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Taiwan Financial Holdings

TAIWAN

2011 ANNUAL REPORT

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  Tel: +886-2-8722-5800

  Website：www.taiwanratings.com.tw

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  55 Water Street, New York, N.Y. 10041 U.S.A.

  Tel: 212-438-2000

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- **Overseas Listing: None**

ANNUAL REPORT 2011

INTEGRATE GROUP RESOURCES
REAP THE BENEFITS OF SYNERGY

Date of Publication: June 2012

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Planning for the Future

I. Message to Shareholders

Chairperson Susan S. Chang

In the first half of 2011, demand from emerging markets was strong thanks to continued strength in the global economy. The government worked proactively to carry out financial and economic reforms, export orders came in at a brisk pace, and the unemployment rate dropped sharply. In the latter half of the year, however, the global economy weakened as a result of international political and economic factors, the impact of Japan's earthquake upon industrial supply chains, the spreading European debt crisis, high unemployment in developed economies, a weakening of demand due to austerity policies, and a lack of coordination among European nations in their responses to current crises. Major international economic research institutions have repeatedly downgraded their forecasts for global economic growth, and expect 2012 to be more sluggish than 2011. Global Insight, for example, expects growth of 3.0% for the global economy in 2011, down from 4.1% in 2010. In Taiwan, the Directorate-General of Budget, Accounting and Statistics on 22nd February 2012 estimated growth of 4.04% for the Taiwan economy in 2011, down sharply by 6.68 percentage points from the 10.72% growth achieved in the preceding year.

While economic conditions in 2011 were constantly changing, in addition to coordinating with the government's financial and economic policies of the "Golden Decade" plan by supporting industrial upgrading and development and contributing to a stronger economy, the Taiwan Financial Holdings (TFH) group also formulated a groupwide development strategy and adopted concrete planning targets. With the combined efforts of management and staff, the group in 2011 achieved consolidated after-tax earnings of NT$4.081 billion (115% of target), earnings per share (EPS) of NT$0.45, return on assets (ROA) of 0.10%, and return on equity (ROE) of 1.60%. When actions taken by the group to support government policy (which primarily means the group shouldering part of the government burden of paying out the favorable interest rates applying to the deposits of pension for those retired from the military, civil service, and teaching professions) and the like are factored out, the group is found to have achieved consolidated after-tax earnings of NT$13.105 billion, EPS of NT$1.46, ROA of 0.31%, and ROE of 5.14% Overall, business performance was sound. The business results of each of the group's three subsidiaries are described below.

Amidst difficult and unpredictable business conditions, the Bank of Taiwan (BOT) adopted a policy of "concentrating on the fundamentals" and performed quite well. It held deposits of NT$3,153.5 billion, had outstanding loans of NT$2,100.0 billion, and its foreign exchange business amounted to US$339.3 billion, in each case commanding top market share in Taiwan. Net income came to NT$3.701 billion, EPS was NT$0.53, ROA was 0.09%, and ROE was 1.49%.

BankTaiwan Life Insurance (BTLI) accommodated the director financial supervisory policy by launching new products designed to meet the financial planning and insurance coverage needs of the public. In 2011, the company earned first-year premium income of NT$31.4 billion and continued premium income of NT$19.5 billion, achieved 13- and 25-month persistency rates of 99.63% and 99%, ranking BTLI both at 2nd in the industry, respectively. Net income came to NT$353 million, EPS was NT$0.32, ROA was 0.11%, and ROE was 4.28%.

BankTaiwan Securities (BTS) performed well despite gloom in the stock markets. Its brokerage business was somewhat affected, but its underwriting business benefited from the group's co-marketing mechanism. In 2011, BTS made NT$2.32 billion worth of underwriting business (up 284% from 2010), NT$676.8 billion worth of brokerage business, and NT$2.224 billion worth of proprietary trading business. Net income came to NT$730 million, EPS was NT$0.24, ROA was 1.53%, and ROE was 2.25%.

In order to fully implement its business strategy of coordinated development and cross-selling, TFH continued expanding the integration of group resources and strengthening joint business development mechanisms. Take maximum advantage of the group's broad customer base and its brand strength as a government-sponsored financial holding company to effectively tap the value of the group's channels, thereby enhancing overall synergies. Also, in order to respond to changes in both the financial industry and the larger economy, TFH expanded the content of its financial and economic information sharing platform, and continued carrying out research on topics pertaining to business reforms and financial services development, so as to provide for the business development needs of the group's subsidiaries. In addition, TFH set up a Groupwide IFRS Conversion Taskforce, worked to devise a set of measures related to IFRS conversion, and amended by-laws and procedures related to the group's accounting system, internal controls, and operations in order to bring the group more closely in line with international practices.

TAIWAN

President Shou-Tzuoo Huang

The TFH group has always sought to maintain safe and sound business operations, and toward that end has long worked to establish a strong position in domestic financial markets by servicing business as well as individual consumers. As a result, the group enjoys strong recognition in a wide spectrum of society for its brand image, business performance, and ability to provide reliable financial services. For example, Standard & Poor's in September 2011 assigned long- and short-term credit ratings of S&P A+ and S&P A-1 with a stable outlook to TFH and BOT, and a long-term credit rating of S&P A+ with a stable outlook to BTLI. Also in September 2011, the Taiwan Ratings Corporation assigned long- and short-term credit ratings of twAAA and twA-1+ to TFH and BOT, and a long-term credit rating of twAAA to BTLI. And in June 2011, Fitch Ratings Taiwan assigned long- and short-term credit ratings of AA+(twn) and F1+(twn) to BTS. All of these ratings are the highest assigned to any financial services provider in Taiwan. In addition, the group's core subsidiary, BOT, was included by the Ministry of Economic Affairs in its 2011 list of the Top 100 Taiwan Brands—the only bank in Taiwan on the list. BOT has also been named a Gold Winner of the Reader's Digest Trusted Brands award for banks for the past five years running.

Looking ahead to 2012, uncertainty continues to cloud the economic picture both globally and domestically, and competition will remain fierce in financial services markets both at home and abroad. For financial services firms, it is going to be another very challenging year. In order to keep close track of economic conditions, TFH has declared 2012 its "year for organic reinvention," and has adopted three major strategies designed to drive innovation. The first strategy is "to restructure." We intend to undertake a project to reinvent our organization. We will adjust our 3C system (cross selling; cost saving; capital efficiency) for division of labor and our model for front- and back-office task sharing in order to achieve the larger goal of strengthening group synergies. The second strategy is "to expand niche markets." We will continue to develop niche product lines and actively position ourselves in the Greater China market. This entails an acceleration of plans to set up a Shanghai branch, where we will work to achieve first-year profitability and seek permission to handle RMB business. The third strategy is "to build a new cross-selling platform." This will entail the establishment of an investment trust subsidiary to branch out into asset management, further enrich our line of co-marketed products, and expand the group and the scope of its business activities. The plan is for repositioning of the organization to inject added vitality into our businesses, build up our business management capability, and strengthen the group's strategic operations, business management, and organizational activity, thereby tapping into our 3C synergies and achieving our target of consolidated after-tax earnings of NT$7.0 billion in 2012.

Prosperity and growth are the ultimate objectives of government policy. In line with the group's social responsibility and its brand value as Taiwan's only government-owned financial holding company, TFH will do its part to help the government to achieve its goals of achieving a robust economy, a just society, environmental sustainability, and well-rounded development, thereby contributing to a revamping of the national economy, and supporting high-tech industries, cultural and creative industries, and R&D activities. In all of this, our ultimate objective is to grow hand-in-hand with the larger society.

Chairperson Susan Chang President Huang Shou Tzuoo

II. Company Profile

1. Date of Establishment: 1st January 2008

2. Brief History

(1) M&A and Related Subsidiaries

On 1st January 2008 TFH was established (in accordance with the provisions of the Financial Holding Company Act, the Company Act, and other applicable laws and regulations) as Taiwan's first state-run financial holding company by the Bank of Taiwan（BOT） in a share swap. On the following day (2nd January), the Bank of Taiwan spun off its securities and life insurance businesses to create group subsidiaries BankTaiwan Securities（BTS） and BankTaiwan Life Insurance（BTLI）, thus bringing into existence Taiwan's first wholly government-owned financial holding company, with three wholly owned subsidiaries.

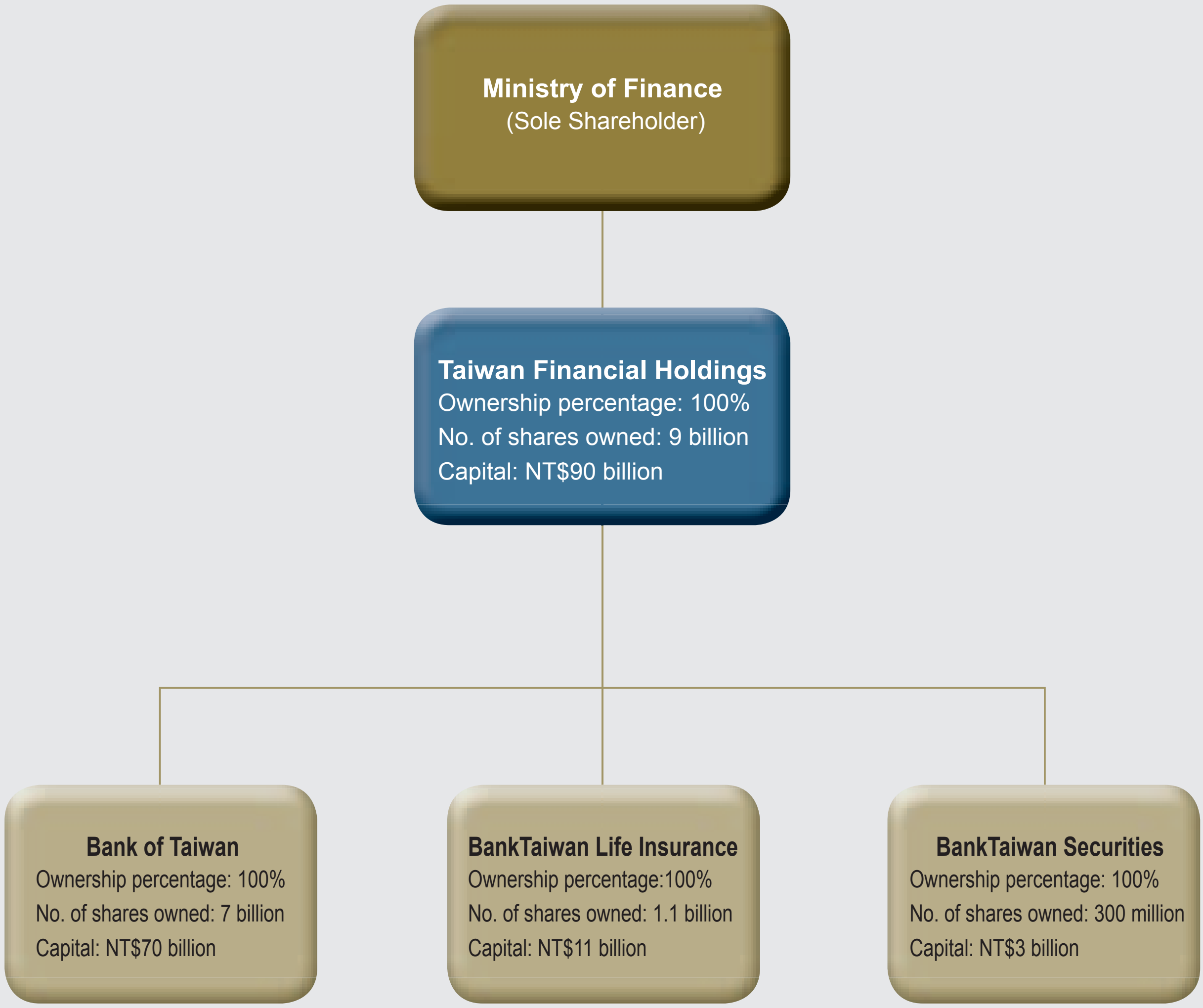
The "Act of the Taiwan Financial Holding Company" provided a complete set of statutory procedures for the company's establishment, and empowered TFH to take over other financial institutions through M&A deals in accordance with the provisions of the "Financial Holding Company Act."

(2) Event Which Has a Material Impact on Shareholders' Equity: None

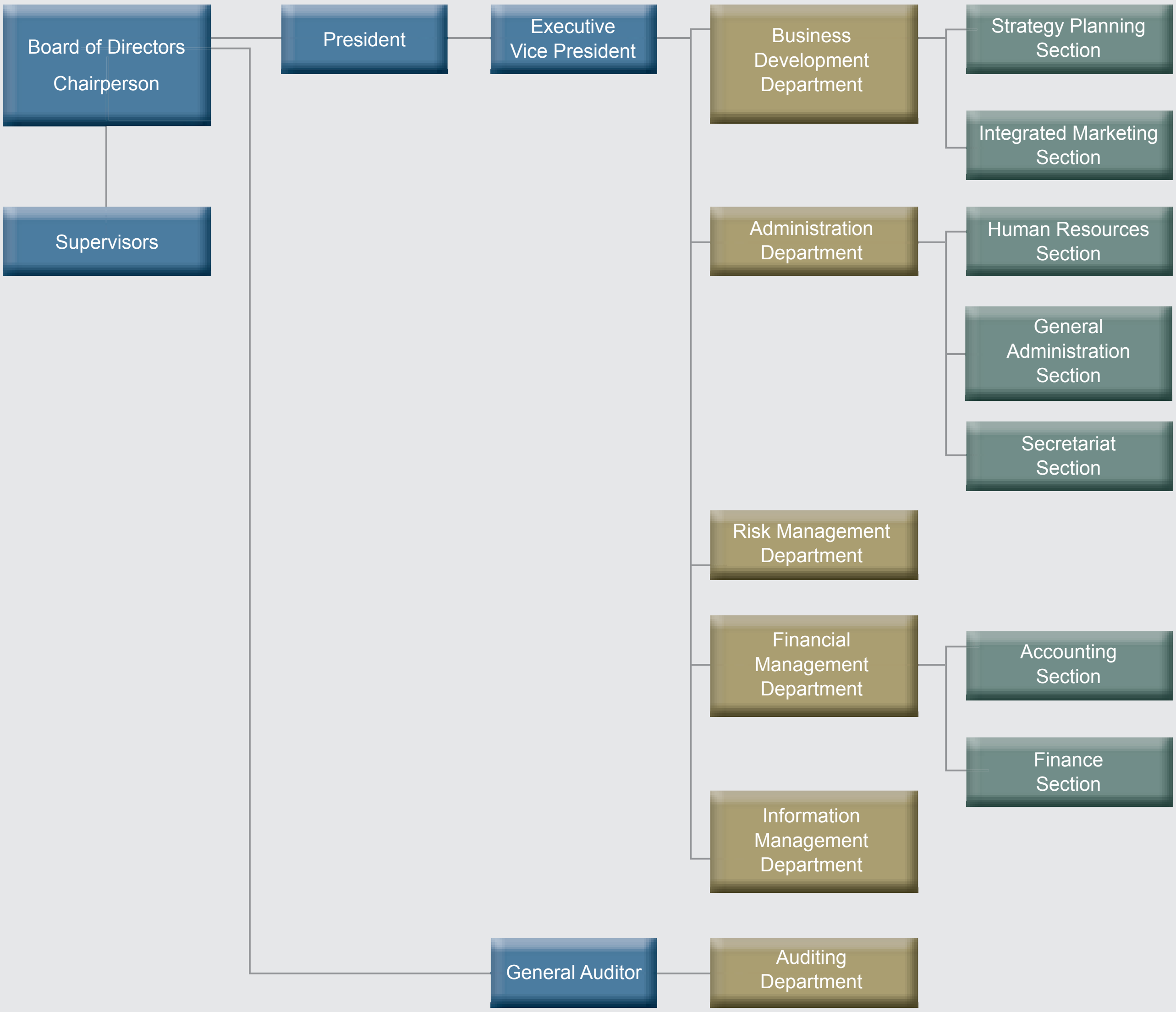
III. Corporate Governance

1. Organization

(1) Chart of Relations within the TFH Group

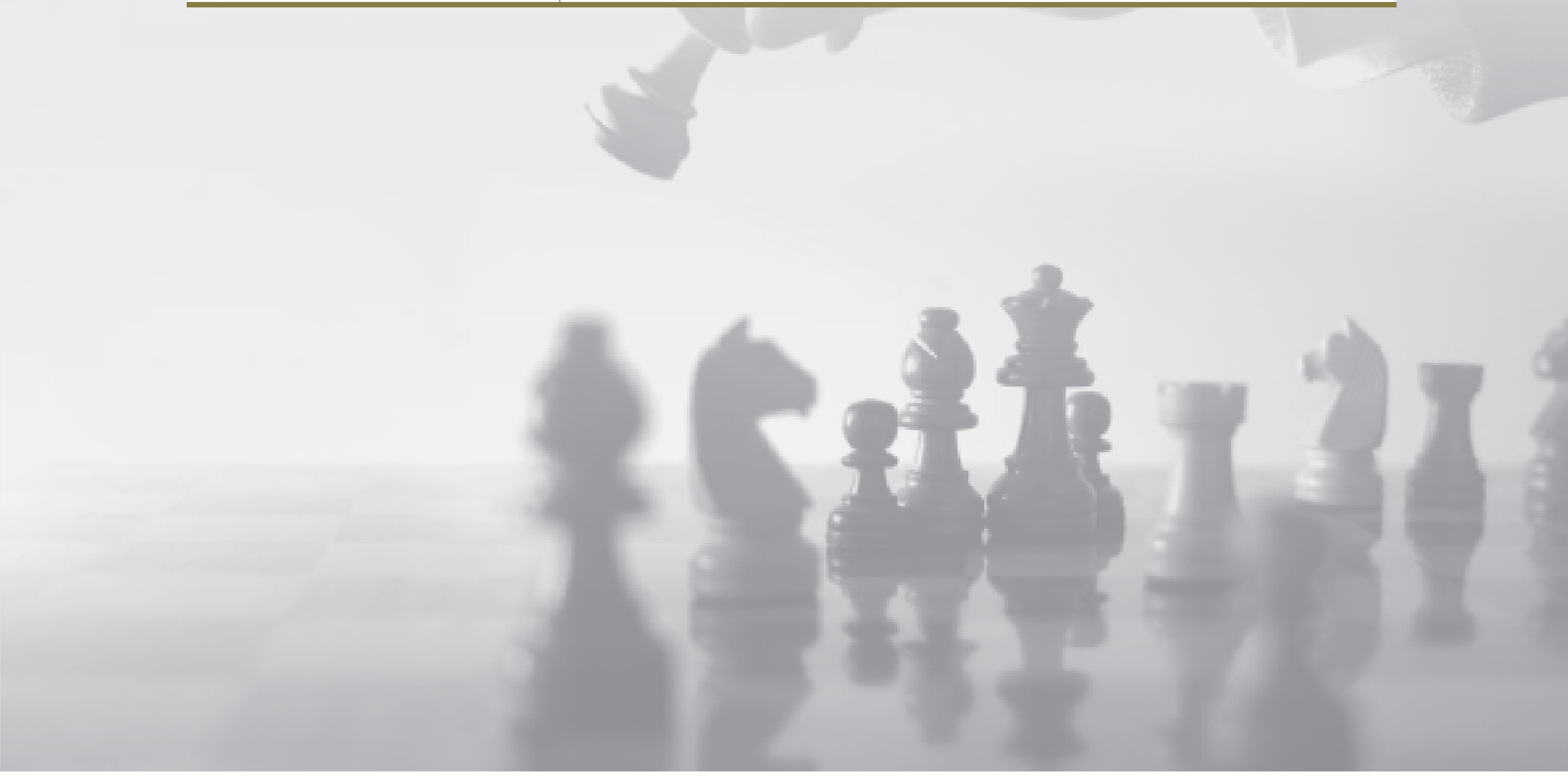


(2) Organization Chart



(3) Division of Duties

Division	Responsibilities
Auditing Department	Sets up internal controls, supervises internal audits at subsidiaries, evaluates the implementation of internal controls and records its findings, and reports periodically to the Board of Directors and the Supervisors.
Business Development Department	Plans organizational development, business strategies, investment activities; handles integrated marketing, advertising activities, and preparation of the annual report.
Administration Department	Handles personnel, payroll, ethics matters, general office administration, cashier operations, document management; takes charge of public relations, board of directors meetings, corporate governance, and legal affairs.
Risk Management Department	Sets up risk management systems and contingency plans for Taiwan Financial Holdings and its subsidiaries.
Financial Management Department	Manages groupwide financial affairs and evaluations of corporate performance; plans and implements groupwide budgets, year-end accounts, and accounting systems.
Information Management Department	Implements the development of groupwide information systems, resource integration, and shared platforms, and security maintenance.



2. Chairperson, President, Executive Vice President and Department Heads

As of 31st March, 2012

Position	Name	Date of Employment	Shares Held	Education and Career	Positions Held with Other Companies
Chairperson	Susan S. Chang	Jul 23, 2008	Shares 100% Owned by MOF	M.A. in Economics, National Taiwan University Vice Chairperson, FSC, Executive Yuan Administrative Deputy-Minister, MOF Director General, National Treasury Agency, MOF Deputy Director General, Bureau of Monetary Affairs, MOF Deputy Director, Department of Monetary Affairs, MOF Deputy Director, Economic Research Department, CEPD	Chairperson, Bank of Taiwan Chairperson, the Bankers Association of the Republic of China Vice Chairperson,Taiwan Financial Services Roundtable Co., Ltd. Managing Director, General Chamber of Commerce of the R.O.C Director, Joint Credit Information Center Director, Taiwan External Trade Development Council (TAITRA) Director, Taiwan Academy of Banking and Finance Chairperson, Turnaround Management Association-Taiwan
President	Shou-Tzuoo Huang	Aug 31, 2010		PhD in Management Science, Tamkang University M.A. in Public Finance, National Chengchi University Resident Supervisor, Taiwan Cooperative Bank President, Fuhwa Financial Holding Company Chairman, Fuhwa Securities Corporation Vice President, President and Director, Fuhwa Securities Finance Corporation Director, Fuhwa Commercial Bank Acting President, Grand Cathay Securities Corporation Director, Securities Exchange Commission, MOF	Director, Bank of Taiwan
Executive Vice President	Sherry S.T. Chen	Apr 16, 2009		M.A. in Public Finance, National Chengchi University SVP & General Manager, Department of International Banking, BOT SVP & General Manager, Department of Treasury, BOT SVP & General Manager, Offshore Banking Branch, BOT	Committee Member, Financial Holding Business Committee, the Bankers Association of the Republic of China
General Auditor	Cheng-Ho Chiang	Jul 16, 2009		M.A. in Eminent Public Administration, National Chengchi University Director, Financial Examination Bureau, FSC, Executive Yuan Director, Bureau of Monetary Affairs, MOF	Committee Member, Internal Audit Committee, the Bankers Association of the Republic of China

Position	Name	Date of Employ-ment	Shares Held	Education and Career	Positions Held with Other Companies
SVP & Chief Secretary	Shu-Jen Chen	Aug 1, 2009	Shares 100% Owned by MOF	M.A. in Political Science, National Taiwan University Senior Secretary, FSC, Executive Yuan Section Chief, National Treasury Agency, MOF Secretary,Bureau of Monetary Affairs,MOF	Senior Vice President,BOT
VP & Chief Strategy Officer	Sheng-Chia Kuei	Mar 1, 2012		LL. M., Soochow University M. A. in Finance, Tamkang University VP & General Manager, Finance Dept., TFH Manager,Investments Section, Finance Dept., TFH Manager, Department of Treasury, BOT	
SVP & Chief Risk Officer	Lily Lee	Jul 15, 2009		M. A. in International Trade, Chengchi University Deputy General Manager, Department of Domestic Operations,BOT Deputy General Manager, Department of Risk Management,BOT	SVP & General Manager , Department of Risk Management, BOT
SVP & Chief Financial Officer	Li-Shieu Tsai	Mar 1, 2012		M.A. in Finance, Ming Chuan University SVP & General Manager,Business Development Dept., TFH Supervisor, BTLI SVP & Chief Secretary, TFH VP & Deputy Chief Secretary,BOT Assistant Vice President & General Manager, Xizhi Branch, Land Bank of Taiwan	Director,BTLI
SVP & Chief Administration Officer	Man-Yi Chu	May 15, 2009		M.A. in Business Administration, National Taiwan University Senior Vice President, Information Management Office, BOT SVP & General Manager, Department of Information Management, CTC	Supervisor, BTS

Looking Far Ahead

IV. Capital Raised by TFH

1. Shares and Dividends

(1) Source of Capital

Date	Issue Price	Authorized Capital		Paid-in Capital		Remarks	
		No. of Shares	Dollar Amount	No. of Shares	Dollar Amount	Source of Share Capital	Other
January 2008	NT$10	9 Billion	NT$90 Billion	9 Billion	NT$90 Billion	Share Swap	See Note

Note: The date of record for the share swap with BOT was 1st January 2008. The transaction was approved by MOF on 30th August 2007 (Letter No. Tai-Cai-Ku 0960038139) and by FSC on 6th December 2007 (Letter No. Jin-Guan-Yin (II) 09620007790).

(2) Shareholder Structure, Dispersion of Ownership and List of Principal Shareholders:

TFH is a state-run enterprise wholly owned by the government, with its shares owned by MOF.

(3) Share Prices, Net Worth Per Share, Earnings Per Share, Dividends Per Share and Related Information (for the past two fiscal years):

Unit: NT dollars, shares

Item / Year			Past Two Fiscal Year		As of 31st Mar 2012
			2011	2010	
Price Per Share	High		–	–	–
	Low		–	–	–
	Average		–	–	–
Net Worth Per Share	Before Distributions		27.75	28.91	28.37
	After Distributions		27.26	28.24	27.89
Earnings Per Share	Weighted Average Issued Shares		9,000,000	9,000,000	9,000,000
	Earnings Per Share		0.45	0.82	0.22
Dividends Per Share	Cash Dividends		0.49	0.67	–
	Bonus shares	Dividends Out of Earnings	–	–	–
		Dividends Out of Capital Reserve	–	–	–
	Cumulative Undistributed Dividends		–	–	–
Return Analysis	Price/Earnings Ratio		–	–	–
	Price-to-Dividend Ratio		–	–	–
	Cash Dividend Yield		–	–	–

Note: TFH is a state-run enterprise. Our stock is not exchange-listed, so there is no data for market capitalization or return analysis.

(4) Dividend Policy and its Implementation

i. Dividend Policy

Under the provisions of TFH's articles of incorporation, if earnings remain after closing of the annual accounts, TFH is required after paying its income taxes that year to first offset any deficit from previous fiscal years before setting aside 10% to legal reserve. In addition, TFH must also set aside an additional 40% to 60% of after-tax income, along with an amount equal to the figure recorded to shareholders equity under "Unrealized Losses on Financial Instruments," to special reserves. If further earnings still remain, they are aggregated with cumulative undistributed earnings from the preceding fiscal year and distributed in accordance with the provisions of applicable laws and regulations.

Unless and until the accumulated legal reserve equals TFH's authorized capital, the maximum earnings distribution that may be paid out in the form of cash shall not exceed 15% of authorized capital. If there are no earnings, TFH shall not distribute cash dividends or bonuses; provided, however, that if its legal reserve exceeds 50% of its paid-in capital, TFH may distribute the excess in the form of cash dividends and bonuses.

ii. Dividend Distributions in 2011

In closing the annual accounts for 2011, TFH set aside provisions to the legal reserve and the special reserve on the basis of audited after-tax earnings, then distributed cash dividends of NT$4.41 billion (NT$0.49 per share). However, in accordance with Article 50 of Taiwan's Government Auditing Act, the earnings reported in TFH's annual accounts are subject to the final approval of the Ministry of Audit. TFH's annual accounts for 2011 are still under review by the Ministry of Audit, therefore the actual amount to be distributed as cash dividends cannot be determined until after Ministry of Audit has finished its review.

2. Issuance of Corporate Bonds: None

3. Issuance of Preferred Shares: None

4. Issuance of Global Depositary Receipts: None

5. Issuance of Employee Stock Warrants: None

6. Mergers and Acquisitions: None

V. An Overview of Operations

Operations of TFH and its 3 subsidiaries are briefly described as follows:

1. Business Activities

(1) Scope of Business

i. TFH

(A) Main Lines of Business:

TFH is a financial holding company. Its main lines of business, as required under the provisions of the Financial Holding Company Act, are investing in other enterprises and managing their operations.

(B) Types of Business:

Unit: NT$1,000

Item \ Year	2011	
	Dollar Amount	Share of Total
Investment Gains Recognized Under the Equity Method	4,127,132	99.93%
Other Operating Revenue	2,821	0.07%
Total Revenues and Gains	4,129,953	100.00%

(C) Future Development Plan for New Financial Products and Services:

Please refer to 2012 Business Plan.

ii. BOT

(A) Main Lines of Business:

In addition to conducting ordinary banking business in accordance with the provisions of the Banking Act, BOT also (on contract to the Central Bank of the Republic of China) handles ancillary matters pertaining to the distribution of New Taiwan Dollar notes and coins, and engages in other lines of business as may be approved by the competent authorities.

a. Commercial Banking: deposit taking; lending; guarantees; import/export-related foreign exchange services; domestic and international remittances; offshore banking; trust and depository services; electronic banking; book-entry central government bonds; safety deposit box leasing.

b. Investment and Personal Financial Planning: domestic and international financial market transactions; wealth management; property trusts; charitable trusts; securities trusts; trusts for loans and related security interests; real estate trusts; trusts for surface rights.

c. Government Employees Insurance: provision of insurance for current and retired government employees, and payout of cash benefits.

d. Procurement and Foreign Trade: purchasing agent for government agencies and both state-run and private-sector enterprises; government-designated purchasing projects; gold trade; tariff quota management; other trade services for the government.

e. Outsourced Services for Government Agencies: services provided, for example, to the Central Bank of the Republic of China(Taiwan) (operations related to the issuance of New Taiwan Dollar bank notes and coins, including pick-up and delivery, transportation, supply management, bank note recovery/destruction); fund management for the old Labor Pension Fund.

(B) Types of Business:

Unit: NT$1,000

Item / Year	2011	
	Dollar Amount	Share of Total
Net Fee Income	4,960,296	17.97%
Financial Assets and Liabilities at Fair Value Through Profit or Loss	-4,129,073	-14.96%
Realized Gains (Losses) on Available-for-Sale Financial Assets	1,363,849	4.94%
Investment Gains(Losses) Recognized Under the Equity Method	2,255,273	8.17%
Translation Gains(Losses)	2,596,381	9.41%
Schedule of Asset Impairment Losses, and Gains on Reversal of Impairment	37,027	0.13%
Schedule of Other Net Non-Interest Income(Losses)	-2,670,969	-9.68%
Net Earnings	27,599,343	100.00%

(C) Future Development Plan for New Financial Products and Services:

Please refer to 2012 Business Plan.

iii. BTLI

(A) Main Lines of Business:

a. Personal insurances including life insurance, personal injury insurance, health insurance and annuity insurance.

b. Acts on behalf of the government in running military personnel insurance and insurance for men serving alternative military service.

c. Other lines of business as may be approved by the competent authorities.

