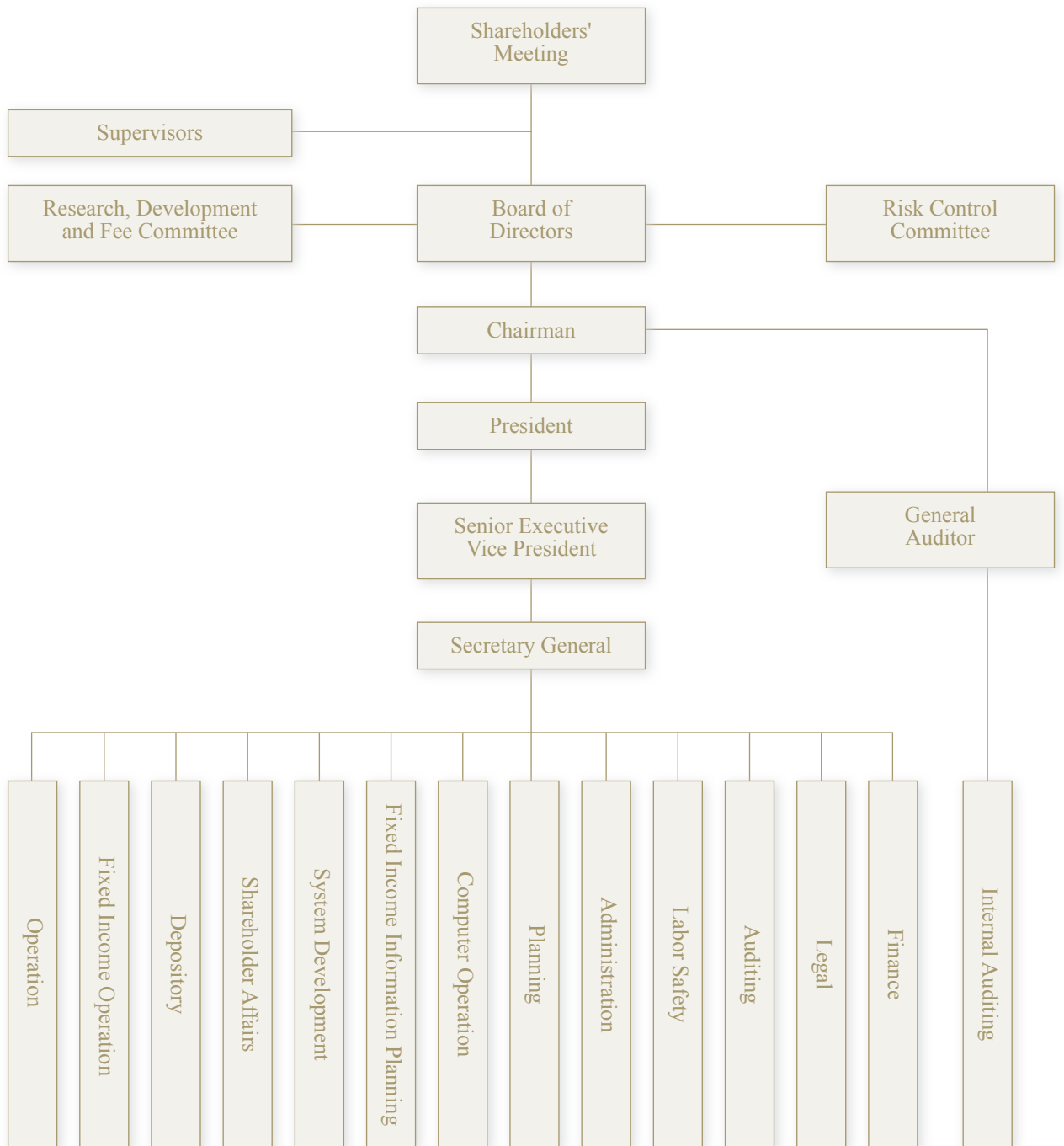
The Research, Development and Fee Committee is formed to ensure the business development and its service fee meet market needs. Main functions of the Committee include planning of business development and operational principles, reviewing the service fee for depository, registration of issuance, book-entry transfer, clearing and settlement services, reviewing major operational revisions and business initiatives.



2. Responsibilities of Departments

- (1) **Operation Department** is in charge of business planning and promotion, book-entry transfer, settlement, securities deposit and withdrawal, securities pledge, and clearing of emerging stocks. The department includes four divisions: Operations Promotion, Fund Service, Settlement, and Account Management.
- (2) **Fixed Income Operation Department** is in charge of fixed-income-product-related business planning and promotion, book-entry transfer, clearing and settlement, custody of physical bills. The department includes three divisions: Business Planning, Clearing Service, and Business Administration.
- (3) **Depository Department** is in charge of key-in and registration of securities information, storage inspection, labeling bar codes, write-off previous shareholders' rights, vault management, bond principal and interest paying, stock certificates printing specification and bar codes inspection. The department includes two divisions: Custody, and External Affairs.
- (4) **Shareholder Affairs Department** is in charge of registration of securities issued in dematerialized form, book-entry distribution, title transfer handling, and business coordination with issuing companies and their transfer agents. The department includes three divisions: Planning and Administration, Assets Service, and Marketing.
- (5) **System Development Department** is in charge of information system planning, development, design, testing, quality control, and design and promotion of information and communication security mechanism. The department includes four divisions: Securities Operations, Futures Operations, Administration, and Planning and Control.
- (6) **Fixed Income Information Planning Department** is in charge of information system related to fixed income products and second type telecommunication, system development, design, testing and quality control, providing IT consultation to participants, and design and promotion of information and communication security mechanism. The department includes three divisions: Development and Maintenance, System Planning, and System Control.
- (7) **Computer Operation Department** is in charge of deployment, maintenance, operation, management and connection of information system facilities. The department includes five divisions: System Engineering, System Operation, Information Service, Operational Control, and Network Engineering.
- (8) **Planning Department** is in charge of the Board-related matters, business planning, research and analysis, public relations, and international affairs. The department includes four divisions: Planning, Communication, International Affairs, and Research.
- (9) **Administration Department** is in charge of procurement, construction projects, general affairs, property management, documentation, intern and human resource management, training, and personnel review. The department includes four divisions: General Affairs, Administration, Document Management and Personnel.
- (10) **Labor Safety Department** is in charge of prevention of occupational accidents and management of health and safety of employees. The department does not have any division under it.
- (11) **Auditing Department** is in charge of providing participants with guidance on internal control related to TDCC operation and information and communication security, examining, in coordination with TWSE and GTSM, securities firms' TDCC-related operations, examining operations and securities related to corporate action of listed companies, promoting secured information communication, processing reports on participants' personnel shuffle, and auditing bills interest rate and transaction data transmitted by participants. The department has four divisions: Securities Firms Guidance, Shareholder Affairs Auditing, Planning and Control, and Risk Management.
- (12) **Legal Department** is in charge of providing legal opinions and compiling information on regulations and rules. The department has two divisions: Legal and Securities Query.
- (13) **Finance Department** is in charge of financing and accounting. The department includes two divisions: Budgeting and Accounting.
- (14) **Internal Auditing Department** is in charge of internal control and internal audit. The department includes two divisions: Internal Auditing and Data Control.

3. Organizational Chart
 III. Workforce Background





As of the end of 2012, TDCC has 506 employees, of which 54.7% are male and 45.3% are female. The majority are between the ages of 40 and 49, and 39.9% have obtained a university or college degree

IV. Shareholders Background

As of the end of 2012, TDCC has a total of 1,392 shareholders, consisting of 98 institutional and 1,294 individual shareholders. TWSE is the principal shareholder holding 50.43% of shares, followed by Yuanta Securities Finance Company (YSFC) holding 17.96%. The shareholding structure by the end of 2012 is shown as follows:

As of December 31, 2012

As of December 31, 2012

Shareholders	Shares	Amount Invested (TWD)	%
Taiwan Stock Exchange Corp. (TWSE)	161,824,362	1,618,243,620	50.43
Yuanta Securities Finance Co. (YSFC)	57,622,658	576,226,580	17.96
Financial institutions (securities firms, banks, bills dealers...) and individuals	101,472,327	1,014,723,270	31.61

V. Board of Directors and Supervisors

The Board of Directors consists of 7 directors representing TWSE, YSFC, KGI Securities, and Fubon Securities respectively. There are three supervisors and one of them is the standing supervisor. A list of directors and supervisors is shown as follows:

As of December 31, 2012

Title	Name	Shareholder Represented
Chairman	Kung-Wha Ding	Taiwan Stock Exchange Corp.
Director	Albert Ding	KGI Securities Co., Ltd.
Director	Sherman Lin	Taiwan Stock Exchange Corp.
Director	Tien Fu Lin	Yuanta Securities Finance Co.
Director	Samuel J.S. Hsu	Taiwan Stock Exchange Corp.
Director	Ming-Chien Chen	Fubon Securities Co., Ltd.
Director	George Kuan	Taiwan Stock Exchange Corp.
Standing Supervisor	Min-Juh Hwang	SinoPac Securities Corp.
Supervisor	Shaw-Chang Maa	Taiwan Stock Exchange Corp.
Supervisor	Lung-Far Hsieh	Taiwan Stock Exchange Corp.

Management Team



Senior Executive
Vice President
Han-Chiang Chu

Secretary General
Gloria Ching

Senior Executive
Vice President
Ching-Li Meng



Executive Vice President of
Administration Dept. &
Labor Safety Dept.
Jenny Ho

General Auditor of
Internal Auditing Dept.
Chi-Ming Horng

Executive Vice President of
Depository Dept.
Olivia Chang



Senior Vice President of
FI Operation Dept.
Suh-Yann Tsaur

Senior Vice President of
Shareholder Affairs Dept.
Julie Wang

Senior Vice President of
Operation Dept.
Jane Chang



Senior Vice President of
Auditing Dept.
Kuang-Hui Chen

Senior Vice President of
Planning Dept.
Jennifer Chen

Senior Vice President of
Legal Dept.
Yuan-Hua Hsiao

Senior Vice President of
Finance Dept.
Philip Lin



Senior Vice President of
FI Information Planning Dept.
Win-Cheng Wang

Senior Vice President of
Computer Operation Dept.
Cheng Hsu

Senior Vice President of
System Development Dept.
Andy Yeh



Senior Vice President
Sheng-Yuan Lien

Senior Vice President
Mei-Jung Hsu



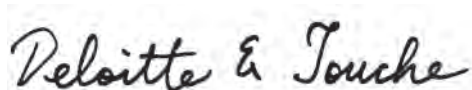
Independent Auditors' Report

The Board of Directors and Stockholders
Taiwan Depository & Clearing Corporation

We have audited the accompanying balance sheets of Taiwan Depository & Clearing Corporation (the "Corporation") as of December 31, 2012 and 2011, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Taiwan Depository & Clearing Corporation as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with the requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards and accounting principles generally accepted in the Republic of China.

