

## Financial Status, Operating Results and Risk Management

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## I. Financial Status

### Financial Status Comparison and Analysis

Unit: NT\$ 1,000

Item	2012	2013	Difference	
			Amount	%
Total Assets	5,888,611,762	6,157,881,820	269,270,058	4.57
Total Liabilities	5,768,597,430	6,014,733,758	246,136,328	4.27
Total Owners' Equity	120,014,332	143,148,062	23,133,730	19.28

#### Explanation of Increase/ Decrease:

1. The total capital increased by NT\$ 269,270,058,000 mainly due to :
  - (1) A decrease of NT\$ 7,308,322,000 in due from Central Bank and Other Banks.
  - (2) An increase of NT\$ 20,014,196,000 in due from Central Bank.
  - (3) A decrease of NT\$ 1,305,730,000 in financial assets net amount through Profit and Loss from Fair Value Changes
  - (4) An increase of NT\$ 576,832,000 in bonds sold under resale agreements.
  - (5) An increase of NT\$ 3,349,366,000 in discounts and loans.
  - (6) An increase of NT\$ 243,483,134,000 in fund, investment and other financial assets.
  - (7) An increase of NT\$ 277,410,000 in investment based real estate.
  - (8) A decrease of NT\$ 200,520,000 in real estate and equipment
  - (9) An increase of NT\$ 3,321,706,000 in projected income tax assets.
  - (10) An increase of NT\$ 7,061,986,000 in other assets.
2. Total liabilities have increased by NT\$ 246,136,328,000 over the previous period, mainly due to :
  - (1) An increase of NT\$ 217,523,291,000 in deposits and remittances.
  - (2) An increase of NT\$ 22,996,769,000 in insurance reserve.
  - (3) An increase by NT\$ 3,460,647,000 in employee welfare and liability reserve.
  - (4) An increase by NT\$ 2,155,621,000 in other liabilities.
3. Total owners' equity has increased by NT\$ 23,133,730,000 over the previous period mainly due to :
  - (1) An increase of NT\$ 12,060,660,000 in retained earnings.
  - (2) An increase of NT\$ 11,073,070,000 in other owners' equity.

## II. Operating Results

(I) Main reasons for major changes in operating revenue, net operating income and income before tax in the most recent 2 years

### Financial Status Comparison and Analysis

Unit: NT\$ 1,000

Item	2012	2013	Increased/ Decreased Amount	Percentage Change%
Operating Revenue	279,957,630	286,370,963	6,413,333	2.29
Operating Costs	241,009,669	245,329,264	4,319,595	1.79
Operating Profit	38,947,961	41,041,699	2,093,738	5.38
Operating Expenses	26,113,044	28,857,965	2,744,921	10.51
Operating Income	12,834,917	12,183,734	(651,183)	(5.07)
Non-operating Income	480,346	499,926	19,580	4.08
Non-operating Expenses	113,336	75,423	(37,913)	(33.45)
Income Before Tax	13,201,927	12,608,237	(593,690)	(4.50)
Income Tax Expenses	4,154,535	547,577	(3,606,958)	(86.82)
Net Income	9,047,392	12,060,660	3,013,268	33.31

Analysis on percentage change :

- Operating income has increased by NT\$ 6,413,333,000 mainly due to:
  - An increase of NT\$ 2,010,851,000 in interest income due to increase of investment in bonds.
  - An increase of NT\$ 266,197,000 in postal service income.
  - An decrease of NT\$ 896,131,000 in insurance premium
  - An increase of NT\$ 5,154,455,000 in investment profits.
  - An decrease of NT\$ 122,039,000 in other operating cost.
- Operating costs have increased by NT\$4,319,595,000 mainly due to:
  - An increase of NT\$ 2,273,133,000 in interest expenses due to the balancing of postal savings.
  - An decrease of NT\$ 33,505,456,000 i insurance claims and benefits.
  - An increase of NT\$ 35,409,607,000 in premium and pending claims reserve.
  - An increase of NT\$ 142,311,000 in other operating cost.
- Non-operating income has increased by NT\$ 19,580,000 from the previous period, mainly due to an increase miscellaneous income.
- Non-operating expenses have decreased by NT\$ 37,913,000 from the previous period, mainly due to a decrease in miscellaneous expenses.