(B) Types of Business:

Unit: NT$1,000

Item / Year	2011	
	Dollar Amount	Share of Total
Personal Life Insurance	49,554,452	97.36%
Personal Injury Insurance	206.717	0.41%
Personal Health Insurance	700,780	1.38%
Personal Annuity Insurance	265,499	0.52%
Investment-oriented Insurance	319	–
Group Life Insurance	34,625	0.07%
Group Personal Injury Insurance	105,405	0.21%
Group Health Insurance	22,892	0.04%
Reinsurance Assumed	5,651	0.01%
Gross Premium Income	50,896,340	100.00%

(C) Future Development Plan for New Financial Products and Services:

Please refer to 2012 Business Plan.

iv. BTS

(A) Main Lines of Business:

a. Securities brokering, dealing, and underwriting.

b. Margin trading services and short selling services.

c. Futures introducing broker services.

d. Consultation for securities issuing, fund raising and related matters.

e. Other lines of business as may be approved by the competent authorities.

(B) Types of Business:

Unit: NT$1,000

Item \ Year	2011	
	Dollar Amount	Share of Total
Securities Brokering and Underwriting Revenue	414,424	75.16%
Interest Revenue	121,179	21.98%
Income from Securities Sold	7,180	1.30%
Income from Investment	6.771	1.23%
Other Operating Revenue	1.852	0.33%
Total Operating Revenue	551,406	100.00%

(C) Financial products and services to be launched in future: See the 2012 Business Plan.

(2) 2012 Business Plan

i. TFH

(A) Flesh out cross-selling systems, improve business synergies

Understand financial market trends; build up our cross-selling product lineup; work to integrate information operations; improve customer relations management; work to maximize customer value; drive continued growth in the group's core businesses.

(B) Effectively integrate resources, tap into synergies

Adopt information management technologies; flesh out the group's shared operating procedures; employ centralized management of division of labor; effectively integrate the group's logistics resources; achieve synergies from enhanced efficiency and cost savings.

(C) Appropriately allocate capital, expand scope of business

Adopt efficient, corporate-style management; meet business development needs by acting in a timely manner on M&A plans; acquire subsidiaries running businesses that are highly complementary to the existing businesses of the company; expand the company's scope of business; achieve economies of scale and scope.

(D) Improve risk management, consolidate the bases of our business

Strengthen the group's integrated risk management mechanisms; improve the company's risk management capability; improve the risk management knowledge of company employees; work with subsidiaries to implement risk management to strike balance between profitability and risk management targets, thereby ensuring safe and sound group business operations.

(E) Develop mainland market, strengthen East Asian presence

Take advantage of opening of cross-strait financial industry ties by devising a business model covering Taiwan, mainland China, and Hong Kong; work together with core enterprises on joint business development activities; apply to establish business locations in cities that have large numbers of Taiwan-invested companies but no Taiwan banks, and in cities located within one of mainland China's "green corridors"; take advantage of thaw in cross-strait ties by expanding mainland presence and providing Taiwan-invested firms in mainland China with integrated money flow services; create greater potential for increased groupwide operating revenues and profits.

(F) Fulfill social responsibility, enhance corporate value

Coordinate with government policy objectives; promote integrated public marketing activities; use community service activities to communicate our corporate philosophy; act upon the core values of a leading brand; flesh out corporate governance legislative environment and operating mechanisms; fulfill the group's corporate social responsibilities.

ii. BOT

(A) Expand lending business

Consolidate the bank's existing lending base; actively expand lending to private-sector companies and consumers; take active part in syndicated loans, lending to offshore Taiwan-invested firms, online financing, and accounts receivable factoring, thereby improving the bank's lending business and generating increased fee income.

(B) Expand scope of wealth management services

Accelerate development of bricks-and-mortar wealth management business locations; expand wealth management business; enhance capability for R&D of new financial products; build diversified financial product sales platform; integrate service teams of parent company and subsidiaries; strengthen business advisory mechanism and capability for channel integration.

(C) Expand foreign exchange and international financial services

Respond to international economic development; act in a timely manner to evaluate the feasibility of establishing business locations in areas with a high concentration of Taiwan-invested firms; coordinate with progress toward establishment of a Shanghai branch by actively expanding business growth potential; improve depth and breadth of financial services provided to Taiwan-invested firms; strengthen business ties with lead banks in overseas syndicated loans; identify opportunities to take part in syndicated loans in primary markets to blue-chip companies with strong business and financial conditions.

(D) Diversify trust business

Take advantage of our wealth management business to strengthen marketing; continue developing various types of property management trusts, charitable trusts, and employee benefit trusts; closely monitor financial industry development trends; expand size of custodial business by actively seeking the business of overseas Chinese and foreign clients, securities investment trust funds, discretionary investment managers.

(E) Expand precious metals business

Actively engage in gold-related businesses; continue promoting sales of non-physical gold passbooks, gold deposit boxes, and physical gold bars; improve BOT's position as the leader in the gold market; step R&D of new gold-related products and services; provide customers with diversified product choices and convenient trading; build up image as a bank with a special strength in the precious metals business.

(F) Electronic banking services

Actively develop various types of electronic banking services; provide customers with one-stop financial service; expand the services and functions available via our online banking, e-Business website, and e-commerce services; build up an online banking system for our network of overseas branches; provide customers with an effective and convenient cross-border funds management platform.

(G) Strengthen risk management mechanisms

Maintain an appropriate capital adequacy ratio; achieve sound financial structure; enhance the risk consciousness of all bank employees; establish independent and effective risk management mechanisms; adopt appropriate risk management policies, processes, systems, and tools to strengthen risk management in all lines of business.

(H) Improve capital efficiency

Integrate management of NT Dollar and foreign currency funds; flexibly manage investments made in different currencies; strengthen management of group subsidiaries; closely monitor trends in interest rates, credit, bonds, and other such financial bellwethers; act in a timely manner to adjust trade and investment positions so as to maximize profits and control risks.

iii. BTLI

(A) Develop diversified marketing channels, expand scope of business

Build an integrated platform for the use of group resources; provide active guidance to the banking channel; establish ties with high-quality brokerages and agencies; further diversify sales channels; reap greater benefits from individual market segments; expand our competitive niches.

(B) Develop products with strong market demand, enhance competitive edge

Respond to business climate, social trends, and channel needs by actively developing money-back insurance, personal injury insurance, medical insurance, and investment-linked insurance designed to meet customer and market needs; strengthen ties with international reinsurers; introduce innovative product concepts and techniques; enhance competitiveness.

(C) Strengthen capital efficiency, improve financial performance

Strengthen capital efficiency and risk management; pay equal attention to liquidity and profitability; optimize asset allocations; safeguard long-term, stable profits; regularly check investment positions; flexibly adjust hedging strategies.

(D) Strengthen asset-liability matching, stabilize management of business

Coordinate with supervisory policies; strengthen sales of installment insurance products; appropriately allocate capital; increase investments in domestic and foreign bonds and other fixed-income products; strengthen trading in equity products; stabilize profit sources; improve financial performance; strengthen capital adequacy ratio.

(E) Implement risk management mechanisms, bring about sound business management

Strengthen reserve provisioning on the basis of asset and liability adequacy testing rules, and maintain an optimum capital level, thereby achieving a sound financial structure.

iv. BTS

(A) Take advantage of shared group platforms, expand brokerage business

Actively promote our securities finance business and solicit the business of institutional clients; strengthen information system functions, and increase the stability and efficiency of the electronic order submission system; expand advertising and publicity, and reap greater cross-selling benefits; increase business volume and generate higher fee income.

(B) Establish high level of professionalism, expand range of underwriting activities

Train a corps of professionals with experience in financial consulting; improve the service quality of our underwriting team; provide complete corporate financial planning services; help industrial and commercial firms raise long-term capital in the capital markets and track market trends.

(C) Strengthen asset allocation strategy, improve investment returns

Adopt reasonable profit targets for stock investments; regularly screen investment targets with strong fundamentals and good growth potential, and use futures to hedge stocks at times of stock market uncertainty; step up efforts to develop repo customers; expand convertible bond asset swap business.

(D) Open up new markets, develop new lines of business

Handle the issuance of securities for entities that are very familiar to investors and have strong fundamentals and good liquidity, and adjust issuance frequency depending on market volatility, in order to decrease market risk and gradually increase issuance volume, thereby achieving economies of scale and establishing new types of profit sources for our securities dealing business.

(3) Industry Overview

i. Financial Holdings Business

The financial tsunami and the follow-on European debt crisis continue to cast a pall of uncertainty over the global economy, and many new regulatory requirements have been adopted in response. Financial holding firms face a financial environment that, both at home and abroad, is more fluid and complex than in the past. For the sake of legal compliance they must make continual adjustments, such as amendments to the "Personal Information Protection Act" and our accounting standards to bring them in line with international practices, and this makes it all the more difficult to manage a financial holding firm.

In order to enhance our long-term competitiveness and respond to social and financial consumption trends, financial holding firms are moving in the direction of combining customer relations management and personal wealth management, strengthening the provision of customized professional financial services that meet the full range of customer needs, developing core businesses, concentrating on niche markets, and seizing firmly on stable profit sources.

ii. Banking Industry

The global economy in 2011 was volatile and unpredictable. In addition to the impact of Japan's earthquake and subsequent nuclear disaster in Fukushima, many Western nations had their sovereign ratings cut, while ongoing sovereign debt crises in countries there continued to worsen. These factors roiled financial markets, which in turn affected real economies. Taiwan's small, open, export-driven economy was adversely affected in various ways by the global economic slowdown, and the quality of credit assets at banks declined as a result.

Central Bank statistics indicate that, as of the end of December 2011, there were over 25 financial institution business locations per 100,000 population, so Taiwan is still plagued by the problem of overbanking, with fierce competition in the industry. In addition, the mainland's Bank of China, Bank of Communications, China Merchants Bank, and China Construction Bank have all set up commercial representations in Taiwan, which puts further pressure on domestic banks.

iii. Life Insurance Industry

The European sovereign debt crisis has put a damper on global economic growth and created greater uncertainty in prospects for future economic growth. Interest rates continued to be held low, which imposed continued negative margins upon life insurers and promises to increase the difficulty of their dealings in equity products. As for premium income, the competent authority adopted new surrender charge and expense loading standards in October 2010 for interest-sensitive annuity products. This change caused a big drop in sales of products in this category, and life insurer premium income declined as a result.

In 2012, the competent authority's reduction of the interest rate on policy reserves for new insurance policies and implementation of the 2011 Taiwan Standard Ordinary Experience Mortality Table, will affect the products and market development strategies of life insurers. In addition, the Insurance Act has been amended to provide that non-investment-linked insurance contracts operated in a foreign currency need not be counted by an insurer against its foreign investment quota, which will ease the capital allocations of life insurers. Gradually deregulation of policies on the financial services industry will accelerate steps to bring Taiwan in line with international practices and afford life insurers greater room for development while simultaneously testing the ability of insurers to run their businesses and control risks.

iv. Securities Industry

The securities industry was affected last year by uncertainties stemming from the Western debt crisis, cuts in sovereign credit ratings there, and overseas earthquakes and floods. As a result, the TAIEX fell 21.18% in 2011. Both turnover value and active accounts were down from 2010, and loan interest continued dipping to historic lows as funds flowed out of the market. The combined profits of all securities firms were down 54.1% from 2010.

Due to the potential for a global economic slowdown in 2012, the markets are cautious on Taiwan equities, so securities firms continue to be affected by a lot of uncertainties, but the Taiwan presidential election is settled and the political situation is relatively stable, which is conducive to an improvement in market fundamentals. Moreover, cross-strait factors are making a positive contribution. Cross-strait economic and trade ties are growing stronger and cross-strait market access is improving. The pace of expansion in economic cooperation appears set to accelerate, which will generate increased opportunities for Taiwan securities firms to gain early access to the mainland market by taking strategic equity stakes in mainland firms or establishing joint ventures there.

(4) Short-term and Long-term business development plans

i. TFH

(A) Short-term business development plan

Understand financial market trends; build up our cross-selling product lineup; innovate and integrate marketing platforms and modes of service; satisfy the increasingly diverse needs of customers; reap the benefits of synergy; work to integrate information operations; improve customer relations management; provide differentiated and tailor-made services; raise our product penetration rate; work to maximize customer value; improve group products and mechanism for integrated public marketing; bring about healthy competition and cooperation among TFH subsidiaries; reap the benefits of strategic partnerships; drive continued growth in the group's core businesses.

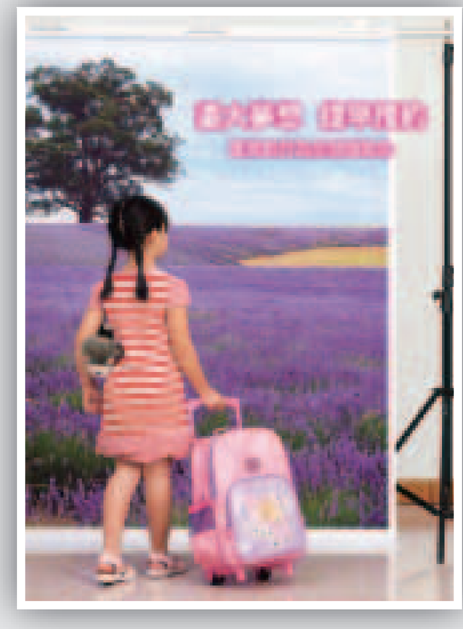
(B) Long-term business development plan

Adopt a groupwide "3C" business strategy (cross selling; cost saving; capital efficiency) by operating in accordance with our development strategy—"establish a strong home base in Taiwan, bring the two sides of the Taiwan Strait together, establish a global presence"; adopt efficient, corporate-style management; improve our business management model; improve company's competitiveness; achieve improved business performance.

ii. BOT

(A) Short-term business development plan

Strengthen integrated marketing and growth capacity; expand the range of business activities and competitive niches; achieve annual business targets; continue upholding the principles of honesty, compassion, efficiency, and stability; actively coordinate with government policy on financial services; continue playing role as a financial market stabilizer.



(B) Long-term business development plan

Use the TFH resource integration platform; provide full range of services; satisfy customers' financial planning needs; in area of organizational development, seek to become one of the best commercial banks in all of the East Asia in terms of both quality and quantity; upgrade Shanghai representative office to branch status; further expedite moves to establish a regional and global presence .

iii. BTLI

(A) Short-term business development plan

Rely primarily on the bancassurance channel; strengthen cooperation with large, high-quality brokerages and agencies; enhance channel marketing capacity; accelerate development of niche products to accommodate market needs, channel development strategies, and legislative amendments; strengthen monitoring and control of capital adequacy; ensure a sound financial structure.

(B) Long-term business development plan

Optimize capital allocations; improve capital efficiency; coordinate with government's policy of encouraging citizens to purchase a higher level of insurance coverage, and respond to an aging population and falling fertility rates, by strengthening development of protection products; implement risk management policy; improve experience rate statistics and actuarial models; improve the accuracy of liability adequacy assessments.

iv. BTS

(A) Short-term business development plan

Use the TFH integrated marketing platform to actively expand customer sources; increase brokerage business market share and balance of long margin positions; work with BOT's foreign branches and Shanghai branch to continue encouraging Taiwan-invested firms to list in Taiwan.

(B) Long-term business development plan

Help private companies go public; help listed companies refinance; move step by step toward the goal of "cultivating our business in the capital markets and developing into an investment bank."

2. Cross-Selling

(1) Cross-selling synergies

Set up an integrated marketing platform (front-office) covering eight major lines of business (securities brokering; securities underwriting; securities dealing; life insurance; life insurance investments; corporate finance; wealth management; trust services); conduct cross-selling of 18 products from other group subsidiaries; leverage TFH management capabilities as a financial holding company to continue target management mechanism and urge joint business development among TFH subsidiaries; groupwide cross-selling contributes NT$1.022 billion to the group's measurable revenue, demonstrating the continued growth potential of this approach.

(2) Resource integration and cost reductions

Expand scope of integration in the group's logistics operations; exercise in-depth management of eight major cross-subsidiary operations (information operations, human resources, training operations, financial information, real estate, public relations, legal affairs, and purchasing operations). The back-office logistics platform supported 4,816 cross-subsidiary operations in 2011, reducing measurable manpower and operating costs over the course of the year by NT$44 million, thus meeting the goal of working more effectively and reducing operating costs by tapping into group synergies.

(3) Benefits of cross-selling

i. Improved the groupwide integrated marketing platform, and spurred cross-selling efforts of subsidiaries. BTLI has 164 insurance co-marketing counters in the BOT channel, and first-year premium income generated in 2011 via the BOT channel came to NT$28.945 billion, and bancassurance fee income increased to NT$813 million, demonstrating the synergistic benefits of integrating products, customers, and channels.

ii. With the full support of the parent company, BTS had established 150 securities co-marketing counters in the BOT channel as of the end of 2011. A very useful and incentivizing performance evaluation mechanism was employed to energize the banking channel, which accepted 13,633 account openings in 2011 and contributed NT$15.8 billion worth of securities brokering orders. During the course of the year, BTS and the BOT corporate finance department cooperated in soliciting 34 underwriting deals worth a total of NT$727 million.

3. Employee

(1) Number of Employees

Year	2010	2011	As of Mar 31, 2012
Company	Number of Employees		
TFH	41	42	55
BOT	7,893	7,902	7,845
BTLI	222	230	226
BTS	105	118	131
Total	8,261	8,292	8,257
Average Service Year	17.37	17.43	17.47

(2) Education Degree of Employees

Year	2010	2011	As of Mar 31, 2012
Education	Education Level & Ratio		
Doctor	0.05	0.07	0.06
Master	11.02	11.97	12.18
University or College	76.27	76.06	76.08
Senior High School	10.99	10.37	10.15
Below Senior High School	1.67	1.53	1.53

4. Corporate Social Responsibility and Ethics

(1) In response to the Executive Yuan's Project to Conserve Energy and Reduce Carbon Footprint by Use of Electronic Documents, TFH reduced paper consumption in 2011 by 13.13% from the preceding year. It will continue working to reach its goal of eventually reducing paper consumption by 30%.

(2) Took part in nationwide community service campaigns in 2011 to encourage people to adopt healthy lifestyles, and called on the public to donate their cash register receipts to such charity organizations as the Taiwan Fund for Children and Families, homes for the disabled and other disadvantaged persons, and social services foundations. These measures received extensive media coverage, attracted huge crowds, and successfully enhanced the image of TFH as an innovative, vigorous, and high-quality government-owned financial holding company.

(3) TFH and the Economic Daily News in October and November of 2011 co-hosted the "2011 International Economic and Financial Forum" featuring keynote addresses by 2010 Nobel economics laureates Dale Mortensen and Peter Diamond. Dr. Mortensen delivered a keynote address entitled "The Labor Market

Response to the Great Recession," while Dr. Diamond spoke on the issue of Prevening Another Global Economic Crisis. In this manner, TFH used a knowledge economy platform to interact with a broad cross-section of society. TFH is also planning and preparing strategically for achievement of Taiwan's vision for a "Golden Decade," so that the government and people can work hand-in-hand to revitalize the economy. We are seeking new sources of economic vigor and opportunities for future development to power Taiwan through the century to come.

(4) TFH has long taken a close interest in public service and athletic activities in Taiwan. In 2011 we sponsored the Taiwan Lantern Festival and took part in such museum exhibits as "The Golden Age of the Qing: Treasures from the Shenyang Palace Museum" and "Monet's Garden." Also, in conjunction with the nation's centennial celebrations and events marking the 65th anniversary of the founding of the Bank of Taiwan, TFH organized a series of events focusing on environmental protection, healthy lifestyles, and community service. We made donations to help the disadvantaged; integrated group resources, promoted basketball, baseball, and tennis; supported the training of outstanding athletes; fulfilled our corporate social responsibility; and reaped the benefits of public service marketing.

(5) TFH and its subsidiaries each have an employees' handbook and a code of conduct that require all directors, supervisors, executive officers, and employees to carry out their duties in an honest and ethical manner. They are required to avoid conflicts of interest, refrain from using their positions for personal profit, maintain the confidentiality of undisclosed information, safeguard company assets, and allocate them effectively. TFH and its subsidiaries are very serious about ensuring the ethical conduct of their employees, and examine ethical issues closely when evaluating job performance, so as to promote a corporate culture that emphasizes ethical ideals, and to establish a clean and capable image for state-run enterprises.

Seizing Opportunities

VI. Financial status

1. Condensed financial statement for most recent 5 years

(1) Condensed consolidated balance sheet

Unit: NT$1,000

Item / Year			Financial Information for Past 5 years			
			2011	2010	2009	2008
Cash and cash equivalents			97,988,304	60,552,750	72,498,553	80,104,961
Due from Central Bank and call loans to banks			488,555,403	518,166,823	1,248,000,974	996,241,280
Financial assets at fair value through profit or loss			111,746,984	102,094,813	94,008,327	78,655,045
Bills and bonds purchased under resell agreements			12,402,851	9,746,406	9,402,856	12,321,566
Receivables, net			91,051,049	90,593,836	94,848,447	105,973,044
Loans, net			2,158,381,911	2,083,747,129	2,053,171,504	1,997,536,704
Available for sale financial assets, net			802,058,331	891,936,602	175,919,557	175,527,297
Held to maturity financial assets, net			227,724,845	195,221,334	147,700,416	117,196,368
Equity investments using the equity method			37,544,129	36,181,254	34,373,421	31,125,626
Other financial assets, net			110,755,243	91,129,833	78,562,977	77,978,931
Real estate investments, net			4,057,036	3,351,986	1,982,445	2,003,965
Fixed assets, net			99,049,681	77,757,512	79,651,798	81,040,624
Intangible assets			830,361	982,123	1,121,713	1,451,116
Other assets, net			19,082,920	22,512,358	18,741,276	18,298,572
Total Assets			4,261,229,048	4,183,974,759	4,109,984,264	3,775,455,099
Due to Central Bank and other banks			208,926,475	207,612,937	204,950,860	181,489,738
Commercial paper payable, net			499,537	479,781	-	
Financial liabilities at fair value through profit or loss			4,274,874	16,397,063	4,210,041	5,804,419
Bills and bonds sold under repurchase agreements			15,638,050	9,801,211	5,525,570	20,251,220
Payables			69,230,298	70,926,353	91,743,498	97,501,208
Deposits			3,202,888,078	3,167,175,151	3,165,389,168	2,932,562,905
Other financial liabilities			11,246,261	7,187,799	7,192,234	6,429,020
Reserves for operation and liabilities			467,108,298	415,927,106	355,414,596	279,848,256
Other liabilities			31,707,537	28,289,686	25,913,182	25,402,994
Total liabilities			4,011,519,408	3,923,797,087	3,860,339,149	3,549,289,580
Capit stock			90,000,000	90,000,000	90,000,000	90,000,000
Equity Attributable to Stockholders of TFH	Additional paid-in capital		112,095,429	111,516,202	111,494,739	111,495,264
	Retained Earnings	Before distribution	14,261,163	15,993,501	12,512,535	7,321,499
		After distribution	9,848,156	9,975,873	8,569,400	3,731,372
	Equity adjustments		33,353,048	42,667,969	35,637,841	17,348,756
Minority interest			-	-	-	-
Total stockholders' equity	Before distribution		249,709,640	260,177,672	249,645,115	226,165,519
	After distribution		245,296,633	254,160,044	245,701,980	222,575,392

(2) Condensed income statement

Unit: NT$1,000

Item / Year		Financial Information for Past 5 years			
		2011	2010	2009	2008
Net interest income		31,387,079	26,433,738	21,676,325	28,847,934
Revenues other than interest		48,381,213	61,060,902	85,599,986	31,737,758
Bad debt expenses		4,999,902	374,535	4,431,377	1,598,254
Provisions for insurance policy reserves		50,751,321	60,749,024	76,342,481	33,710,940
Operating expenses		19,333,759	18,487,962	17,817,075	18,280,269
Income before tax		4,683,310	7,883,119	8,685,378	6,996,229
Consolidated net income after tax		4,080,591	7,424,101	8,781,163	7,321,499
Cumulative effect of changes in accounting principles (after tax)		-	-	-	-
Revenues other than interest		-	-	-	-
Consolidated net income	Attributable to TFH shareholders	4,080,591	7,424,101	8,781,163	7,321,499
	Attributable to minority interest	-	-	-	-
Basic earnings per share		0.45	0.82	0.98	0.81

(3) Condensed balance sheet

Unit: NT$1,000

Item / Year		Financial Information for Past 5 years			
		2011	2010	2009	2008
Cash and cash equivalents		171,358	37,114	1,406,943	348.555
Receivables, net		2,026,209	25,622	135	133
Equity investments accounted for by the equity method, net		255,373,942	265,595,960	251,166,051	226,195,089
Property and equipment, net		7,644	7,854	7,757	5,274
Intangible assets, net		31	45	59	14
Other assets, net		4,305,803	5,793,134	3,078,567	3,593,413
Total assets		261,884,987	271,459,729	255,659,512	230,142,478
Short-Term borrowing		5,700,000	5,600,000	2,000,000	-
Payables		1,988,369	15,873	17,803	2,907
Accrued pension liabilities		56,288	45,206	41,396	122
Other liabilities		4,430,690	5,620,978	3,955,198	3,973,930
Total liabilities	Before distribution	12,175,347	11,282,057	6,014,397	3,976,959
	After distribution	7,986,503	5,975,519	2,059,394	3,127
Capital stock		90,000,000	90,000,000	90,000,000	90,000,000
Capital surplus		112,095,429	111,516,202	111,494,739	111,495,264
Retained earnings	Before distribution	14,261,163	15,993,501	12,512,535	7,321,499
	After distribution	9,848,156	9,975,873	8,569,400	3,731,372
Equity adjustments		33,353,048	42,667,969	35,637,841	17,348,756
Total stockholders' equity	Before distribution	249,709,640	260,177,672	249,645,115	226,165,519
	After distribution	245,296,633	254,160,044	245,701,980	222,575,392

(4) Condensed income statement

Unit: NT$1,000

Item \ Year	Financial Information for Past 5 years			
	2011	2010	2009	2008
Investment Income from Equity Investments Accounted for by the Equity Method	4,127,132	7,532,044	8,860,946	7,351,070
Other Income	2,821	3,083	4,086	3,612
Operating Expenses	140,732	131,247	99,960	36,394
Other Expenses and Losses	52,148	27,659	7,962	75
Income Before Tax	3,937,073	7,376,221	8,757,110	7,318,213
Net Income After Tax	4,080,591	7,424,101	8,781,163	7,321,499
Earnings per share (before tax)	0.44	0.82	0.97	0.81
Earnings per share (after tax)	0.45	0.82	0.98	0.81

2. Financial analysis for most recent 5 years

(1) Financial analysis

Unit: NT$1,000; %

Item \ Year		2011	2010	2009	2008
Operating Ability	Total Assets Turnover	0.0156	0.0277	0.0346	0.0320
	Loans to Deposits Ratio of Banking Subsidiary (%)	67.16	65.19	63.35	66.36
	NPL Ratio of Banking Subsidiary (%)	0.44	0.62	1.03	1.06
	The Group's Average Operating Revenue Per Employee	9,197	10,075	11,733	6,631
	The Group's Average Profit Per Employee	470	855	960	801
Profitability	Return on Assets (%)	1.55	2.82	3.62	3.18
	Return on Equity (%)	1.60	2.91	3.69	3.24
	Net Margin (%)	100.07	98.89	99.14	99.55
	Earnings Per Share (NT$)	0.45	0.82	0.98	0.81
Financial structure	Debt Ratio	4.65	4.16	2.35	1.73
	Liabilities to Net Worth Ratio	4.88	4.34	2.41	1.76
	TFH's Double Leverage Ratio	102.27	102.08	100.52	99.80
Leverage ratio	Operating Leverage Ratio	103.40	101.65	101.07	100.50
	TFH's Financial leverage ratio	101.26	100.32	100.07	100.00

Item			2011	2010	2009	2008
Growth Rates	Growth Rate of Assets		-3.53	6.18	11.09	–
	Growth Rate of Profit		-46.62	-15.77	19.66	–
Cash Flows	Cash Flow Ratio		227.79	35,692.04	22,902.93	135,702.48
	Cash Flow Adequacy Ratio		102.67	103.32	121.31	109.69
	Cash Flow Reinvestment Ratio		253,462.17	141.57	203.22	57,783.37
Operating Scale	Market Share by Assets		12.86	14.50	15.15	15.39
	Market Share by Net Worth		11.33	13.08	12.92	13.67
	Market Share of Deposits of Banking Subsidiary		11.29	11.63	12.32	12.17
	Market Share of Loans of Banking Subsidiary		9.52	9.97	10.54	10.22
Capital Adequacy	Capital adequacy ratio	Bank of Taiwan	11.38	11.87	11.89	11.63
		BankTaiwan Life Insurance	266.20	292.03	252.52	147.66
		BankTaiwan Securities	421	651	679	1503.00
	Eligible self-owned capital	Bank of Taiwan	187,365,815	176,521,653	179,926,649	172,902,518
		BankTaiwan Life Insurance	10,448,676	11,022,399	7,183,845	3,840,391
		BankTaiwan Securities	1,846,923	2,896,702	2,869,108	2,696,758
	Group's eligible capital		193,915,074	184,974,178	188,431,327	179,406,811
	Subsidiary's statutory capital requirement	Bank of Taiwan	131,687,943	118,922,025	121,023,652	1,486,972,081
		BankTaiwan Life Insurance	7,850,196	7,548,714	5,689,758	2,600,832
		BankTaiwan Securities	658,278	667,907	634,229	179,425
	Group's statutory capital requirement		140,249,039	127,186,654	130,406,739	128,559,770
	Group's capital adequacy ratio		138.26	145.44	144.50	139.55
Paragraph 46 of the Financial Holding Company Act requires disclosure the aggregate credit exposures, guarantees or other transactions of any single party, single group of related parties, or single group of related enterprises that from all subsidiaries.		Single party (%)	784.14	762.88	470.78	420.12
		Single group of related parties (%)	9.71	2.90	2.21	15.93
		Single group of related enterprises (%)	293.00	178.98	161.48	519.55

3. Consolidated financial statements for 2011

LETTER OF DECLARATION

The entities that are required to be included in the combined financial statements of Taiwan Financial Holding Co., Ltd. as of and for the year ended December 31, 2011, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the Statement of Financial Accounting Standards No.7, "Consolidated Financial Statements". In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Taiwan Financial Holding Co., Ltd. and its subsidiaries do not prepare a separate set of combined financial statements.

Truthfully yours,

TAIWAN FINANCIAL HOLDING CO., LTD.

By

Susan Chang

Susan S. Chang

Chairman

April 19, 2012

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Taiwan Financial Holding Co., Ltd.

