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## I. Financial Status

### Financial Status Comparison and Analysis

Unit: NT\$1,000

Item	2012	2011	Difference	
			Amount	%
Total Assets	5,894,965,624	5,615,014,700	279,950,924	4.99
Total Liabilities	5,771,089,022	5,506,812,208	264,276,814	4.80
Total Owners' Equity	123,876,602	108,202,492	15,674,110	14.49

#### Explanation of Increase/ Decrease:

- The total capital increased NT\$ 279,950,924,000 mainly due to:
  - A decrease of NT\$ 55,372,067,000 in due from Central Bank and Other Banks.
  - An increase of NT\$ 15,171,791,000 in due from Central Bank.
  - An increase of NT\$ 2,021,368,000 in financial assets at fair value through income statement.
  - A decrease of NT\$ 3,771,830,000 in bonds sold under resale agreements.
  - An increase of NT\$ 155,797,000 in discounts and loans.
  - An increase of NT\$ 310,432,363,000 in funds and investment.
  - An increase of NT\$ 4,209,018,000 in fixed assets.
  - An increase of NT\$ 7,104,484,000 in other assets.
- Total liabilities have increased by NT\$ 264,276,814,000 over the previous period, mainly due to:
  - An increase of NT\$ 275,679,336,000 in deposits and remittances.
  - A decrease of NT\$ 1,237,372,000 in provision for operating reserve.
  - A decrease of NT\$ 7,811,374,000 in bonds sold under repurchase agreements.
  - An increase NT\$ 10,301,324,000 in accrued pension liabilities.
  - A decrease of NT\$ 1,585,100,000 in other liabilities.
- Total owners' equity has increased by NT\$ 15,674,110,000 over the previous period mainly due to:
  - An increase of NT\$ 9,323,463,000 in retained earning.
  - An increase of NT\$ 6,350,647,000 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	2011	Increased/ Decreased Amount	Percent Change %
Operating Revenue	312,961,370	298,024,032	14,937,338	5.01
Operating Costs	273,817,725	258,461,314	15,356,411	5.94
Operating Profit	39,143,645	39,562,718	(419,073)	(1.06)
Operating Expenses	25,817,400	29,298,991	(3,481,591)	(11.88)
Operating Income	13,326,245	10,263,727	3,062,518	29.84
Non-operating Income	501,997	166,628	335,369	201.27
Non-operating Expenses	369,197	122,679	246,518	200.95
Income Before Tax	13,459,045	10,307,676	3,151,369	30.57
Income Tax Expenses	4,135,582	1,669,423	2,466,159	147.73
Net Income	9,323,463	8,638,253	685,210	7.93

Analysis on percentage change:

- Operating income has increased by NT\$ 14,937,338,000 mainly due to:
  - An increase of NT\$ 5,516,566,000 in interest income due to rising interest rates and increase of investment in bonds.
  - A decrease of NT\$ 4,522,270,000 in insurance premium.
  - An increase of NT\$ 6,298,019,000 in financial assets and the gain on valuation of financial liability.
  - An increase of NT\$ 8,435,164,000 in investment profits.
  - A decrease of NT\$ 12,870,101,000 in foreign exchange profits.
  - An increase of NT\$ 12,307,373,000 in premium and pending claims reserve.
  - A decrease of NT\$227,413,000 in other operating revenues.
- Operating costs have decreased by NT\$ 15,356,411,000 from the previous period, mainly due to:
  - An increase of NT\$ 4,621,254,000 in interest expenses due to the rise of interest rates.
  - An increase of NT\$ 50,468,887,000 insurance claims and benefits.

(3) A decrease of NT\$ 43,089,279,000 in premium and pending claims reserve.

(4) A decrease of NT\$ 17,631,496,000 in financial assets and the gain on valuation of financial liability.

(5) An increase of NT\$20,696,364,000 in loss on exchange.

(6) An increase of NT\$ 290,681,000 in other operating cost.

3. Non-operating income has increased by NT\$ 335,369,000 from the previous period, mainly due to an increase in gains on property exchange.

4. Non-operating expenses have increased by NT\$ 246,518,000 from the previous period, mainly due to an increase 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 13, (III) Operation goals.

(III) Countermeasures: please refer to page 13, II. 2013 Operation Plan Outlines, (II) Operation Strategies.