(II) Anticipated business goals and their basis: business goals for the current fiscal year were determined in accordance with operating results from the previous year, the current business situation, and future trends. For details, please refer to page 11, (III) Operation Goals.

(III) Countermeasures: please refer to page 11, II. 2014 Operation Plan Outlines, (II) Strategic Goals.

### III. Analysis of Cash Liquidity

#### (I) Analysis of Cash Liquidity for 2012 and 2013

Item	2012	2013	Growth
Cash Liquidity Percentage	-39.55%	18.64%	58.19%
Cash Flow Adequacy Ratio	661.79%	652.12%	-9.67%
Cash Reinvestment Ratio	-0.77%	0.15%	0.92%

#### (II) Analysis of Cash Liquidity for the next year

Unit: NT\$ 1,000

Cash and Cash Equivalents, Beginning of Period	Projected Net Cash Flow from the Year's Operation	Projected Cash Inflow (Outflow) for the Entire Year	Projected Cash Balance	Contingency Plans for Projected Insufficient Cash Position	
				Financing Plan	Finance Management Plan
493,732,078	287,342,729	(237,443,146)	543,631,661	N/A	N/A

(1) Operating activities: Mainly due to the net cash inflow from the projected net profits and adjustments for noncash items.

(2) Investing activities: Mainly due to the net cash outflow from the increase of projected shares holding matured financial assets.

(3) Fundraising activities: Mainly due to the net cash outflow in fundraising activities from the projected financial debentures.

(4) Contingency plans for projected insufficient cash position and liquidity analysis: not applicable.

(5) This table is compiled in accordance with the 2014 budget of company approved by the Executive Yuan.

### IV. Effects of Major Capital Expenditures During the Most Recent Fiscal Year on Financial Operations: None

## V. Reinvestment in the Most Recent Fiscal Year:

### (I) The company had invested in the following three companies:

#### 1. Taiwan Futures Exchange:

As of the end of 2013, the company is expected to have capital of NT\$ 2,841.59 million with 284.16 million stock shares issued. The company holds 2,131,186 shares of stocks issued, or 0.75% of its outstanding common stocks. The company expects to pay a cash dividend of NT\$ 1.75 and stock dividend of 0.25 per share this year, which means the company will be getting NT\$ 3,730,000 as cash dividend and 53,279 shares as stock dividends.

#### 2. Chunghwa Express Corp.:

As of the end of 2013, the company is expected to have capital of NT\$ 100 million, with 10 million shares of stocks issued. The company holds 4 million shares of the company or 40% of its outstanding common stock. Investment income on long-term equity investment under the equity method is NT\$ 15,708,000.

#### 3. Financial Information Service Co., Ltd.:

As of the end of 2013, the company is expected to have capital of NT\$ 4.5 billion, with 450 million shares of stock issued. The company holds 5,118,750 shares of the company or 1.14% of its outstanding common stock. The company expects to pay a cash dividend of NT\$ 2.40 per share this year, which means the company will be getting NT\$ 12,285,000 as cash dividend.

### (II) The information of Chunghwa Express government shares representatives

Title	Name	Education	Main Experience	Date of Current Position Assumption	Concurrent Occupation
Chairman	C.H. Tseng	Department of Economics, Fujen University	Former Department Director, Chunghwa Post Co., Ltd.	8/31/2012	
Director of the Board	S.J. Chen	Dept. of Chinese Literature, National Chung Hsing Univ	Vice President, Chunghwa Post Co., Ltd.	1/16/2014	1. Vice President, Chunghwa Post Co., Ltd. 2. Director and Chairperson, Taiwan Postal Association
Director of the Board	G.X. Li	Chemical Engineering Department, Tamkang University	Department Director, Chunghwa Post Co., Ltd.	8/31/2012	1. Department Director, Chunghwa Post Co., Ltd. 2. Director, Taiwan Postal Association
Director of the Board	C.Y. Yeh	Dept. of Law, National Chung Hsing Univ.	Associate General Manager, Chunghwa Post Co., Ltd. & Manager of Taipei PO	7/16/2014	1. Associate General Manager, Chunghwa Post Co., Ltd. & Manager of Taipei PO 2. Director of the Board, Chunghwa Post Co., Ltd.
Director of the Board	J.C. Chou	Dept. of Journalism, Chinese Culture Univ.	Special Vice Chairperson, Strategic Planning Committee, Chunghwa Post Co., Ltd.	7/16/2014	Special Vice Chairperson, Strategic Planning Committee, Chunghwa Post Co., Ltd.