We have audited the accompanying consolidated balance sheets of Taiwan Financial Holding Co., Ltd. and its subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years ended December 31, 2011 and 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of some investee companies. The Company's investment in those investee companies on December 31, 2011 and 2010, was $31,481,606 thousand and $29,468,381 thousand, respectively, constituting 0.74% and 0.70%, respectively, of total consolidated assets, and its equity in earnings of those investee companies was $2,508,749 thousand and $1,786,179 thousand, respectively, constituting 53.57% and 22.66%, respectively, of the consolidated income before income tax, for the years ended December 31, 2011 and 2010. The consolidated financial statements of those investee companies were audited by other auditors, whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for those investee companies, is based solely on the reports of the other auditors. The details are as described in note (12).

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

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Taiwan Financial Holding Co., Ltd. and its subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years ended December 31, 2011 and 2010, in conformity with the "Regulations Governing the Preparation of Financial Reports by Financial Holding Companies", the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", and accounting principles generally accepted in the Republic of China.

As described in note (3), effective January 1, 2011. Taiwan Financial Holdings and its subsidiaries adopted the third amendment of GAAP No. 34 "Financial Instruments: Recognition and Measurement" revised by the Financial Accounting Standards Committees. In accordance with the GAAP No.34, the recognition, subsequent valuation and impairment losses of loans and receivables shall comply with the new amendment. The amendment also applies to the terms and conditions of restructured and negotiable debts. Please see note (5), (8), (9) and (13) for further descriptions.

The consolidated financial statements of the Company shall be audited by the Ministry of Audit in accordance with the related regulations of the Law of Audit. The 2010 and 2009 consolidated financial statements of the Company were audited by the Ministry of Audit, the results are as described in note 42 (11); the revised items were adjusted in the consolidated financial statements of the Company.

KPMG

April 19, 2012

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2011 and 2010

(expressed in thousands of New Taiwan Dollars)

	December 31, 2011	December 31, 2010	Percentage change
Assets			
Cash and cash equivalents (notes 4 and 37)	$ 97,988,304	60,552,750	62
Due from Central Bank and call loans to banks (notes 5, 9, 37 and 38)	488,555,403	518,166,823	(6)
Financial assets measured at fair value through profit or loss, net (notes 6, 35 and 37)	111,746,984	102,094,813	9
Bills and bonds purchased under resell agreements (note 7)	12,402,851	9,746,406	27
Receivables, net (notes 8, 9 and 28)	91,051,049	90,593,836	1
Discounts and loans, net (notes 9, 35 and 37)	2,158,381,911	2,083,747,129	4
Available for sale financial assets, net (notes 10, 32, 35 and 38)	802,058,331	891,936,602	(10)
Held to maturity financial assets, net (notes 11, 32, 35 and 38)	227,724,845	195,221,334	17
Investments under equity method, net (note 12)	37,544,129	36,181,254	4
Other financial assets, net (notes 8, 9, 13, 32 and 35)	110,755,243	91,129,833	22
Real estate investments, net (notes 14 and 15)	4,057,036	3,351,986	21
Fixed assets, net (notes 15, 26 and 32)	99,049,681	77,757,512	27
Intangible assets (note 16)	830,361	982,123	(15)
Other assets (notes 17, 32 and 38)	19,082,920	22,512,358	(15)
Total Assets	**$ 4,261,229,048**	**4,183,974,759**	**2**

	December 31, 2011	December 31, 2010	Percentage change
Liabilities and Stockholders' Equity			
Due to Central Bank and other banks (notes 18 and 37)	$ 208,926,475	207,612,937	1
Commercial paper payable, net (note 19)	499,537	479,781	4
Financial liabilities measured at fair value through profit or loss (notes 20, 35 and 37)	4,274,874	16,397,063	(74)
Bills and bonds sold under repurchase agreements (note 7)	15,638,050	9,801,211	60
Payables (note 21)	69,230,298	70,926,353	(2)
Deposits and remittances (notes 22 and 37)	3,202,888,078	3,167,175,151	1
Other financial liabilities (notes 25 and 35)	11,246,261	7,187,799	56
Reserves for operation and liabilities (note 24)	467,108,298	415,927,106	12
Other liabilities (notes 15, 26 and 27)	31,707,537	28,289,686	12
Total liabilities	4,011,519,408	3,923,797,087	2
Stockholders' equity (notes 15, 28 and 29):			
Common stock	90,000,000	90,000,000	
Additional paid in capital	112,095,429	111,516,202	1
Retained earnings:			
Legal reserve	2,352,676	1,610,266	46
Special reserve	5,227,896	4,653,557	12
Unappropriated retained earnings	6,680,591	9,729,678	(31)
	14,261,163	15,993,501	(11)
Equity adjustments:			
Unrealized gains on revaluation increments	27,175,554	15,116,171	80
Cumulative translation adjustments	(370,052)	(465,473)	20
Unrealized gains on financial instruments	7,418,299	28,019,454	(74)
Net losses not recognized as pension cost	(870,753)	(2,183)	(39，788)
	33,353,048	42,667,969	(22)
Total stockholders' equity	249,709,640	260,177,672	(4)
Commitments and contingencies (note 39)			
Total Liabilities and Stockholders' Equity	**$ 4,261,229,048**	**4,183,974,759**	**2**

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Income

For the years ended December 31, 2011 and 2010

(expressed in thousands of New Taiwan Dollars, except for earnings per share)

	2011	2010	Percentage change
Interest income	$ 62,088,506	52,579,390	18
Less: interest expenses	30,701,427	26,145,652	17
Net interest income	31,387,079	26,433,738	19
Net non-interest income			
Net income on service charges and commissions	3,778,928	3,806,379	(1)
Net insurance business income (note 31)	31,325,073	33,874,695	(8)
(Losses) gains on financial assets and liabilities at fair value through profit or loss (note 6)	(7,452,108)	9,835,901	(176)
Realized gains on available-for-sale financial assets (note 10)	2,651,465	5,074,481	(48)
Realized gains on held-to-maturity financial assets	64,704	660,642	(90)
Gains on equity investments recognized under the equity method (note 12)	2,646,724	1,983,813	33
Gains on real estate investments	43,229	155,726	(72)
Foreign exchange gains (losses)	4,823,608	(3,600,601)	234
Asset impairment gains (losses) on reversal of impairment (note 32)	37,027	(415,133)	109
Other net non-interest income (losses):			
Self-managed and commissioned sales (note 17)	151,965,102	79,647,398	91
Government grant income (note 42)	18,619,038	17,871,279	4
Gains on disposal of properties, plant, and equipment (note 15)	421,670	612,974	(31)
Other miscellaneous income	1,500,024	1,145,860	31
Self-managed and commissioned cost of sales (note 17)	(151,065,996)	(79,101,635)	(91)
Excess interest expenses (notes 8)	(10,103,378)	(9,740,877)	(4)
Other miscellaneous expenses	(873,897)	(750,000)	(17)
Net revenue	79,768,292	87,494,640	(9)
Bad debt expenses (note 9)	4,999,902	374,535	1,235
Provisions for insurance policy reserves (note 33)	50,751,321	60,749,024	(16)
Operating expenses:			
Personnel expenses (note 27)	12,842,623	12,521,364	3
Depreciation and amortization expenses	1,483,982	1,404,479	6
Other business and administrative expenses	5,007,154	4,562,119	10
Total operating expenses	19,333,759	18,487,962	5
Income before income taxes	4,683,310	7,883,119	(41)
Income tax expense (note 28)	602,719	459,018	31
Consolidated total income	**$ 4,080,591**	**7,424,101**	**(45)**
Attributable to:			
Parent company shareholders	$ 4,080,591	7,424,101	(45)
Minority interest	-	-	-
	$ 4,080,591	**7,424,101**	**(45)**

	2011 Before income tax	2011 After income tax	2010 Before income tax	2010 After income tax
Basic earnings per share (note 30)	$ 0.52	0.45	0.88	0.82

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2011 and 2010

(expressed in thousands of New Taiwan Dollars)

			Retained earnings			Equity adjustments				
	Common stock	Additional paid-in capital	Legal reserve	Special reserve	Unappropriated retaine earnings	Cumulative foreign currency translation adjustments	Net loss not recognized as pension cost	Unrealized gains (losses) on financial instruments	Unrealized increments on revaluation	Total
Balance as of January 1, 2010	$ 90,000,000	111,494,739	732,150	2,928,599	8,851,786	(128,524)	-	19,126,391	16,639,974	249,645,115
Consolidated total income for the year ended December 31, 2010	-	-	-	-	7,424,101	-	-	-	-	7,424,101
Appropriation of retained earnings:										
Legal reserve	-	-	878,116	-	(878,116)	-	-	-	-	-
Special reserve	-	-	-	3,512,466	(3,512,466)	-	-	-	-	-
Cash dividends for government	-	-	-	-	(3,943,135)	-	-	-	-	(3,943,135)
Special reserve reversal	-	-	-	(1,787,508)	1,787,508	-	-	-	-	-
Additional paid-in capital from investee company	-	21,463	-	-	-	-	-	-	-	21,463
Change in unrealized increments on revaluation	-	-	-	-	-	-	-	-	(1,523,803)	(1,523,803)
Change in unrealized gains of available-for-sale financial assets	-	-	-	-	-	-	-	8,893,063	-	8,893,063
Change in cumulative foreign currency translation adjustments	-	-	-	-	-	(336,949)	-	-	-	(336,949)
Net loss not recognized as pension cost	-	-	-	-	-	-	(2,183)	-	-	(2,183)
Balance as of December 31, 2010	90,000,000	111,516,202	1,610,266	4,653,557	9,729,678	(465,473)	(2,183)	28,019,454	15,116,171	260,177,672
Consolidated total income for the year ended December 31, 2011	-	-	-	-	4,080,591	-	-	-	-	4,080,591
Appropriation of retained earnings:										
Legal reserve	-	-	742,410	-	(742,410)	-	-	-	-	-
Special reserve	-	-	-	2,969,640	(2,969,640)	-	-	-	-	-
Cash dividends for government	-	-	-	-	(6,017,628)	-	-	-	-	(6,017,628)
Special reserve reversal	-	-	-	(2,600,000)	2,600,000	-	-	-	-	-
Additional paid-in capital from investee company	-	579,227	-	-	-	-	-	-	-	579,227
Change in unrealized increments on revaluation	-	-	-	-	-	-	-	-	12,059,383	12,059,383
Change in unrealized gain of available-for-sale financial assets	-	-	-	-	-	-	-	(20,601,155)	-	(20,601,155)
Change in cumulative foreign currency translation adjustments	-	-	-	-	-	95,421	-	-	-	95,421
Special reserve recognized under equity method	-	-	-	66,638	-	-	-	-	-	66,638
Reserves for default losses transferred to special reserve	-	-	-	138,061	-	-	-	-	-	138,061
Net loss not recognized as pension cost	-	-	-	-	-	-	(868,570)	-	-	(868,570)
Balance as of December 31, 2011	$ 90,000,000	112,095,429	2,352,676	5,227,896	6,680,591	(370,052)	(870,753)	7,418,299	27,175,554	249,709,640

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2011 and 2010

(expressed in thousands of New Taiwan Dollars)

	2011	2010
Cash flows from operating activities:		
Consolidated total income	$ 4,080,591	7,424,101
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	1,488,140	1,435,240
Credit provisions	4,689,948	355,107
Provisions for reserves	51,325,438	60,515,277
Gains on disposal of financial assets	(1,716,873)	(5,513,927)
Amortization of financial assets discount	(3,643,078)	(2,598,290)
Investments income recognized under equity method	(2,646,724)	(1,983,389)
Cash dividend received from investee under equity method	759,148	444,298
Gains on disposal of fixed assets and non-operating assets	(930,738)	(1,709,065)
Losses on write-off of printed matter, reduction of inventory to market, and fixed asset reclassification	250,465	5,076
Gains on disposal of long-term investments under equity method	-	(424)
Unrealized valuation losses on financial assets and liabilities	271,339	1,652,649
Impairment losses on financial assets	137	326,508
Gains on reversal of impairment on financial assets	(1,156)	-
Impairment losses on non-financial assets	4,036	102,729
Gains on reversal of impairment on non-financial assets	(40,044)	(14,104)
Reclassification of unrealized revaluation increment as other income	-	(12,732)
Net Change of operating assets and liabilities		
Net change of operating assets		
(Increase) decrease in receivables	(339,113)	4,343,665
Increase in bills and bonds purchased under resell agreements	(2,737,659)	(343,550)
Decrease (increase) in deferred income tax assets	236,711	(38,203)
(Increase) decrease in trading financial assets	(11,357,306)	14,990,026
Increase in other financial assets	(2,950,758)	(2,380,193)
Increase in other assets	(5,397,276)	(652,249)
Net change of operating liabilities		
Decrease in payables	(1,781,172)	(18,496,127)
Increase in accrued pension liabilities	444,690	344,640
Decrease in trading financial liabilities	(548,280)	(2,697,424)
Increase in bills and bonds sold under repurchase agreements	5,836,839	4,275,641
Decrease in other liabilities	(602,669)	(923,511)
Increase in other financial liabilities	-	1,394
Net cash provided by operating activities	34,694,636	58,853,163

Cash flows from investing activities:			
Acquisition of financial assets designated as at fair value through profit or loss	$	(11,528,078)	(11,920,743)
Proceeds from disposal of financial assets designated as at fair value through profit or loss		4,056,872	-
Acquisition of available-for-sale financial assets		(3,909,983,459)	(4,021,649,219)
Proceeds from disposal of available-for-sale financial assets		116,433,425	146,228,144
Proceeds received on the maturity of available-for-sale financial assets		3,794,300,535	3,844,203,117
Proceeds received on the maturity of financial assets designated as at fair value through profit or loss		2,320,951	3,944,669
Proceeds received on the maturity of bond investment in non-active market at cost		1,182,195	4,951,256
Acquisition of held-to-maturity financial assets		(190,365,893)	(273,599,586)
Proceeds from disposal of held-to-maturity financial assets		5,305,000	-
Proceeds from received on the maturity of held-to-maturity financial assets		150,350,882	237,707,499
Proceeds from equity reduction of available-for-sale financial assets		3,069	58,135
Cash dividend received from available-for-sale financial assets		330,242	238,278
Proceeds from disposal of hedging derivatives		259	-
Decrease in due from Central Bank and call loans to banks		29,738,637	684,486,887
Acquisition of fixed assets		(722,392)	(936,301)
Proceeds from sale of fixed assets and non-operating assets		498,651	172,885
Acquisition of bond investment in non-active market		(31,400,496)	(14,653,090)
Proceeds from disposal of bond investment in non-active market at cost		16,176,850	-
Acquisition of intangible assets		(292,260)	(302,876)
Increase in discounts and loans		(80,576,775)	(28,984,528)
Increase in purchase of real estate investment		(740,349)	(1,439,249)
Increase in other financial assets		(15,262)	(1,608)
Decrease in other assets		898,056	815,046
Net cash (used in) provided by investing activities		(104,029,340)	569,318,716
Cash flows from financing activities:			
Decrease in other loans		(82,017)	(2,000,000)
Increase in commercial paper payables		19,756	-
Increase (decrease) in other financial liabilities		4,553,096	(477,174)
(Decrease) increase in other liabilities		(171,238)	822,930
Cash dividend paid		(4,493,370)	(6,633,727)
Increase in deposits from central bank and other financial institution		1,313,537	2,662,077
Increase in deposits and remittances		35,721,771	1,785,978
Net cash (used) provided by financing activities		36,861,535	(3,839,916)
Exchange effect		(3,105,572)	5,349,468
Net (decrease) increase in cash and cash equivalents		(35,578,741)	629,681,431
Cash and cash equivalents at beginning of year		903,095,459	273,414,028
Cash and cash equivalents at end of year	$	867,516,718	903,095,459
Supplemental disclosure of cash flow information:			
Interest paid	$	39,840,996	36,708,999
Income tax paid	$	556,079	1,105,618
Financial and investing activities not affecting cash:			
Unrealized gains on financial instruments	$	(20,601,155)	8,893,063
Unrealized increments on revaluation	$	12,059,383	(1,523,803)
Cumulative foreign currency translation adjustments	$	95,421	(336,949)
Special reserve	$	204,699	-
Change in additional paid-in capital	$	579,227	21,463
Net losses not recognized as pension costs	$	(868,570)	(2,183)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(expressed in thousands of New Taiwan Dollars, unless otherwise specified)

(1) Organization and Business

1) Taiwan Financial Holding Co., Ltd.

On January 1, 2008, Taiwan Financial Holding Co., Ltd. (the Company) was incorporated in accordance with the Act of Taiwan Financial Holding Co., Ltd. and has three investee companies: "Bank of Taiwan" (BOT), "BankTaiwan Life Insurance Co., Ltd." (BTLI) and "BankTaiwan Securities Co., Ltd." (BTS). Taiwan Financial Holding became a public company on November 17, 2009.

The Company engages mainly in investing and managing investee companies. The investing business follows the Financial Holding Company Act.

As of December 31, 2011 and 2010, there were 8,673 and 8,684 employees in the Company and its subsidiaries, respectively.

2) The consolidated subsidiaries' businesses

Bank of Taiwan (BOT) was established on May 20, 1946. BOT became a legal entity in 1985 in accordance with the Banking Act of the Republic of China, and transformed into a corporate entity starting from July 1, 2003. BOT became a public company on September 16, 2004.

BOT merged with the Central Trust of China effective on July 1, 2007. The Central Trust of China was the dissolved company, and BOT was the surviving company. BOT is engaged in the following business:

1. All commercial banking operations allowed under the Banking Law;
2. International banking operations;
3. All kinds of savings and trust business;
4. Overseas branch operations authorized by the respective foreign governments; and
5. Other operations authorized by the central government authorities.

BankTaiwan Life Insurance Co., Ltd. (BTLI) was the life insurance department of BOT and separated from BOT on January 2, 2008, with net assets $5 billion yielded by BOT as its owner's equity. Its main businesses are life insurance and related businesses.

BankTaiwan Securities, Co., Ltd. (BTS) was the securities department of BOT and separated from BOT on January 2, 2008, with net assets $3 billion yielded by BOT as its owner's equity. BTS's main businesses include the following: 1. Securities trading brokerage. 2. Providing margin purchases and short sales for securities transactions. 3. Securities dealing. 4. Operating as futures introducing brokers.

(2) Summary of Significant Accounting Policies

The financial statements of the Company and its subsidiaries have been prepared in the local currency and in Chinese. The financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language financial statements, the Chinese version shall prevail.

1) Basis of preparation

The Company and its subsidiaries, consolidated financial statements were prepared in conformity with relevant government customs. The Company prepared the accompanying financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China (ROC) when customs are inapplicable.

The Company and its subsidiaries are government owned enterprises, and their accounting practices mainly follow the Budget Law, Account Settlement Law and Uniform Regulations on Accounting Systems for Banks Governed by the MOF. The annual financial statements are audited by the Ministry of Audit (the MOA) to ensure that the Company and its subsidiaries comply with the budget approved by the Legislative Yuan. The financial statements become final only after such an audit by the MOA. Adjustments are amended in the preparation of consolidated financial statement in accordance to the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

The financial statements of 2010 and 2009 were approved by the MOA, and the beginning balance in 2011 and 2010 were the same as the approved closing balances in 2010 and 2009, respectively.

The differences between the financial statements certified by the MOA and that audited by the independent auditors are described in note 42 (11).

2) Principles of consolidation

The consolidation of financial statements is made in accordance with the requirements of the "Regulations Governing the Preparation of Financial Reports by Financial Holding Companies" and ROC Statement of Financial Accounting Standards (ROC SFAS) No. 7 "Consolidated Financial Statements". All material inter company transactions have been eliminated in the consolidated financial statements.

Name of the investor	Name of the subsidiary	Business	Shareholding percentage	
			December 31, 2011	December 31, 2010
The Company	BOT	Banking	100.00%	100.00% (note 1)
The Company	BTLI	Life Insurance	100.00%	100.00% (note 2)
The Company	BTS	Securities	100.00%	100.00%

Note 1: BOT issued ordinary shares with retained earnings, amounting to 25,000,000 at par in 2010.
Note 2: BTLI issued ordinary shares with cash, amounting to 4,000,000 at par in 2010.

3) Foreign currency transactions

The financial statements of the Company and its subsidiaries are presented in New Taiwan Dollar. Non derivative transactions in foreign currency are translated at the exchange rate on the date of transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. All differences are taken to the Consolidated Income statement for the period. If the non monetary assets or liabilities are measured at fair value through profit or loss, the resulting unrealized exchange gains (loss) from such translation is reflected in the accompanying statement of income. If the non monetary assets or liabilities are measured at fair value through shareholder's equity, the resulting unrealized exchange gains (loss) from such translation are recorded as a separate component of shareholder's equity.

The financial statements of overseas operating entities reported in functional currencies are translated into New Taiwan Dollars at the exchange rates prevailing on the balance sheet date, with the exception of stockholders' equity, which is translated at historical rates. Translation differences resulting from the translation of these financial statements into New Taiwan Dollars are recorded as cumulative translation adjustment, a separate component of shareholders' equity.

4) Use of estimates

The preparation of the accompanying financial statements requires management of the Company and its subsidiaries to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

5) Accounting basis cash flow

Cash and cash equivalents are the basis for the preparation of cash flow. Cash comprise of cash on hand, demand deposit, check deposit, timed deposit and NCD that are fully redeemable upon cancellation. Cash equivalents comprise of short term, highly liquid investments that are readily convertible to a known amount of cash, and that are subject to an insignificant risk of changes in value. Investment normally meets the definition of a cash equivalent when it has a maturity of three months or less from the date of acquisition, such as short term bills.

6) Financial assets or liabilities at fair value through profit or loss

1. An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition.
   (a) Financial assets and liabilities held for trading purposes are classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term. Derivatives held by the Company and its subsidiaries, other than designated hedging securities, are classified in this category.
   (b) An embedded derivative shall be separated from the master contract, but if the entity is unable to determine reliably the fair value of an embedded derivative separately either at acquisition or at the subsequent balance sheet date, it shall designate the entire hybrid contract as at fair value through profit or loss, either to eliminate or significantly reduce accounting mismatch that would otherwise arise from financial assets.
   (c) Financial assets or liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Financial assets purchased or sold regularly is recognized using either trade date accounting (except for bonds and funds recognized using settlement date accounting).
2. Derivative financial instruments refer to transactions such as forward contracts, interest swaps, cross currency swaps, asset swaps and options that are engaged in by the Company and its subsidiaries in foreign exchange, interest rate and capital markets. In addition to their application in hedge accounting, derivative financial instruments are for trading purposes. Derivative financial instruments for trading purposes are involved in creating markets, serving customers and other related arbitrage activities.
   Derivative financial instruments for trading purposes are assessed by the fair value method. Any relevant net present value created shall be recognized as current gains or losses. Fair value refers to the formal transaction price fully recognized and agreed by both parties. The fair value generally

is the trading price in an active market. If there is no trading price available, the fair value should be estimated by a valuation method or model.

The right of set off of derivative financial instruments measured by the fair value method is enforceable by law. In net settlement, financial assets are offset with liabilities and disclosed in net amount.

7) Available for sale financial assets

Available for sale financial assets are recorded at fair value, and the change in market value is adjusted against shareholders, equity. Financial assets or liabilities purchased or sold regularly is recognized using either trade date accounting (except for bonds and funds recognized using settlement date accounting). Impairment loss is recognized when there is objective evidence of impairment thereof. If, in a subsequent period, the amount of the impairment loss decrease, then for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to equity; for debt securities, the amount of the decrease is recognized in profit or loss, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

8) Held to maturity financial assets

Held to maturity financial assets are debt instruments held by the Company and its subsidiaries with positive intention and ability to hold to maturity, recorded at amortized cost. Held to maturity financial assets are measured at fair value upon initial recognition plus transaction costs, and recognized through profit or loss at derecognition, impairment or amortization. Financial assets or liabilities purchased or sold regularly is recognized using either trade date accounting. Impairment loss is recognized when there is objective evidence of impairment. If the impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit and loss. The carrying value after the reversal should not exceed the amortized balance of the assets assuming no impairment loss was recognized.

9) Hedge accounting

Financial instruments held by the Company and its subsidiaries which meet all the criteria for applying hedge accounting are treated with fair value hedge accounting. Gains or losses on a hedging instrument resulting from fair value revaluation or exchange rate variation are recognized through profit or loss in the current year immediately. Gains or losses on a hedged item arising from the exposures to targeted risks is reflected in the face value of that hedged item and recognized through profit or loss in the current year immediately.

10) Financial assets are carried cost

Financial assets measured at costs are unquoted equity instrument whose fair value cannot be reliably measured. Impairment loss is recognized if there is objective evidence of impairment thereof, and this recognized amount is non reversible.

11) Bond investment in non active market

Bond investments in non active market are recorded at amortized cost. The asset is measured at fair value upon initial recognition plus any transaction costs incurred for acquiring such asset. Impairment loss is recognized when there is objective evidence of impairment thereof. If the impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit and loss. The carrying value after the reversal should not exceed amortized balance of the assets assuming no impairment loss was recognized.

12) Notes receivables and other receivables

Notes receivable and account receivables result from services provided.

13) Loans

Loans are recorded by the amount of outstanding principal, with unearned income excluded. Interest income is recognized revenue on an accrual basis.

Recording of interest receivable of loans would be suspended if either of the following conditions is met:

1. Collection of payment of principal or interest accrued is considered highly unlikely; or,
2. Payment of principal or interest accrued is over 6 months past due.

   Interest revenue is recognized upon receipt of interest for the period when recording of accrued interest is suspended.

The Company first assesses whether any objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment impairment. Impairment loss is recognized and measured as the difference between the asset,s carrying amount and the present value of estimated future cash flows discounted at the financial asset,s original effective interest rate. The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss. When determining impairment loss, the estimated future cash flows should include collaterals and the recoverable amount from associated insurance contracts.

If in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date when impairment is reversed. The amount of the reversal shall be recognized in profit or loss.

The asset valuation of subsidiary, BOT, complies with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non performing/Non accrual Loans" for certain loans with uncollectible risks. The subsidiary, BOT, shall allocate sufficient loan loss provision. Uncollectible loans are written off upon approval of Board of Directors. The recovery of written off loans is accounted for under the reversal of the allowance of doubtful accounts after notifying the internal audit committee.

Effective July 1st, 1999, the subsidiary, BOT, adopted the interpretation letter of Tai Chai Rong No. 88733168 issued on June 30, 1999 by reserving 3% of sales as loan loss provision to accelerate the recovery of over dued loans. Additionally, the subsidiary, BOT, also adopted interpretation letter No. 09200114870 issued on June 25, 2003 by extending the content from the previous interpretation letter, 3% reserve from the sales shall be terminated when over dued loan falls below 1%. Adopting the aforementioned rules, loan loss provision shall be accounted for under "bad debt expense" and "provision for bad debt".

Subsidiary BTLI conforms to "Regulations Governing the Procedures for Insurance institutions to Evaluate Assets and Deal with Non performing/Non accrual Loans" for loan provisions, taking into the characteristics and nature of the loans and its collectability into consideration. From January 1st, 2011, 0.5% of loan loss provision will be recognized from normal loans from the first category less life insurance loan and prepaid insurance fee.

14) Pecuniary and securities financing and refinancing

Pecuniary finance represents loans to investors for the purchase of securities and is recorded as receivables from pecuniary finance. Such loans are secured by the securities purchased by the investors. These securities are not reflected in the financial statements of the subsidiary BTS. The investors may redeem the collateral securities upon repayment of the loans.

Securities finance represents securities lent to investors and is affected by lending to securities investors securities in custody that are received from pecuniary finance or borrowed from securities finance companies when necessary. Such securities finance is not reflected in the financial statements of the subsidiary BTS. The investors' deposits for borrowing securities are held by the subsidiary BTS as collateral and recorded under securities finance margin deposits received. In addition, investors are required to deposit the proceeds from sales of borrowed securities. Such deposits are accounted for as payables for securities financing.

Pecuniary refinancing represents loans from securities finance companies when the subsidiary BTS lacks sufficient funds to perform pecuniary financing. These loans are recorded as refinance borrowings. Securities refinancing represents securities borrowed from securities finance companies when the subsidiary BTS does not have sufficient securities to perform securities financing. For securities refinancing, the subsidiary BTS pays margin deposits to securities finance companies. These margin deposits are recorded as refinance margin deposits. The subsidiary BTS also provides securities investors' proceeds from selling borrowed securities to securities finance companies as collateral and records them under receivables from securities refinance.

15) Repo and reverse repo transactions involving bill and bond investment or debt

Repo and reverse repo bond transactions are the sale or purchase of a bond coupled with an agreement to repurchase or resell the same or substantially identical bond at a stated price. Such transactions are treated as collateral for financing transactions and not as the sale or purchase of trading securities. The related interest revenue or expenses are recorded on an accrual basis.

16) Non financial asset impairment

The Company and its subsidiaries adopted SFAS No.35 "Accounting for Asset Impairment". In accordance with standard, the Company and its subsidiaries identified indications that asset is impaired on balance sheet date (besides cash generating units and goodwill), and should estimate the recoverable amount for the asset, which if it,s lower than its carrying amount, the carrying amount of the asset should be reduced to is recoverable amount, and the reduction should be recognized as impairment loss. The accumulated impairment loss of an asset (other than goodwill) recognized in prior years should be reversed if, subsequently, there has been a change in the estimates used to determine the asset,s recoverable amount so as to increase the recoverable amount, Then, the asset,s carrying amount should be increased to its recoverable amount but should not exceed the carrying amount of an asset that would have been determined net of depreciation or amortization had no impairment loss been recognized for the asset in prior years.

17) Investment under equity method

Long term investments in which the Company and its subsidiaries have more than 20% of the investee's voting shares or are able to exercise significant influence over the investee's operating and financial policies are accounted for by the equity method. The net equity value of long term investments based on percentage of voting rights and investment cost is as follows:

1. The original difference between investment cost and underlying equity in net assets, if it had originally be analyzed the causes of the difference, should continue the same way as the previous analysis has indicated, However, the goodwill in the difference should not be amortized anymore, and the goodwill that had been amortized shall not be reversed.
2. If the total difference had be chosen to be amortized over certain period, then the unamortized difference of investment cost over underlying equity in net assets shall follow the same treatment as goodwill (where difference should not be amortized anymore, and the amortized amount shall not be reversed).
3. The deferred credit in the difference shall continue to be amortized over the remaining amortization period.

   Goodwill shall be evaluated on an annual basis or when there is any indication that good will may be impaired, the recoverable amount less than book value is recognized as impairment loss.

   Gains or losses on disposal of long term equity investment are calculated based on the difference between selling price and book value. The capital surplus arising from long term equity investment is adjusted to profit and loss based on the percentage sold.

18) Real estate investments

Real estate investments are recorded at cost at acquisition, the value on balance sheet date is determined by the lower value between the book value and fair value. If a decline in the investment,s value is validated along with minor probability of recovering, the investment is written down to reflect such a decline, and the resulting loss is recognized as current gains or losses when such decline occurs. The major renewals and improvements, which result in the prolonged service life or the increased value of real estate, are capitalized. Repairs and maintenance are expensed as incurred. The cost of an investment in real estate, its corresponding revaluation surplus, and accumulated depreciation are written off upon retirement or disposal. The gains or losses resulting from disposal of an investment in real estate are recognized as an operating gains or losses respectively.