### III. Analysis of Cash Liquidity :

#### (I) Analysis of Cash Liquidity for 2012 and 2011

Item	2012	2011	Growth
Cash Liquidity Percentage	-10.24%	17.59%	-27.83%
Cash Flow Adequacy Ratio	718.51%	905.07%	-186.56%
Cash Reinvestment Ratio	-0.32%	0.26%	-0.58%

#### (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
475,293,122	23,986,023	25,012,340	524,291,485	No Data	No Data



- (1) Operating activities: Mainly due to the net cash inflow from the increase of projected net income and adjustments for noncash items.
- (2) Investing activities: Mainly due to the net cash inflow from the decrease of projected net income and adjustments for noncash items.
- (3) Financing activities: Mainly due to the net cash outflow from financing activities from the net increase or projected deposits, remittances and financial debentures.
- (4) Contingency plans for projected insufficient cash position and liquidity analysis: not applicable.
- (5) This table is compiled in accordance with the 2013 budget of company approved by the Executive Yuan.

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

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

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

###### (A) Taiwan Futures Exchange:

At the end of 2012, the company is expected to have capital of NT\$ 2,785.87 million with 278.59 million stock shares issued. The company holds 2,089,399 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\$ 3,656,000 as cash dividend and 52,234 shares as stock dividends.

###### (B) Chunghwa Express Corp.:

At the end of 2012, 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\$ 12,845,000.

###### (C) Financial Information Service Co., Ltd.:

At the end of 2012, 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\$ 2.60 per share this year, which means the company will be getting NT\$ 13,309,000 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 Catholic University	Former Department Director, Chunghwa Post Co., Ltd.	2012.08.31	
Director	T.D. Chen	Master in Management Science, Chiaotung University	Vice President, Chunghwa Post Co., Ltd.	2012.08.31	1. Vice President, Chunghwa Post Co., Ltd. 2. Director, Taiwan Postal Association
Director	G.X. Li	Chemical Engineering Department, Tamkang University	Department Director, Chunghwa Post Co., Ltd.	2012.08.31	1. Department Director, Chunghwa Post Co., Ltd. 2. Director, Taiwan Postal Association
Director	N.L. Wang	Dept. of Commerce, NTU	Department Director, Chunghwa Post Co., Ltd.	2012.08.31	1. Department Director, Chunghwa Post Co., Ltd. 2. Director, Taiwan Postal Association
Director	G.T. Yang	Dept. of Political Science, Tunghai Univ.	Manager, Taipei Post Office, Chunghwa Post Co., Ltd.	2012.08.31	Manager, Taipei Post Office, Chunghwa Post Co., Ltd.

## VI. Risk Management

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

#### 1. Credit Risk Management System

Item	Description
1. 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.
2. 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.
3. 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.





## 2. Risk Management System of Asset Backed Securitization

Item	Description
1. 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."
2. 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.
3. 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.
4. 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.
5. Methods of regulatory capital accrument	Regulatory capital accrument dose not apply to CHP.

## 3. Operational Risk Management System

Item	Description
1. 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.
2. 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.
3. 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.

Item	Description
4. 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.
5. Methods of regulatory capital accrue ment	Regulatory capital accrue ment dose not apply to CHP.

#### 4. Market Risk Management System

Item	Description
1. Market Risk Management Strategy and Flow	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. 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.
2. 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. 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.
3. The Scope and Characteristics of Market Risk Reports and Risk Assessment	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 ( $\lambda$ 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.
4. Hedging or Risk Mitigation Policy, Strategies and Procedures to Monitor the Continual Effectiveness of its Hedging Program	he 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. 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.
5. Methods of regulatory capital accrue ment	Regulatory capital accrue ment dose 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, 2012 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 One Year	Over One Year
Primary capital inflow upon maturity	5,088,048,907	1,486,298,104	593,440,488	568,291,362	693,200,347	1,746,818,696
Primary capital outflow upon maturity	5,015,273,285	332,945,018	583,357,765	691,113,457	1,464,141,318	1,943,715,727
Capital gap	72,775,712	1,153,353,086	10,082,723	-122,822,095	-770,940,971	-196,897,031

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, 2012 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 One Year	Over One Year
Primary capital inflow upon maturity	321,931	321,931				
Primary capital outflow upon maturity	117	117				
Capital gap	321,814	321,814				

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.

(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:

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 effect 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