The image shows the signature of Deloitte & Touche in a cursive, handwritten style.

March 13, 2013

Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.



Supervisors' Report

To the 2013 Annual Shareholders' Meeting,

Taiwan Depository & Clearing Corporation

The Board of directors have compiled and submitted to us for examination the 2012 balance sheet, statement of income, statement of changes in stockholders' equity, statement of cash flows, operations report and proposal for earning distribution for year 2012, etc. The undersigned Supervisors, accompanied by Deloitte & Touche, CPAS have completed our examination and found them correct. This report is hereby prepared in accordance with Article 219 of the Company Act and submitted for your approval.

Taiwan Depository & Clearing Corporation

Standing Supervisor

Min-Juh Hwang

For and on behalf of

SinoPac Securities Corporation

Supervisors

Lung-Far Hsieh

For and on behalf of

Taiwan Stock Exchange Corporation

Shaw-Chang Maa

For and on behalf of

Taiwan Stock Exchange Corporation

April 17, 2013

TAIWAN DEPOSITORY & CLEARING CORPORATION
BALANCE SHEETS

DECEMBER 31, 2012 AND 2011

	2012		2011	
	Amount	%	Amount	%
ASSETS				
CURRENT ASSETS				
Cash (Note 4)	\$ 5,641,195	32	\$ 5,489,779	33
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	1,356,991	8	1,492,576	9
Held-to-maturity financial assets - current (Notes 2 and 7)	1,800,088	10	996,646	6
Notes and accounts receivable, net				
Third parties (Notes 2 and 6)	160,939	1	149,563	1
Related parties (Note 16)	87,810	1	78,551	-
Other financial assets - current (Note 11)	216,867	1	131,500	1
Deferred income tax assets - current (Notes 2 and 13)	155	-	49	-
Other current assets	56,752	-	46,611	-
Total current assets	<u>9,320,797</u>	<u>53</u>	<u>8,385,275</u>	<u>50</u>
FUNDS AND INVESTMENTS				
Held-to-maturity financial assets - noncurrent (Notes 2 and 7)	4,958,184	28	5,209,048	31
Financial assets carried at cost - noncurrent (Notes 2 and 8)	130,000	1	130,000	1
Default damages fund (Note 9)	1,940,535	11	1,845,160	11
Investments accounted for by the equity method (Notes 2 and 10)	75,393	-	68,294	-
Total funds and investments	<u>7,104,112</u>	<u>40</u>	<u>7,252,502</u>	<u>43</u>
PROPERTIES (Notes 2 and 3)				
Cost				
Land	300,445	2	300,445	2
Buildings	495,917	3	513,240	3
Computers	1,485,108	8	1,322,835	8
Miscellaneous equipment	82,082	1	79,867	1
Leasehold improvements	44,203	-	49,198	-
Total cost	<u>2,407,755</u>	<u>14</u>	<u>2,265,585</u>	<u>14</u>
Less: Accumulated depreciation				
Buildings	158,970	1	166,905	1
Computers	1,266,487	7	1,209,022	7
Miscellaneous equipment	48,499	1	72,053	1
Leasehold improvements	34,276	-	39,875	-
Total accumulated depreciation	<u>1,508,232</u>	<u>9</u>	<u>1,487,855</u>	<u>9</u>
Net properties	<u>899,523</u>	<u>5</u>	<u>777,730</u>	<u>5</u>
INTANGIBLE ASSETS				
Goodwill (Note 2)	169,083	1	169,083	1
OTHER ASSETS				
Refundable deposits (Note 17)	137,356	1	136,819	1
Deferred charges (Notes 2 and 3)	23,114	-	10,259	-
Others	277	-	277	-
Total other assets	<u>160,747</u>	<u>1</u>	<u>147,355</u>	<u>1</u>
TOTAL	<u>\$ 17,654,262</u>	<u>100</u>	<u>\$ 16,731,945</u>	<u>100</u>



(In Thousands of New Taiwan Dollars, Except Par Value)

	2012		2011	
	Amount	%	Amount	%
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
Accrued expenses	\$ 485,005	3	\$ 434,494	3
Income tax payable (Notes 2 and 13)	86,455	-	159,180	1
Receipts under custody (Note 11)	139,845	1	57,691	-
Other current liabilities	119,102	1	64,561	-
Total current liabilities	830,407	5	715,926	4
OTHER LIABILITIES				
Default damages reserve (Note 9)	1,940,535	11	1,869,168	11
Deferred income tax liabilities - noncurrent (Notes 2 and 13)	38,527	-	38,889	1
Total other liabilities	1,979,062	11	1,908,057	12
Total liabilities	2,809,469	16	2,623,983	16
STOCKHOLDERS' EQUITY				
Capital stock - NT\$10.00 par value; authorized, issued and outstanding - 320,919 thousand shares in 2012 and 313,092 thousand shares in 2011	3,209,193	18	3,130,920	18
Capital surplus	476,394	3	476,394	3
Legal reserve	1,671,349	9	1,513,870	9
Special reserve	8,069,056	46	7,187,175	43
Unappropriated earnings	1,418,801	8	1,799,603	11
Total stockholders' equity	14,844,793	84	14,107,962	84
TOTAL	\$ 17,654,262	100	\$ 16,731,945	100

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

TAIWAN DEPOSITORY & CLEARING CORPORATION
STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012		2011	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 16)				
Securities settlement	\$ 567,650	19	\$ 812,327	23
Securities recording	657,782	22	857,749	25
Maintenance services	317,002	11	318,606	9
Transfer processing services	321,015	11	376,458	11
Bills and bonds clearing and custodial services	589,895	20	480,659	14
Futures clearing services	287,024	9	335,685	10
Securities registration and distribution services	99,735	3	123,144	3
Others	153,044	5	164,290	5
Total operating revenues	2,993,147	100	3,468,918	100
OPERATING EXPENSES				
Personnel (Notes 2 and 15)	930,937	31	907,157	26
General and administrative (Notes 2, 9 and 17)	905,853	31	920,902	27
Total operating expenses	1,836,790	62	1,828,059	53
OPERATING INCOME	1,156,357	38	1,640,859	47
NONOPERATING REVENUES AND GAINS				
Interest	210,106	7	195,499	6
Gains on financial assets held for trading (Note 2)	8,495	-	10,627	-
Equity in earnings of equity-method investees, net (Notes 2 and 10)	16,403	1	14,815	-
Dividend income (Note 2)	39,750	1	26,057	1
Gain on deposit of properties	136	-	-	-
Others	17,173	1	4,395	-
Total nonoperating revenues and gains	292,063	10	251,393	7



(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2012		2011	
	Amount	%	Amount	%
NONOPERATING EXPENSES AND LOSSES				
Loss on disposal of properties	\$ -	-	\$ 269	-
Others	6,116	-	6,088	-
Total nonoperating expenses and losses	6,116	-	6,357	-
INCOME BEFORE INCOME TAX	1,442,304	48	1,885,895	54
INCOME TAX (Notes 2 and 13)	235,835	8	311,108	9
NET INCOME	\$ 1,206,469	40	\$ 1,574,787	45
	<u>Before Income Tax</u>	<u>After Income Tax</u>	<u>Before Income Tax</u>	<u>After Income Tax</u>
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 14)				
Basic earnings per share (computed by the weighted average number of common shares outstanding)				
Net income	\$ 4.49	\$ 3.76	\$ 5.88	\$ 4.91

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

TAIWAN DEPOSITORY & CLEARING CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2012 AND 2011

	Capital Stock		Capital Surplus
	Shares	Amount	
BALANCE, JANUARY 1, 2011	298,183	\$ 2,981,829	\$ 476,394
Appropriation of prior year's earnings:			
Legal reserve	-	-	-
Special reserve	-	-	-
Cash dividends - NT\$1.25 per share	-	-	-
Stock dividends - 5%	14,909	149,091	-
Net income in 2011	-	-	-
BALANCE, DECEMBER 31, 2011	313,092	3,130,920	476,394
Appropriation of prior year's earnings:			
Legal reserve	-	-	-
Special reserve	-	-	-
Cash dividends - NT\$1.50 per share	-	-	-
Stock dividends - 2.5%	7,827	78,273	-
Net income in 2012	-	-	-
BALANCE, DECEMBER 31, 2012	320,919	\$ 3,209,193	\$ 476,394



(In Thousands of New Taiwan Dollars and Shares, Except Dividend Per Share)

Retained Earnings (Note 12)

Legal Reserve	Special Reserve	Unappropriated	Total	Total Stockholders' Equity
\$ 1,353,369	\$ 6,256,269	\$ 1,838,042	\$ 9,447,680	\$ 12,905,903
160,501	-	(160,501)	-	-
-	930,906	(930,906)	-	-
-	-	(372,728)	(372,728)	(372,728)
-	-	(149,091)	(149,091)	-
-	-	1,574,787	1,574,787	1,574,787
1,513,870	7,187,175	1,799,603	10,500,648	14,107,962
157,479	-	(157,479)	-	-
-	881,881	(881,881)	-	-
-	-	(469,638)	(469,638)	(469,638)
-	-	(78,273)	(78,273)	-
-	-	1,206,469	1,206,469	1,206,469
\$ 1,671,349	\$ 8,069,056	\$ 1,418,801	\$ 11,159,206	\$ 14,844,793