19) Fixed assets

Land is stated at acquisition cost, which can be revaluated in accordance with related laws. Reserve for land appreciation tax is allocated and recorded as other liabilities. During a land transfer, both land revaluation increments and the reserves for land revaluation increment tax should be transferred with the acquisition cost of such land.

Fixed assets other than land are assessed based on acquisition cost, including capitalization of any interest accrued in obtaining such assets before reaching usable condition. Major additions, improvements and renewals are capitalized, whereas maintenance and repairs are expensed when occurred. Fixed assets without use value or left unused should be reclassified as idle assets, where the cost, cumulative depreciation and cumulative impairment of such assets are all transferred to depreciation and impairment of idle assets.

Depreciation of fixed assets is by the straight line method over the estimated useful lives of the respective assets. The useful lives of leasehold improvements are the shorter of the lease period or service life. Upon reaching its useful life, if it is still in use, a depreciable asset can have its remaining useful life re estimated and depreciation expense can continue to be allocated over its residual value.

In compliance with Accounting Research and Development Foundation Interpretation letter number 340, the Company and its subsidiaries have recorded the estimated dismantlement or restoration obligation for a fixed asset while it is not used for producing inventory as the cost of such asset since November 20, 2008. Every single part of the fixed asset that is significant should be depreciated individually.

The Company and its subsidiaries re evaluate the remaining useful life, depreciation method and residual value of each fixed asset at the end of each accounting period. Changes in those elements are accounted for as changes in accounting estimate.

The estimated useful lives of fixed assets are as follows:

Land improvements	5 to 55 years
Buildings	8 to 55 years
Machinery and equipment	2 to 20 years
Transportation equipment	2 to 12 years
Miscellaneous equipment	3 to 10 years
Leasehold improvements	5 years

Gains or losses on the disposal of fixed assets are recorded as non operating income or loss.

20) Intangible assets

The Company and its subsidiaries adopted SFAS No. 37 "Intangible Assets". In accordance with SFAS No. 37, intangible assets are recorded at cost, which is measured at fair value. Subsequent to their initial recognition, their book values are their cost plus their incremental value that resulted from revaluation minus accumulated amortization and impairment loss.

Amortization is computed using the straight line method. The Company and its subsidiaries should revaluate the residual value, estimated useful lives, and amortization method at least once every year. Changes in the above factors will be regarded as changes in accounting estimate. The estimated useful lives of major intangible assets are as follows:

Computer software	3 to 5 years

At the end of each accounting period, the Company and its subsidiaries evaluate the residual value, the useful life and the method of amortization. Changes in those elements are considered changes in accounting estimate.

21) Deferred expense

Deferred expense is mainly telephone installation and subsidy for electrical wires that are deferred from 3 5 years.

22) Separate accounts－insurance instruments

The insurance subsidiary is engaged in selling investment type insurance commodities. The payment of premiums (net of administrative expenses) is recorded in a separate account which should only be used in a way agreed to by the insured. The assets of separate accounts are valued at market price on the balance sheet date, and the Company follows the related rules and financial accounting standards in the ROC to determine the net asset value. In accordance with accounting practices in the insurance industry, the assets, liabilities, revenue and expenses are recorded as "separate account－insurance instrument assets", "separate account－insurance instrument liabilities", "separate account－insurance instrument revenue" and "separate account－insurance instrument expenses", respectively.

23) Collateral assumed

Collateral and assets received are stated at the net realizable value: the amount the Company and its subsidiaries receive when debtors cannot meet their obligations and the collateral and residuals are auctioned off. Any discrepancy from the initial claim will be reflected as credit loss. Gains or losses on disposition are included in current earnings. The Company and its subsidiaries recognize impairment loss on collateral on the balance sheet date if the book value of collateral exceeds net fair value.

24) Other assets

1. Statutory deposits

   In accordance with the ROC Insurance Law, the insurance subsidiary should deposit in the Central Bank of China an amount equal to 15% of its issued capital as guarantee for its insurance business. The insurance subsidiary made these deposits in the form of government bonds and financial bills, and such deposits were approved by the Ministry of Finance.

2. Non operating assets

   The cost of non operating assets are stated at the lower of net realizable value or book value. The cumulative depreciation and impairment of those non operating assets are also transferred to non operating assets. Depreciation expense would continue to be incurred over the remaining estimated useful lives of the non operating assets.

25) Reserve for operations and liabilities

The Company and its subsidiaries comply in accordance with the regulations of the respective authorities which include the provision for operating loss, insurance, unearned premiums, outstanding losses, special reserve, reserve for breach of contract, loss on sales of securities purchased and premium deficiency, recognized as expenses for the period. Effective January 1, 2011, in accordance with Jing Guan Securities No. 0990073857, reserves for breach of contract and loss on sales of securities shall be transferred to special reserves for the purpose of covering company losses. Only when special reserve reaches 50% of the capital, amount can be used for additional investment in capital.

26) Pension

Retirement, relief and severance of employees of the subsidiaries BOT, LBOT, BTS and BTLI were calculated based on service years until December 31, 1981. From January 1, 1982, to April 30, 1997, they were dealt with according to "The Regulations on Employee's Retirement, Relief and Severance for State run Financial and Insurance Enterprises Owned by the Ministry of Finance". The Company and its subsidiaries contributed 4% to 8.5% of salaries as prior service cost; in addition, employees contributed 3% of total monthly salaries to a pension fund each month. After May 1, 1997, when the Labor Standards Law was implemented, the length of service with the Company and its subsidiaries is calculated in accordance with the formula for benefit payments set forth in the Labor Standards Law. For cleaning and maintenance workers, service costs equivalent to 8% to 15% of total monthly salaries are accrued over the workers' careers based on plan benefit formulas. The workers' pension fund is deposited in an account with the Company and its subsidiaries for the purpose of paying pension benefits to the workers when retiring.

The Labor Pension Act of the R.O.C. ("the Act"), which adopts a defined contribution scheme, is effective from July 1, 2005. In accordance with the Act, employees of the Company and its subsidiaries may elect to be subject to either the Act, and maintain their service years before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. For employees subject to the Act, the Company and its subsidiaries shall make monthly contributions to the employees' individual pension accounts of 6% of the employees' monthly wages. The related net pension cost is recorded in current income based on the actual contribution made to the pension funds.

The defined benefit pension plan has used the balance sheet date as the measurement date to complete an actuarial valuation of accumulated payment obligation is excess of pension fund assets at fair value. At the balance sheet date, the Company and its subsidiaries recognize minimum pension liabilities and, based on the pension plan's actuarial liabilities, record net pension cost, including current service cost and transitional net assets, prior service cost, and pension profit or loss, amortized over the average remaining length of service of employees by the straight line method.

27) Income tax

The income tax of the Company and its subsidiaries is calculated in accordance with SFAS No. 22 "Income Taxes". Deferred income tax is determined based on differences between the financial statement and tax basis of assets and liabilities, using enacted tax rates in effect during the years in which the differences are expected to be reversed. The income tax effects due to taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects due to deductible temporary differences, utilization of loss carryforwards, and income tax assets is evaluated, and a valuation allowance is recognized accordingly.

The adjustments of income tax for the prior year are recorded as income tax expenses in the current year.

Since the Company and its subsidiaries are a government owned enterprise, income tax should be determined by the Ministry of Audit.

In accordance with the Financial Holding Company Act, Article 49, the Company has adopted the Company as the taxpayer to file a consolidated corporate income tax return starting from 2008. Other tax matters should be handled by each entity of the Company and its subsidiaries. When preparing its financial statements, the Company accounts for its income tax in conformity with SFAS No. 22 "Income Taxes". However, the Company also adjusts the related income tax balance in a reasonable and systematic way to reflect the differences computed for purposes of filing a consolidated corporate income tax return with the Company as the taxpayer. The adjustments resulting from using the Company as the taxpayer to file a consolidated corporate income tax return is recorded under receivable from (payable to) affiliated parties.

28) Revenue recognition

1. Interest income from the Company's banking loans is accrued on the unpaid principal balance in accordance with the terms of the loans. No interest revenue is recognized on loans and other credits that are classified as nonperforming loans until the interest is collected. Interest income from bailout and loan extension in recorded as deferred income in accordance with the government authorities' provision. No interest revenue from the foregoing sources is recognized until the interest is collected. Service income is recognized on an accrual basis.

   A cash dividend is recognized as revenue on the ex dividend date, while a stock dividend can only be booked as an increase in shares rather than as revenue in accordance with ROC generally accepted accounting principles.

   In accordance with the regulation of "Insurance Act for Government employees', the losses and underlying debt accrued by May 30, 1999 has been replenished by MOF and recognized as revenue by the Company. The losses occurred after the aforementioned date is replenished by adjusting revenue rates.
2. In terms of the insurance contracts and the financial products with discretionary participation feature for BTLI, the premium of the first and the subsequent period is recognized as revenue when the insurance process is completed and the due date comes. The policy acquisition costs such as commission expenses, is recognized as current expenses when the insurance contracts become effective.

The premiums of insurance contracts not belong to investment linked insurance and classified as financial products without discretionary participation feature are recognized as "provision for insurance contracts with financial product features". The acquisition costs are used to write off "provision for insurance contracts with financial product features" when the insurance contracts become effective.

The premiums of insurance contracts belong to investment linked insurance and classified as financial products without discretionary participation feature are all recognized as "Liabilities on Insurance Product – Separated Account" after deducting the expenses such as the front end load and investment administrative service charge. The acquisition costs of investment administrative service, including the commission expenses and the additional charges related to the issue of new contracts, are recognized as "deferred acquisition costs".

The service charges which BTLI collects from the policyholder of insurance contracts not belong to investment linked insurance and classified as financial products without discretionary participation feature include contract administrative charge, investment administrative charge, rescinding charge and others. The service charge is recognized as revenue when it is collected. When BTLI collects certain service charge which makes it obligated to provide future service (ex: Front end load), then the service charge deferred to recognize as revenue when the service is provided.

3. For the subsidiary BTS, brokerage commissions, profit or loss from trading securities, and relevant brokerage securities transaction charges are recognized on the dealing date. Interest income or expenses of margin loans, securities financing and refinancing, bonds purchased under agreement to resell and sold under agreement to repurchase, and brokerage commission for introducing futures contracts are recognized during the transaction periods on an accrual basis. Underwriting commissions are recognized when collected, and underwriting transaction fees are recognized when the contract becomes effective.

29) Contingent liability and commitment

If commitment and contingent liabilities are highly probable, and the amount can be measured reliably, the provision shall be recognized accordingly. If the contingent liability is highly probably but cannot be measured reliably, it shall be disclosed in the notes in the financial statements.

30) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity). The operating results from operating segments are regularly review by the Company and its subsidiaries, chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

31) Others

1. Liability adequacy test

   The liability adequacy test of subsidiary BTLI uses the current estimates of future cash flows under its insurance contracts (or all contracts of BTLI) as basis for testing, it also complies with the Actuarial Institute of the Republic of China R.O.C. SFAS No. 40, the insurance subsidiaries shall assess whether their recognized insurance liabilities are adequate using the current estimates of future cash flows at the end of each reporting period. If that assessment shows that the carrying amount of its insurance liabilities (less deferred acquiring cost and related intangible assets) is inadequate, the entire deficiency shall be recognized as a liability adequacy reserve and recognized in profit or loss.

2. Insurance contract classification

   An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. The Company identifies the significant insurance risk if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario.

   An insurance contract with financial Instrument features means the contract is able to transfer significant insurance risk. Financial risk refers to the risk resulting from possible changes in one or more specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable in the future. If the previously stated variables are non financial variables, then the variables do not belong to any specific side of the contract.

   A contract that qualifies as an "insurance contract" remains an "insurance contract" until all rights and obligations are extinguished or expired even if the insurance risk significantly mitigated. However, if an insurance contract with financial instrument feature transfers significant risk to the Company in subsequent periods, it will be reclassified as "insurance contract.

   Insurance contracts and insurance contracts with financial instrument features can be further divided into 2 categories, which are insurance with discretionary participation feature or without discretionary participation feature.

   A discretionary participation feature is a contractual right to receive both the guaranteed benefits and also the additional benefits:

   (a) that are likely to be a significant portion of the total contractual benefits;
   (b) whose amount or timing of distribution of additional benefits is contractually at the discretion of the company; and
   (c) the additional benefits are contractually based on:
      a) the performance of a specified pool of contracts or a specified type of contract;
      b) the rate of return of a specific asset portfolio, or
      c) the profit or loss of the company, fund or other entity that issues the contract.

      If the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, it is required to be separated from the host contract and the value of the embedded derivative shall be measured at fair value through profit or loss, and the change shall be recognized as current gains or losses. If the embedded derivative is itself an insurance contract or in the case of an insurer need not separate it and is able to measure it at fair value through profit or loss, the company does not need to separate the embedded derivative and the insurance contract in terms of recognition.

3. Reinsurance

   To limit the potential damage of the exposure events, the insurance subsidiaries follows Insurance Act to process reinsurance contract. Even the reinsurer not perform obligation, the insurance subsidiaries can,t reject to fulfill the contract obligation for the insured.

   The insurance subsidiaries have the following rights over reinsurer: reinsurance reserve assets, claims and benefits recoverable from reinsurers, reinsurance premiums receivable /payable. The insurance subsidiaries shall regularly perform tests to determine whether the rights are impaired or unrecoverable.

If there is evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the insurance subsidiaries may not receive all amounts regulated under the terms of the contract, and that event has a measurable amounts in terms of the influence of the event, the insurance subsidiaries shall recognize the difference between the recoverable amount and the book value of the previously stated right as impairment loss.

For the reinsurance contract, the insurance subsidiaries will not only evaluate whether it will transfer significant insurance risk, but it also evaluate whether it will transfer underwriting risk (the probability of significant loss) and time risk (variance of the occurrence of cash flow) to reinsurer.

If the reinsurance contract only transfers insurance risk, but not underwriting risk and time risk, then the insurance subsidiaries will recognize and measure it as deposit accounting. The consideration received or paid by the Insurance subsidiaries deducted by the retained reinsurance premium or handling charge of the outward insurance is recognized as deposit asset or liability.

The change of deposit amount is recognized as current gains or losses. The interest generated from the deposit without transferring any risk or the deposit only transfers time risk is calculated per effective interest method. The effective interest rate is calculated from the estimate of the future cash flow and the interest is recognized as interest revenue or expense.

4. Other assets Inventory

The costs of inventories are necessary expenditures and charges for bringing the inventory to the salable and useable condition and location. Inventories shall be measured at the lower of cost and net realizable value. Cost of inventories are prepared using weighted average cost formula and net realizable value as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

5. Earnings per share

Earnings per share are calculated by dividing net income after tax by the weighted average number of shares outstanding in each period.

(3) Effects of Accounting Changes

1) Effective January 1, 2011, the Company and its subsidiaries adopted the third amendment of SFAS No. 34 "Financial Instruments: Recognition and Measurement" revised by the Financial Accounting Standards Committees. In accordance with SFAS No. 34, the recognition, subsequent valuation and impairment losses of loans and receivables shall comply with the new amendment. The amendment also applies to the terms and conditions of restructured and negotiable debts. Please see Note 5, 8, 9 and 13 for further descriptions.

2) Effective January 1, 2011, the Company and its subsidiaries adopted SFAS No. 41 "Operating Segments." In accordance with SFAS No. 41, an entity shall disclose information to enable users of its financial statements to evaluate the nature and financial impact of the business activities in which it engages and the economic environments in which it operates. The Company and its subsidiaries determine and present the operating segments based on the information that is internally provided to the chief operating decision maker. The Standard also supersedes SFAS No. 20 "Segment Reporting." Such changes in accounting principle did not have any significant impact for the year ended December 31, 2011.

3) Effective January 1, 2011, the Company and its subsidiaries adopted interpretation letter Jing Guan No. 0990073857 to transfer reserve of securities defaults and purchase of bills to special reserve.

4) Effective from January 1, 2011, the Company,s insurance subsidiaries adopted Republic of China Statement of Financial Accounting Standards (SFAS) No.40 "Insurance Contract", such changes in accounting principle did not have significant impact for the year ended December 31, 2011.

(4) Cash and Cash Equivalents

		December 31, 2011	December 31, 2010
Cash on hand and petty cash	$	10,483,673	10,568,262
Foreign currency on hand		5,845,726	4,753,513
Bank deposits		21,562,098	16,076,356
Notes and checks for clearing		8,904,406	6,578,023
Placement with banks		51,192,401	22,576,596
	$	97,988,304	60,552,750

The balances of cash and cash equivalents presented in the statements of cash flows were as follows:

		December 31, 2011	December 31, 2010
Cash on hand	$	97,988,304	60,552,750
Call loans to banks and bank overdraft		72,379,420	91,073,836
Placement with Central Bank, including reserve checking account and foreign－currency－denominated deposit reserves		46,820,477	27,993,867
Negotiable certificates of deposit (NCDs)		631,220,453	698,063,885
Investment in bills and securities maturing within 90 days		19,108,064	25,411,121
Total	$	867,516,718	903,095,459

(5) Due from Central Bank and Call Loans to Banks

		December 31, 2011	December 31, 2010
Call loans to banks	$	72,379,420	91,073,836
Less: allowance for doubtful accounts－call loans to banks		(4,978)	-
Reserves for deposits－A account and reserves for deposits－foreign currency, etc.		46,820,477	27,993,867
Reserves for deposits－B account		60,077,287	60,676,386
Deposits in Central Bank		309,283,197	338,422,734
	$	488,555,403	518,166,823

1) The reserves for deposits is required by the Banking Law and is determined by applying the reserve ratios by the Central Bank to the monthly average balance of each type of deposit. The reserve amount is deposited in the reserve deposit account at the Central Bank. According to the regulations, such reserve for deposits－B account cannot be withdrawn except for monthly adjustments of the reserve for deposits.
2) As of December 31, 2011 and 2010, 60% of the deposits collected by BOT on behalf of government institutions from government organizations amounting to $5,077,052 and $4,915,945, respectively, were deposited in the Central Bank and cannot be withdrawn, according to the regulations.

(6) Financial Assets Measured at Fair Value through Profit or Loss, Net

	December 31, 2011	December 31, 2010
Financial assets held for trading		
Commercial paper	$ 7,477,954	1,495,027
Government bonds	966,154	1,464,184
Listed stocks, beneficiary certificates and monetary instruments	74,355,187	59,202,977
Negotiable Certificates of Deposit	-	310,000
Domestic convertible bonds	193,006	337,958
Corporate and financial bonds	12,708	11,498
Foreign government bonds	2,254,871	3,424,913
Trading securities	432,883	19,143
Beneficiary securities	-	2,171,005
	85,692,763	68,436,705
Derivative financial instruments	16,564	20,063
Financial assets designated as at fair value through profit or loss: Foreign government and financial bonds	24,189,751	18,775,474
Add: adjustment valuation	1,847,906	14,862,571
Total	$ 111,746,984	102,094,813

Financial assets and liabilities designated at fair value through profit or loss, net:

	December 31, 2011	December 31, 2010
Cash dividend of financial assets	$ 2,434,829	1,792,620
(Losses) gains from disposal of financial assets, net	81,412,686	71,511,196
Valuation (losses) gains of financial assets, net	(8,298,202)	12,497,135
(Losses) gains from disposal of financial liabilities, net	(75,616,575)	(69,566,838)
Valuation (losses) gains of financial liabilities	(7,384,846)	(6,398,212)
Total	$ (7,452,108)	9,835,901

For details of the valuation of financial assets measured at fair value through profit or loss, please see note 35, "Information on Financial Instruments".

(7) Bills and Bonds Purchased / Sold under and Resell / Repurchase Agreements

The details of bonds and bills purchased / sold under agreements to resell (repurchase) were as follows:

	December 31, 2011	December 31, 2010
Bills and bonds purchased under resell agreements:		
Government bonds	$ 2,459,465	671,851
Negotiable certificates of deposit	1,403,553	2,141,558
Commercial paper	8,539,833	6,932,997
	$ 12,402,851	9,746,406

	100.12.31	99.12.31
Bills and bonds sold under repurchase agreements:		
Government bonds	$ 12,931,846	8,973,240
Commercial paper	2,706,204	827,971
	$ 15,638,050	9,801,211

(8) Receivables, Net

	December 31, 2011	December 31, 2010
Accounts receivable	$ 1,310,990	1,114,235
Long term receivable－payment on behalf of government	34,821,221	41,261,142
Accrued revenue	528,263	374,147
Interest receivable	12,596,122	10,280,586
Insurance receivable	205,333	183,296
Refundable income tax	2,406,143	2,711,188
Notes receivable and acceptance notes receivable	2,827,244	3,800,010
Factoring receivable－without recourse	10,054,670	7,008,990
Margin loans receivable	1,770,825	2,687,905
Others－shall be replenished by state treasury	22,572,919	18,615,870
Others－undelivered spot exchange	1,906	-
Others	2,188,065	2,798,128
Subtotal	91,283,701	90,835,497
Less: allowance for doubtful accounts	232,652	241,661
Total	$ 91,051,049	90,593,836

In accordance with Executive Yuan Tai 79 JEN Cheng SZU tsu No. 14225, in 2011 and 2010, the BOT paid a premium savings account interest rate in excess of the regular rate of 1.7868% and 1.7535%, respectively, and the resulting interest expenses were $7,907,574 and $7,607,997, respectively, due to executing the government premium savings policy.

As of December 31, 2011 and 2010, BOT, instead of the government, had paid premium savings interest expenses amounting to $81,737,714 (booked in long term receivable $34,821,221 and other financial asset – temporary advances of $46,916,493) and $87,549,002 (booked in long term receivable of $$41,261,142 and other financial assets – temporary advances of $$46,257,860), respectively. Please refer to note 13 "Other financial assets – net" for further descriptions.

(9) Discounts and loans － Net

	December 31, 2011	December 31, 2010
Discounts and import export negotiations	$ 4,415,954	3,994,541
Short term loans and overdrafts	374,970,680	316,587,945
Short term secured loans and secured overdrafts	83,050,582	79,134,136
Insurance loans	6,037,958	5,946,953
Accounts receivable financing	142,685	-
Medium term loans	600,661,125	659,590,524
Medium term secured loans	288,495,159	244,581,390
Long term loans	182,011,233	184,008,225
Long term secured loans	628,352,806	589,570,435
Non performing loans	8,276,655	12,003,306
Subtotal	2,176,414,837	2,095,417,455
Less: allowance for doubtful accounts	18,032,926	11,670,326
Total	$ 2,158,381,911	2,083,747,129

Estimation tables of allowance for doubtful accounts of loans and receivables are as follows:

Loans

Item		Total Loans	Allowance for doubtful accounts
		December 31, 2011	December 31, 2011
There is objective evidence of impairment on individual asset	Individual assessment of impairment	20,824,191	6,751,423
	Combined assessment of impairment	15,188,305	3,473,720
There is no objective evidence of impairment on individual asset	Combined assessment of impairment	2,140,402,341	7,807,783
Subtotal		2,176,414,837	18,032,926

Receivables (including other financial assets)

Item		Total Loans	Allowance for doubtful accounts
		December 31, 2011	December 31, 2011
There is objective evidence of impairment on individual asset	Individual assessment of impairment	134,421	65,584
	Combined assessment of impairment	289,347	89,396
There is no objective evidence of impairment on individual asset	Combined assessment of impairment	220,410,944	120,596
Subtotal		220,834,712	275,576
Total			18,308,502

Changes of allowance for doubtful accounts of loans and receivables are as follows:

	December 31, 2011
Loan:	
Balance on January 1, 2011	$ 11,670,326
Provision for doubtful accounts	4,719,784
Write off	(2,518,860)
Recovery of written off	4,076,296
Effects of exchange rate changes and others	85,380
Balance on December 31, 2011	$18,032,926
Receivables:	
Balance on January 1, 2011	$ 288,782
Reversal of doubtful accounts	(29,836)
Write off	(12,589)
Recovery of written off	28,537
Effects of exchange rate changes and others	682
Balance on December 31, 2011	$ 275,576

Details of allowance for doubtful accounts were as follows:

	December 31, 2011	December 31, 2010
Call loans to bank	$ 4,978	-
Receivables	232,652	241,661
Discounts and loans	18,032,926	11,670,326
Other financial assets	37,946	47,121
Total	$ 18,308,502	11,959,108

Details of bad debt expense were as follows:

	December 31, 2011	December 31, 2010
Dad debt	$ 4,689,948	355,107
Reserve for guarantee liability	309,954	19,428
Total	$ 4,999,902	374,535

As of December 31, 2011 and 2010, the amount of loans where interest accruals had been ceased of the Company and its subsidiaries which are Bank of Taiwan and Bank Taiwan Life Insurance Co., Ltd. were $8,326,113 and $12,062,182, respectively, which was booked in discounts and loans－nonperforming loans and other financial assets－overdue receivables.

Effective January 1, 2011, the Company and its subsidiaries adopted the third amendment of SFAS No. 34 "Financial Instruments: Recognition and Measurement" revised by the Financial Accounting Standards Committees. In accordance with SFAS No. 34, the recognition, subsequent valuation and impairment losses of loans and receivables shall comply with the new amendment from the beginning of 2011. Financial Accounting Standards Committees also amended "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non performing/Non accrual Loans" and "Regulations Governing the Procedures for Insurance institutions to Evaluate Assets and Deal with Non performing/Non accrual Loans". Effective January 1, 2011, the subsidiary Bank will reserve 0.5% of allowance for bad debt and reserve for guarantees from loans in the first category less the loans of government debt. Similarly, the insurance subsidiary shall reserve 0.5% of allowance for bad debt based on loans from the first category less life insurance liability and prepaid insurance. The Company and its subsidiaries conformed to the aforementioned regulations for reserving allowance for bad debt and reserve for guarantees.

Please see note 35, "Information on Financial Instruments", for the valuation of loans granted by the Company and its subsidiaries.

(10) Available for Sale Financial Assets, Net

	December 31, 2011	December 31, 2010
Domestic:		
Negotiable certificates of deposit	$ 622,500,000	694,600,000
Government bonds	27,329,372	37,225,163
Corporate bonds	17,252,068	15,793,981
Financial bonds	10,448,549	8,451,871
Real estate securitization	10,000	10,000
Financial asset securitization	995,505	996,661
Listed stocks and beneficiary certificates	53,309,854	46,079,637
Preferred stocks	1,430,356	1,425,283
Real estate Investment Trust	2,061,434	2,487,249
	735,337,138	807,069,845
Foreign:		
Foreign bonds	55,253,521	53,988,903
Beneficiary certificates	2,800,261	3,500,225
	58,053,782	57,489,128
Less: accumulated impairment	1,296,432	1,425,895
Add: valuation adjustment	9,963,843	28,803,524
Total	$ 802,058,331	891,936,602

1) Please see note 35, "Information on Financial Instruments", for valuation of available for sale financial assets.
2) The subsidiary BOT recognized reversed impairment gain of $1,156 as a result of individual asset impairment valuation on March 17, 2011.
3) Realized profit or loss from available for sale financial assets

	December 31, 2011	December 31, 2010
Cash dividend	$ 1,104,667	5,118,472
Gains (losses) on disposal, net	1,546,798	(43,991)
	$ 2,651,465	5,074,481

(11) Held to maturity Financial Assets, Net

	December 31, 2011	December 31, 2010
Domestic:		
Financial bonds	$ 30,684,106	24,581,934
Corporate bonds	48,433,030	46,699,865
Negotiable certificates of deposits	8,720,452	3,153,885
Commercial paper	11,630,110	23,916,094
Government bonds	39,758,516	24,023,324
Treasury bonds	1,487,480	497,783
Real estate securitization	30,381	32,040
Preferred stocks	291,090	291,090
Structured deposit	800,000	1,000,000
	141,835,165	124,196,015
Foreign:		
Foreign bonds	86,095,915	71,467,671
Less: accumulated impairment	206,235	442,352
	85,889,680	71,025,319
	$ 227,724,845	195,221,334

1) Please see note 35, "Information on Financial Instruments", for valuation of held to maturity investment.

2) The Company and its subsidiaries held Collateralized Debt Obligations (CDOs) and recognized impairment losses amounting to $294,635 for the year ended December 31, 2010.

(12) Investments under Equity Method, Net

	December 31, 2011		December 31, 2010	
	Percentage of Ownership (%)	Amount	Percentage of Ownership (%)	Amount
Hua Nan Financial Holdings Co., Ltd.	25.07	$ 31,466,383	29.36	29,458,132
Taiwan Life Insurance Co., Ltd.	21.59	1,987,762	23.76	2,735,694
Kaohsiung Ammonium Sulfate Co., Ltd.	91.86	2,420,898	91.86	2,449,110
Tang Eng Iron Works Co., Ltd.	21.37	1,653,863	21.37	1,528,069
Tai Yi Real Estate Management Co., Ltd.	30.00	15,223	30.00	10,249
Total		$ 37,544,129		36,181,254

1) The initial costs of long term equity investment under the equity method were as follows:

Name of Investee	December 31, 2011	December 31, 2010
Hua Nan Financial Holdings Co., Ltd.	$ 8,105,279	8,105,279
Taiwan Life Insurance Co., Ltd.	812,325	812,325
Kaohsiung Ammonium Sulfate Co., Ltd.	1,377,872	1,377,872
Tang Eng Iron Works Co., Ltd.	1,451,074	1,451,074
Tai Yi Real Estate Management Co., Ltd.	3,793	3,793
	$ 11,750,343	11,750,343

2) The gains or losses on long term investments under the equity method were as follows:

Name of Investee	The year ended December 31, 2011	The year ended December 31, 2010
Hua Nan Financial Holdings Co., Ltd.	$ 2,503,775	1,785,518
Taiwan Life Insurance Co., Ltd.	62,708	350,303
Kaohsiung Ammonium Sulfate Co., Ltd.	(28,212)	(161,439)
Tang Eng Iron Works Co., Ltd.	103,479	8,346
Gain on disposal of Tang Eng Iron Works Co., Ltd.	-	424
Tai Yi Real Estate Management Co., Ltd.	4,974	661
	$ 2,646,724	1,983,813

1. The financial statements of the Company and its subsidiaries' investee companies－Hua Nan Financial Holdings Co., Ltd. and Tai Yi Real Estate Management Co., Ltd. under equity method were audited by other auditors, and the related equity in earnings has $2,508,749 and $1,786,179 for the year ended December 31, 2011 and 2010, respectively.
2. The financial statements of the Company and its subsidiaries' investee company－Kaohsiung Amonium Sulfate Co., Ltd. under equity method was not audited by auditors, and the related equity in losses were $(28,212) and $(161,439) for the year ended December 31, 2011 and 2010, respectively.
3. Since Kaohsiung Ammonium Sulfate Co., Ltd. was in the process of liquidation and the liquidators and supervisors were appointed by the Ministry of Economic Affairs, the Company and its subsidiaries have no control power over such investee.