## VI. Risk Management

### (I) Qualitative and Quantitative Information of Various Risks

#### 1. Credit Risk Management System

Item	Description
Credit Risk Strategy, Goals, Policy and Flow	The company has developed "Credit Risk Management Guidelines" to control the risk of debtor whose credit is downgraded or who is unable to pay, or counterparty that is unable or refuses to perform obligation. Apart from requiring credit rating of counterparties and issuers that are using the funds to be above a certain level, management of setting limits on credit rating for counterparty, issuer and national credit rating is handled for different levels. Checking and evaluating credit status and risk exposure of counterparty and issuer is conducted on a regular basis. However, transaction limits are reviewed and adjusted whenever necessary.
Credit Risk Management Organization and Structure	The "Risk Management Committee" under the "Board of Directors" consists of chairperson (also the convener), president, vice president and supervisors of all departments. The committee holds a meeting once a month and may convene a provisional meeting as necessary. The committee is responsible for the review of the company's credit risk exposure. Risk management unit is also set up to take charge of monitoring, measuring and evaluating daily risk of the company. It is an independent unit rather than a business unit in order to help top management of the company make related decision.
The Scope and Characteristics of Credit Risk Reports and Credit Risk Assessment System	The risk Management Unit of the company estimates credit risk exposure, credit default swap rate and loss given default on credit part of a transaction in order to assess expected credit loss. Credit risk management report is made on a regular basis based on credit risk summary, including life insurance and mortgage loan businesses as well as related party's granting loans, inter-bank borrowing or lending and investment in debt securities. The report is submitted to the Risk Management Committee and the Board of Directors.
Hedging or Risk Mitigation Policy, Strategies and Procedures to Monitor the Continual Effectiveness of its Hedging Program	Postal simple life insurance real estate mortgage loan business stipulates strict credit rating system and operational guidelines. Before loan disbursements to certain clients, the company would ask that the loan amount set within the evaluated value of the mortgage. When any of these clients break the contracts, the company will enforce these mortgages or other mortgaged rights. To disperse the credit risk of all the invested financial products and avoid concentrated call loans and transfer to only a few financial institutions and buying in bonds and notes issued, accepted or guaranteed by the few banks or financial institutions, the company sets the undertaking limit based on their credit situation.
Methods of regulatory capital accrument	Regulatory capital accrument does not apply to CHP.

#### 2. Risk Management System of Asset Backed Securitization

Item	Description
Asset Backed Securitization Management Strategy and Flow	(1) The company has never served as the originating bank for the Asset Backed Securitization products, only investment. (2) For investment on Asset Backed Securitization products, management strategy and flow is handled in accordance with "Guidelines for the Management of Postal Capital Deployment."
Asset Backed Securitization Management Organization and Structure	The company does not play the role of originating bank. The risk (including credit risk, market risk, liquidity risk, interest rate risk and operational risk) that may arise from the investment on Asset Backed Securitization products is managed according to risk management related organizations and structures. They are all operated in accordance with the company's risk management system and report mechanism.

Item	Description
The Scope and Characteristics of Asset Backed Securitization Risk Reports and Risk Assessment	For investment on Asset Backed Securitization products, the company always assesses risks and benefits in accordance with investment related norms prior to making any decision. The company also periodically evaluates profit and loss, develops relevant risk report and reports to top executives, Risk Management Committee and Board of Directors.
Asset Backed Securitization Hedging or Risk Mitigation Policy, Strategies and Procedures to Monitor the Continual Effectiveness of its Hedging Program	The company has never acted as an originating bank.
Methods of regulatory capital accrument	Regulatory capital accrument does not apply to CHP.