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

TAIWAN DEPOSITORY & CLEARING CORPORATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
	Amount	Amount
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,206,469	\$ 1,574,787
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	108,223	107,498
Cash dividends received from investments accounted for by the equity method	9,304	9,167
Equity in earnings of equity-method investees, net	(16,403)	(14,815)
Loss (gain) on disposal of properties	(136)	269
Valuation adjustment on financial assets	12	75
Provision for default damages	71,367	118,257
Amortization of bond premium and discount, net	16,116	22,513
Deferred income tax	(468)	(1,158)
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss	135,573	7,750
Notes and accounts receivable	(20,635)	112,626
Other financial assets - current	(85,367)	97,016
Other current assets	(10,141)	(3,809)
Accrued expenses	50,511	12,385
Income tax payable	(72,725)	(19,634)
Receipts under custody	82,154	(84,282)
Other current liabilities	54,541	(12,447)
Net cash provided by operating activities	<u>1,528,395</u>	<u>1,926,198</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in held-to-maturity financial assets	(1,665,151)	(1,308,446)
Repayment of held-to-maturity financial assets	1,096,457	1,691,991
Increase in default damages fund	(95,375)	(128,336)
Return of capital on investments accounted for by the equity method	-	24,700
Acquisition of properties	(226,757)	(88,697)
Proceeds from the disposal of properties	1,408	65
Increase in refundable deposits	(537)	(521)
Increase in deferred charges	(17,386)	(8,486)
Net cash (used in) provided by investing activities	<u>(907,341)</u>	<u>182,270</u>



(In Thousands of New Taiwan Dollars)

	2012	2011
	Amount	Amount
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid	(\$ 469,638)	(\$ 372,728)
INCREASE IN CASH	151,416	1,735,740
CASH, BEGINNING OF YEAR	5,489,779	3,754,039
CASH, END OF YEAR	<u>\$ 5,641,195</u>	<u>\$ 5,489,779</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Income tax paid	<u>\$ 309,028</u>	<u>\$ 331,900</u>

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

TAIWAN DEPOSITORY & CLEARING CORPORATION
SCHEDULE FOR APPROPRIATION OF EARNINGS

FOR YEAR 2012

(In New Taiwan Dollars)

	Amount	Amount
Net income in 2012		\$ 1,206,469,502
Reserved Items		
Legal reserve	\$ 120,646,950	
Special reserve	663,558,226	784,205,176
Balance after reserve		422,264,326
Add: Earning, beginning of year		212,331,805
Earnings available to appropriation in 2012		634,596,131
Appropriation of earning		
Stockholders' cash dividends	369,057,249	
Stockholders' stock dividends	64,183,870	433,241,119
Unappropriated retained earnings at end of 2012		\$ 201,355,012

Note : A bonus to employees also should be paid under the Corporation's "The Principles of Employees Bonus Issuance". The board of directors planned to pay a cash bonus to employees at the ratio of 9.59% for the year 2012, which amounted to TWD 60,857,769.

TAIWAN DEPOSITORY & CLEARING CORPORATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

Taiwan Depository & Clearing Corporation (the "Corporation") was incorporated on October 17, 1989. It provides the following services: (a) custody of securities certificates; (b) maintenance of records of securities settled or pledged; (c) electronic processing of records for securities; (d) service in connection with book-entry distribution of securities; (e) book-entry registration of noncertificated securities; (f) depository and clearing of short-term bills; and (g) other services approved by the Financial Supervisory Commission (FSC).

In their meeting on February 8, 2006, the stockholders of Taiwan Securities Central Depository Co., Ltd. (TSCD) decided that TSCD merge with Debt Instruments Depository and Clearing Co., Ltd. TSCD, the survivor entity, was renamed Taiwan Depository & Clearing Corporation. The Corporation's board of directors set March 27, 2006 as the acquisition date.

On April 14, 2010, the Corporation obtained approval from the Taipei City Tax Authorities for the Corporation to calculate, from May 2010, its business tax in line with Chapter 4 of Section II under Article 11 of the value-added and non-value-added Business Tax Act.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in conformity with the requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards and accounting principles generally accepted in the Republic of China.

Accounting Estimates

Under these guidelines and principles, the Corporation has to make certain estimates and assumptions that could affect the allowance for property depreciation, income tax, pension cost, loss on pending litigations, asset impairment and bonuses to employees. Actual results could differ from these estimates. The Corporation's significant accounting policies are summarized as follows:

Current/Noncurrent Assets and Liabilities

Cash and other assets to be realized, received or used up within a year are classified as current. Liabilities to be paid off or settled within a year are classified as current. Properties, intangible assets, and all other assets and liabilities are classified as noncurrent.

Financial Instruments at Fair Value Through Profit or Loss

Financial instruments at fair value through profit or loss are beneficial certificates of mutual funds. The instruments are initially recognized at fair value, with transaction costs expensed as incurred. After initial recognition, the instruments are remeasured at fair value, with the changes in fair value recognized as current profit or loss. Cash dividends received are accounted for as current revenue. A regular way purchase or sale of financial assets is recognized and de-recognized using settlement date accounting.

For beneficiary certificates (open-end funds), fair values are determined at net asset values as of the balance sheet date.

Held-to-maturity Financial Assets

Held-to-maturity financial assets are carried at amortized cost using the interest method. The straight line method may be used if there is no significant difference between using this method and the interest method. At initial recognition, the costs of the financial assets are valued at fair value of the financial assets together with the acquisition or issue costs. Any gain or loss on asset disposal, impairment or amortization is charged to current income. The Corporation uses settlement date accounting for regular way purchases or sale of held-to-maturity financial assets.

An impairment loss is recognized when there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior years.

Financial Assets Carried at Cost

Equity investments, such as unlisted stocks with fair value that cannot be reliably measured, are carried at original cost. Cash dividends received are recognized as investment income on the ex-dividend dates but are accounted for as reductions of the original investment costs if these dividends are declared on the investees' earnings attributable to periods before the purchase of the investments. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated on the basis of the new number of shares held.

An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

Allowances for Doubtful Accounts

Accounts receivable are assessed for impairment at the end of each reporting period and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the accounts receivable, the estimated future cash flows of the asset have been affected. Objective evidence of impairment could include:

- Significant financial difficulty of the debtor;
- Accounts receivable becoming overdue; or
- It becoming probable that the debtor will enter into bankruptcy or undergo financial reorganization.

Accounts receivable that are assessed not to be impaired individually are further assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of accounts receivable could include the Corporation's past experience of collecting payments and an increase in the number of delayed payments, as well as observable changes in national or local economic conditions that collaterals with defaults on receivables.

The amount of the impairment loss recognized is the difference between the asset carrying amount and the present value of estimated future cash flows, after taking into account the related collaterals and guarantees, discounted at the receivable's original effective interest rate.

The carrying amount of the accounts receivable is reduced through the use of an allowance account. When accounts receivable are considered uncollectible, they are written off against the allowance account. Recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized as bad debt in profit or loss.

Asset Impairment

If there is an impairment on properties and other assets, then the Corporation calculates the recoverable amount of the asset or the cash-generating unit. An impairment loss should be recognized whenever the recoverable amount of the asset or the cash-generating unit is below the carrying amount. If an impairment loss reverses, the carrying amount of the asset is increased accordingly, but the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. Goodwill is tested for impairment annually whether it is impaired or not. If the recoverable amount of goodwill is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. A reversal of this impairment loss is disallowed.

Investments Accounted for by the Equity Method

Investments in which the Corporation holds 20 percent or more of the investees' voting shares or exercises significant influence over the investees' operating and financial policy decisions are accounted for by the equity method. Under this method, investments are stated at cost on the acquisition date and subsequently adjusted for the Corporation's proportionate share or equity in the investees' net income or net loss. Cash dividends received are accounted for as a reduction of the carrying values of the investments.

The difference between the acquisition cost and the Corporation's proportionate share in the investee's equity is not amortized. The acquisition cost is allocated to the assets acquired and liabilities assumed based on their fair values at the date of acquisition, and the acquisition cost in excess of the fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is tested annually for impairment.

Stock dividends received are recorded only as an increase in the number of shares held rather than an investment income. Costs of investments sold are determined using the weighted-average method.

Impairment is tested in balance sheet date when there is objective evidence that the asset is impaired. An impairment loss is recognized. For long-term equity investments on which the Corporation has significant influence but over which it has no control, the carrying amount of each investment is compared with its own recoverable amount for the purpose of impairment testing.

Properties

Properties are carried at costs. Major additions, renewals and improvements are capitalized, while maintenance and repairs are expensed when incurred.

Depreciation is computed using the following methods and estimated service lives: buildings - straight-line method over 55 years; computers - fixed-percentage-on-declining balance method over 3 to 5 years; miscellaneous equipment - straight-line method in 2012 and fixed-percentage-on-declining balance method in 2011 (Note 3) over 3 to 15 years. Leasehold improvements are amortized over 3 to 10 years. If an asset is still in use beyond its estimated service life, its residual value is written off over its newly estimated service life.

Upon retirement or disposal of property, the related cost, accumulated depreciation and accumulated impairment are removed from the accounts, and the resulting gains or losses are credited or charged to nonoperating income or expenses.

Deferred Charges

Computer software was amortized using the fixed-percentage-on-declining balance method over three years before January 1, 2012. Starting from January 1, 2012, computer software is amortized using the straight-line method over three years (Note 3).

Goodwill

Investment premiums resulting from the cost of investment acquisition exceeding the fair value of identifiable net assets of the merged company, representing goodwill, are no longer amortized.

Retirement Fund

Monthly contributions to the retirement fund are charged to current expense. The retirement and termination benefits are paid directly from the fund, and any payments made in excess of the fund are charged to current expense (Note 15).

Income Tax

Provision for income tax is based on inter-period tax allocation. The tax effects of deductible temporary differences and unused investment credits are recognized as deferred income assets, and the tax effects of taxable temporary differences are recognized as deferred tax liabilities. Deferred tax assets and liabilities are classified as current or noncurrent on the basis of the classification of the related asset or liability for financial reporting. A deferred tax asset or liability that is not related to an asset or liability for financial reporting, including deferred tax assets related to net loss carryforwards, is classified according to the expected realization date of the temporary difference. Valuation allowance is provided for deferred tax assets that are not expected to be realized.