3) Details of the Company and its subsidiaries' recognition of unrealized increments on revaluation and cumulative translation adjustments under stockholders' equity were as follows:

	Unrealized increments on revaluation		Cumulative translation adjustments	
	2011	2010	2011	2010
Hua Nan Financial Holdings Co., Ltd.	$ 441,814	(1,198)	35,587	(27,250)
Taiwan Life Insurance Co., Ltd.	-	(12,484)	4,538	(4,424)
Tang Eng Iron Works Co., Ltd.	21,880	53,025	-	-
	$ 463,694	39,343	40,125	(31,674)

4) Details of the Company and its subsidiaries' recognition of additional paid in capital and unrealized losses or gains on financial instruments under stockholders' equity were as follows:

	Additional paid in capital		Unrealized losses and gains of financial instruments	
	2011	2010	2011	2010
Hua Nan Financial Holdings Co., Ltd.	$ 463,082	-	(919,726)	548,987
Taiwan Life Insurance Co., Ltd.	116,144	21,463	(755,166)	(307,913)
Tang Eng Iron Works Co., Ltd.	-	-	434	1,112
	$ 579,226	21,463	(1,674,458)	242,186

5) Details of the net loss not recognized as pension costs in 2011 and 2010 were as follows:

Name of investee	2011	2010
Taiwan Life Insurance Co., Ltd.	$ 74	(2,183)

6) Details of the special reserve recognized under equity method in 2011 and 2010 were as follows:

Name of investee	2011	2010
Hua Nan Financial Holdings Co., Ltd.	$ 66,638	-

7) Details of the Bank's cash dividends received from its long term equity investments under the equity method in 2011 and 2010 were as follows:

Name of investee	2011	2010
Hua Nan Financial Holdings Co., Ltd.	$ 582,919	368,353
Taiwan Life Insurance Co., Ltd.	176,229	75,945
	$ 759,148	444,298

8) The Company and its subsidiaries' investee, Hua Nan Financial Holdings Co., Ltd., increased its share capital by cash on December 27, 2011. The Company and its subsidiaries' shareholding percentage decreased from 29.36% to 25.07% as the Company and its subsidiaries do not hold the shares of the investee by percentage.
9) The Company and its subsidiaries investee, Taiwan Life Insurance Co., Ltd., increased its share capital by cash on November 2, 2011 and June 11, 2010. The Company and its subsidiaries shareholding percentage decreased from 23.76% to 21.60% and from 24.00% to 23.76% as the Company and its subsidiaries do not hold the shares of the investee by percentage.

(13) Other Financial Assets, Net

	December 31, 2011	December 31, 2010
Temporary advances	$ 57,100,344	54,068,656
Less: allowance for doubtful accounts－temporary advance	(10,691)	-
Financial assets carried at cost	11,092,326	11,092,326
Less: accumulated impairment financial assets carried at cost	(137)	-
Bond investments with no active market	37,326,838	20,368,757
Less: accumulated impairment－bond investment with no active market	(317,888)	(593,916)
Overdue receivables	49,458	58,876
Less: allowance for doubtful accounts－overdue receivables	(27,255)	(47,083)
Hedging derivative financial assets	3,074	5,051
Separate account insurance product assets	5,490,078	6,139,271
Bills purchased	21,789	12,579
Less: allowance for doubtful accounts－bills purchased	-	(38)
Others	27,307	25,354
Total	$ 110,755,243	91,129,833

1) Please see note 35, "Information on Financial Instruments", for valuation of hedging derivative financial assets and bond investments with no active market.
2) Please see note 8, "Receivables", for description of temporary advance of excess interest expense on behalf of the government.
3) The Company and its subsidiaries which are Bank of Taiwan and Bank Taiwan Life Insurance Co., Ltd. recognized impairment losses of foreign Collateralized Debt Obligation (CDO) amounting to $137 and $31,873(booked in impairment loss of assets) on August 3, 2011 and December 31, 2010, respectively.

(14) Real Estate Investments, Net

	December 31, 2011	December 31, 2010
Real estate investments	$ 4,337,660	3,597,311
Less: accumulated depreciation	280,624	245,325
Total	$ 4,057,036	3,351,986

BTLI acquired the lands and buildings located on Gongyuan section, 2 section, No. 649 from Radium Life Tech. Co., Ltd. in June, 2011. After considering the valuation report from Honda Assets Valuation Co., Ltd., Yungching Real Estate Appraisers Firm, and CCIS Real Estate Appraisers Firm, BTLI signed the contract at $740,125.

(15) Fixed Assets, Net

	December 31, 2011	December 31, 2010
Cost:		
Land	$ 4,913,030	4,869,569
Land revaluation increments	81,736,647	61,971,433
Land improvements	14,964	14,964
Buildings (including revaluation increments)	14,998,570	14,738,315
Machinery and equipment	5,887,734	5,787,537
Transportation equipment	1,106,261	1,119,987
Miscellaneous equipment	1,053,853	1,055,267
Leasehold improvements	662,910	640,415
Construction in progress and order parts	665,260	718,665
Subtotal	111,039,229	90,916,152
Accumulated depreciation:		
Land improvement	12,975	12,613
Buildings	5,609,947	5,224,250
Machinery and equipment	4,148,434	3,952,055
Transportation equipment	853,743	831,970
Miscellaneous equipment	811,957	801,959
Leasehold improvements	552,492	512,829
Subtotal	11,989,548	11,335,676
Accumulated impairment	-	1,822,964
Net	$ 99,049,681	77,757,512

On March 11, 2011 and March 8, 2010, BOT assessed individually asset and recognized an impairment loss amounting to $4,036 and $57,504, a reversal on impairment loss amounting to $23,282 and $13,775; increase (decrease) unrealized increments on revaluation by $119,733 and $(1,526,651), respectively.

BOT has conducted revaluations of lands and buildings many times over past years. As of December 31, 2011 and 2010, revaluation increments of lands were $81,736,647 and $61,971,433, respectively, and estimated tax payables on land increments were $18,278,621 and $15,396,405 (recorded in other liabilities), respectively.

To comply with government policy, the Company and its subsidiaries sold land, buildings and equipments and recognized gains on disposal of property, plant and equipment of $421,670 and $612,974 for the years ended December 31, 2011 and 2010, respectively.

As of December 31, 2011 and 2010, the Company and its subsidiaries did not pledge any fixed assets as a guarantee or collateral.

As of December 31, 2011, the part of the land and buildings (including real estate investment) of the Company and its subsidiaries were leased out. The book value (including revaluation increments) of the rental land was $35,741,711. Most of the rental buildings have been fully depreciated over their useful lives. The estimated future lease revenue was as follows:

Period	Amount
2012.01.01~2012.12.31	$ 258,177
2013.01.01~2013.12.31	150,172
2014.01.01~2014.12.31	82,328
2015.01.01~2015.12.31	35,897
2016.01.01~2016.12.31	6,530
	$ 533,104

(16) Intangible Assets

As of December 31, 2011 and 2010, the details of intangible assets were as follows:

	December 31, 2011	December 31, 2010
Original cost:		
Computer software	$ 990,838	1,127,307
Add: acquisition	292,261	305,603
Less: accumulated amortization	452,738	450,787
Ending balance	$ 830,361	982,123

(17) Other Assets － Net

	December 31, 2011	December 31, 2010
Prepayments	$ 6,074,572	7,462,261
Refundable deposits	1,862,711	1,816,396
Operating guarantee deposits and settlement and clearing funds	93,097	87,126
Temporary advance and amount being transferred	202,079	215,248
Deferred income tax assets, net	2,018,960	2,213,863
Non operating assets (including revaluation increments)	1,044,568	8,138,402
Brokering transaction debit balance, net	38,738	-
Collateral assumed, net	1,076,959	1,076,959
Deferred pension cost	622,961	634,949
Inventory	5,994,550	861,430
Others	53,725	5,724
Total	$ 19,082,920	22,512,358

1) Prepayments

	December 31, 2011	December 31, 2010
Prepaid expense	$ 866,995	685,737
Prepaid tax	34,817	50,170
Prepaid stock dividends and bonus	4,119,904	5,703,300
Other prepayments	1,052,856	1,023,054
	$ 6,074,572	7,462,261

2) Non operating assets, net

	December 31, 2011	December 31, 2010
Land	$ 1,015,351	8,251,546
Buildings	53,185	53,185
Miscellaneous equipment	92	92
Less: accumulated depreciation－buildings	23,578	22,179
accumulated impairment	482	144,242
	$ 1,044,568	8,138,402

BOT recognized impairment loss of $0 and $45,226, reversal on impairment loss of $16,762 and $330, and unrealized increments on revaluation of $199 and $(61) based on the result of impairment assessment of individual asset on Mach 11, 2011 and March 8, 2010, respectively.

3) Collateral assumed, net

	December 31, 2011	December 31, 2010
Collateral assumed	$ 1,093,456	1,093,456
Less: accumulated impairment	16,497	16,497
	$ 1,076,959	1,076,959

4) Inventory

	December 31, 2011	December 31, 2010
Inventory	$ 6,244,475	865,005
Less: allowance for inventory devaluation	249,925	3,575
	$ 5,994,550	861,430

Changes of allowances for inventory devaluation were as follows:

	December 31, 2011	December 31, 2010
Opening balance	$ 3,575	84
Provision for the current period	246,350	3,491
Closing balance	$ 249,925	3,575

The inventory expenses or losses recognized for the years ended December 31, 2011 and 2010 were $246,350 and $3,491; write down of inventories to realizable value in the amount of $246,350 and $3,491, respectively, were include in service charges.

(18) Due to Central Bank and Other Banks

	December 31, 2011	December 31, 2010
Call loans from bank	$ 167,538,254	164,556,271
Postal deposits transferred	3,404,645	3,830,591
Deposits from Central Bank	12,005,704	12,477,882
Deposits from other banks	25,282,765	25,086,913
Bank overdrafts	695,107	1,661,280
	$ 208,926,475	207,612,937

(19) Commercial Paper Payable － Net

	December 31, 2011	December 31, 2010
Commercial paper	$ 500,000	480,000
Less: commercial paper discount	463	219
Total	$ 499,537	479,781

For the years ended December 31, 2011 and 2010, the annual interest rates ranged from 0.928%~0.958% and 0.520%~0.630%, respectively. As of December 31, 2011 and 2010, unissued commercial paper facilities amounted to approximately $2,500,000 and $1,520,000 thousand. There were no assets pledged as collateral for issuing commercial paper for the years ended December 31, 2011 and 2010.

(20) Financial Liabilities Measured at Fair Value through Profit or Loss

	December 31, 2011	December 31, 2010
Held for trading financial liabilities		
Foreign exchange options premium	$ 22,440	24,565
Valuation adjustment foreign exchange options	(13,327)	4,681
Valuation adjustment Cross currency swaps	3,042,673	14,168,474
Valuation adjustment Interest rate swaps	906,650	916,724
Valuation adjustment forward foreign exchange	316,438	1,282,619
	$ 4,274,874	16,397,063

(21) Payables

	December 31, 2011	December 31, 2010
Accounts payable	$ 10,941,024	7,140,427
Receipts under custody	1,181,647	1,364,234
Accrued expense	2,832,186	2,785,542
Interest payable	12,713,594	11,628,448
Bank acceptances	2,724,821	3,753,620
Due from representative organization	28,822,442	30,399,824
Other payables－ATM temporary receipts, payments and inter branch differences	1,259,252	1,400,110
Other payables－Collection bills	1,410,373	5,322,119
Other payables－Payments awaiting transfer	4,545,731	4,142,598
Other payables－Others	2,799,228	2,989,431
	$ 69,230,298	70,926,353

(22) Deposits and Remittances

	December 31, 2011	December 31, 2010
Checking account deposits	$ 34,873,580	32,852,752
Government deposits	227,242,671	233,009,445
Demand deposits	246,371,660	242,261,100
Time deposits	468,871,243	503,733,758
Savings account deposits	2,224,960,904	2,154,820,578
Remittances	568,020	497,518
	$ 3,202,888,078	3,167,175,151

(23) Other loans

As of December 31, 2011 and 2010, the unused limit of the Company and its subsidiaries' short term loans were $8,250,000 and $9,900,000, respectively.

(24) Reserves for Operation and Liabilities

	December 31, 2011	December 31, 2010
Reserves for unearned premium	$ 367,649	362,353
Reserves for life insurance liability	286,036,341	238,128,800
Special reserves for life insurance	589,071	542,101
Reserves for claim outstanding	67,281	70,068
Reserves for operating loss	26,800	33,130
Reserves for default losses	-	138,062
Reserves for guarantees	591,441	281,340
Reserves for labor insurance liability	178,024,493	174,497,614
Reserve for insufficient premiums	1,405,222	1,873,638
Total	$ 467,108,298	415,927,106

(25) Other Financial Liabilities

	December 31, 2011	December 31, 2010
Appropriated loan funds	$ 671,370	793,180
Separate account－insurance liabilities	5,490,078	6,139,271
Hedging derivative financial liabilities	409,907	255,348
Principal from structured products	4,674,906	-
	$ 11,246,261	7,187,799

Commencing from January 1, 2011, the Financial Supervisory Commission issued the "Regulations for the accounting principle for principal received from structured products". In accordance with the regulation, principal received from structured products shall be booked under other financial liabilities under the corresponding account name. Such changes will not be reclassified as principal received from structured products that were booked under savings in December 31, 2010 approved by the Natinoal Audit Office. For details of hedging derivative financial liabilities on December 31, 2011 and 2010, please refer to note 35.

(26) Other Liabilities

	December 31, 2011	December 31, 2010
Advance collections	$ 1,209,755	1,835,236
Guarantee deposits received	4,651,029	4,962,574
Estimated tax payable on land increments	18,278,621	15,396,405
Temporary receipt awaiting transfer	43,485	1,031,962
Accrued pension liabilities	5,044,448	3,743,168
Others	2,480,199	1,320,341
	$ 31,707,537	28,289,686

(27) Pension

The reconciliation of the plan's funded status and accrued pension liabilities was as follows:

	December 31, 2011		December 31, 2010	
	Regular Employees	Regular Labor	Regular Employees	Regular Labor
Benefit obligation:				
Vested benefit obligation	$ (5,443,850)	(434,375)	(5,078,892)	(384,331)
Non vested benefit obligation	(4,676,163)	(583,898)	(3,784,179)	(482,611)
Accumulated benefit obligation	(10,120,013)	(1,018,273)	(8,863,071)	(866,942)
Additional benefits based on future salaries	(2,851,357)	(324,624)	(2,465,136)	(278,768)
Projected benefit obligation (PBO)	(12,971,370)	(1,342,897)	(11,328,207)	(1,145,710)
Fair value of plan assets	5,368,377	1,033,255	5,370,739	989,259
Funding status	(7,602,993)	(309,642)	(5,957,468)	(156,451)
Unrecognized transitional net benefit obligation (assets)	344,000	226,596	458,627	260,890
Unrecognized prior service cost	153,595	(12,771)	174,074	(16,419)
Unrecognized pension loss (gain)	3,652,682	(65,690)	2,330,624	(202,096)
Additional minimum pension liability recognized	(1,298,920)	(131,305)	(511,979)	(122,970)
Accrued pension liabilities	$ (4,751,636)	(292,812)	(3,506,122)	(237,046)
Vested benefit	$ (6,476,656)	(511,530)	(6,170,478)	(468,994)

The components of net pension costs for the year 2011 and 2010 were as follows:

	2011		2010	
	Regular Employees	Regular Labor	Regular Employees	Regular Labor
Service cost	$ 858,191	59,395	800,930	57,718
Interest cost	213,575	22,064	239,340	26,460
Expected return on plan assets	(101,777)	(19,999)	(128,423)	(23,574)
Amortization and deferred cost	202,037	20,265	157,474	20,629
Net pension costs	$ 1,172,026	81,725	1,069,321	81,233

The details of pension expenses for 2011 and 2010 as follows:

	2011	2010
Pension expenses:		
Defined benefit pension plan	$ 1,253,751	1,150,554
Defined contribution pension plan	147,705	119,598

Actuarial assumptions:

	2011	2010
Discount rate	1.65%、1.75%及2%	2.00%
Rate of increase in future compensation	2.00%	2.00%
Rate of expected return on plan assets	1.65%、1.75%、2.00%及2.25%	1.5%及2.00%

(28) Income Tax

The income tax expenses are summarized below:

	The year ended December 31, 2011	The year ended December 31, 2010
Current income tax	$ 472,952	555,465
Deferred income tax expense (benefit)	129,767	(96,447)
Income tax expense	$ 602,719	459,018

The maximum income tax rate was lowered to 17% beginning 2010 according to the amendment of the "Income Tax Act" issued on June 15, 2010. Hence, the Company was subject to a maximum income tax rate of 17% in 2011 and 2010, and the Company adopted the "Income Basic Tax Act".

For the year ended December 31, 2011 and 2010, the differences between the "expected" income tax at the statutory income tax rate and the income tax expense in the accompanying financial statements were as follows:

	The year ended December 31, 2011	The year ended December 31, 2010
Expected income tax expenses	$ 769,162	1,340,125
Tax effect of interest income from short term notes separately taxable income	-	7,035
Gains on securities transactions exempt from tax	(57,610)	(836,247)
Valuation gain on domestic financial instruments	(13,634)	54,066
Tax free earnings from OBU	(122,838)	(182,442)
Investment gains recognized under the equity method	(449,943)	(337,176)
Gain on disposal of land	(70,029)	(124,474)
(Reversal gains) impairment losses of assets	(6,121)	15,066
Tax free dividends	(743,207)	(234,479)
High speed railway and cost reversal	549,205	-
Allowance for deferred income tax assets	426,091	(250,537)
Income tax expenses of overseas branches	362,539	261,721
Income basic tax	42,858	411,642
Adjustment of combined corporate income tax filing	(111,208)	(25,491)
Income tax effect of change in statutory income tax rate	118	101,165
Adjustment of income taxes estimated in prior years	-	235,715
Others	27,336	23,329
Income tax expenses	$ 602,719	459,018

The major components of deferred income tax expense (benefit) were as follows:

	The year ended December 31, 2011	The year ended December 31, 2010
Pension costs in excess of tax limits	$ 510,626	(58,589)
Decrease in reserve for accidental and default losses	-	(3,724)
(Gains) losses on valuation of foreign and derivative financial instruments	(673,471)	468,832
Unrealized gains (losses) on foreign currency exchange	357,182	(796,096)
Impairment loss on financial assets	88,448	137,429
Loss carryforward	(60,788)	(216,008)
Adjustment of combined corporate income tax filing	(111,208)	(25,491)
Income tax effect of change in statutory income tax rate	-	235,715
Others	18,978	161,485
Deferred income tax expense (benefit)	$ 129,767	(96,447)

The temporary differences, loss carryforward, and tax effects relating to deferred income tax assets were as follows:

	December 31, 2011		December 31, 2010	
	Amount	Income tax effect	Amount	Income tax effect
Deferred income tax assets:				
Pension costs in excess of tax limits	$ 3,402,765	578,470	3,105,888	528,001
Loss carryforward	5,153,400	876,078	6,836,953	1,162,282
Accumulated impairment loss of collateral assumed	16,494	2,804	16,494	2,804
Unrealized losses on foreign currency exchange	4,427,271	752,636	7,033,176	1,195,640
Impairment losses on financial assets	206,235	35,060	1,155,747	196,477
Losses on valuation of financial assets	140,312	23,853	-	-
Unrealized gains or losses on foreign and derivative financial instruments	575,947	97,911	-	-
Foreign deferred income tax assets－loss carryforward and exchange effect	-	372,665	-	341,914
Others	713,006	121,211	66,100	11,237
Subtotal		2,860,688		3,438,355
Allowance for deferred income tax assets		(808,056)		(390,573)
		$ 2,052,632		3,047,782
Deferred income tax liabilities:				
Unrealized gains on foreign currency exchange	$ -	-	1,161,488	197,453
Unrealized gains or losses on foreign and derivative financial instruments	-	-	3,385,647	575,560
Valuation gain on financial assets	-	-	135,112	22,969
Foreign deferred income tax liabilities－changes in exchange	-	33,672	-	37,937
		$ 33,672		833,919
Deferred income tax assets－net		$ 2,018,960		2,213,863

According to income tax law, loss of a company could be used to offset taxable income in next ten years. On December 31, 2011, the amount of loss which could be used to offset taxable income was as follows:

Fiscal years	December 31, 2011	Last year offsetable
2008 applied amount	$ 32,856	2018
2009 assessed amount	3,005,809	2019
2010 applied amount	1,865,725	2020
2011 estimated amount	249,010	2021
	$ 5,153,400	

The Company and its subsidiaries' income tax returns for all years through 2010 were audited by the MOA. Except for 2009, the income tax returns for the years from 2008 to 2010 were not examined by the National Tax Administration.

Beginning 2008, the Company and its subsidiary BOT adopted a combined income tax declaration to report their tax. The subsidiaries BTLI and BTS join in adoption in 2009. As of December 31, 2011 and 2010, the details of receivables and payables resulting from income tax were as follows:

	The year ended December 31, 2011			
	Tax receivables from affiliated parties (booked in accounts receivable)	Tax payables to affiliated parties	Income tax receivables from National Tax Administration (booked in accounts receivable)	Income tax payables to National Tax Administration (booked in accounts payable)
2009	$ -	740,542	740,551	-
2010	28,140	430,221	430,272	-
2011	20,841	797,990	806,181	-
	$ 48,981	1,968,753	1,977,004	-

	The year ended December 31, 2010			
	Receivables from affiliated parties (booked in accounts receivable)	Payables to affiliated parties	Income tax receivables from National Tax Administration (booked in accounts receivable)	Income tax payables to National Tax Administration (booked in accounts payable)
2010	$ -	-	25,620	-

The reconciliation of the balances of current income tax expense, deferred income tax expense, deferred income tax assets, and income tax receivables under the provisions of SFAS No. 22 "Income Taxes" to the related balances computed for filing combined corporate income tax returns with the Company as the taxpayer was as follows:

	The year ended December 31, 2011			
	Current income	Deferred income	Deferred income tax assets, net	Current income tax receivables
Amount computed under SFAS No. 22	$ 472,952	129,767	2,018,960	1,977,004
Difference adjustments	-	-	-	-
Amount computed for filing combined corporate income tax return	$ 472,952	129,767	2,018,960	1,977,004

	The year ended December 31, 2010			
	Current income	Deferred income	Deferred income tax asset, net	Current income tax receivables
Amount computed under SFAS No. 22	$ 555,465	(96,447)	2,213,863	25,620
Difference adjustments	-	-	-	-
Amount computed for filling combined corporate income tax returns	$ 555,465	(96,447)	2,213,863	25,620

As of December 31, 2011 and 2010, unappropriated retained earnings were as follows:

	December 31, 2011	December 31, 2010
1998 and after	$ 6,680,591	9,729,678

(29) Stockholders' Equity

1) Common stock

On January 1, 2008, the Company was incorporated through transfer of shares and issued 9,000,000 shares of common stock with a par value of $10. As of December 31, 2011, the Company had authorized and issued $90,000,000 of common stock.

2) Additional paid in capital

The change in additional paid in capital for the six month periods ended December 31, 2011 and 2010 were as follows:

	Capital surplus	
	The year ended December 31, 2011	The year ended December 31, 2010
Beginning balance	$ 111,516,202	111,494,739
Recognition of change in the subsidiaries' additional paid in capital in capital under equity method	579,227	21,463
Closing balance	$ 112,095,429	111,516,202

3) Distribution of unappropriated earnings

The articles of incorporation of the Company stipulate that net income should be distributed as follows:

1. to offset prior years' deficit;
2. to appropriate 10% as legal reserve;
3. to appropriate 40~60% and the same amount of unrealized loss on financial instruments under stockholders' equity as special reserve;
4. to appropriate dividends.

The remaining balance plus prior year's accumulated unappropriated earnings will be distributed under the applicable laws and regulations.

According to the Company's articles of incorporation, cash dividend cannot be distributed in excess of 15% of total capital unless the legal reserve reaches the total amount of capital.

(30) Earnings per Share

	The year ended December 31, 2011		The year ended December 31, 2010	
	Pretax	After tax	Pretax	After tax
Net income (for common stockholders)	$ 4,683,310	4,080,591	7,883,119	7,424,101
Weighted average outstanding shares (shares in thousands)	9,000,000	9,000,000	9,000,000	9,000,000
Primary earnings per share (in Dollars)	$ 0.52	0.45	0.88	0.82

(31) Net Insurance Business Income

	December 31, 2011		
	Government Employee School Staff Insurance	BTLI	Total
Gross written premiums	$ 17,695,580	50,896,340	68,591,920
Reinsurance claims recovery	-	24,898	24,898
Investment type insurance policy revenue	-	2,297,029	2,297,029
	17,695,580	53,218,267	70,913,847
Re insurance expense	-	81,882	81,882
Direst business expense	-	41,477	41,477
Insurance payments	26,971,342	10,146,153	37,117,495
Stability fund	-	50,891	50,891
Investment type insurance policy expense	-	2,297,029	2,297,029
Insurance business expense	26,971,342	12,617,432	39,588,774
Net insurance income	$ (9,275,762)	40,600,835	31,325,073

	December 31, 2010		
	Government Employee School Staff Insurance	BTLI	Total
Gross written premiums	$ 17,418,404	56,105,942	73,524,346
Reinsurance claims recovery	-	20,437	20,437
Investment type insurance policy revenue	-	1,214,615	1,214,615
	17,418,404	57,340,994	74,759,398
Re insurance expense	-	74,998	74,998
Direct business expense	-	40,800	40,800
Insurance payments	24,991,430	14,506,760	39,498,190
Stability fund	-	56,100	56,100
Investment type insurance policy expense	-	1,214,615	1,214,615
Insurance business expense	24,991,430	15,893,273	40,884,703
Net insurance income	$ (7,573,026)	41,447,721	33,874,695

(32) Assets impairment

	2011	2010
Balance at January 1, 2011	$ 4,445,866	3,714,870
Loss recognized on assets impairment	4,173	429,238
Loss reversed	(41,200)	(14,104)
Unrealized gain on revaluation increments	(119,932)	1,526,712
Offset	(2,450,481)	(1,084,795)
Exchange difference	(755)	(126,055)
Balance at December 31, 2011	$ 1,837,671	4,445,866

The components of accumulated impairment loss are as the follows:

	December 31, 2011	December 31, 2010
Available for sale financial assets	$ 1,296,432	1,425,895
Hold to maturity financial assets	206,235	442,352
Other financial assets	318,025	593,916
Fixed assets	-	1,822,964
Other assets	16,979	160,739
	$ 1,837,671	4,445,866

Gain (loss) on impairment was composed as the follows:

	December 31, 2011	December 31, 2010
Available for sale financial assets	$ 1,156	-
Hold to maturity financial assets	-	(294,635)
Other financial assets	(137)	(31,873)
Fixed assets	19,246	(43,729)
Other assets	16,762	(44,896)
	37,027	(415,133)
	$ 37,027	(415,133)

(33) Provisions (Recovery) for Insurance Policy Reserves

	2011	2010
Provision for policyholders' reserve	$ 51,178,295	61,203,998
Provision for special reserve	46,970	44,044
Recovery for claim reserve	(5,528)	(2,248)
Recovery for insufficient premium reserve	(468,416)	(496,770)
	$ 50,751,321	60,749,024

(34) Disclosure in insurance contracts

1) Description for insurance contract recognition

1. Insurance contract and financial products with discretionary participation feature

Information on insurance contract and financial product with the discretionary participation feature of the subsidiary, BTLI, for the year ended December 31, 2011 and 2010 were as follows:

(a) Details of liability reserve

	December 31, 2011		
	Insurance Contract	Financial products with discretionary participation feature	Total
Life insurance	$ 177,172,272	98,952,526	276,124,798
Health insurance	3,694,575	-	3,694,575
Annuity insurance	23,678	6,183,037	6,206,715
Investment linked insurance	10,253	-	10,253
Total	$ 180,900,778	105,135,563	286,036,341

	December 31, 2010		
	Insurance Contract	Financial products with discretionary participation feature	Total
Life insurance	$ 150,440,605	77,745,648	228,186,253
Health insurance	3,010,532	-	3,010,532
Annuity insurance	22,767	6,890,650	6,913,417
Investment linked insurance	18,598	-	18,598
Total	$ 153,492,502	84,636,298	238,128,800

The reconciliation of the above mentioned changes in unearned premium is listed below:

	December 31, 2011		
	Insurance Contract	Financial products with discretionary participation feature	Total
Balance as at January 1, 2011	$ 153,492,502	84,636,298	238,128,800
Provision	34,728,135	22,522,137	57,250,272
Reclaim	(7,561,928)	(2,003,926)	(9,565,854)
Exchange rate effect	261,790	-	261,790
Others	(19,721)	(18,946)	(38,667)
Total	$ 180,900,778	105,135,563	286,036,341

(b) Details of provision for unearned premium

	December 31, 2011		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	$ 4,860	8,399	13,259
Personal injury insurance	83,698	-	83,698
Personal health insurance	117,850	-	117,850
Group insurance	152,811	-	152,811
Investment linked insurance	31	-	31
Total	359,250	8,399	367,649
Deduction of provision for unearned premium outward:			
Personal life insurance	638	85	723
Personal injury insurance	10,419	-	10,419
Group insurance	8,817	-	8,817
Investment linked insurance	1	-	1
Total	19,875	85	19,960
Net	$ 339,375	8,314	347,689

	December 31, 2010		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	$ 4,598	8,296	12,894
Personal injury insurance	85,561	-	85,561
Personal health insurance	117,435	-	117,435
Group insurance	146,418	-	146,418
Investment linked insurance	45	-	45
Total	354,057	8,296	362,353
Deduction of provision for unearned premium outward:			
Personal life insurance	574	55	629
Personal injury insurance	10,566	-	10,566
Group insurance	9,132	-	9,132
Investment linked insurance	1	-	1
Total	20,273	55	20,328
Net	$ 333,784	8,241	342,025

The reconciliation of the above mentioned changes in unearned premium is listed below:

	December 31, 2011		
	Insurance Contract	Financial products with discretionary participation feature	Total
January 1, 2011	$ 354,057	8,296	362,353
Provision	359,250	8,399	367,649
Reclaim	(354,056)	(8,297)	(362,353)
December 31, 2011	359,251	8,398	367,649
Deduction of provision for unearned premium outward:			
January 1, 2011	20,273	55	20,328
Provision	19,875	85	19,960
Reclaim	(20,273)	(55)	(20,328)
December 31, 2011	19,875	85	19,960
Total	$ 339,376	8,313	347,689

(c) Details of provision for claims

	December 31, 2011		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life Insurance			
– Reported but unpaid	$ 4,888	518	5,406
– Unreported and unpaid	167	1,715	1,882
Personal injury insurance			
– Reported but unpaid	1,136	-	1,136
– Unreported and unpaid	6,911	-	6,911
Personal health insurance			
– Reported but unpaid	4,040	-	4,040
– Unreported and unpaid	13,535	-	13,535
Group insurance			
– Reported but unpaid	2,511	-	2,511
– Unreported and unpaid	30,725	-	30,725
Unit-linked insurance			
– Unreported and unpaid	1,135	-	1,135
	65,048	2,233	67,281
Deduction of provision for claims outward:			
Personal life Insurance	$ -	1	1
Personal injury insurance	587	-	587
Personal health insurance	4	-	4
Group insurance	2,149	-	2,149
Total	2,740	1	2,741
Net	$ 62,308	2,232	64,540

	December 31, 2010			
	Insurance Contract		Financial products with discretionary participation feature	合　計
Personal life Insurance				
– Reported but unpaid	$	15,085	493	15,578
– Unreported and unpaid		452	776	1,228
Personal injury insurance				
– Reported but unpaid		1,471	-	1,471
– Unreported and unpaid		5,383	-	5,383
Personal health insurance				
– Reported but unpaid		2,506	-	2,506
– Unreported and unpaid		12,494	-	12,494
Group insurance				
– Reported but unpaid		3,568	-	3,568
– Unreported and unpaid		27,840	-	27,840
Total	$	68,799	1,269	70,068

The reconciliation of the above mentioned changes in provision for claims is listed below:

	December 31, 2011			
	Insurance Contract		Financial products with discretionary participation feature	Total
January 1, 2011	$	68,799	1,269	70,068
Provision		188,013	4,848	192,861
Reclaim		(191,764)	(3,884)	(195,648)
December 31, 2011		65,048	2,233	67,281
Deduction of provision for claims outward				
January 1, 2011		-	-	-
Provision		10,906	1	10,907
Reclaim		(8,166)	-	(8,166)
December 31, 2011		2,740	1	2,741
Closing Balance	$	62,308	2,232	64,540

(d) Details of special reserve for life insurance

	December 31, 2011		
	Insurance Contract	Financial products with discretionary participation feature	Total
Legal reserve			
Personal life insurance	$ 8,261	3,709	11,970
Personal injury insurance	60,097	-	60,097
Personal health insurance	123,711	-	123,711
Group insurance	145,662	-	145,662
	337,731	3,709	341,440
Provision for bonus risk	247,631	-	247,631
Total	$ 585,362	3,709	589,071

	December 31, 2010		
	Insurance Contract	Financial products with discretionary participation feature	Total
Legal reserve			
Personal life Insurance	$ 8,586	8,070	16,656
Personal injury insurance	73,697	-	73,697
Personal health insurance	138,229	-	138,229
Group insurance	165,457	-	165,457
	385,969	8,070	394,039
Provision for bonus risk	148,062	-	148,062
Total	$ 534,031	8,070	542,101

The reconciliation of the above mentioned changes in special reserve is listed below:

	December 31, 2011			
	Insurance Contract	Financial products with discretionary participation feature	Other	Total
January 1, 2011	$ 534,031	8,070	-	542,101
Provision of major accident special reserve over 15 years	(4,857)	-	-	(4,857)
The amount of actual indemnity minus provision of major accident exceeds expected indemnity	(570)	-	-	(570)
Contingent variation risk special reserve exceeds 30% of retained premium	(42,811)	(4,361)	-	(47,172)
Provision of bonus risk reserve	123,909	-	-	123,909
Reclaim of participating product	(24,340)	-	-	(24,340)
Closing Balance	$ 585,362	3,709	-	589,071

(e) Premium deficiency reserve

	December 31, 2011		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	$ 1,399,586	-	1,399,586
Personal injury insurance	629	-	629
Group insurance	5,007	-	5,007
Total	$ 1,405,222	-	1,405,222

	December 31, 2010		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	$ 1,870,648	-	1,870,648
Group insurance	2,990	-	2,990
Total	$ 1,873,638	-	1,873,638

The reconciliation of the above change as in premium deficiency reserve is listed below:

	December 31, 2011		
	Insurance Contract	Financial products with discretionary participation feature	Total
January 1, 2011	$ 1,873,638	-	1,873,638
Provision	10,545	-	10,545
Reclaim	(478,961)	-	(478,961)
Closing Balance	$ 1,405,222	-	1,405,222

(f) Special reserve (major accident and contingent variation risk special reserve) detail:

	December 31, 2011		
	Insurance Contract	Financial products with discretionary participation feature	Total
Personal life insurance	$ 718	1,925	2,643
Personal injury insurance	10,925	-	10,925
Personal health insurance	17,651	-	17,651
Group insurance	24,143	-	24,143
Total	$ 53,437	1,925	55,362

(g) Details of provision for liability adequacy

	Financial products with discretionary participation feature
	December 31, 2011
Liability reserve	$ 285,895,331
Unearned premium reserve	1,399,587
Book value of insurance liability	$ 287,294,918
Estimate of present cash flow	$ 247,430,606
Provision for liability adequacy balace	$ -

Short term insurance: All short term insurance are tested.