### 3. Operational Risk Management System

Item	Description
Operational Risk Management Strategy and Flow	The company has developed “Operational Risk Management Guidelines” to carry out management of operational risk in order to ensure sound management of the company. Complete norms for internal control system and related business management regulations also are developed to be taken as a basis for all businesses to follow. In addition, timely adjustment on design and execution of company internal control system shall be made in response to changes of the company's operating policy and handling procedures.
Operational Risk Management Organization and Structure	The “Risk Management Committee” under the “Board of Directors” consists of chairperson (also the convener), president, vice president and supervisors of all departments. The committee holds a meeting once a month and may convene a provisional meeting as necessary. The committee is responsible for the review of the company's credit risk exposure. Deputy director of each business unit is responsible for internal risk management of the department and supervises the real operating risk management section takes charge of corresponding and coordinating relative items of risk management within the company in order to effectively master and timely control the vital risks in order to help high level management of this company to draw up relative strategic decisions.
The Scope and Characteristics of Operational Risk Reports and Risk Assessment	Annual risk management plan shall be prepared covering the following contents: risk of operating business that may arise, proposals for reducing risk and solutions upon occurrence of a risk. Quantitative index is also developed and execution status shall be reported to the Risk Management Committee quarterly. With regard to the summary of operational risk losses, a monthly report is made to Risk Management and submitted to the Board of Directors.
Hedging or Risk Mitigation Policy, Strategies and Procedures to Monitor the Continual Effectiveness of its Hedging Program	The company has established Internal Audit System, Compliance Officer System and Self-audit System in order to maintain effective and appropriate internal control system operations. The auditing unit regularly checks and evaluates performance of self-audit conducted by each unit to ensure that all operations are performed in accordance with regulations so as to curb occurrence of operational defect and reduce operational risk. The company has formulated the “Contingency Measures for Operation Crises of Savings, Remittances and Life Insurance Business” to clearly provide the measures to be taken by all levels of units in case of crisis.
Methods of regulatory capital accrument	Regulatory capital accrument does not apply to CHP.

4. Market Risk Management System

Item	Description
Market Risk Management Strategy and Flow	<p>The company has formulated the “Market Risk Management Guidelines” to control the market risks likely to be faced by the financial products. Operation regulations are provided for all the financial products to designate the types of instruments it can invest in and limits for various capital deployments. The company also keeps its eyes on the economic development of domestic and foreign industries and prepares a report regarding the trading of various kinds of financial instruments.</p> <p>The “Operational Guidelines for Interest Rate Risk Management” is developed to cope with changes in economic and financial environment as well as to eliminate the risks arising from fluctuations in interest rates. The report of “Interest Rate - Sensitive Analyses of Assets and Liabilities” is prepared monthly. Through control and management of interest rate – sensitive asset and liability ratio, the company is able to effectively manage interest rate risk.</p>
Operational Risk Management Organization and Structure	<p>The “Risk Management Committee” under the “Board of Directors” consists of chairperson (also the convener), president, vice president and supervisors of all departments. The committee holds a meeting once a month and may convene a provisional meeting as necessary. The committee is responsible for the review of the company's credit risk exposure.</p> <p>The risk management unit of the company is responsible for the collection of market risk information, review of the market risk tolerance of the company's overall use of capital and the risk limit of each operation unit and monitors whether the risk control measures adopted in the trade of derivatives comply with the laws and regulations.</p>
The Scope and Characteristics of Market Risk Reports and Risk Assessment	<p>The market risk assessment of the company is to calculate changes in market price of the existing trading portfolio for 10 business days with 99% confidence level and make it the market value at risk (VaR). Portfolio VaR control indicator is set to the ratio of market VaR (10 business days, 99%) in VaR limit (<math>\lambda</math> value). Control of market risk can be managed through risk lights (red, yellow and green). The risk management unit periodically reviews and monitors use condition of risk limit and reports to top executives. The unit also presents market risk report to Risk Management Committee and Board of Directors on a regular basis. Contents of the report include: market risk exposure summary, use rate of VaR limit, interest rate risk summary, liquidity gap, hedging effect of derivative instruments and limit ratios set by investment regulations.</p>
Hedging or Risk Mitigation Policy, Strategies and Procedures to Monitor the Continual Effectiveness of its Hedging Program	<p>The company focuses on transactions of derivative instruments for the purpose of hedge. The forward exchange, foreign exchange swap, domestic stock index futures and TAIEX Options undertaken by the company all focus on hedge.</p> <p>The Company has drawn up “Guidelines for Derivatives Trading” and “Derivatives Hedge Trading Instructions” to strengthen internal control and risk management. Before hedge transactions counterparties, kinds, authorized limits and all and specific place amount must be specified and submitted to Risk Management Committee for approval and implementation. In addition to regular assessment of the connection between the derivatives and the hedged items for adjustment of hedging strategies, the execution results of the hedging strategies are reported to the president on weekly basis and regularly reported to the Risk Management Committee and the board of directors.</p>
Methods of regulatory capital accrument	Regulatory capital accrument does not apply to CHP.