Adjustments of prior year's tax liabilities are added to or deducted from the current year's tax expense.

Additional income taxes of 10%, computed in accordance with the tax regulations, on undistributed earnings that were generated starting January 1, 1998 are recorded as expense in the year the stockholders resolve to retain the earnings.

If the income tax payable determined under the Income Tax Law is below the minimum amount prescribed under the Alternative Minimum Tax Act ("AMT Act"), the difference would be recorded as current income tax expense.

Revenues

Revenues are recognized when they are realized or earned upon completion of services.

3. EFFECTS OF CHANGE IN ACCOUNTING PRINCIPLES

Financial Instruments

Starting from January 1, 2011, the Corporation adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34 - "Financial Instruments: Recognition and Measurement." The main revisions include (1) finance lease receivables are now covered by SFAS No. 34; (2) the scope of the applicability of SFAS No. 34 to insurance contracts is amended; (3) loans and receivables originated by the Corporation are now covered by SFAS No. 34; (4) additional guidelines on impairment testing of financial assets carried at amortized cost when a debtor has financial difficulties and the terms of obligations have been modified; and (5) accounting treatment by a debtor for modifications in the terms of obligations. This accounting change had no effect on the Corporation's financial statements in 2011.

Accounting Estimates

Starting from January 1, 2012, the Corporation changed the depreciation and amortization method on miscellaneous equipment and deferred charges, respectively, from fixed-percentage-on-declining balance to straight-line method for better reflecting the properties usage. The changes in this accounting estimates resulted in an increase in pre-tax income of \$3,497 thousand, an increase in net income of \$2,902 thousand and an increase in after income tax basic earnings per share of NT\$0.01. This accounting change did not have a significant effect on the Corporation's financial statements in 2012.

4. CASH

	December 31	
	2012	2011
Petty cash and checking accounts	\$ 842	\$ 842
Savings accounts	64,133	16,167
Time deposits	5,576,220	5,472,770
	<u>\$ 5,641,195</u>	<u>\$ 5,489,779</u>

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT

	December 31	
	2012	2011
Financial assets held for trading		
Money market funds	\$ 1,356,991	\$ 1,492,576

6. NOTES AND ACCOUNTS RECEIVABLE, NET - THIRD PARTIES

	December 31	
	2012	2011
Notes receivable	\$ 205	\$ 82
Accounts receivable	162,117	150,864
	162,322	150,946
Less: Allowance for doubtful accounts	1,383	1,383
	\$ 160,939	\$ 149,563

7. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2012	2011
Current		
Government bonds	\$ 449,886	\$ 100,183
Bank debentures	850,751	50,009
Corporate bonds	499,451	800,000
Beneficial securities	-	46,454
	\$ 1,800,088	\$ 996,646
Noncurrent		
Government bonds	\$ 1,289,030	\$ 1,750,709
Bank debentures	2,968,602	2,159,133
Corporate bonds	700,552	1,299,206
	\$ 4,958,184	\$ 5,209,048

The effective interest rates for bonds and beneficial securities invested in by the Corporation were between 1.24% and 3.311% in 2012, and between 0.85% and 3.311% in 2011, respectively. These investments will mature by February 18, 2023.

8. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	December 31			
	2012		2011	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Unlisted common stock				
Taiwan Futures Exchange Corp.	\$ 130,000	6.50	\$ 130,000	6.50

9. DEFAULT DAMAGES FUND AND DEFAULT DAMAGES RESERVE

The Corporation complies with the default damage requirements set by the Financial Supervisory Commission (FSC), as follows:

- Recognizes monthly a provision/reserve for default damages (charged to general and administrative expenses) equal to 5% of the revenues derived from securities settlement, securities recording, maintenance services and transfer processing services;
- Contributes cash to a default damages fund (DDF), equal to the above provision/reserve for default damages, within 15 days after the end of each quarter until the accumulated fund balance equals the Corporation's paid-in capital. The DDF is invested in time deposits.

Under Rule No. 1010045022 issued by the FSC on October 16, 2012, a special reserve should be transferred from default damages reserve while preparing financial statements under IFRSs in 2013. The special reserve transferred from default damage reserve should be only used to offset a deficit and applications allowed by the FSC. Since October 2012, the Corporation has ceased to recognize monthly a provision for default damages reserve but remains to contribute cash to the default damages fund.

The provisions for default damages were \$71,367 thousand in 2012 and \$118,257 thousand in 2011. The fourth-quarter contributions to the DDF were \$21,806 thousand in 2012 and \$24,008 thousand in 2011, which were deposited in January 2013 and 2012, respectively.

10. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31			
	2012		2011	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Unlisted common stocks				
Taiwan Ratings Corporation	\$ 28,877	19.00	\$ 26,822	19.00
Taiwan-Ca. Inc.	46,516	18.07	41,472	18.07
	<u>\$ 75,393</u>		<u>\$ 68,294</u>	

Investment incomes recognized under the equity method were \$16,403 thousand in 2012 and \$14,815 thousand in 2011.

Taiwan Ratings Corporation made a 65% capital deduction by distributing cash in 2010. The Corporation received a capital refund of \$24,700 thousand in 2011.

The carrying value of the investments accounted for by the equity method and the equity in their net income were based on the investees' audited financial statements.

11. RECEIPTS UNDER CUSTODY

Since August 2006, the Corporation has provided receipt and payment services involving offshore mutual funds. The receipts on this business are debited to other financial assets - current and credited to receipts under custody upon being received and are reversed when payments are made.

12. STOCKHOLDERS' EQUITY

The Corporation's articles of incorporation provide that annual net income less any deficit of prior years should be appropriated as follows:

- 10% as legal reserve.
- From the remainder, a special reserve at a percentage (80% as the maximum) determined by the Financial Supervisory Commission;
- From the remainder after above items (a) and (b), along with retained earnings of prior years, a bonus to employees of between 1% and 12%, as determined by the board of directors; and
- From the final remainder: Appropriation as proposed by the board of directors and approved by the stockholders.

The bonuses to employees were \$78,646 thousand in 2012 and \$74,347 thousand in 2011. The bonuses to employees were estimated on the basis of past experiences. Material differences between these estimates and the amounts proposed by the Board of Directors in the following year are adjusted in the year of the proposal. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate.

The appropriations from the 2011 and 2010 earnings were approved in the stockholders' meetings on June 20, 2012 and June 22, 2011, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Year 2011	For Year 2010	For Year 2011	For Year 2010
Legal reserve	\$ 157,479	\$ 160,501		
Special reserve	881,881	930,906		
Cash dividends	469,638	372,728	\$ 1.50	\$ 1.25
Stock dividends	78,273	149,091	0.25	0.50

The stock dividends of \$78,273 thousand for appropriations of year 2011 earnings, which was a total of 7,827 thousand shares, caused an increase in the capital stock to \$3,209,193 thousand. The Corporation set July 31, 2012 as the effective date of this capitalization, and this capitalization was approved by the Ministry of Economic Affairs on August 20 2012.

The bonus to employees for 2011 and 2010 approved in the stockholders' meetings on June 20, 2012 and June 22, 2011 were \$73,059 thousand and \$71,378 thousand, respectively. The approved amounts of the bonus to employees were different from the accrual amounts of \$74,347 thousand and \$73,941 thousand included in the financial statements for the years ended December 31, 2011 and 2010, respectively, and the differences of \$(1,288) thousand and \$(2,563) thousand had been adjusted in profit for the years ended December 31, 2012 and 2011, respectively.

Under the Company Act, legal reserve should be appropriated until it reaches the Corporation's paid-in capital. This reserve may be used to offset a deficit. If the Corporation has no deficit and the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

13. INCOME TAX

a. The reconciliation of the income tax expense on income before income tax at the statutory tax rate of 17% and income tax expense was as follows:

	2012	2011
Income tax expense on income before income tax at statutory rate	\$ 245,192	\$ 320,602
Deduct tax effects of:		
Permanent differences	(10,990)	(8,699)
Temporary differences	62	(1,535)
Income tax expense - current	234,264	310,368
Deferred income tax	(468)	2,224
Adjustment of prior years' tax	2,039	(1,484)
Income tax expense	<u>\$ 235,835</u>	<u>\$ 311,108</u>

b. Deferred income tax assets (liabilities) were as follows:

	December 31	
	2012	2011
Current		
Employees' welfare expenses	\$ 155	\$ 49
Noncurrent		
Contributions to retirement fund	\$ 14,418	\$ 14,418
Employees' welfare expenses	362	-
Goodwill	(38,889)	(38,889)
	(24,109)	(24,471)
Less: Valuation allowance	(14,418)	(14,418)
	<u>(\$ 38,527)</u>	<u>(\$ 38,889)</u>

c. Imputation credit account (ICA)

	December 31	
	2012	2011
Balance of ICA	\$ 244,409	\$ 253,014

The expected creditable tax ratio for dividend distribution from earnings of 2012 was 20.33% and the first and the second actual creditable tax ratios for dividend distribution from earnings of 2011 were both 20.56%.

For distribution of earnings generated after January 1, 1998, the ratio for the imputation credits allocated to stockholders of the Corporation is based on the balance of the ICA as of the date of dividend distribution. The expected creditable ratio for the 2012 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

The unappropriated retained earnings of December 31, 2012 and 2011 were all generated after January 1, 1998.

d. Income tax returns through 2009 except 2008 had been examined by the tax authorities.

e. On the Corporation's 2004 and 2005 tax returns, the tax authorities assessed the Corporation an additional income tax of \$6,522 thousand and \$9,376 thousand, respectively. The additional tax assessments arise from the tax authorities' denying (a) the deduction of interest revenue arising from the amortization of premiums/discounts on long-term investments in bonds, (b) the deductibility from income tax payable of 10% tax already withheld from interest revenue on bonds pertaining to periods when those bonds were held by other investors and (c) investment tax credits. The Corporation paid the additional income taxes even if it claimed that the assessments about item (a) on the tax amounts of \$6,052 thousand in 2004 and \$6,528 thousand in 2005 were unreasonable. The Corporation filed an appeal for the reexamination of these returns, but the Supreme Court of the Republic of China rejected this appeal in 2011.

f. On the Corporation's 2006 and 2007 tax returns, the tax authorities disallowed the Corporation's amortization of goodwill amounting to \$25,362 thousand and \$33,817 thousand, which resulted from the Corporation's merger with Debt Instrument Depository and Clearing Corporation, with the Corporation as the survivor entity. The authorities considered the valuation

of goodwill on this merger unreasonable. The Corporation disagreed with the authorities' assessment and thus initiated an administrative litigation. The Corporation recognized as deferred income tax liabilities the tax effects amounting to \$6,340 thousand for 2006 and \$8,454 thousand for 2007. The Corporation also claimed that the assessment of additional income taxes of \$7,549 thousand and \$4,402 thousand on the tax returns of 2006 and 2007, respectively, by the tax authorities because of their rejecting the Corporation's reduction of interest revenue arising from the amortization of premiums of \$30,197 thousand and \$17,608 thousand, respectively, on long-term investments in bonds was unreasonable and thus filed for reexamination. The Corporation recognized the additional income tax expenses as increases in the income tax payable for 2009.