	Loss (%)	Fee (%)	Expense (%)	Combined (%)
short term insurance	38.6%	12.9%	17.2%	69.0%

Reinsurance:

	Reinsurance	Agency and transaction fee	Reinsurance paid	Combined (%)
Short term	5,651	2,388	1,740	73.0%

The liability adequacy test method of BTLI is listed below:

	December 31, 2011
Test Method	Long term insurance : gross premium evaluation method: Short term insurance (reinsurance) : loss evaluation method
Group	Test long and short term insurance separately
Significant assumption	Set up the assumed discount rate of future years based on the assets allocation of BTLI and the weighted average investments reward ratio

2. Revenue of matured retention premium

	December 31, 2011		
	Insurance Contract	Financial products with discretionary participation feature	Total
Written premium revenue	$ 29,524,131	21,366,558	50,890,689
Reinsurance premium revenue	5,651	-	5,651
Premium revenue	29,529,782	21,366,558	50,896,340
Deduct: Reinsurance premium expenses	81,712	170	81,882
Provision of net unearned premium	5,591	73	5,664
	87,303	243	87,546
Revenue of matured retention premium	$ 29,442,479	21,366,315	50,808,794

	December 31, 2010		
	Insurance Contract	Financial products with discretionary participation feature	Total
Written premium revenue	$ 38,387,102	17,713,065	56,100,167
Reinsurance premium revenue	5,775	-	5,775
Premium revenue	38,392,877	17,713,065	56,105,942
Deduct: Reinsurance premium expenses	74,887	111	74,998
Provision of net unearned premium	4,973	893	5,866
	79,860	1,004	80,864
Revenue of matured retention premium	$ 38,313,017	17,712,061	56,025,078

3. Retained insurance claims and benefits

	December 31, 2011		
	Insurance Contract	Financial products with discretionary participation feature	Total
Claims of directly written insurance contracts	$ 7,938,805	2,205,608	10,144,413
Claims of reinsurance	1,740	-	1,740
Insurance claims and benefits	7,940,545	2,205,608	10,146,153
Deduct: Amortized reinsurance claims and benefits	(24,898)	-	(24,898)
Retained insurance claims and benefits	$ 7,915,647	2,205,608	10,121,255

	December 31, 2010		
	Insurance Contract	Financial products with discretionary participation feature	Total
Claims of directly written insurance contracts	$ 13,539,152	965,156	14,504,308
Claims of reinsurance	2,452	-	2,452
Insurance claims and benefits	13,541,604	965,156	14,506,760
Deduct: Amortized reinsurance claims and benefits	(20,437)	-	(20,437)
Retained insurance claims and benefits	$ 13,521,167	965,156	14,486,323

2) Subsidiary, BTLI –The property and scope regarding the risk of insurance contracts

1. The target, policy, procedure and method of risk management for insurance contract

(a) The system, organization and the range of responsibilities of risk management

The risk management structure of the Bank includes the Board of Directors, risk management committee, internal audit department, authorities in charge of all business units. Their responsibilities are as follows:

a) Board of Directors

a. The Board of Director holds the highest responsibility in maintaining the risk management of the subsidiary

b. The Board of Directors shall formulate operating strategies according to the operating condition of the subsidiary, establishing effective risk management policy, ensuring the consistency of the risk managing system and the condition of the subsidiary as well as the capital adequacy in response of all risks.

b) Risk management Committee

a. Executing and implementing the risk management strategy and integrating risk related issues between various units across the subsidiary.

b. Formulate risk management policies, structure, organize function, and assemble qualified and quantified management standards. To report to the Board of Directors on a timely basis as well as reflecting the conditions of risk management along with compulsory suggestions for improvements.

c) Risk management department

a. Responsible of the overall risk management of the subsidiary.

b. Implement, monitor and measure the subsequent conditions of the policies and procedures approved by the Board of Directors or the risk management committee and report back to them. If any risk exposures exceeding the capacity of the subsidiary is discovered, the department has the responsibility to take reasonable actions and report to the Board of Directors.

c. Assist the Board of Directors in the implementation and formulation of risk management policies.

d. Establish the subsidiary's primary risk management standards and procedures as a reference for all units and to report to the Parent company for back additional investigation.

e. Report to the Board of Directors and risk management committee on a regular basis regarding all operational risk management conditions as means of control and understanding the subsidiary's risk tolerance for decision making. Monthly reports on risk management shall be reported to the Parent Company.

d) All operational units

Every department shall identify, evaluate, and control the risks of any new products or operations and establish the risk management process accordingly.

e) Auditing office of the Board of Directors

The auditing office shall audit the subsidiary, BTLI's condition of risk management in accordance with applicable regulations and legislations.

(b) Risk management procedures and protocols

a) Risk management procedures and protocols include risk identification, measurement, response to risk, monitoring, and data communication. Moreover, to integrate risk management procedures to an operational level, in order to reflect the impact of risk from various operations.

b) Establish relevant risk indicators for all risks for operations concerning the procedures, period and frequency of identification, measurement and evaluation of risk as means of decision making. It also includes evaluating performances and allocating resources.

c) After the evaluation and compilation of risk, the appropriate responding procedure from BTLI shall include the following:

a. Risk averse: to exclude any participation or terminate operations and activities

b. Risk transfer: to reinsure or transfer all risks or partial risks to a third party.

c. Risk control: to adopt risk controlling procedures in order to minimize any impact.

d. Risk tolerance: to tolerate any possible impact of risk by not initiating procedures as means of changing the probabilities of outcome.

d) Establish a risk monitoring system, timely scrutinize and monitor all risks. If risks are in excess, it should report and respond accordingly.

e) The aforementioned risk monitoring and reporting system shall change with the adjustment of operating objectives, risk exposure and external conditions of the subsidiary, including the effectiveness of the risk management system and the appropriateness of risk elements.

2. Information of insurance risk

(a) Sensitivity of insurance risk – Insurance contracts and financial products with discretionary feature: No significant impact.

(b) The statement of insurance risk concentration

BTLI does not target its insurance product at any group, age or gender exclusively. Insurance are located in Taiwan. In order to increase subsidiary's management in insurance risk, BTLI established "BTLI reinsurance management plan" to further implement all sorts of risk managing strategies. As a result, BTLI does not have concerns in high risk concentration.

(c) Claim development trend

a) Development trend of direct business loss

Life insurance

Occurrence	Development year							Claim provision
	1	2	3	4	5	6	7	
<=92	-	-	-	-	-	-	-	-
93	-	-	-	-	-	-	-	-
94	19,029	27,915	28,250	28,310	28,310	28,311	28,314	-
95	28,076	36,415	37,486	37,546	37,604	37,605	-	3
96	23,431	30,238	30,314	30,337	30,336	-	-	3
97	22,730	29,165	29,225	34,648	-	-	-	25
98	29,207	35,332	35,351	-	-	-	-	1,597
99	15,701	19,769	-	-	-	-	-	1,096
100	18,091	-	-	-	-	-	-	6,621
Provision for unreported and unpaid claims								9,345
Plus: reported and unpaid claims								-
Provision for claims								9,345

Injury insurance

Occurrence	Development year							Claim provision
	1	2	3	4	5	6	7	
<=92	-	-	-	-	-	-	-	-
93	-	-	-	-	-	-	-	-
94	75,837	113,480	114,324	119,720	119,904	120,170	120,227	-
95	61,402	78,349	83,850	84,379	84,391	84,401	-	40
96	328,882	412,974	427,079	428,696	429,778	-	-	785
97	65,499	90,685	92,741	92,753	-	-	-	357
98	50,763	68,954	73,266	-	-	-	-	1,056
99	59,149	87,659	-	-	-	-	-	4,383
100	57,577	-	-	-	-	-	-	22,722
Provision for unreported and unpaid claims								29,343
Plus: reported and unpaid claims								(2,656)
Provision for claims								26,687

Health insurance

Occurrence	Development year							Claim provision
	1	2	3	4	5	6	7	
<=92	-	-	-	-	-	-	-	-
93	-	-	-	-	-	-	-	-
94	88,099	104,375	105,542	105,625	105,625	105,665	105,665	-
95	79,512	95,289	96,086	96,146	96,169	96,169	-	-
96	73,363	89,548	90,485	90,521	90,521	-	-	18
97	77,081	93,683	94,387	94,427	-	-	-	26
98	80,722	98,054	98,697	-	-	-	-	84
99	75,741	92,539	-	-	-	-	-	897
100	82,231	-	-	-	-	-	-	18,114
Provision for unreported and unpaid claims								19,139
Plus: reported and unpaid claims								(2,118)
Provision for claims								17,021

b) Development trend of retained business loss

Life insurance

Occurrence	Development year							Claim provision
	1	2	3	4	5	6	7	
<=92	-	-	-	-	-	-	-	-
93	-	-	-	-	-	-	-	-
94	16,649	25,013	25,348	25,408	25,408	25,409	25,412	-
95	23,116	31,085	32,156	32,216	32,274	32,275	-	3
96	21,589	27,846	27,922	27,945	27,944	-	-	3
97	20,586	26,572	26,632	31,555	-	-	-	22
98	26,735	32,460	32,479	-	-	-	-	1,467
99	14,579	18,347	-	-	-	-	-	1,017
100	16,969	-	-	-	-	-	-	6,211
Provision for unreported and unpaid claims								8,723
Plus: reported and unpaid claims								-
Provision for claims								8,723

Injury insurance

Occurrence	Development year							Claim provision
	1	2	3	4	5	6	7	
<=92	-	-	-	-	-	-	-	-
93	-	-	-	-	-	-	-	-
94	67,186	99,922	100,749	104,686	104,870	105,135	105,192	-
95	56,994	72,341	77,378	77,864	77,876	77,886	-	37
96	186,425	238,051	246,126	247,043	247,954	-	-	453
97	54,149	75,927	77,889	77,900	-	-	-	300
98	46,207	63,048	67,039	-	-	-	-	966
99	52,837	78,335	-	-	-	-	-	3,917
100	54,621	-	-	-	-	-	-	21,555
Provision for unreported and unpaid claims								27,228
Plus: reported and unpaid claims								(2,656)
Provision for claims								24,572

Health insurance

Occurrence	Development year							Claim provision
	1	2	3	4	5	6	7	
<=92	-	-	-	-	-	-	-	-
93	-	-	-	-	-	-	-	-
94	88,099	104,375	105,542	105,625	105,625	105,665	105,665	-
95	79,512	95,289	96,086	96,146	96,169	96,169	-	-
96	73,363	89,548	90,485	90,521	90,521	-	-	18
97	77,081	93,683	94,387	94,427	-	-	-	26
98	80,722	98,054	98,697	-	-	-	-	84
99	75,741	92,539	-	-	-	-	-	897
100	82,231	-	-	-	-	-	-	18,114
Provision for unreported and unpaid claims								19,139
Plus: reported and unpaid claims								(2,118)
Provision for claims								17,021

Subsidiary, BTLI, provides claim reserve based on the expected future payments and relevant compensation process cost of reported and unreported claims. Such provision operation involves vast uncertainty, estimates and judgments, and is highly complicated. Any change of estimation or judgment is regarded as changes in accounting estimates and the amount of changes is recognized as current gains and losses. Some claims may be delayed to inform BTLI. In addition, when estimating the potential compensation amount of unreported claims, it involves vast past compensation experience and subjective judgment, therefore, it is not able to confirm that the estimated reserve for claims on the balance sheet date will equal to the final compensation amount. The estimate of reserve for claims is based on the information currently available, however, the final result may deviate the original estimate due to the subsequent development.

The above table demonstrates the development trend of claims (excluding the claims which will confirm the compensation amount and time in one year). The vertical shaft represents the year which the claim event occurred, and the horizontal shaft represents the development years. Every slash represents the accumulated compensation amount at the end of each year. The compensation amount refers to the claims whether they are ruled or not. It explains how BTLI estimates the compensation amount of each year as time passes by. The scenario and trend which affect the amount of reserve for claims may not be the same as they will be in the future, therefore, the estimated future compensation amount is not able to be determined by the claim development trend revealed by the above table.

3. Information of insurance risk

(a) Credit risk

The credit risk of insurance contract mainly comes from the inability of reinsurers to fulfill the obligation of reinsurance contracts and caused the subsidiary, BTLI, to encounter financial losses. The credit rating of the counter party for the subsidiary, BTLI, for the years ended December 31, 2011 and 2010 are all above S&P A . The details were as follows:

Name	December 31, 2011		
	Credit rating agent	Credit rating	Date of rating
Central Re	S&P	A-	10.20.2006
Munich Re	S&P	AA-	12.22.2006
Swiss Re	S&P	AA	10.28.2011
Cologne Re	S&P	AA+	02.04.2010
Transamerica Re	S&P	AA-	03.31.2010
Gibraltar Re	S&P	AA-	02.26.2009
Dai ichi Mutual Life	S&P	A	03.23.2006

(b) Liquidity risk

The subsidiary, BTLI, estimates its future insurance liability cash flow based on the effective premiums from traditional insurance, life insurance, interest linked annuity and foreign currency insurance for the year ended December 31, 2011, as well as the subsidiary's actual experience in associated actuarial assumptions (such as death rate, contract defaults, expenses, agent fee, compulsory bonus dividend, mortality rate and announced interest rate). Short term analysis (3 years from now) is construed using the cash flow to demonstrate there are no concerns of liability cash flow compared to the actual cash flow. The liability cash flow is greater than, the actual cash flow in the long term (10 years from now), however, taking subsidiary's cash and cash equivalents and future insurance premiums into account, the cash flow gap shall be closed in the long term.

(c) Market risk

Market risk in insurance contracts refers to the adverse changes in the market resulting in the returns on investment lower than the assumed interest rate for the insurance designed. As a result, insurers are subject to financial losses. Considering the subsidiary, BTLI's assumed interest with the return on investment for the year ended December 31, 2011, the risk taken by BTLI is within the acceptable level after evaluation.

4. Information regarding risk exposure for embedded insurance contract not measured using fair value: None.

(35) Information on Financial Instruments

1) Information on fair value of financial instruments

	December 31, 2011		December 31, 2010	
	Book Value	Fair Value	Book Value	Fair Value
Financial Assets:				
Financial assets measured at fair value through profit or loss	$ 111,746,984	111,746,984	102,094,813	102,094,813
Loans	2,158,381,911	2,158,381,911	2,083,747,129	2,083,747,129
Available for sale financial assets	802,058,331	802,058,331	891,936,602	891,936,602
Held to maturity financial assets	227,724,845	222,699,405	195,221,334	194,826,599
Other financial assets	110,755,243	110,755,243	91,129,833	91,129,833
Financial Liabilities:				
Financial liabilities measured at fair value through profit or loss	4,274,874	4,274,874	16,397,063	16,397,063
Other financial liabilities	11,246,261	11,246,261	7,187,799	7,187,799

2) The derivative financial instruments held by the Company and the subsidiaries were as follows:

	December 31, 2011		December 31, 2010	
	Book value	Notional amount	Book value	Notional amount
Derivative financial assets:				
Buy side foreign exchange option	$ 8,938	5,049,048	25,985	4,461,625
Cross currency swaps	9,058,832	547,123,559	6,942,017	238,676,146
Interest rate swaps	409,929	9,031,487	612,525	75,949,443
Foreign exchange forward transaction	1,163,071	56,492,748	3,368,662	26,068,103
Commercial paper with fixed rate	(3,679)	1,700,000	4,417	700,000
Derivative financial liabilities:				
Sell side foreign exchange option	9,113	4,949,172	29,246	4,657,063
Cross currency swaps	3,042,673	309,667,710	14,168,474	421,998,459
Interest rate swaps	906,650	15,668,237	916,724	27,061,391
Foreign exchange forward transaction	316,438	37,951,077	1,282,619	35,806,999

3) Methods and assumptions used by the Company and its subsidiaries for fair value evaluation of financial instruments were as follows:

1. Since these instruments have short term maturities, the book value is a reasonable basis to estimate the fair value. This method is applied to cash and cash equivalents, due from Central Bank and call loans to banks, bills and bonds purchased under resell agreements, receivables, other financial assets, due to Central Bank and other banks, bills and bonds sold under repurchase agreements, payables, deposits and other liabilities.
2. When the financial assets have a public quotation from an active market, the market price is considered the fair value. If a quoted market price is unavailable, then the fair value is determined based on a valuation model. The estimates and assumptions of the valuation model adopted by the Company and its subsidiaries are identical to those adopted by other market participants.
3. The interest on discounts and loans is calculated by a floating rate; therefore, the book value is the fair value.
4. Most deposits mature within one year. If it matures in more than one year, the interest is calculated by a floating rate. Thus the book value is the fair value.
5. The fair value of each forward contract is determined by the discounted cash flow using Reuters forward rate upon maturity. The fair value of interest rate swaps and cross currency swaps is calculated either by the quotation from the counterparty or by the price from Bloomberg, while the Black Scholes model is applied to evaluate the fair value of options.

4) The fair values of the financial instruments of the Company and its subsidiaries which were based on the quoted market price or a valuation model were as follows:

	December 31, 2011		December 31, 2010	
	Quoted market price	Valuation model	Quoted market price	Valuation model
Financial assets:				
Financial assets measured at fair value through profit or loss	$ 66,847,255	44,899,729	64,406,373	37,688,440
Discount and loans	-	2,158,381,911	-	2,083,747,129
Available for sale financial assets	91,697,334	710,360,997	123,628,286	768,308,316
Held to maturity investments	42,399,402	180,300,003	24,193,899	170,632,700
Other financial assets	-	110,755,243	-	91,129,833
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss	-	4,274,874	-	16,397,063
Other financial liabilities	-	11,246,261	-	7,187,799

For the years ended December 31, 2011 and 2010, the Company and its subsidiaries recognized (losses) gains on valuation of $11,452,185 and $(5,024,694), respectively, based on a valuation model. The details were as follows:

	December 31, 2011	December 31, 2010
Financial assets:		
Valuation (losses) Gains for assets held for trading	$ 836,962	6,793,970
Valuation (losses) Gains for assets designated at fair value	(410,753)	(119,592)
Gains (losses) on impairment for available for sale financial assets	129,463	(49,406)
Valuation (losses) gains for hedging derivatives	(3,139,414)	2,768,839
Gains (losses) on impairment for bond investment in non active	(8,138)	28,098
Gains (losses) on impairment for assets are carried at cost market	(137)	-
	(2,592,017)	9,421,909
Financial liabilitities:		
Valuation (losses) gains for liabilities held for trading	14,198,760	(14,413,026)
Valuation (losses) gains for derivatives	(154,558)	(33,577)
	14,044,202	(14,446,603)
Total	$ 11,452,185	(5,024,694)

5) Financial risk information

1. Market risk

(a) BOT

Market risk (also called "price risk") means changes such as in interest rates, exchange rates, and the prices of equity securities and instruments which may result in a loss for BOT, either on or off the balance sheet.

In order to establish and effectively operate the market risk control mechanism, all subsidiaries, in accordance with their cash capital and operating condition, implement appropriate market risk control in daily operations and management procedures, such as:

a) Identifying, evaluating and analyzing (qualification/non qualification) risks and adopting appropriate methods (including risk hedging, risk sharing, risk reduction, and risk bearing).
b) Each unit following the market risk management guidelines for position management, actively monitoring various limits, and reporting to the responsible unit or the risk management department.
c) Verifying the position data and profit or loss status with the accounting department to ensure the consistency and completeness of data, and setting up a separate risk management unit to help control BOT's overall market risk.

   BOT utilizes the standard method for calculating market risk capital to meet the requirement of the competent authority. In the future, the Bank will adopt internal model approach and use VAR to enhance risk gain or loss analysis and overall reporting ability. Furthermore, BOT will amend relevant policies and standards in accordance with the government regulations.

(b) BTLI

Fair value of the domestic and foreign bonds held by the Company varies according to the fluctuation of market interest or exchange rate. In order to prevent the risk of exchange rate, the Company signed foreign exchange forward contracts to hedge.

The investments held by BTLI are classified as trading security financial assets and available for sale financial assets. Due to the value of the assets are measured in fair value, BTLI shall be exposed to the risk of changing price of market.

(c) BTS

Market risk is the risk that the Company will suffer losses due to market interest rate or exchange rate fluctuation. If the transaction purpose is to hedge, market risk will be eliminated by the hedged items. If the transaction purpose is trading, the Company will set a stop loss point in the beginning. Therefore, the Company can confine the losses within an expected range.

BTS can manage its risk through the following:

a) The content, range of transaction, and authorization of levels should be clearly defined.
b) Risk should be identified, measured, supervised, and controlled while operating financial instrument, the risk undertaken should be within the capacity of BTS.
c) Establishing risk target of market, precaution system, overrunning handling, and communication system to take proper policy of market risk, in order to accomplish fully supervising and prevention.
d) Establishing market risk information management system, including transaction system, operating system, and risk management system to define the responsibility, ensure the independence of the system, and keep the system proper use.
e) Create a model of market risk to assess and express the exposure of BTS, furthermore, to systematically manage the risk exposed.

f) Assessing market risk and preparing paper work before creating financial instrument, changing operating process, or developing information system and explore new financial services and products.

g) Enforcing the professional knowledge and training, and harness risk sensitivity within the corporation culture.

2. Credit risk

(a) The possibility of a loss occurring due to the failure of a counterparty or third party to meet contractual debt obligations

Commodities owned and issued by the company and its subsidiaries may cause a loss when the contractual debt obligations are not met. Therefore, the company and its subsidiaries always conduct credit evaluations in accordance with the credit policy and regulation in handling credit business such as loans, commitments and guarantees. The details were as follows:

(In millions of NTD)

Item	December 31, 2011		
	Secured amount	Total amount	Percentage of total amount
Loan (note 1)	$ 1,123,076	2,176,415	51.60
Acceptances	155	2,715	5.71
Guarantees on loans	9,967	71,487	13.94

Item	December 31, 2010		
	Secured amount	Total amount	Percentage of total amount
Loan (note 1)	$ 1,014,049	2,095,417	48.39
Acceptances	145	3,683	3.94
Guarantees on loans	13,421	43,952	30.54

Note 1: Amounts of loans exclude advances and off balance sheet items.

Collaterals which the Company and its subsidiaries require may include time deposit, inventories, machinery and equipment, marketable securities, other property, and guarantees. If the customers default, the Company and its subsidiaries will, as required by circumstances, foreclose the collateral or execute other rights arising out of the guarantees given. Since most of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash demands. The maximum potential amount of future payments represents the notional amounts that could be lost under the guarantees if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from collateral held or pledged.

(b) Credit risk－disclosure of the maximum credit exposure

The book value and the maximum credit exposure of various commodities owned by the Company and its subsidiaries are disclosed as follow:

(In millions of NTD)

Items	December 31, 2011	
	Book value	Maximum credit exposure (notes 2 and 3)
Financial assets measured at fair value through profit or loss	$ 111,747	110,865
Available for sale financial assets	802,058	151,397
Held to maturity financial assets	227,725	187,966
Loans and advances (note 1)	2,233,515	1,933,223
Hedging derivatives	3	3
Debt investments without quoted price in active markets	37,009	37,009
Financial assets carried at cost	11,092	11,092

Note 1: The aforementioned "loans and advances" refer to the outstanding amounts of discounts; overdrafts; treasury overdrafts; guarantee overdrafts; short term, medium term and long term secured/unsecured loans; import bill advances/export bill purchases; short term loans and nonperforming loans.

Note 2: In the amounts of maximum credit exposure, held for trading financial assets exclude government bonds amounting to $882 million; available for sale financial assets exclude government bonds amounting to $28,051 million and negotiable certificates of deposit amounting to $622,610 million; held to maturity financial assets exclude government bonds amounting to $39,759 million; loans and advances exclude Central Government loans amounting to $258,642 million; Bureau of National Health Insurance loans to $28,100 million and Central Government short term advance amounting to $13,550 million.

Note 3: The amount of maximum credit exposure is the fair value at the balance sheet date.

Items	December 31, 2010	
	Book value	Greatest credit exposure (notes 2 and 3)
Financial assets measured at fair value through profit or loss	$ 102,095	100,707
Available for sale financial assets	891,937	159,232
Held to maturity financial assets	195,221	171,198
Loans and advances (note 1)	2,149,486	1,871,495
Hedging derivatives	5	5
Debt investments without quoted price in active markets	19,775	19,775
Financial assets carried at cost	11,092	11,092

Note 1: The aforementioned "loans and advances" refer to the outstanding amounts of discounts; overdrafts; treasury overdrafts; guarantee overdrafts; short term, medium term and long term secured/unsecured loans; import bill advances/export bill purchases; short term loans and nonperforming loans.

Note 2: In the amounts of maximum credit exposure, held for trading financial assets exclude government bonds amounting to $1,388 million; available for sale financial assets exclude government bonds amounting to $38,014 million and negotiable certificates of deposit amounting to $694,691 million; held to maturity financial assets exclude government bonds amounting to $24,023 million; loans and advances exclude Central Government loans amounting to $240,087 million; Bureau of National Health Insurance loans to $24,600 million and Central Government short term advance amounting to $13,304 million.

Note 3: The amount of maximum credit exposure is the fair value at the balance sheet date.

(c) Disclosure of obvious concentration of credit risk

When transactions involving a commodity are concentrated in a single industry or location, the ability to fulfill the contract may be affected by economic or other factors; thus, concentration of credit risk occurs. The concentration of credit risk of the Company and its subsidiaries is disclosed below:

a) The details of loans to various industries and the greatest credit exposure for the years ended December 31, 2011 and 2010, were as follows:

(In millions of NTD)

counterparty type	December 31, 2011		
	Book value (note 1)	Percentage of total loans (%)	Greatest credit exposure (note 2)
Individuals	$ 693,596	31.87	693,596
Government agencies	452,601	20.80	165,859
Manufacturing	384,217	17.65	384,217
Shipping, warehousing and communications	127,593	5.86	127,593
Utilities	123,856	5.69	123,856
Others	394,552	18.13	394,552
Total	$ 2,176,415	100.00	1,889,673

Note 1: The book value means the outstanding amounts of discounts; overdrafts; treasury overdrafts; guarantee overdrafts; short term, medium term and long term secured/unsecured loans; import bill advances/export bill purchases and nonperforming loans.

Note 2: The greatest credit exposure is the remaining amount when loans amounting to $258,642 million to the Central Government and $28,100 million to the Bureau of National Health Insurance loans are deducted from book value.

counterparty type	December 31, 2010		
	Book value (note 1)	Percentage of total loans (%)	Greatest credit exposure (note 2)
Individuals	$ 666,534	31.72	666,534
Government agencies	474,044	22.56	209,357
Manufacturing	330,009	15.71	330,009
Shipping, warehousing and communications	137,845	6.56	137,845
Utilities	141,682	6.74	141,682
Others	345,303	16.71	345,303
Total	$ 2,095,417	100.00	1,830,730

Note 1: The book value means the outstanding amounts of discounts; overdrafts; treasury overdrafts; guarantee overdrafts; short term, medium term and long term secured/unsecured loans; import bill advances/export bill purchases and nonperforming loans.