## 5. Liquidity Risk

In order to carry out control of liquidity risk to ensure sound management, the company has developed “Liquidity Risk Management Guidelines.” Assets are mainly deposit in the Central Bank and due from banks, which are high in liquidation and liquidity. In accordance with “Postal Remittances and Savings Act,” there is no restriction on the company's statutory liquidity ratio and liquidity reserves. Risk Management Unit periodically controls and manages cash flow gap and reports to Risk Management Committee and Board of Directors.

### (1) Structure Analysis of the Maturation of NTD

December 31, 2013 Unit: NT\$ 1,000

	Total	Dollar Amount for the remaining period prior to the maturation date				
		0-30 Days	31-90 Days	91-180 Days	181 Days to 1 Year	Over 1 Year
Primary capital inflow upon maturity	5,347,494,486	1,694,983,520	508,172,008	609,052,341	698,242,328	1,837,044,290
Primary capital outflow upon maturity	5,245,504,286	328,028,199	619,405,937	724,915,847	1,557,170,336	2,015,983,966
Capital gap	101,990,200	1,366,955,321	-111,233,930	-115,863,507	-858,928,008	-178,939,676

Note: The figures in table are the total of NT currency held at headquarters and all post office branches, does not include the foreign currency and insurance businesses.

### (2) Structure Analysis of the Maturation of USD

December 31, 2013 Unit: US\$ 1,000

	Total	Dollar Amount for the remaining period prior to the maturation date				
		0-30 Days	31-90 Days	91-180 Days	181 Days to 1 Year	Over 1 Year
Primary capital inflow upon maturity	194,672	194,672				
Primary capital outflow upon maturity	207	207				
Capital gap	194,465	194,465				

Note: The figures in table are the total of US currency held at headquarters and all post office branches.

- (II) Effects of major international and domestic policy changes on the company's financial business and countermeasures: none
- (III) Effects of technological and industry changes on the company's financial business and countermeasures: none
- (IV) Effects of bank image changes on the bank's financial business and countermeasures: none

(V) Expected benefits and potential risks of mergers and acquisitions: none

(VI) Expected benefits and potential risks of business base expansion: none

(VII) Business concentration risk: none

The company's credit extension and investment business is operated under the Guidelines for the Management of Postal Capital Deployment and must be kept within specified limits

(VIII) Effects of the change in right of authority for the company and its risks: none

(IX) With regard to litigation or nonlitigation events, a list shall be made providing the name of its board directors, supervisors, presidents, major shareholders holding greater than 1% of outstanding shares and the company's subsidiaries. With regard to litigation (whether pending or for which a verdict has been reached), non-litigation or administrative appeals involving the company, and the results may greatly affect the rights of its depositors and shareholders, the company shall disclose the details of the disputes, the amount involved, the dates the litigation started, primary litigants, and the status as of the printing date of the annual report: none

(X) Other Major Risks and Countermeasures:

This company is one hundred percent run and owned by the government and is operated strictly in accordance with regulations and stipulations. The company draws up business plans and a risk management program every year. Every department of the company submits a quarterly report on its progress to lower the operational risk.

VII. Other Important Items : none