14. EARNINGS PER SHARE

The numerators and denominators used in calculating earnings per share (EPS) were as follows:

	Net Income (as Numerator)		Shares (as Denominator) (Thousands)	Earnings Per Share (Dollars)	
	Pretax	After Tax		Pretax	After Tax
<u>2012</u>					
Basic EPS (computed by the weighted average numbers of common shares outstanding)					
Net income	\$ 1,442,304	\$ 1,206,469	320,919	\$ 4.49	\$ 3.76
<u>2011</u>					
Basic EPS (computed by the weighted average numbers of common shares outstanding)					
Net income	\$ 1,885,895	\$ 1,574,787	320,919	\$ 5.88	\$ 4.91

The weighted average number of shares outstanding for EPS calculation has been retroactively adjusted for the issuance of employee stock bonuses distributed out of earnings for the year ended December 31, 2011 and stock dividends (Note 12). This adjustment caused the basic pretax EPS and after income tax EPS for the year ended December 31, 2011 to decrease from NT\$6.02 to NT\$5.88 and from NT\$5.03 to NT\$4.91, respectively.

15. RETIREMENT PLAN

The Corporation has a retirement plan for all regular employees.

The retirement plan provides for the following:

- Establishment of two separate funds, one is the Corporation-contributed fund and the other is the employee-contributed fund, with the Corporation and each employee making monthly contributions, equal to 13.5% and 3%, respectively, of monthly salaries and wages;
- Establishment of a common fund, with the Corporation making monthly contributions equal to 1.5% of salaries and wages.
- Upon retirement or termination, an employee receives benefits as follows:
 - When employees retire, the benefit is paid from the interest and the principals of the Corporation-contributed fund, the employee-contributed fund and the common fund under certain rules.
 - An additional 20% payment (based on the benefits stated in item (1) above) to be taken from the common fund when retirement or termination is due to work-related injury.

All of the retirement funds are administered by a nonmanagerial fund administration committee and managerial retirement plan committee and deposited in the committees' names in financial institutions.

The Labor Pension Act (the "Act") took effect on July 1, 2005. Based on the defined contribution pension plan under the Act, the rate of the Corporation's required monthly contributions to the employees' individual pension accounts in the Bureau of Labor Insurance is at 6% of salaries and wages.

The Corporation had 506 and 497 employees as of December 31, 2012 and 2011, respectively. The Corporation's pension expenses are \$118,288 thousand (including a defined contribution cost of \$14,695 thousand) in 2012 and \$121,873 thousand (including a defined contribution cost of \$13,914 thousand) in 2011. As of December 31, 2012 and 2011, the aggregated balances of all funds mentioned above were \$1,693,418 thousand and \$1,573,137 thousand, respectively.

16. RELATED PARTY TRANSACTIONS

a. Related parties and their relationships with the Corporation

Related Party	Relationship with the Corporation
Taiwan Stock Exchange Corporation (TWSE)	Major stockholder (50.43%)
Yuanta Securities Finance Co., Ltd.	Corporation director
KGI Securities Co., Ltd.	Corporation director
Fubon Securities Co., Ltd.	Corporation director
SinoPac Securities Co., Ltd.	Corporation supervisor
Taiwan Ratings Corporation	Equity-method investee
Taiwan-Ca. Inc.	Equity-method investee
Taiwan Futures Exchange Corporation (TAIFEX)	Corporation is a director of TAIFEX
Gre Tai Securities Market (GTSM)	Corporation is a director of GTSM

b. Significant transactions with related party

	2012		2011	
	Amount	%	Amount	%
Operating revenues - securities settlement				
TWSE	\$ 485,250	85	\$ 689,468	85
GTSM	82,400	15	122,859	15
	<u>\$ 567,650</u>	<u>100</u>	<u>\$ 812,327</u>	<u>100</u>
Operating revenues - securities recording				
KGI Securities Co., Ltd.	\$ 52,055	8	\$ 70,092	8
Fubon Securities Co., Ltd.	39,782	6	54,266	7
SinoPac Securities Co., Ltd.	34,190	5	42,973	5
	<u>\$ 126,027</u>	<u>19</u>	<u>\$ 167,331</u>	<u>20</u>
Operating revenues - maintenance services				
KGI Securities Co., Ltd.	\$ 2,280	1	\$ 2,835	1
SinoPac Securities Co., Ltd.	1,889	1	2,067	-
Fubon Securities Co., Ltd.	1,713	-	2,098	1
Yuanta Securities Finance Co., Ltd.	1,635	-	2,115	1
TAIFEX	2	-	-	-
	<u>\$ 7,519</u>	<u>2</u>	<u>\$ 9,115</u>	<u>3</u>
Operating revenues - transfer processing services				
KGI Securities Co., Ltd.	\$ 14,649	4	\$ 15,198	4
SinoPac Securities Co., Ltd.	9,202	3	12,008	3
Fubon Securities Co., Ltd.	9,173	3	10,290	3
Yuanta Securities Finance Co., Ltd.	3,668	1	4,583	1
TAIFEX	2	-	1	-
	<u>\$ 36,694</u>	<u>11</u>	<u>\$ 42,080</u>	<u>11</u>

	2012		2011	
	Amount	%	Amount	%
Operating revenues - futures clearing services				
TAIFEX	\$ 287,024	100	\$ 335,685	100
Operating revenues - others				
TWSE	\$ 20,930	14	\$ 21,114	13
KGI Securities Co., Ltd.	11,772	7	10,749	7
Fubon Securities Co., Ltd.	8,602	6	8,538	5
SinoPac Securities Co., Ltd.	4,867	3	5,640	3
GTSM	2,639	2	2,638	2
TAIFEX	500	-	26	-
	<u>\$ 49,310</u>	<u>32</u>	<u>\$ 48,705</u>	<u>30</u>

c. Receivables from related parties

	2012		2011	
	Amount	%	Amount	%
TWSE	\$ 40,856	47	\$ 36,518	47
TAIFEX	22,922	26	23,235	30
GTSM	7,426	8	4,875	6
KGI Securities Co., Ltd.	6,756	8	5,780	7
Fubon Securities Co., Ltd.	4,938	6	4,244	5
SinoPac Securities Co., Ltd.	4,489	5	3,427	4
Yuanta Securities Co., Ltd.	423	-	472	1
	<u>\$ 87,810</u>	<u>100</u>	<u>\$ 78,551</u>	<u>100</u>

The terms for the above transactions were the same as those for third parties, except for operating revenues on securities settlement and clearing futures services, which referred to certain agreements between related parties.

17. COMMITMENTS AS OF DECEMBER 31, 2012

- The Corporation had custody of stocks, beneficial certificates, warrants and convertible bonds with aggregate par value of about \$11,369,715,995 thousand; domestic bonds with aggregate par value of about \$2,611,164,307 thousand; international bonds with aggregate par value of about \$4,926,494 thousand; U.S. dollar short-term bills with aggregate par value of about US\$390 thousand; and short-term bills with aggregate par value of about \$1,023,871,836 thousand.
- The Corporation had a payable amounting to \$83,371 thousand pertaining to equipment, computer software and other purchases.
- The Corporation is under renewable operating lease contracts with third-party companies, with the latest expiry in March 2017. For these leases, the Corporation had paid refundable deposits aggregating \$36,832 thousand, recorded as refundable deposit.

The lease expenses (including imputed lease expenses) were \$88,392 thousand in 2012 and \$87,980 thousand in 2011.

Future minimum lease payables were as follows:

Year	Amount
2013	\$ 74,839
2014	7,833
2015	7,833
2016	7,833
2017	1,958

18.FINANCIAL INSTRUMENTS

a.Fair value of financial instruments

	2012		2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<u>Financial assets</u>				
Financial assets - with fair values approximating carrying amounts	\$ 8,090,687	\$ 8,090,687	\$ 7,737,895	\$ 7,737,895
Financial assets at fair value through profit or loss	1,356,991	1,356,991	1,492,576	1,492,576
Held-to-maturity financial assets	6,758,272	6,910,399	6,205,694	6,371,575
Refundable deposits - bonds	94,015	112,338	93,477	112,250
<u>Financial liabilities</u>				
Financial liabilities - with fair values approximating carrying amounts	731,922	731,922	543,477	543,477

b.Methods and assumptions applied in estimating the fair values of financial instruments are as follows:

- (1)The carrying amounts of cash, notes and accounts receivable, other financial assets - current, default damages fund, some refundable deposits, accrued expenses, receipts under custody and some other current liabilities approximate their fair values because of the short maturities of these instruments.
- (2)For financial assets at fair value through profit or loss, held-to-maturity financial assets and refundable deposits - bonds, fair value is best determined at quoted market prices. If quoted market prices are not available, fair values are based on estimates using indirect data and appropriate valuation methodologies. The valuation techniques incorporate estimates and assumptions that are consistent with prevailing market conditions.