Note 2: The maximum credit exposure is the remaining amount when loans amounting to $240,087 million to the Central Government and $24,600 million to the Bureau of National Health Insurance loans are deducted from book value.

b) The details of loans to various areas and the maximum credit exposure for the years ended December 31, 2011 and 2010, were as follows:

(In millions of NTD)

Areas type	December 31, 2011		
	Book value (note 1)	Percentage of total loans (%)	Greatest credit exposure (note 2)
Domestic	$ 2,029,091	93.23	1,742,349
Foreign	147,324	6.77	147,324
Total	$ 2,176,415	100.00	1,889,673

Note 1: The book value means the outstanding amounts of discounts; overdrafts; treasury overdrafts; guarantee overdrafts; short term, medium term and long term secured/unsecured loans; import bill advances/export bill purchases and nonperforming loans.

Note 2: The maximum credit exposure is the remaining amount when loans amounting to $258,642 million to the Central Government and $28,100 million to the Bureau of National Health Insurance loans are deducted from book value.

Areas type	December 31, 2010		
	Book value (note 1)	Percentage of total loans (%)	Greatest credit exposure (note 2)
Domestic	$ 1,979,370	94.47	1,714,683
Foreign	116,047	5.53	116,047
Total	$ 2,095,417	100.00	1,830,730

Note 1: The book value means the outstanding amounts of discounts; overdrafts; treasury overdrafts; guarantee overdrafts; short term, medium term and long term secured/unsecured loans; import bill advances/export bill purchases and nonperforming loans.

Note 2: The maximum credit exposure is the remaining amount when loans amounting to $240,087 million to the Central Government and $24,600 million to the Bureau of National Health Insurance are deducted from book value.

(d) Off balance sheet credit risk (including loan commitments, net settlement, and offset rights)

The Company and its subsidiaries, when offering services of loan commitments, net settlement, and offset rights, always assesses credibility carefully. Collateral acquired by the Company and its subsidiaries, due to loans, loan commitments, net settlement, and guarantee, could be disposed on the basis of a notice of ownership transfer in order to protect the rights and decrease the credit risk of the Company and its subsidiaries. The fair value of collaterals would not be considered when the greatest credit exposure is disclosed.

(In millions of NTD)

Item	Amount of disclosure of the greatest credit exposure	
	December 31, 2011	December 31, 2010
Irrevocable loan commitments (loan commitments)	$ 390,357	545,305
Amounts due from credit	$ 43,112	35,706
Guarantees receivable	$ 71,390	43,952

Note: This form assumes that the amount of greatest credit exposure at balance sheet date is positive. The Company and its subsidiaries assess the counterparty with off balance sheet commitment and guarantee without considering its type.

3. Liquidity risk

Liquidity risk includes market liquidity risk and capital liquidity risk (financial risk). Market liquidity risk is the risk of facing market price movement in processing or offsetting assets caused by a low volume market. Capital liquidity risk, on the other hand, is the risk of default at the maturity due to inability to sell assets or obtain sufficient capital. The Company and its subsidiaries have different policies in accordance with capital demands for different kinds of business aiming to effectively monitor market liquidity risk. The finance department is in charge of the overview of capital and conducts a daily review to respond to system risk and capital demand in abnormal conditions.

In addition to all of the above, the attention and support from senior management are important to the success of the risk management system. Under the authorization of the senior management, the Company and its subsidiaries are gradually implementing the risk management system.

The Company and its subsidiaries control the trading risk of commodities by means of the aforementioned position limits, setting stop loss points and operation guidelines at the management level. In addition, the Company and its subsidiaries utilize financial tools of the money market and foreign exchange market, together with appropriate liquid assets to plan for future cash demand.

Capital and working capital of The Company and its subsidiaries are sufficient to perform all contract obligations, so there is no liquidity risk.

The analysis of maturity of the subsidiary BOT as of December 31, 2011 and 2010, is as follows:

	December 31, 2011				
	1~30 days	31~90 days	91 days~1 year	Over 1 year	Total
Asset					
Cash and cash equivalents	$ 25,233,775	-	-	-	25,233,775
Due from Central Bank and call loans to banks	38,702,180	221,480,349	127,314,375	126,319,259	513,816,163
Financial assets measured at fair value through profit or loss, net	5,501,626	6,714,417	2,905,636	30,018,005	45,139,684
Bonds and bills purchased under resell agreements	3,231,949	-	-	-	3,231,949
Available for sale financial assets, net	315,920,821	266,954,423	77,090,954	97,407,267	757,373,465
Held to maturity financial assets, net	2,001	-	89,528	529,338	620,867
Hedging derivative assets	3,074	-	-	-	3,074
Financial assets carried at cost	-	-	-	11,092,189	11,092,189
Debt investments without quoted price in active markets	-	605,500	454,110	2,891,537	3,951,147
Investments under equity method, net	-	-	-	32,479,598	32,479,598
Receivables, net	9,990,771	1,108,127	646,911	16,547,065	28,292,874
Loans and discounts, net	202,617,269	175,031,865	412,495,247	1,368,715,956	2,158,860,337
Non performing loans	253,196	-	-	8,059,436	8,312,632
Total assets	$ 601,456,662	671,894,681	620,996,761	1,694,059,650	3,588,407,754
Liabilities					
Due to Central Bank and other banks	$ 102,494,969	63,188,499	17,567,343	25,675,664	208,926,475
Payables	11,869,584	11,302	148,956	25,282,175	37,312,017
Financial liabilities measured at fair value through profit or loss	553,783	64,551	-	3,279,298	3,897,632
Bonds and bills sold under repurchase agreements	9,715,429	4,715,540	475,196	-	14,906,165
Hedging derivative liabilities	409,907	-	-	-	409,907
Other financial liabilities	-	-	-	671,369	671,369
Deposits and remittances	305,811,927	338,382,799	1,092,169,729	1,481,646,232	3,218,010,687
Total liabilities	$ 430,855,599	406,362,691	1,110,361,224	1,536,554,738	3,484,134,252
Gaps	$ 170,601,063	265,531,990	(489,364,463)	157,504,912	104,273,502

Note: The table contains the amounts for BOT only.

	December 31, 2010				
	1~30 days	31~90 days	91 days~1 year	Over 1 year	Total
Asset					
Cash and cash equivalents	$ 21,899,765	-	-	-	21,899,765
Due from Central Bank and call loans to banks	66,698,365	229,546,130	127,308,218	99,957,658	523,510,371
Financial assets measured at fair value through profit or loss, net	5,409,926	2,679,087	1,435,592	25,776,052	35,300,657
Bonds and bills purchased under resell agreements	600,294	-	-	-	600,294
Available for sale financial assets, net	443,339,002	233,755,710	52,310,744	107,955,126	837,360,582
Held to maturity financial assets, net	-	2,004	-	574,347	576,351
Hedging derivative assets	5,052	-	-	-	5,052
Financial assets carried at cost	-	-	-	11,092,326	11,092,326
Debt investments without quoted price in active markets	-	-	-	3,985,572	3,985,572
Investments under equity method, net	-	-	-	31,330,008	31,330,008
Receivable, net	1,515,085	1,000,814	826,280	20,582,778	23,924,957
Loans and discounts, net	154,865,595	155,046,220	381,880,016	1,383,285,728	2,075,077,559
Non performing loans	459,324	-	-	11,567,604	12,026,928
Total assets	$ 694,792,408	622,029,965	563,760,850	1,696,107,199	3,576,690,422
Liabilities					
Due to Central Bank and other banks	$ 65,991,474	70,488,298	24,412,375	46,720,790	207,612,937
Payables	17,545,152	16,802	165,608	39,124,072	56,851,634
Financial liabilities measured at fair value through profit or loss	775,534	-	-	18,210,071	18,985,605
Bonds and bills sold under repurchase agreements	6,542,132	2,887,241	-	-	9,429,373
Hedging derivative liabilities	243,003	-	12,346	-	255,349
Other financial liabilities	-	-	-	793,180	793,180
Deposits and remittances	335,786,707	323,351,819	1,077,660,808	1,449,131,678	3,185,931,012
Total liabilities	$ 426,884,002	396,744,160	1,102,251,137	1,553,979,791	3,479,859,090
Gaps	$ 267,908,406	225,285,805	(538,490,287)	142,127,408	96,831,332

Note: The table contains the amounts for BOT only.

4. Cash flow risk and fair value risk of interest rate change

Floating assets and floating liabilities of the Company and its subsidiaries may change due to movement in future cash flow caused by movement of market rate, and hence create risk.

(a) Information on expected final maturity and expected reprising date

As of December 31, 2011 and 2010, the expected repricing date and expected final maturity would not be affected by the contract effective date. The following table shows the interest risk of the Company and its subsidiaries. Non derivative assets and liabilities are listed at book value without deducting any allowance or adjustment. Derivative assets and liabilities are listed at book value. The book value is further categorized by the earlier of the maturity date or reprising date. The book values of commodities owned or issued by BOT, categorized by different maturity or repricing dates (the earlier date of the two dates), were as follows:

(In millions of NTD)

	December 31, 2011				
	1~30 days	31~90 days	91 days~1 year	Over 1 year	Total
Assets					
Financial assets measured at fair value through profit or loss	$ 5,501	6,714	2,906	30,018	45,139
Bonds and bills purchased under resell agreements	3,232	-	-	-	3,232
Available for sale financial assets	315,921	266,954	77,091	97,407	757,373
Held to maturity financial assets	2	-	90	529	621
Hedging through derivative assets	3	-	-	-	3
Financial assets carried at cost	-	-	-	11,092	11,092
Debt investment without quoted price in active market	-	606	453	2,892	3,951
Due from and call loans to banks	38,702	221,480	127,314	126,320	513,816
Loans and discounts	202,608	175,032	412,495	1,368,716	2,158,851
Investment under equity method	-	-	-	32,479	32,479
Other assets	18,980	4,708	1,516	222,458	247,662
Total assets	$ 584,949	675,494	621,865	1,891,911	3,774,219
Liabilities					
Deposits from Central Bank	$ 102,495	63,188	17,567	25,676	208,926
Financial liabilities measured at fair value through profit or loss	603	65	-	3,279	3,947
Bonds and bills sold under repurchase agreements	9,715	4,716	475	-	14,906
Hedging derivative liabilities	410	-	-	-	410
Other financial liabilities appropriation for loans	-	-	-	671	671
Deposits	305,244	338,383	1,092,170	1,481,646	3,217,443
Long term liabilities	-	-	-	24,112	24,112
Other liabilities	8,207	26,945	2,416	20,789	58,357
Total liabilities	$ 426,674	433,297	1,112,628	1,556,173	3,528,772
Stockholders' equity	$ 158,275	242,197	(490,763)	335,738	245,447

Note: The table contains the amounts for BOT only.

		December 31, 2010				
		1~30 days	31~90 days	91 days~1 year	Over 1 year	Total
Assets						
Financial assets measured at fair value through profit or loss	$	5,590	2,679	1,436	25,776	35,481
Bonds and bills purchased under resell agreements		600	-	-	-	600
Available for sale financial assets		443,339	233,756	52,311	107,955	837,361
Held to maturity financial assets		-	2	-	574	576
Hedging through derivative assets		5	-	-	-	5
Financial assets carried at cost		-	-	-	11,092	11,092
Debt investment without quoted price in active market		-	-	-	3,986	3,986
Due from and call loans to banks		66,698	229,546	127,308	99,958	523,510
Loans and discounts		154,865	155,046	381,880	1,383,286	2,075,077
Investment under equity method		-	-	-	30,804	30,804
Other assets		28,189	2,707	1,464	221,350	253,710
Total assets	$	699,286	623,736	564,399	1,884,781	3,772,202
Liabilities						
Deposits from Central Bank	$	65,992	70,488	24,412	46,721	207,613
Financial liabilities measured at fair value through profit or loss		775	-	-	18,210	18,985
Bonds and bills sold under repurchase agreements		6,542	2,887	-	-	9,429
Hedging derivative liabilities		244	-	12	-	256
Other financial liabilities appropriation for loans		-	-	-	793	793
Deposits		335,289	323,352	1,077,661	1,449,132	3,185,434
Long term liabilities		-	-	-	19,962	19,962
Other liabilities		20,737	78	13,925	49,479	84,219
Total liabilities	$	429,579	396,805	1,116,010	1,584,297	3,526,691
Stockholders' equity	$	269,707	226,931	(551,611)	300,484	245,511

Note: The table contains the amounts for BOT only.

(b) Effective interest rate (excluding financial assets for trading purposes)

The effective interest rates, classified by currencies, of the commodities owned or issued by the BOT as of December 31, 2011 and 2010, were as follows:

December 31, 2011		
Item	NTD	USD
Available for sale financial assets:		
Government bonds	0.7909%～6.9000%	1.2200%～7.3750%
Financial bonds	1.2300%～2.3000%	0.5056%～7.3000%
Corporate bonds	1.0002%～3.0500%	0.5456%～6.5000%
Negotiable certificates of deposit of Central Bank	0.8700%～1.0500%	-
Taipei City Government bonds	1.2000%	-
Beneficiary certificates－financial assets securitization	2.4600%	-
Beneficiary certificates－real estate investment trust	2.6800%	5.7500%
Held to maturity financial assets:		
Government bonds	1.3930%～6.0664%	-
Beneficiary certificates－real estate investment trust	2.4000%	-
Debt investment without quoted price in active markets:		
Beneficiary certificates－real estate investment trust	-	0.51830%～1.79360%
Loans and discounts:		
Short term loans	0.8300%～18.0000%	0.4500%～6.1500%
Medium term loans	0.00125%～18.0000%	0.4411%～6.8500%
Long term loans	0.00001%～10.0000%	0.69022%～2.25000%
Liabilities:		
Short term loans	-	0.2000%～2.0000%
Hedging derivative instrument:		
IRS	-	0.77211%～4.57375%

December 31, 2010		
Item	NTD	USD
Available for sale financial assets:		
Government bonds	0.7909%～6.9000%	1.0000%～9.6250%
Financial bonds	2.1100%～2.3000%	0.3138%～6.5000%
Corporate bonds	1.0001%～3.0500%	0.4169%～8.8750%
Negotiable certificates of deposit of Central Bank	0.6900%～0.8300%	-
Taipei City Government bonds	1.2000%～4.6190%	-
Beneficiary certificates－financial assets securitization	2.4600%	-
Beneficiary certificates－real estate investment trust	2.6800%	5.5000%～5.7500%
Foreign organization bonds	2.6000%	-
Held to maturity financial assets:		
Government bonds	1.5150%～6.0699%	-
Beneficiary certificates－financial assets securitization	2.4000%	-
Debt investment without quoted price in active markets:		
Beneficiary certificates－real estate investment trust	-	0.5003%～1.7606%
Loans and discounts:		
Short term loans	0.3400%～18.0000%	0.5256%～6.1000%
Medium term loans	0.00001%～18.0000%	0.4211%～6.8500%
Long term loans	0.00001%～10.0000%	0.6141%～7.5000%
Liabilities:		
Short term loans	-	0.2922%～1.1466%
Hedging derivative instrument:		
IRS	-	0.6900%～10.6777%

5. Fair value hedge

Financial instruments held by the Company and Subsidiaries are applicable to hedge accounting. The Company and Subsidiaries adopted fair value hedge accounting and should disclose the following:

(a) Fair value hedge

Gains (losses) due to re measuring with fair value of hedge instrument, or change of exchange rate, should be recognized as gains (losses) of the period; gains (losses) due to hedging are the adjustment of the hedged target and should be recognized as gains (losses) of the period.

(b) Fair value hedge should disclose the following:

a) Description of hedging:

Currently the New York, LA, Tokyo, and Singapore branches of BOT adopt fair value hedge accounting and hold IRSs as designated hedging instruments to hedge the exposure to interest risk on investment in fixed rate bonds; the hedging strategies were as follows:

a. When the interest rate trends up, the Company and its subsidiaries adopt fair value hedging to avoid effects on income by swapping a fixed rate for a floating rate on fixed rate bonds.

b. When the interest rate trends down, the Company and its subsidiaries adopt cash flow hedging to avoid effects on income by swapping a floating rate for a fixed rate on floating rate notes.

b) Description and balance sheet fair value of financial commodities designated as hedging instruments:

Hedged item	Designated hedging instruments	December 31, 2011		
			Original amount	Fair value
Foreign bonds	Swap	$	9,031,487	3,074
Foreign bonds	Swap		15,668,237	(409,907)

Hedged item	Designated hedging instruments	December 31, 2010		
			Original amount	Fair value
Foreign bonds	Swap	$	590,241	5,051
Foreign bonds	Swap		4,639,975	(255,349)

c) Nature of hedged risk:

The hedged items of the hedge accounting adopted by the Company and its subsidiaries are fixed rate bond investments. Thus, IRS is are used to hedge interest risk (adopting interest fair value hedging－swapping a fixed rate for a floating rate).

6. Levels of the fair value hierarchy of financial instruments

Financial instrument item measured at fair value	December 31, 2011			
	Total	Level 1(note 1)	Level 2(note 2)	Level 3(note 3)
Non derivative financial instruments				
Assets:				
Financial assets measured at fair value through profit or loss	$ 101,110,582	73,010,279	28,100,303	-
Financial assets measured at fair value				
Investment in stocks	43,058,397	43,058,397	-	-
Investment in bonds	3,635,272	3,622,583	12,689	-
Others	30,494,957	23,018,149	7,476,808	-
Original recognized at fair value	23,921,956	3,311,150	20,610,806	-
Available for sale financial assets				
Investments in stocks	61,111,520	61,111,520	-	-
Investment in bonds	108,861,862	31,887,704	76,974,158	-
Others	632,084,949	9,437,298	622,647,651	-
Other financial assets				
Debt securities investment in non active market	37,008,950	-	37,008,950	-
Derivative financial instruments				
Assets:				
Financial assets measured at fair value through profit or loss	10,636,402	-	10,636,402	-
Other financial assets				
Hedging derivative financial assets	3,074	-	3,074	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	4,274,874	212	4,274,662	-
Other financial liabilities				
Hedging derivative financial liabilities	409,907	-	409,907	-

Note1: Level inputs are quoted prices in active markets for identical assets or liabilities the Company have the ability to access. In accordance with section 5, of SFAS No.34 "Financial Instruments: Recognition and Measurement", an active market satisfies all of the following conditions:

(a) The products traded in the market are homogeneous in nature.
(b) Parties willing to trade are readily available in the market.
(c) Price information is publicly available.

Note2: Level 2 inputs are fair value of the financial instruments that are observable but not considered level 1 quotes price, including the observable input parameters that are obtained directly (i.e., prices) or indirectly (i.e., derived from prices) from an active market. For instance.

(a) The quoted prices of similar financial instruments in active market. The fair value of financial instruments owned by the Company is inferred from the recent trading price of similar financial instruments. The similar financial instrument is judged according to the characteristic and trading conditions. Fair value of financial instruments should be priced using observable trading prices adjusted over time, trading conditions and the impact of related parties and its observable trading prices and associated nature of the product.
(b) Quoted prices of similar or identical financial instruments in non active markets.
(c) Fair value price using valuation models. The input parameters of the valuation models (i.e., interest rates, yield curve, volatility…etc), is based on available data in the market, such as input parameters, which is an estimated figure derived from public data. The price of financial instruments is estimated by using the parameters which could reflect the expectation from market participants.
(d) The majority of the input parameters are derived from, or corroborated by, observable market data.

Note 3: Level 3 means input parameters are not based on observable market data (unobservable inputs such as: option pricing model using historical volatility index, as historical volatility does not represent the expected future volatility from market participants).

(36) Disclosure of Risk Management Policy

1) The Company

The risk management organization of the Company includes the board of directors, risk management committee, and risk administrative office.

The responsibility of each risk management level is as follows:

1. The Board of Directors is the highest decision making unit, and it has the final responsibility for the Company's overall risk. According to the overall operating strategies and management environments, the Board of Directors approves the risk management policies, supervises the operating effectiveness of the risk management system, fully controls the risk situation, and ensures having sufficient capital for dealing with all risks.
2. The Company sets up the risk management committee under the Board of Directors to execute the risk management policies approved by the board of directors and coordinate the related risk management matters within the group.
3. The risk management department is an independent risk management unit and is responsible for the implementation of overall risk management. For all risk management decisions and assignments of the board of directors and risk management committee, the risk management department must supervise and follow up the execution by the related units, and present the risk management report to the board of directors and risk management committee. If it finds significant exposure that endangers the financial situation, operations, or legal compliance, the risk administrative office should report to the board of directors immediately.

2) BOT

1. Risk management structure and policy

(a) Risk management structure

The risk management structure of the Bank includes the Board of Directors, risk management committee, risk management department, authorities in charge all business units.

a) The Board of Director holds the highest responsibility in maintaining the risk management of the Bank, which includes formulating strategies accordingly, establishing the risk management policy, ensuring the consistency of the risk managing system, identifying all the risk matures and retain all the resources available for encountering all sorts of unexpected risks.

b) The role of risk management committee established by the Board of Directors includes implementing the risk management strategy and integrating risk related issues between various units across the bank.

c) The role of the risk management department includes monitoring all risk management issues independently and on an operational level. The risk management department is also in charge of investigating into any relevant departments and reports directly to the Board of Directors. Similarly, if any risk exposures exceeding the capacity of the Bank is discovered, the department has the responsibility to take reasonable actions and report to the Board of Directors.

d) Every department shall identify, evaluate, and control the risks of any new products or operations and establish the risk management process accordingly. In addition, to monitor the relevant risks in compliance with the risk management policy of the Bank.

e) Every department shall control risk in accordance with the regulations of BOT.

(b) Risk management policy

Every operations engaged by the Bank, including off balance sheet operations, are included within the risk management system of the Bank, which contains credit risk, market risk, operational risk, interest rate risk, liquidity risk, national risk, legal risk and so forth. The brief risk management policy is as follows:

a) Monitor the settlement ratio of the Bank in relevance to the operational size, credit risk, market risk, operational risk and the future prospects.

b) Establish risk measuring and monitoring procedure system in order to measure and monitor risks effectively.

c) Taking in the risk capacity, capital reserve, nature of debts, performance and rewards into consideration, the Bank shall manage the risks of operating across all units.

d) Establish a valuation system for the quality and classification of assets to consistently monitor excess risk exposures with large concentration, and to accrue allowance for losses.

e) Establish information security mechanism and emergency system concerning banking operations, transactions and data sharing. Additionally, to establish an independent and effective risk management system through means of appropriate policies, procedures and tools in order to increase the efficiency of the risk managing across all operations.

2. The major financial assets of BOT are loans, receivables, and securities investments. The related risk and management policy are as follows:

(a) Credit risk management: including stratified authorization, management of large exposure, concentration management, and a re assessment system

a) Carrying out stratified authorization

A system of graded delegation of authority is used in loan cases and the disposition of NPLs. Each authority level has its own credit assessment committee and loan collection assessment committee. The review of loan cases is carried out strictly in accordance with the limits of authorization so as to assure the quality of loans.

b) Management of large exposure and risk concentration

a. In accordance with the Banking Law, loans to BOT's responsible person, BOT's employees, and persons having a material interest in BOT are controlled in accordance with stipulated quotas. The Bank has established rules for credit risk management of loans to enterprise groups and ratios for loan risk exposure to different industries, and it controls credit quotas for trading partners, issuers, and guarantors in accordance with their external credit ratings.

b. BOT's Treasury Department, OBU, and foreign branches set up policies based on external credit evaluation for loan quota management in money market, foreign exchange, and negotiable security trading.

c. Each year, to spread the risk from different countries, a national risk quota, in accordance with the ranking in Euromoney Magazine, is allocated to the Treasury Department, OBU, and foreign branches. The business recorded by BOT includes loan assets, transaction assets, and off balance sheet positions.

c) Reassessment evaluates the quality of loan assets. BOT has a re assessment policy for credit review. After loans are extended, they are reviewed during the loan period in accordance with their review ratings. For important loans, follow up evaluation is carried out, and reserves against bad loans are allocated for loan assets at the end of every month in order to reinforce BOT's operating system.

(b) Market risk management

a) Daily evaluation

To control risk, each trading unit carries out a daily assessment of foreign trading against trading objectives in accordance with market prices. The major source for evaluation is the public appraisal of negotiable securities in external information systems such as Bloomberg and Reuters.

b) Limit management

a. For the trades involving all securities, foreign exchange positions, and derivatives, BOT regulates the authorized trading amount, kinds of sales/purchases, invested objects, and gain or loss limits to control risk effectively.

b. In the management of New Taiwan Dollar funds, interest rate risk is controlled by predictions of long term interest rate trends, by setting short dealing interest rates prior to the beginning of business each day, and by establishing add or subtract authorization for personnel at different levels. In the management of foreign currency funds, trading position quotas are set for different currencies and for bank wide foreign exchange positions, and stop loss limits are set for positions held for trading purposes and for non hedging unleveled net positions for derivative products.

(c) Interest rate risk and liquidity risk management

a) BOT has set up an Assets and Liabilities Management Committee to strengthen the structure of assets and liabilities. Under the leadership of the president, the Committee is divided into Management, Finance, and Capital subcommittees; and this Committee is responsible for setting guidelines for assets and liabilities management, liquidity position management, management of interest rate risk, and the review of the deposit and loan structure.

b) Setting up management policy for liquidity and interest rate risk; setting up guidelines for liquidity risk management.

a. Management of interest rate sensitivity gap: The ratio of New Taiwan Dollar interest rate sensitive assets to liabilities shall fall between 80% and 140%. The ratio of New Taiwan Dollar capital gap to owner's equity shall be maintained between positive/negative 100%. The different positions in the foreign currencies resulting from changes in the interest rate shall not exceed total assets in each currency by 35%.

b. Management of liquidity risk

(i) Maintaining liquidity ratio: According to the Central Bank's "Liquidity Guidelines for Financial Institutions," Bank of Taiwan shall maintain a liquidity ratio for all deposit of over 10%.

(ii) Loan to deposit monitoring: Ratio limits are between 65%~ 87%, alarming rate between 68%~86% is used as indicators for attention.

(iii) Short term gap analysis: 1~10 day and 11~30 day gaps are calculated; the period gap is greater than zero.

(iv) Foreign currency gap management: The ratio of accumulated capital liquidity gap for one month and for one year to total assets of the four major foreign currencies of Bank of Taiwan (U.S. Dollar, HK Dollar, JP Yen and Euro) should not exceed 50% and 40%, respectively.

(v) Capital management: Full use is made of the Assets and Liabilities Management Information System on a regular basis to analyze maturity gaps of assets and liabilities and changes in maturity structure. The appropriate allocation and utilization of funds, and the adjustment of the capital structure are carried out in accordance with the capital situation. In the management of New Taiwan Dollar funds, in addition to maintaining an appropriate level of cash on hand and of securities that can be converted quickly into cash, the Bank has set policies for the reporting of New Taiwan Dollar funds to provide for the timely reporting of receipts or disbursements of large amounts of funds. The Bank also carries out gap analysis of the maturity amount of purchased bills, bonds, and call loans so as to lower liquidity risk. In the management of foreign currencies, the Bank uses the maturity method to carry out funds gap analysis of the actual funds to be received or paid out within the next year.

(vi) Formulate "BOT operating crisis responding procedure" to react quickly to emergency, minimize impact and protect the normality of operations.

(d) The policy of reduction of credit risk in terms of pledges and guarantees

In its consideration of credit control and business promotion, BOT attempts to decrease the burden of credit risk by increasing collateral or strengthening the guarantee, based on BOT's credit and pledge policy. Collateral and guarantees include mortgages on real estate or property (i.e., land, building, machinery, car, ship, aircraft, etc.), pledges of securities or other rights (i.e., certificates of deposit; various bonds, stocks, or other securities), guarantees provided by government agencies, banks, or credit guarantee institutions authorized by the government, and any other guarantee or collateral approved by BOT.

3) BTLI

1. Financial risk information

(a) Market Risk

The fair value of the domestic and overseas bond investments fluctuate with market interest rates and exchange rates. For overseas investment, BTLI reduces the market risk using forward exchange rate contracts.

BTLI's security investment can be categorized as trading financial assets and available for sale financial assets. As such assets are measured at fair value, BTLI is subject to the risk of security price fluctuations.

(b) Credit Risk

BTLI identifies cash and cash equivalents, security investment and bond investment as its principal source of underlying credit risk. In terms of the credit risk arising from various investments made and with counter parties, limits are set against the agreed credit scoring along with complimenting trading policies to diversify credit risk. Thus, the financial assets acquired are not exposed to material credit risk.

(c) Liquidity Risk

BTLI's liquidity position, including its capital and operational fund, are adequate for additional increase in assets, paying for maturing liabilities and complying with all agreements. Therefore, liquidity risk concerning contractual compliance is non existent.

BTLI's derivative products related to forward contracts operate in highly liquid market, as a result, liquidity risks are minimal as products are likely sold at reasonable prices. Due to the continuous renewal of forward contracts and other paid derivatives, funding risks are effectively reduced.

Liquidity risks are expected from partial security and bond investment that are categorized as investments from non active market, similarly, investments in active markets are assumed to be sold promptly at similar prices to that of fair value.

(d) Cash flow risk from change in interest rates

Cash flow is influenced by the change in interest rates which may affect the effective interest rate of bonds. Consequently, as floating interest rates are adopted in parts of BTLI's bond investment, cash flow are subject to interest rate risks.

2. Risk control and hedging policies

The various risk associated in BTLI's operations are all included in the area for risk management, such as embedding systematic risk measurement and monitoring system that allows operations to be tolerated within an acceptable level. Communication system for risk is designed to deliver timely and punctual risk related data. Taking initial capital, characteristics of liability, performance and reward into consideration, BTLI effectively allocates and manages their assets and risk.

All operations conducted by BTLI are effectively identified, measured, monitored and controlled. Risk is controlled within a tolerated level as an approach to meet reasonable performance targets. The Board retains the highest responsibility for the overall risk management of BTLI, where the risk management committee is responsible for implementing approved risk management decisions and the negotiation and collaboration of risk associated matters.

4) BTS

For the requirements of business, BTS has set up an overall risk management system to effectively control all kinds of risk. The system can assure the achievement of BTS's long term and steady management, profit growth, and strategy. At the same time, it formed a department with sole responsibility for risk control under the secretary unit of the risk management committee to handle these affairs and to exercise authority independently except over the operating unit and trade activities. The formation of the risk management organization by BTS includes the board of directors, the risk management committee, the administrative office, and all business units to execute the risk management decisions made by the board of directors and coordinate the related risk management matters across departments.

All risks of the business on or off the balance sheet should be subsumed under risk management, including market risk, credit risk, liquidity risk, operating risk, and other risk (for example legal risk, strategy risk, and reputation risk).