The total fair value shown above is not equal to the total fair value of the Corporation because it is not necessary to disclose the fair value of some financial and nonfinancial instruments.

c.Fair values of financial assets based on quoted market prices or estimates are summarized as follows:

	Quoted Market Prices		Fair Value Based on Estimates	
	2012	2011	2012	2011
<u>Financial assets</u>				
Financial assets at fair value through profit or loss	\$ 1,356,991	\$ 1,492,576	\$ -	\$ -
Held-to-maturity financial assets	6,910,399	6,321,513	-	50,062
Refundable deposits - bonds	112,338	112,250	-	-

d.Financial risk information

(1)Market risk

The fair value of the bond funds the Corporation invested in will fluctuate with the changes in the fund net asset values. Held-to-maturity financial assets, which have fixed interest rates, amounted to \$6,358,272 thousand and \$5,805,694 thousand for the years ended 2012 and 2011, respectively, and their fair values will fluctuate with the changes in market interest rates. However, the Corporation classified the bonds as held-to-maturity financial assets, which gain interest throughout their maturity period and will not generate gains or losses from fair value fluctuations. The future cash flow on floating-interest-rate instruments, which amounted to \$400,000 thousand for each of the years ended December 31, 2012 and 2011, will fluctuate with the changes in market interest rates but will entail no market risk.

(2)Credit risk

The Corporation is exposed to credit risk from counter-parties' default on contracts. The related maximum potential loss is the carrying value of the assets as of the balance sheet date.

(3)Liquidity risk

The bonds and bond funds the Corporation invested in have an active market and are expected to be easily sold at prices approximating their fair value, except for held-to-maturity financial assets and unlisted stocks (classified as financial assets carried at cost). Thus, liquidity risk is quite low.

e. The policies and goals of risk management

The Corporation considers the risk, duration, and the economic environment of the invested financial instruments periodically and reallocates and controls the investments to manage market and liquidity risks. The Corporation also examines counter-parties' creditworthiness to manage its credit risk periodically.

19. PLAN FOR THE ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Under Rule No. 0990004943 issued by the Financial Supervisory Commission (FSC) on February 2, 2010, the Corporation discloses the following information on the adoption of International Financial Reporting Standards (IFRSs):

- a. Under Rule No. 0980032638 and No. 0980037943 issued by the FSC on June 23, 2009 and July 20, 2009, starting 2013, the Corporation should prepare their financial statements in accordance with the International Financial Reporting Standards, and the Interpretations as well as related guidances translated by the Accounting Research and Development Foundation and issued by the FSC. To comply with this adoption, the Corporation has set up a project team and made a plan to adopt the IFRSs. The main contents of the plan, schedule and status of execution as of December 31, 2012 were as follows:

Contents of Plan	Responsible Department	Status of Execution
1) Analysis and planning stage: July 1, 2009 to December 31, 2012 <ul style="list-style-type: none"> • Establish an IFRS committee • Collect information and understand the IFRS framework • Have a Stage I employee training • Analyze differences between the existing accounting policies and the accounting policies to be adopted under IFRSs • Evaluate the effect of IFRS adoption on regular operations • Identify the investees that need to be accounted for by the equity method • Preliminarily select the IFRS accounting policies applicable to the Corporation • Evaluate the resources and budget needed for IFRS adoption 	Finance department Finance department Finance, administration department Finance department Finance, administration, system development, internal auditing, and operation-related departments Finance department Finance department Finance department	Completed Completed Completed Completed Completed Completed Completed Completed
2) Design and execution stage: July 1, 2010 to March 31, 2013 <ul style="list-style-type: none"> • Have a Stage 2 employee training • Modify the plan for IFRS adoption • Select accounting policies based on IFRSs • Propose the solutions to problems arising from the effects of IFRS adoption on operations • Modify the business and financial reporting processes, information system and each segment's operation • Prepare draft IFRS financial reports • Conduct information system parallel tests and identify the processes needing modification • Disclose the effects of IFRS adoption on financial reports • Communicate to invested related parties the expected initial effects 	Finance, planning, and administration departments Finance department Finance, administration departments Finance, administration, system development, internal auditing, and operation-related departments Finance, administration, system development, internal auditing, and operation-related departments Finance department Finance, administration, and system development departments Finance department Finance, operation-related departments	Completed Completed Completed Completed Completed Completed Completed Ongoing Completed
3) Transition stage: January 1, 2012 to June 30, 2013 <ul style="list-style-type: none"> • Complete the preparation of the first IFRS-based financial position statement • Have a Stage 3 employee training • Prepare initial IFRS-based financial reports • Propose procedures for improving the process of preparing financial reports under IFRSs • Conduct parallel tests on R.O.C. GAAP and IFRS conducting for accounting records • Complete manuals for IFRS-based accounting and other operating procedures • Communicate continually to invested related parties the expected effects of IFRS adoption 	Finance department Finance, planning, and administration departments Finance department Finance department Finance department Finance, administration, internal auditing, and operation-related departments Finance, operation-related department	Completed Completed Ongoing Ongoing Completed Ongoing Completed
4) Adjustment and improvement stage: January 1, 2013 to December 31, 2013 <ul style="list-style-type: none"> • Prepare final IFRS-based financial statements • Integrate management information and performance evaluation • Analyze and improve continually the process of IFRS adoption • Design evaluation procedures for new transactions under IFRSs • Communicate continually to invested related parties the expected effects of IFRS adoption and take action, as needed 	Finance department Finance, administration, internal auditing, and operation-related departments Finance department Finance, administration, internal auditing, and operation-related departments Finance, operation-related department	

b. Significant differences between the current accounting policies under generally accepted accounting principles of the Republic of China (R.O.C. GAAP) and the accounting policies to be adopted under IFRSs as well as the effects of transition to IFRS are as follows:

(1) Reconciliation of the statement of financial position as of January 1, 2012

R.O.C. GAAP		Effect of Transition to IFRSs		IFRSs		
Account	Amount	Recognition and Measurement Difference	Presentation Difference	Amount	Account	Note
Current assets				Current assets		
Cash	\$ 5,489,779	\$ -	(\$ 3,115,554)	\$ 2,374,225	Cash and cash equivalents	6) a)
Financial assets at fair value through profit or loss - current	1,492,576	-	-	1,492,576	Financial assets at fair value through profit or loss - current	
Held-to-maturity financial assets - current	996,646	-	-	996,646	Held-to-maturity financial assets - current	
Notes and accounts receivable, net					Notes and accounts receivable, net	
Third parties	149,563	-	-	149,563	Third parties	
Related parties	78,551	-	-	78,551	Related parties	
Other financial asset-current	131,500	-	3,115,554	3,247,054	Other financial assets - current	6) a)
Deferred income tax assets - current	49	-	(49)	-		6) b)
Other current assets	46,611	-	-	46,611	Other current assets	
Total current assets	8,385,275			8,385,226	Total current assets	
Funds and investments				Non-current assets		
Held-to-maturity financial assets - noncurrent	5,209,048	-	-	5,209,048	Held-to-maturity financial assets - noncurrent	
Financial assets carried at cost - noncurrent	130,000	-	(130,000)	-		6) d)
	-	716,755	130,000	846,755	Available-for-sale financial assets - noncurrent	6) d)
Default damages fund	1,845,160	-	-	1,845,160	Default damages fund	
Investments accounted for by the equity method	68,294	-	-	68,294	Investments accounted for by the equity method	
Total funds and investments	7,252,502					
Net properties	777,730	-	(63,541)	714,189	Properties and equipment, net	6) f)
	-	-	63,541	63,541	Investment properties	6) f)
Intangible assets	-	-	10,259	10,259	Intangible assets	6) g)
Goodwill	169,083	-	-	169,083	Goodwill	
Other assets						
Refundable deposits	136,819	-	-	136,819	Refundable deposits	
Deferred charges	10,259	-	(10,259)	-		6) g)
	-	6,359	49	6,408	Deferred income tax assets	6) b), h)
Others	277	-	-	277	Others	
Total other assets	147,355			9,069,833	Total non-current assets	
Total	\$ 16,731,945	\$ 723,114	\$ -	\$ 17,455,059	Total	

R.O.C. GAAP		Effect of Transition to IFRSs		IFRSs		
Account	Amount	Recognition and Measurement Difference	Presentation Difference	Amount	Account	Note
Current liabilities				Current liabilities		
Accrued expenses	\$ 434,494	\$ 37,408	(\$ 35,084)	\$ 436,818	Accrued expenses	6) h), i)
Income tax payable	159,180	-	-	159,180	Income tax payable	
Receipts under custody	57,691	-	-	57,691	Receipts under custody	
Other current liabilities	64,561	-	-	64,561	Other current liabilities	
Total current liabilities	715,926			718,250	Total current liabilities	
Other liabilities				Non-current liabilities		
Default damages reserve	1,869,168	(1,869,168)	-	-		4), 6) j)
	-	255,139	35,084	290,223	Accrued pension liabilities	6) i)
Deferred income tax liabilities - noncurrent	38,889	211,849	-	250,738	Deferred income tax liabilities	6) j)
Total other financial liabilities	1,908,057			540,961	Total non-current liabilities	
Total liabilities	2,623,983	(1,364,772)	-	1,259,211	Total liabilities	
Stockholders' equity				Stockholders' equity		
Capital stock	3,130,920	-	-	3,130,920	Capital stock	6) e)
Capital surplus	476,394	(159)	-	476,235	Capital surplus	
Retained earnings	10,500,648	1,371,290	-	11,871,938	Retained earnings	4), 6) e), h), i), j)
	-	716,755	-	716,755	Other equity	
					Unrealized loss or gain on available-for-sale financial assets	6) d)
Total stockholders' equity	14,107,962	2,087,886	-	16,195,848	Total stockholders' equity	
Total	\$ 16,731,945	\$ 723,114	\$ -	\$ 17,455,059	Total	

(2) Reconciliation of the statement of financial position as of December 31, 2012

R.O.C. GAAP		Effect of Transition to IFRSs		IFRSs		
Account	Amount	Recognition and Measurement Difference	Presentation Difference	Amount	Account	Note
Current assets					Current assets	
Cash	\$ 5,641,195	\$ -	(\$ 3,219,004)	\$ 2,422,191	Cash and cash equivalents	6) a)
Financial assets at fair value through profit or loss - current	1,356,991	-	-	1,356,991	Financial assets at fair value through profit or loss - current	
Held-to-maturity financial assets - current	1,800,088	-	-	1,800,088	Held-to-maturity financial assets - current	
Notes and accounts receivable, net					Notes and accounts receivable, net	
Third parties	160,939	-	-	160,939	Third parties	
Related parties	87,810	-	-	87,810	Related parties	
Other financial assets - current	216,867	-	3,219,004	3,435,871	Other financial assets - current	6) a)
Deferred income tax assets - current	155	-	(155)	-		6) b)
Other current assets	<u>56,752</u>	-	-	<u>56,752</u>	Other current assets	
Total current assets	<u>9,320,797</u>			<u>9,320,642</u>	Total current assets	
Funds and investments					Non-current assets	
Held-to-maturity financial assets - noncurrent	4,958,184	-	-	4,958,184	Held-to-maturity financial assets - noncurrent	
Financial assets carried at cost - noncurrent	130,000	-	(130,000)	-		6) d)
	-	855,446	130,000	985,446	Available-for-sale financial assets - noncurrent	6) d)
Default damages fund	1,940,535	-	-	1,940,535	Default damages fund	
Investments accounted for by the equity method	75,393	(1,905)	-	73,488	Investments accounted for by the equity method	6) e)
Total funds and investments	<u>7,104,112</u>					
Net properties	<u>899,523</u>	-	(79,497)	820,026	Properties and equipment, net	6) f)
	<u>-</u>	-	79,497	79,497	Investment properties	6) f)
Intangible assets						
	-	-	23,114	23,114	Intangible assets	6) g)
Goodwill	<u>169,083</u>	-	-	169,083	Goodwill	
Total intangible assets	<u>169,083</u>					
Other assets						
Refundable deposits	137,356	-	-	137,356	Refundable deposits	
Deferred charges	23,114	-	(23,114)	-		6) g)
	-	6,598	517	7,115	Deferred income tax assets	6) b), c), h)
Others	<u>277</u>			<u>277</u>	Others	
Total other assets	<u>160,747</u>	-	-	<u>9,194,121</u>	Total non-current assets	
Total	<u>\$ 17,654,262</u>	<u>\$ 860,139</u>	<u>\$ 362</u>	<u>\$ 18,514,763</u>	Total	

R.O.C. GAAP		Effect of Transition to IFRSs		IFRSs		
Account	Amount	Recognition and Measurement Difference	Presentation Difference	Amount	Account	Note
Current liabilities					Current liabilities	
Accrued expenses	\$ 485,005	\$ 38,814	\$ (29,352)	\$494,467	Accrued expenses	6) h), i)
Income tax payable	86,455	-	-	86,455	Income tax payable	
Receipts under custody	139,845	-	-	139,845	Receipts under custody	
Other current liabilities	<u>119,102</u>	-	-	<u>119,102</u>	Other current liabilities	
Total current liabilities	<u>830,407</u>	-	-	<u>839,869</u>	Total current liabilities	
Other liabilities					Non-current liabilities	
Default damages reserve	1,940,535	(1,940,535)	-	-		4), 6) j)
	-	339,004	29,352	368,356	Accrued pension liabilities	6) i)
Deferred income tax liabilities - noncurrent	<u>38,527</u>	<u>223,981</u>	<u>362</u>	<u>262,870</u>	Deferred income tax liabilities	6) c), j)
Total other financial liabilities	<u>1,979,062</u>			<u>631,226</u>	Total non-current liabilities	
Total liabilities	<u>2,809,469</u>	<u>(1,338,736)</u>	<u>362</u>	<u>1,471,095</u>	Total liabilities	
Stockholders' equity					Stockholders' equity	
Capital stock	3,209,193	-	-	3,209,193	Capital stock	6) e)
Capital surplus	476,394	(159)	-	476,235	Capital surplus	
Retained earnings	11,159,206	1,343,588	-	12,502,794	Retained earnings	4), 6) e), h), i), j)
	-	855,446	-	855,446	Other equity	
					Unrealized loss or gain on available-for-sale financial assets	6) d)
Total stockholders' equity	<u>14,844,793</u>	<u>2,198,875</u>	<u>-</u>	<u>17,043,668</u>	Total stockholders' equity	
Total	<u>\$ 17,654,262</u>	<u>\$ 860,139</u>	<u>\$ 362</u>	<u>\$ 18,514,763</u>	Total	

(3) Reconciliations of the statement of comprehensive income for the year ended December 31, 2012

R.O.C. GAAP		Effect of Transition to IFRSs		IFRSs		
Account	Amount	Recognition and Measurement Difference	Presentation Difference	Amount	Account	Note
Operating revenues	\$ 2,993,147	\$ -	\$ -	\$ 2,993,147	Operating revenues	
Operating expense	1,836,790	(27,520)	-	1,809,270	Operating expense	6) h), i), j)
Operating income	1,156,357	27,520	-	1,183,877	Operating income	
Nonoperating revenues and gains	292,063	(1,905)	-	290,158	Nonoperating revenues and gains	
Nonoperating expenses and losses	6,116	-	-	6,116	Nonoperating expenses and losses	
Income before income tax	1,442,304	25,615	-	1,467,919	Income before income tax	6) h), j)
Income tax	235,835	11,893	-	247,728	Income tax	
Net income	\$ 1,206,469	\$ 13,722	\$ -	1,220,191	Net income	
					Other comprehensive income	
				138,691	Unrealized value gains on available-for-sale financial assets	6) d)
				(41,424)	Actuarial losses on defined benefit plans	6) i)
				<u>\$ 1,317,458</u>	Total comprehensive income for the period	



(4) Special reserves made on the date of transition to IFRSs

As stated in the Financial Supervisory Commission's letter dated October 16, 2012 (Ref. No. 1010045022), a special reserve should be transferred from default damages reserve while preparing financial statements under IFRS in 2013.

(5) Exemptions under IFRS 1

IFRS 1 - "First-time Adoption of International Financial Reporting Standards" sets out the procedures that an entity must follow when it adopts IFRSs for the first time. Under IFRS 1, the Corporation applied the accounting policies under IFRSs retroactively to prepare and present an opening IFRS statement of financial position at the date of transition to IFRSs on January 1, 2012. IFRS 1 granted several exemptions at the first-time adoption of IFRS, and the main exemptions that the Corporation applied are as follows:

Business combinations

The Corporation elected not to apply IFRS 3, "Business Combinations," retrospectively to business combinations occurred before January 1, 2012. Therefore, in the opening balance sheet, the amount of goodwill generated from past business combinations remains the same compared with the one under R.O.C. GAAP as of December 31, 2011.

Employee benefits

The Corporation elected to recognize all cumulative actuarial gains and losses in retained earnings as of January 1, 2012. In addition, the Corporation elected to apply the exemption disclosure requirement provided by IFRS 1, in which the amounts of present value of defined benefit obligations, the fair value of plan assets, the surplus or deficit in the plan and the experience adjustments are determined for each accounting period prospectively from the transition date.

Designation of previously recognized financial instruments

Equity investments, Taiwan Future Exchange Corporation, such as unlisted stocks with fair value that cannot be reliably measured, are carried at original cost under R.O.C. GAAP. The Corporation has chosen to designate the equity investments of Taiwan Futures Exchange Corporation as available-for-sale at the date of transition to IFRSs.

The influence on the Corporation is interpreted in section 6) significant reconciliations on the conversion to IFRSs.

(6) Significant reconciliations on the conversion to IFRSs

(a) Time deposit with period over than three months

Under R.O.C. GAAP, time deposit available for cancel anytime without principal lessened is classified as cash.

Under IFRSs, time deposit over than three months is not generally classified as cash or cash equivalents. Time deposit over than three months should be classified as other financial assets because of no quoted price in active market, but with fixed or expectable amount received in the future.

As of December 31, 2012 and January 1, 2012, the amount reclassified cash and cash equivalents to other financial assets - current were \$3,219,004 thousand and \$3,115,554 thousand, respectively.

(b) Classifications of deferred income tax asset/liability and valuation allowance

Under R.O.C. GAAP, a deferred tax asset and liability is classified as current or non-current in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, it is classified as either current or non-current based on the expected length of time before it is realized or settled. Under IFRSs, a deferred tax asset and liability is classified as non-current asset or liability.

In addition, under R.O.C. GAAP, valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. Under IFRSs, deferred tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits and the valuation allowance account is no longer used.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from deferred income tax assets to non-current assets were \$155 thousand and \$49 thousand, respectively.

(c) Recognition of deferred income tax asset/liability

Under R.O.C. GAAP, deferred income tax assets - current and deferred income tax liabilities - current were recognized as net value, as well as deferred income tax assets - non-current and deferred income tax liabilities - non-current. Under IFRSs, net value is appropriate only when the Corporation has the lawful right to counterbalance the deferred income tax assets and liabilities.

As of December 31, 2012, the amounts reclassified the deferred income tax assets netted by liabilities according to R.O.C. GAAP to deferred income tax assets were \$362 thousand.

(d) Investment in unlisted or non-over-the-counter stock

According to Business Entity Accounting Act, equity investment in stocks unlisted or non-over-the-counter without significant influences, should be classified as financial assets carried at cost.

Under IFRSs, equity investment designated as available-for-sale financial assets, or not as financial assets at fair value through profit or loss should be classified as available-for-sale financial assets.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from financial assets carried at cost to available-for-sale financial assets were both \$130,000 thousand. Book value of available-for-sale financial assets and unrealized gain on available-for-sale financial assets increased by \$855,446 thousand and \$716,755 thousand, respectively. Unrealized gain on available-for-sale financial assets increased by \$138,691 thousand in 2012.

(e) Investments accounted for using the equity method

The Corporation has evaluated significant differences between current accounting policies and IFRSs for the Corporation's associates accounted for using the equity method. The significant difference is mainly due to the adjustment to employee benefits. As of December 31, 2012, investment accounted for using the equity method was adjusted for a decrease of \$1,905 thousand, equity in earnings of equity method investees was adjusted for an decrease of \$1,905 thousand for the year ended December 31, 2012.

In addition, if the investing company subscribes for additional investee's shares at a percentage different from its existing ownership percentage that results in a decrease in the investing company's holding percentage in the investee, the resulting carrying amount of the investment in the investee differs from the amount of its share in the investee's equity. Under R.O.C. GAAP, the investing company records such a difference as an adjustment to long-term investments with the corresponding amount charged or credited to capital surplus. Under IFRSs, such transaction is deemed a disposal and aforementioned difference is recognized in earnings accordingly.