The related management systems of all kinds of risk are as follows:

1. BTS should effectively identify, measure, supervise, and control all risks when engaging in business. BTS should control the risk to a tolerable degree to reach the target of risk management and compensation rationalization.
2. Establish a risk indicator and warning system to implement the appropriate risk monitoring.
3. Establish a communication system. The complete risk information should be periodically given to senior management, conveyed to subordinates, and communicated across departments, and be available to the public according to the regulations.
4. Before developing new business or merchandise, changing the operating procedure, or developing the information system or operation, BTS should estimate the risk in advance and prepare the appropriate operating procedure and control method for the related risk.
5. Educate the professional risk management staff and provide education and training in risk management to the personnel of the operating unit to strengthen BTS's risk management culture.

(37) Disclosure on adopting IFRSs for the year ended 2011:

1. Under the order No. 10000073410 issued by the Financial Supervisory Commission Executive Yuan on April 7, 2011, starting 2013, financial holding company is required to disclose the financial report in conformity with the International Financial Reporting Standard (IFRSs), interpreted and issued by Accounting Research and Development Foundation. To assist the adjustment. The Company and its subsidiaries has formed a special task force and established an IFRS adoption plan. General Manager is responsible for the conversion plan. Significant plan contents, expected schedules and completion status are summarized as follows:

(a) The Company

Plan Content	Responsible Department (or Responsible Person)	Status
Phase 1 Evaluation: (2009.09.30 ~ 2010.06.30):		
◎Form a special task force for IFRS conversion	All operational units and accounting Department	Completed
◎Initial understanding towards IFRS	Accounting Department	Completed
◎Establish a conversion plan and timeline and report to the Board of Directors	Accounting Department	Completed
◎Evaluate the need for assistance from external expert	Accounting Department	Completed
◎Establish task team for IFRS conversion	All operational units and accounting Department	Completed
◎Establish IFRS site in the Bank's intranet	I.T, legal and accounting department	Completed
◎Establish IFRS studying group	All operational units, I.T and accounting Department	Completed
◎Compare and analyze the differences between the current Accounting Policies and IFRS	All operational units, I.T and accounting Department	Completed
◎Evaluate all unit's daily potential operational influence	All operational units, I.T and accounting Department	Completed
◎Evaluate the adoption of IFRS 1 "First time Adoption of IFRS"	All operational units, I.T and accounting Department	Completed
◎Perform internal training for employees	Human Resources (the support of all units)	Completed
Phase 2 Preparation: (2010.09.30 ~ 2011.12.31):		
◎Devise a complete conversion plan	All operational units and accounting Department	Completed
◎Complete the comparison and evaluation between the ROC GAAP and IFRS	All operational units and accounting Department	Completed
◎Determine relevant IFRS policies	All operational units and accounting Department	Completed
◎Determine how to revise the current Accounting Policies to comply with IFRS	All operational units and accounting Department	Completed
◎Adjust and review the standard operational procedure, information technology and financial reporting of all units	All operational units, IT and accounting Department	Completed
◎Continue internal training for employees	Human Resources (support from all units)	Completed

Plan Content	Responsible Department (or Responsible Person)	Status
Phase 3 Implementation: (2012.01.01 ~ 2012.12.31):		
◎Prepare balance sheet on IFRS conversion date in accordance with IFRS 1 in parallel with the ROC GAAP	All operational units, IT and accounting Department	In Progress
◎Prepare the first financial statements accordance in with IFRS	Accounting Department	In Progress
◎Internal controls adjustment	All operational units	In Progress
◎Identify and prepare process analysis for areas of improvement regarding the preparation of first IFRS financial report	All operational units, IT and accounting Department	In Progress
◎Establishment for performance evaluation standard	International, domestic operations and planning Department	In Progress
◎Adjust relative internal control system	All operational unit	In Progress
◎Awareness towards the continuous impact of IFRS on preparation of financial statements	All operational units and accounting Department	In Progress
◎Continue internal training for employees	Human Resources (support from all units)	In Progress
Phase 4 Implementation and adjustment: (2013.01.01 ~ 2013.12.31)		
◎Consolidate management information	All operational units, IT and accounting Department	
◎Process analysis and improvement procedures for IFRS conversion	All operational units, IT and accounting Department	
◎Assess relative impact for possible new transaction under IFRS	Accounting Department	
◎Ensure the disclosure and preparation of financial statements in compliance with the requirements of IFRS and formulate necessary response to changes	All operational units, IT and accounting Department	

(b) BOT

Plan Content	Responsible Department (or Responsible Person)	Status
Phase 1 Evaluation: (2009.09.30 ~ 2010.06.30):		
◎Form a special task force for IFRS conversion	All operational units and accounting Department	Completed
◎Initial understanding towards IFRS	Accounting Department	Completed
◎Establish a conversion plan and timeline and report to the Board of Directors	Accounting Department	Completed
◎Evaluate the need for assistance from external expert	Accounting Department	Completed
◎Establish task team for IFRS conversion	All operational units and accounting Department	Completed
◎Establish IFRS site in the Bank's intranet	I.T, legal and accounting department	Completed
◎Compare and analyze the differences between the current Accounting Policies and IFRS	All operational units, I.T and accounting Department	Completed
◎Evaluate all unit's daily potential operational influence	All operational units, I.T and accounting Department	Completed
◎Evaluate the adoption of IFRS 1 "First time Adoption of IFRS"	All operational units, I.T and accounting Department	Completed

◎Perform internal training for employees	Human Resources (the support of all units)	Completed
◎Establish IFRS studying group	All operational units, I.T and accounting Department	Completed
Phase 2 Preparation: (2010.09.30 ~ 2011.12.31):		
◎Devise a complete conversion plan	All operational units and accounting Department	Completed
◎Complete the comparison and evaluation between the ROC GAAP and IFRS	All operational units and accounting Department	Completed
◎Determine relevant IFRS policies	All operational units and accounting Department	Completed
◎Determine how to revise the current Accounting Policies to comply with IFRS	All operational units and accounting Department	Completed
◎IFRS studying group	All operational units, IT and accounting Department	In Progress
◎Adjust and review the standard operational procedure, information technology and financial reporting of all units	All operational units, IT and accounting Department	Completed
◎Perform simulated system test, identify the area requiring revised SOP and system	All operational units, IT and accounting Department	Completed
◎Complete paperwork and relevant controls for IFRS	All operational units, IT and accounting Department	Completed
◎Continue internal training for employees	Human Resources (support from all units)	Completed
◎Prepare balance sheet on IFRS conversion date (2012.01.01) in accordance with IFRS 1	All operational units, IT and accounting Department	Completed
Phase 3 Implementation: (2012.01.01 ~ 2012.12.31):		
◎Prepare balance sheet on IFRS conversion date in accordance with IFRS 1 in parallel with the ROC GAAP	All operational units, IT and accounting Department	In Progress
◎Internal controls adjustment	All operational units	In Progress
◎Prepare the first IFRS financial statement for the March 31, 2012 three month periods	All operational units, IT and accounting Department	In Progress
◎Identify and prepare process analysis for areas of improvement regarding the preparation of first IFRS financial report	All operational units, IT and accounting Department	In Progress
◎Establishment for performance evaluation standard	International, domestic operations and planning Department	In Progress
◎Awareness towards the continuous impact of IFRS on preparation of financial statements	All operational units and accounting Department	In Progress
◎Continue internal training for employees	Human Resources (support from all units)	In Progress
Phase 4 Implementation and adjustment: (2013.01.01 ~ 2013.12.31)		
◎Consolidate management information	All operational units, IT and accounting Department	In Progress
◎Process analysis and improvement procedures for IFRS conversion	All operational units, IT and accounting Department	In Progress
◎Ensure the disclosure and preparation of financial statements in compliance with the requirements of IFRS and formulate necessary response to changes	All operational units, IT and accounting Department	In Progress

(c) BTLI

Plan Content	Responsible Department (or Responsible Person)	Status
Phase 1 Evaluation: (2009.09.30 ~ 2010.06.30):		
◎Form a special task force for IFRS conversion	Accounting Department	Completed
◎Establish a conversion plan and timeline and report to the Board of Directors	Accounting Department	Completed
◎Perform internal training for employees	Management and relative Department	Completed
◎Establish task team for IFRS conversion	Accounting and relative Department	Completed
◎Access the needs of outside experts	Accounting Department	Completed
◎Establish IFRS site in the Company's intranet	Accounting and I.T. Department	Completed
◎Establish IFRS studying group	Accounting and relative Department	Completed
◎Compare and analyze the differences between the current Accounting Policies and IFRS	Accounting and relative Department	Completed
◎Evaluate all units' daily potential operational influence	Accounting and relative Department	Completed
◎Evaluate the adoption of IFRS 1 "First time Adoption of IFRS"	Accounting and relative Department	Completed
Phase 2 Preparation: (2010.09.30 ~ 2011.12.31):		
◎Devise a complete conversion plan	Accounting Department	Completed
◎Complete the comparison and evaluation between ROC GAAP and IFRS	Accounting and relative Department	Completed
◎Determine relevant IFRS policies	Accounting and relative Department	Completed
◎Complete solutions to operational impact due to IFRS conversion	Accounting and relative Department	Completed
◎Adjust and review the standard operational procedure, information technology and financial reporting of all units	IT and relative Department	Completed
◎Perform simulated system test, identify the area requiring revised SOP and system	IT and relative Department	Completed
◎Continue internal training for employees	Management and relative Department	
Phase 3 Implementation: (2012.01.01 ~ 2012.12.31):		
◎Prepare balance sheet on IFRS conversion date in accordance with IFRS 1 in parallel with ROC GAAP	Accounting and relative Department	In Progress
◎Complete Guidelines of accounting and other operations	Accounting and relative Department	In Progress
◎Prepare the first IFRS financial statement for the March 31, 2012 three month periods	Accounting and relative Department	In Progress
◎Identify and prepare process analysis for areas of improvement regarding the preparation of first IFRS financial report	Accounting and relative Department	In Progress
◎Establishment for performance evaluation standard	Planning Department	In Progress
◎Awareness towards the continuous impact of IFRS on preparation of financial statements	Accounting and relative Department	In Progress
◎Continue internal training for employees	Management and relative Department	In Progress

Plan Content	Responsible Department (or Responsible Person)	Status
Phase 4 Implementation and adjustment: (2013.01.01 ~ 2013.12.31)		
◎Consolidate management information	All operational units, IT and accounting Department	
◎Process analysis and improvement procedures for IFRS conversion	All operational units, IT and accounting Department	
◎Assess relative impact for possible new transaction under IFRS	Accounting Department	
◎Ensure the disclosure and preparation of financial statements in compliance with the requirements of IFRS and formulate necessary response to changes	All operational units, IT and accounting Department	

(d) BTS

Plan Content	Responsible Department (or Responsible Person)	Status
Phase 1 Evaluation: (2009.09.30 ~ 2010.06.30):		
◎Form a special task force for IFRS conversion	Accounting Department	Completed
◎Compare and analyze the differences between the current Accounting Policies and IFRS	Accounting and relative Department	Completed
◎Identify the consolidated entity of IFRS	Accounting Department	Completed
◎Access the adjustment of internal control	Accounting Department	Completed
◎Evaluate the adoption of IFRS 1 "First time Adoption of IFRS"	Accounting and relative Department	Completed
Phase 2 Preparation: (2010.06.30 ~ 2011.12.31):		
◎Adoption of IFRS 1 "First time Adoption of IFRS"	Accounting and relative Department	Completed
◎Identify the differences between	Accounting and relative Department	Completed
◎Adjust the access of relative system and internal control	I.T. and relative Department	Completed
◎Determine relevant IFRS policies	Accounting and relative Department	Completed
Phase 3 Implementation: (2012.01.01 ~ 2012.09.30):		
◎Prepare balance sheet in accordance with IFRS 1	Accounting Department	In Progress
◎Prepare the first IFRS financial statement	Accounting Department	In Progress
◎Adjust relative internal control system	All relative Department	In Progress

2. The significant differences of preparing financial statements which the Company evaluated between current GAAP and IFRSs are listed below:

Accounting issue	Difference explanation
Employee benefit	a) Minimum pension liability: The Company accrues the minimum pension liability in accordance with the actuarial report; under IFRS, there are no minimum standard. b) Gains/losses for pension: The Company amortizes the actuarial pension gains and losses; under IFRS, the amount is fully recognized under profit or loss as other comprehensive income. c) Employee benefit savings account: The Company recognizes employees benefit savings interests fee as current profit or loss; under IFRS, the interest fee for retired employee shall be fully recognized and estimated at the time of retirement.
Financial Products	a) Usual transaction: the Company's usual transaction is categorized by product as transaction date accounting or settlement date accounting; under IFRS, usual transactions are categorized by financial product account. b) Effective interest rate: the Company's financial cost after amortization uses the straight line method; under IFRS, the amortized costs shall be calculated using the effective interest rate method.
Non current assets and equipment	The change in current price or CPI may be adjusted under the shareholder's equity for the Bank's properties and equipment; under IFRS, except for the revaluation method that is adjusted through fair value, adjustment is not allowed using the cost method for the current and subsequent period stated in the policy for the preparation of financial statements.
Affiliated companies under equity method	a) Capital Reserve is adjusted as the ownership percentage changes when the Company's investee company increases its share capital; under IFRS, the Company recognizes any gains or losses derived from the decrease in percentage of shareholding from the investee company.

Accounting issue	Difference explanation
	b) For the long term equity investment under equity method, if the Company loses its influence over an investee company because of a decrease in ownership or other reasons, it shall cease using the equity method. The cost of investment will be the book value at the time of change. If there is a balance on the additional paid in capital or other equity adjustment items from the long term equity investment, then the Company shall calculate its share when the investment is sold so that the pro rata gain or losses from the disposal of the long term investment can be accounted for; Under IFRS, when losing influence and control over the investee company, the Company shall calculate the fair value of the remaining investment. For the comprehensive profit or loss recognized through affiliated companies, the accounting principle adopted shall be identical to those used for the disposal of assets and liabilities of the affiliated company. Therefore, when assets or liabilities are reclassified at the time the affiliate company recognizes other comprehensive profit or loss, the profit or loss recognized by the Company shall also be reclassified from equity when the Company loses influence and control over the investee company.

3. We conducted the evaluation above in accordance with the International Financial Reporting Standards and the International Financial Reporting Interpretations Committee accepted by Financial Supervisory Commission. There might be material differences in financial statements between current accounting policy and IFRS, and the explanations for the differences would vary because of the changes of regulations, accounting principles, and conditions.

(38) Notes to Disclosure Items

1) Information on significant transactions:

1. Information regarding long term equity investment for which the purchase or sale amount for the period exceeded $300 million or 10% of the Company and its subsidiaries' capital: none.
2. Information on the acquisition of real estate for which the purchase amount exceeded $300 million or 10% of the Company and its subsidiaries' capital: none.
3. Information on the disposal of real estate for which the sale amount exceeded $300 million or 10% of the Company and its subsidiaries' capital: none.
4. Information regarding discounted processing fees on transactions with related parties for which the amount exceeded $5 million: none.
5. Information regarding receivables from related parties for which the amount exceeded $300 million or 10% of the Company and its subsidiaries' capital: none.

6. Information regarding selling non performing loans: none.
7. Approved securitization instrument types and related information according to "asset backed securitization" or "mortgage backed securitization": none.
8. Other material transaction items which were significant to people who use the information in the financial statements: none.

2) Information on long term investments:

1. Information on investees' names, locations, etc.:

Name	Main operations	Percentage of shares	Invested amount	Gain (loss) on investment	Consolidated Information			
					Number of shares	Pro forma shares	Total	
							Number of shares	Percentage of shares
Bank of Taiwan Co., Ltd.	Operation of banks	100.00%	246,406,396	3,701,072	7,000,000,000	-	7,000,000,000	100.00%
BankTaiwan Life Insurance Co. Ltd.	Life insurance	100.00%	5,678,239	352,628	1,100,000,000	-	1,100,000,000	100.00%
BankTaiwan Securities Co. Ltd.	Securities	100.00%	3,289,307	73,432	300,000,000	-	300,000,000	100.00%
Hua Nan Financial Holding Co. Ltd.	Investment according to Financial Holding Company Act	25.07%	31,466,383	2,503,775	2,059,645,420	-	2,059,645,420	25.07%
Taiwan Life Insurance Co. Ltd.	Life insurance	21.60%	1,987,762	62,708	185,040,012	-	185,040,012	21.59%
Kaohsiung Ammonium Sulfate Co., Ltd.	Liquidating	91.86%	2,420,898	(28,212)	303,131,576	-	303,131,576	91.86%
Tang Eng Iron Works Co., Ltd.	Iron industry	21.37%	1,653,863	103,479	74,802,414	-	74,802,414	21.37%
Tai Yi Real Estate Management Co., Ltd.	Real estate appraisal	30.00%	15,223	4,974	1,500,000	-	1,500,000	30.00%

Note 1: The investees' shares or pro forma shares held by the Company's board of directors, supervisor, CEO, vice CEO and affiliates conforming to the Company Act should be included.

Note 2: (1) Pro forma shares are the "securities having equity property" or "derivative instrument contracts (have not been converted into stock)" that can be converted into shares of the investee company under Article 74 of the "Company Act" for investment purposes.
(2) The above "securities having equity property" means the securities that conform to the regulation in Article 11, Paragraph 1 of the Securities and Exchange Act Enforcement Rules, for example, convertible bonds and stock warrants.
(3) The abovementioned "derivative instrument contracts" conformed to the definition of derivative instrument in SFAS No. 34 "Financial Instruments: Recognition and Measurement", for example, stock options.

Note 3: The statement can be omitted in the 1st and 3rd quarters.

2. Lending to other parties: none.
3. Guarantees and endorsements for other parties: none.
4. Information regarding securities held as of December 31, 2011: none.
5. Information regarding securities for which the purchase or sale amount for the period exceeded $300 million or 10% of the Company and its subsidiaries' capital: none.
6. Information on the acquisition of real estate for which the purchase amount exceeded NT$300 million or 10% of the Company and its subsidiaries' capital:

Name of acquirer	Name of real estate	Trading date	Trading amount	Counter party	Acquiring purpose
BTLI	B1-2, B1-1, B1, FL.1, FL.2, No.57 Sec.1 Chongcing S.Rd. Taipei	June 21, 2011	740,125	Radium Techonlogy	Increase asset allocation

7. Information on the disposal of real estate for which the sale amount exceeded NT$300 million or 10% of the Company and its subsidiaries' capital: none.
8. Information regarding discounted processing fees on transactions with related parties for which the amount exceeded $5 million: none.
9. Information on regarding receivables from related parties for which the amount exceeded NT$300 million or 10% of the Company and its subsidiaries' capital: none.
10. Information regarding trading in derivative financial instruments: please see note 35.

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Showing Innovative Spirit

VII. Financial Status, Business Results and Risk Management

1. Financial Status

Unit: NT$1,000

Item \ Year	2011	2010	Difference	
			Amount	%
Cash and Cash Equivalents	171,358	37,114	134,244	361.71%
Receivables-Net	2,026,209	25,622	2,000,587	7,808.08%
Long-Term Investment at Equity-Net	255,373,942	265,595,960	-10,222,018	-3.85%
Fixed Assets-Net	7,644	7,854	-210	-2.67%
Intangible Assets-Net	31	45	-14	-31.11%
Other Assets-Net	4,305,803	5,793,134	-1,487,331	-25.67%
Total Assets	261,884,987	271,459,729	-9,574,742	-3.53%
Short-Term Borrowing	5,700,000	5,600,000	100,000	1.79%
Payables	1,988,369	15,873	1,972,496	12,426.74%
Accrued Pension Liabilities	56,288	45,206	11,082	24.51%
Other Debt	4,430,690	5,620,978	-1,190,288	-21.17%
Total Debt	12,175,347	11,282,057	893,290	7.92%
Capital	90,000,000	90,000,000	0.00	0.00
Additional Paid-In Capital	112,095,429	111,516,202	579,227	0.52%
Retained Earnings	14,261,163	15,993,501	-1,732,338	-10.83%
Other Items of Shareholders' Equity	33,353,048	42,667,969	-9,314,921	-21.83%
Total Shareholders' Equity	249,709,640	260,177,672	-10,468,032	-4.02%

2. Business Results

Unit: NT$1,000

Item \ Year	2011	2010	Difference	
			Amount	%
Investment Income Recognized Under Equity Method	4,127,132	7,532,044	-3,404,912	-45.21%
Other Income	2,821	3,083	-262	-8.50%
Operating Expenses	140,732	131,247	9,485	7.23%
Other Expenses & Losses	52,148	27,659	24,489	88.54%
Earnings Before Taxes	3,937,073	7,376,221	-3,439,148	-46.62%
Earnings After Taxes	4,080,591	7,424,101	-3,343,510	-45.04%

3. Cash Flows

(1) Analysis of Cash Flow Changes in 2011

Item \ Year	2011	2010	Change
Cash Flow Ratio	1813.73%	1716.00%	5.70%
Cash Flow Adequacy Ratio	102.69%	103.34%	-0.63%
Cash Flow Satisfied Ratio	228304.29%	141.58%	161154.62%

(2) Cash Liquidity in the Coming Year

Unit: NT$1,000

Beginning Cash Balance	Net cash flow from Operating Activities for Entire Year	Net Cash Outflows for Entire Year	Cash Surplus (or Deficit)	Measures to Make Up for Cash Deficit	
				Investment Plan	Financing Plan
171,358	4,233,060	-4,365,351	39,067	None	None

4. Impact of Material Capital Expenditures in 2011

(1) Material Capital Expenditures, and Source of Capital：None

(2) Expected Benefits：None

5. Risk Management

(1) Risk Management Structure and Policy

i. Risk Management Structure

TFH's risk management organizational structure includes the Board of Directors, the Risk Management Committee, the Risk Management Department, and the subsidiaries. The responsibilities of each are as follows:

(A) The Board of Directors is TFH's highest risk management unit, and bears ultimate responsibility for the overall level of risk.

(B) The Risk Management Committee reports to the Board of Directors, implements the risk management decisions adopted by the Board, and acts as a liaison between group members on risk management matters.

(C) The Risk Management Department is an independent risk management unit. It is charged of all risk management matters, monitors the implementation of risk management decisions and directives adopted by the Board of Directors and the Risk Management Committee, and reports to them on the findings of its monitoring operations.

(D) Each group subsidiary identifies, assesses, and controls the risks associated with its business operations and any new lines of business or new types of products, and adopts risk management bylaws, which it implements and reviews in order to meet the requirements of the Risk Management Department.

(E) The Risk Management Department at TFH and each of its subsidiaries reports regularly to the Board of Directors on the status of risk management in the areas it is responsible for, so that we can be aware of whether our risks are within acceptable bounds.

ii. Risk Management Policy

To strictly implement legal compliance and spur sound business practices throughout the group, TFH and its subsidiaries are paying close attention to the full range of risks, both on and off the balance sheet, including credit risk, market risk, operational risk, interest rate risk in the banking book, liquidity risk, country risk, legal risk, and so on. In addition to complying with the requirements of the competent authority, each company in the group has also adopted risk management bylaws and procedures appropriate for the nature and size of its business.

(2) Risk Exposure

i. BOT

(A) Credit Risk

a. Exposure and Accrued Capital Following Risk Mitigation Using the Standardized Credit Risk Approach

Unit：NT$ 1,000

Time / Risk Type	Exposure after Mitigation		Credit Risk-Based Assets		Accrued Capital	
	2011.12.31	2012.3.31	2011.12.31	2012.3.31	2011.12.31	2012.3.31
Sovereign Nations	1,410,061,446	1,404,177,371	626,080	698,634	50,086	55,891
Non-Central Government Public Sector	524,357,947	516,708,630	170,471,030	166,076,018	13,637,682	13,286,081
Banks	174,608,102	200,129,455	62,912,721	69,758,133	5,033,018	5,580,651
Enterprises	829,076,008	799,869,350	730,999,822	706,174,872	58,479,986	56,493,990
Retail	320,049,932	312,285,647	164,947,275	161,733,535	13,195,782	12,938,683
Residential Real Estate	465,481,494	467,485,274	233,793,872	240,535,102	18,703,510	19,242,808
Equity Investment	13,501,413	13,474,660	52,351,790	52,271,725	4,188,143	4,181,738
Other Assets	147,588,487	144,234,865	109,245,156	110,937,169	8,739,613	8,874,974
Total	3,884,724,829	3,858,365,252	1,525,347,746	1,508,185,188	122,027,820	120,654,816

b. Exposure on Asset-Securitization and Capital Accrued

Unit：NT$ 1,000

Risk Type \ Time	Non-Originating Bank			
	Exposure Amount		Accrued Capital	
	2011.12.31	2012.3.31	2011.12.31	2012.3.31
Equity-MBS	2,629,100	2,400,969	42,066	38,415
Equity-REAT	40,293	40,207	1,612	1,608
CDO	1,042,458	1,869,894	126,370	212,442
Total	3,711,851	4,311,070	170,048	252,465

(B) Liquidity Risk

a. NTD-Denominated Maturity Structure as of Dec 31, 2011

Unit：NT$ 1,000

	Total	Duration				
		0~30 days	31~90 days	91~180 days	181 days~1year	over 1 year
Major inflows of Matured Funds	3,759,621,399	889,994,289	578,316,017	348,684,135	231,059,106	1,711,567,852
Major Outflows of Matured Funds	4,290,523,630	544,127,505	495,347,238	543,412,244	1,019,809,738	1,687,826,905
Maturity gap	-530,902,231	345,866,784	82,968,779	-194,728,109	-788,750,632	23,740,947

b. USD-Denominated Maturity Structure as of Dec 31, 2011

Unit：NT$ 1,000

	Total	Duration				
		1~30days	31~90 days	91~180days	181days~1year	over 1 year
Assets	23,314,824	6,889,263	9,450,063	3,625,532	1,574,075	1,775,891
Liability	22,818,079	11,880,343	6,980,792	2,006,354	1,343,291	607,299
Gap	496,745	-4,991,080	2,469,271	1,619,178	230,784	1,168,592
Accumulated Gap	496,745	-4,991,080	-2,521,809	-902,631	-671,847	496,745

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

(C) Market Risk

Unit：NT$ 1,000

Risk Type	Accrued Capital	
	2011.12.31	2012.3.31
Interest Risk	2,104,918	1,861,982
Equity Risk	1,739,933	1,582,915
Foreign Exchange Risk	1,862,229	2,271,269
Commodity Risk	8,251	8,745
Total	5,715,331	5,724,911

(D) Operational Risk

Unit：NT$ 1,000

Year	Profit	Capital Requirement
2009	25,024,985	–
2010	23,959,996	
2011	26,509,906	
Total	75,494,887	3,769,995

ii. BTLI

Unit：NT$ 1,000

Risk Type	2012.3.31.	2011.12.31.	2012.3.31.	2011.12.31.
	Risk-Based Capital (Unit: NT$ 1,000)		Ratio to RBC Before Adjustment	
Asset Risk	6,125,972	5,343,391	46.60%	44.82%
Insurance Risk	1,158,857	1,688,476	8.81%	14.16%
Interest Risk	4,791,638	3,874,614	36.45%	32.50%
Other Risk	1,069,937	1,015,187	8.14%	8.52%
RBC Before Adjustment	13,146,404	11,921,669	100.00%	100.00%
RBC	4,474,919	3,925,098	–	–

iii. BTS

Unit: NT$ 1,000

	2011.12.31	2012.3.31
1. Capital Adequacy Ratio	421%	404%
2. Net Eligible Equity Capital	1,846,923	2,088,111
2.1 Tier I Capital	1,846,923	2,088,111
2.2 Tier II Capital	0	0
2.3 Eligible and Used Tier Ⅲ Capital	0	0
3.Operation Risk in Dollar Amount	438,852	516,910
3.1 Credit Risk Amount	243,271	279,873
3.2 Operational Risk Amount	81,276	91,653
3.3 Market Risk Amount	114,305	145,384

(3) Impact of important policy and legislative changes at home and abroad on the company's financial and operating status, and response measures

With the signing of the cross-strait financial supervisory MOUs and the Economic Cooperation Framework Agreement (ECFA), as well as implementation of the ECFA Early Harvest list, cross-strait financial dealings have become an on-the-ground reality. TFH, as Taiwan's state-run financial holding company, needs to serve as a rock of stability, and toward that end has set up a Taskforce for Development of the Greater China Market to formulate an overarching strategy for the group's efforts to enter the China market and develop its businesses there. By properly allocating group resources and replicating our success with cross-selling in Taiwan, we hope to expand our businesses to cover the entire Greater China market and lead the domestic financial services industry and other sectors of our economy forward.

To bring Taiwan's Statements of Financial Accounting Standards in line with international standards, TFH has set up an IFRS Taskforce that is now drafting an IFRS conversion plan to mesh with the IFRS conversion timeline being implemented by the Ministry of Finance and the Directorate General of Budget, Accounting and Statistics. In addition, our IFRS Taskforce is also carrying out a thorough analysis of the possible impact of IFRS conversion upon TFH operations, and formulating a number of concrete steps to be taken, together with risk management measures, to ensure stable business operations and sustainable development.

(4) Concentration Risks and Response Measures

To avoid allowing our business to become overly concentrated, TFH's banking subsidiary has set limits on the percentage of loans and investments that can go to any particular type of customer or economic sector, or to affiliated enterprises. TFH has a detailed and comprehensive integrated risk control system to exercise rigorous monitoring and control over the degree of concentration of large risk exposures to any single party, single group of related parties, or single group of related enterprises.

(5) Impact from Material Share Transferring of a Director, Supervisor, or Shareholder with more than 1 Percent Stake in TFH.

None (TFH is a state-run enterprise wholly owned by the government, with its shares owned by MOF. All our directors and supervisors are the Ministry's juristic-person representatives.)

(6) Impact from Change of Ownership

None (TFH is a state-run enterprise wholly owned by the government, with its shares owned by MOF. There has been no change in top management.)

(7) Litigious or Non-Litigious Matters

None

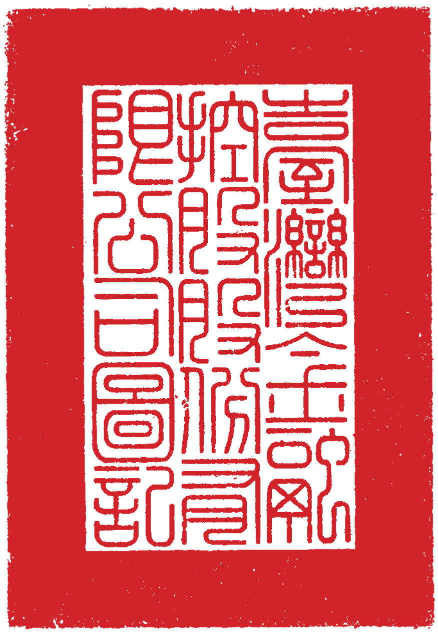
6. Crisis Management Mechanism

In order to establish a groupwide system for preventing the occurrence of emergency situations, to respond promptly and effectively once they do occur, and to follow up with remedial action to deal with the aftermath, TFH and its subsidiaries have adopted a number of emergency response measures and contingency plans. We have set up an Emergency Response Taskforce and Spokesperson system, and when an emergency occurs we will be prepared to activate our Groupwide Emergency Notification and Communications System. Specified emergency response units are now in place to take charge in case of emergency and handle events in accordance with established operating procedures.

Taiwan Financial Holdings

Susan Chang

Chairperson



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