As of December 31, 2012 and January 1, 2012, as a result of the differences mentioned above, capital surplus was reclassified to retained earnings by both \$159 thousand.

(f) Investment properties

Under R.O.C. GAAP, rentable assets are recognized under properties. Under IFRSs, the properties held by the owner or lessee to earn rentals or for capital appreciation should be recognized under investment properties. Thus, the aforementioned items were reclassified from properties to investment properties.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from properties to investment properties were \$79,497 thousand and \$63,541 thousand, respectively.

(g) Classification of deferred expense

Deferred expense should be recognized under other assets under R.O.C. GAAP. Under IFRSs, the Corporation reclassified deferred expense to intangible assets.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from other assets to intangible assets were \$23,114 thousand and \$10,259 thousand, respectively.

(h) Employee benefits - short-term compensated absences

Under R.O.C. GAAP, there is no specific accounting policy on short-term compensated absences. The short-term compensated absences are usually recognized as the vacation leaves are actually taken by the employees. On conversion to IFRSs, an entity should recognize the expected cost of short-term employee benefits as employees render services that increase their entitlement to these compensated absences.

Under IFRS accounting policy on short-term compensated absences, the Corporation had adjusted the accounts as of December 31, 2012 and January 1, 2012 as follows: Accrued expenses increased by \$38,814 thousand and \$37,408 thousand, respectively. Deferred income tax assets increased by \$6,598 thousand and \$6,359 thousand, respectively. In addition, for the year ended December 31, 2012, salary expenses increased by \$1,406 thousand and income tax expenses decrease by \$239 thousand.

(i) Employee benefits - actuarial gains or losses under defined benefit plan

Under R.O.C. GAAP, actuarial gains and losses were not included in pension cost according to SFAS No. 18 - "Accounting for Pensions" which is not applicable for the Corporation as non-public company according to the interpretations of the Ministry of Economic, R.O.C. On conversion to IFRSs, the actuary of defined benefit obligation are required under IAS 19 - "Employee Benefits" ("IAS 19").

The Corporation had revaluated their defined benefit plans in accordance with IAS 19. The amounts reclassified from accrued expense for defined benefit plan accrued pension liabilities by \$29,352 thousand and \$35,084 thousand, respectively. Accrued pension liabilities increased by \$339,004 thousand and \$255,139 thousand, respectively. In addition, pension cost increased by \$42,441 thousand and actuarial losses increased by \$41,424 thousand for the year ended December 31, 2012.

(j) Default damages reserve

Under Rule No. 00270 issued by the Ministry of Finance on February 19, 1990, the Corporation should make provisions for default damages and classify them as liabilities. Under IFRSs, the provision for default damages will no longer be recognized as liabilities but retained earnings.

As of December 31, 2012 and January 1, 2012, the Corporation had adjusted the accounts as follows: Default damages reserve decrease by \$1,940,535 thousand and \$1,896,168 thousand, respectively. Deferred tax liabilities increased by \$223,981 thousand and \$211,849 thousand, respectively. In addition, general and administrative expenses decreased by \$71,367 thousand, and income tax expense increased by \$12,132 thousand.

- c. The Corporation has prepared the above assessments in accordance with (a) the 2010 version of IFRSs translated by the ARDF and issued by the FSC and (b) the Guidelines Governing the Preparation of Financial Reports by Securities Issuers amended and issued by the FSC on December 22, 2011. These assessments may be changed as the FSC may issue new rules governing the adoption of IFRSs, and as other laws and regulations may be amended to comply with the adoption of IFRSs. Actual results may differ from these assessments.

20. FINANCIAL INFORMATION ON DEPOSITORY AND CLEARING OF SHORT-TERM BILLS

Please refer to Sheets 1 and 2 for the information on the custody of short-term instruments.

TAIWAN DEPOSITORY & CLEARING CORPORATION
DEPOSITORY AND CLEARING OF SHORT-TERM BILLS

BALANCE SHEETS

DECEMBER 31, 2012 AND 2011

	2012		2011	
	Amount	%	Amount	%
ASSETS				
CURRENT ASSETS				
Cash	\$ 48,976	6	\$ 2,520	-
Notes and accounts receivable	64,377	8	55,479	8
Other current assets	14,439	2	13,808	2
Total current assets	<u>127,792</u>	<u>16</u>	<u>71,807</u>	<u>10</u>
PROPERTIES				
Cost				
Computers	153,554	19	152,756	21
Miscellaneous equipment	3,086	-	6,425	1
Leasehold improvements	542	-	542	-
Total cost	<u>157,182</u>	<u>19</u>	<u>159,723</u>	<u>22</u>
Less: Accumulated depreciation				
Computers	146,898	18	146,827	20
Miscellaneous equipment	2,563	-	5,178	1
Leasehold improvements	530	-	480	-
Total accumulated depreciation	<u>149,991</u>	<u>18</u>	<u>152,485</u>	<u>21</u>
Net properties	<u>7,191</u>	<u>1</u>	<u>7,238</u>	<u>1</u>
OTHER ASSETS				
Refundable deposits	94,496	11	93,958	13
Deferred charges	2,014	-	486	-
Others	591,111	72	552,494	76
Total other assets	<u>687,621</u>	<u>83</u>	<u>646,938</u>	<u>89</u>
TOTAL	<u>\$ 822,604</u>	<u>100</u>	<u>\$ 725,983</u>	<u>100</u>



SHEET 1

(In Thousands of New Taiwan Dollars)

	2012		2011	
	Amount	%	Amount	%
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
Accrued expenses	\$ 63,688	8	\$ 57,545	8
Income tax payable	5,649	-	5,298	1
Other current liabilities	63,439	8	18,080	2
Total liabilities	132,776	16	80,923	11
STOCKHOLDERS' EQUITY				
Appropriated working capital	500,000	61	500,000	69
Unappropriated earnings	189,828	23	145,060	20
Total stockholders' equity	689,828	84	645,060	89
TOTAL	<u>\$ 822,604</u>	<u>100</u>	<u>\$ 725,983</u>	<u>100</u>

TAIWAN DEPOSITORY & CLEARING CORPORATION
DEPOSITORY AND CLEARING OF SHORT-TERM BILLS
STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars)

	2012		2011	
	Amount	%	Amount	%
OPERATING REVENUES				
Bills clearing and custodial services	\$ 446,437	97	\$ 361,641	96
Other	15,351	3	15,922	4
Total operating revenues	461,788	100	377,563	100
OPERATING EXPENSES				
Personnel	124,824	27	121,126	32
General and administrative	113,901	25	87,678	23
Total operating expenses	238,725	52	208,804	55
OPERATING INCOME	223,063	48	168,759	45
NONOPERATING REVENUES AND GAINS				
Interest	5,788	1	6,057	1
Others	-	-	10	-
Total nonoperating revenues and gains	5,788	1	6,067	1
NONOPERATING EXPENSES AND LOSSES				
Others	143	-	55	-
INCOME BEFORE INCOME TAX	228,708	49	174,771	46
INCOME TAX	38,880	8	29,711	8
NET INCOME	\$ 189,828	41	\$ 145,060	38



Internal Control Statement

Based on self-inspection, the following declaration is made regarding the Taiwan Depository & Clearing Corporation (hereinafter referred to as TDCC) internal control system for the period from January 1st, 2012 to December 31st, 2012:

1. TDCC is fully aware that the establishment, implementation and maintenance of the company's internal control system are the responsibility of the board of directors and of the company's management. TDCC has already established an internal control system. The objective of the system's establishment was to provide a reasonable level of assurance that the company's goals for the efficiency and effectiveness of the company's operations (including profitability, performance and asset protection, etc.), the reliability of its financial reports and adherence to relevant laws and regulations can be met.
2. Any internal control system has certain pre-ordained limitations. No matter how carefully designed the system may be, even the most effective internal control system can only provide a reasonable level of assurance for the three objectives noted above. In addition, the effectiveness of the internal control system is liable to be affected at changes in the environment and circumstances. However, TDCC's internal control system has a self-monitoring function; as soon as any failing in the system comes to light, the company will immediately take steps to improve it.
3. TDCC has evaluated the result of the design and implementation of the internal control system in accordance with the inspection items from the Implementation Guidelines for the Establishment of Internal Control System by Securities and Futures Market Service Enterprises (hereinafter referred to as "the Implementation Guidelines"). The inspection items adopted by the Implement Guidelines are classified into five components in line with the management control procedures: (1) Control environment; (2) Risk evaluation; (3) Control operations; (4) Information and communication; (5) Supervision. Each components in turn contains a number of items. Please refer to the Implementation Guidelines for details of these items.
4. The above-mentioned internal control inspection items have been used by TDCC to inspect the effectiveness of the design and implementation of the internal control system.
5. Based on the results of the inspection, TDCC believes that the design and implementation of the company's internal control system during the above mentioned period are acceptable in terms of the efficiency and effectiveness of the company's operations, the reliability of its financial reports and adherence to relevant laws and regulations, and can therefore provide a reasonable degree of assurance for the achievement of the above objectives.
6. The Declaration will become the major part of TDCC's annual report and will be released publicly. Any false, hidden or illegal matters will lead to lawsuit responsibility according to the Article 20, 32 171 and 174 of the Securities Exchange Act.
7. This Declaration was approved by TDCC's Board of Directors on February 20, 2013.

Taiwan Depository & Clearing Corporation

Chairman

Ding, Kung-Wha

President

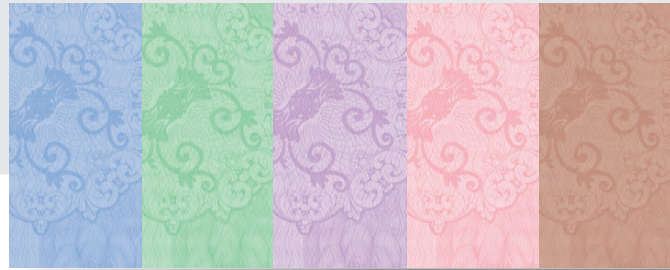
Sherman Lin

February 20, 2013



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