

**TAIWAN FINANCIAL HOLDING CO., LTD.
AND ITS SUBSIDIARIES**

Consolidated Financial Statements

**December 31, 2011 and 2010
(With Independent Auditors' Report Thereon)**

Address: No. 120, Sec. 1, Chungching South Road, Taipei, Taiwan, R.O.C.

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 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.

April 19, 2012

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

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		December 31, 2011	December 31, 2010	Percentage change
Assets				Liabilities and Stockholders' Equity			
Cash and cash equivalents (notes 4 and 37)	\$ 97,988,304	60,552,750	62	Due to Central Bank and other banks (notes 18 and 37)	\$ 208,926,475	207,612,937	1
Due from Central Bank and call loans to banks (notes 5, 9, 37 and 38)	488,555,403	518,166,823	(6)	Commercial paper payable, net (note 19)	499,537	479,781	4
Financial assets measured at fair value through profit or loss, net (notes 6, 35 and 37)	111,746,984	102,094,813	9	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 purchased under resell agreements (note 7)	12,402,851	9,746,406	27	Bills and bonds sold under repurchase agreements (note 7)	15,638,050	9,801,211	60
Receivables, net (notes 8, 9 and 28)	91,051,049	90,593,836	1	Payables (note 21)	69,230,298	70,926,353	(2)
Discounts and loans, net (notes 9, 35 and 37)	2,158,381,911	2,083,747,129	4	Deposits and remittances (notes 22 and 37)	3,202,888,078	3,167,175,151	1
Available-for-sale financial assets, net (notes 10, 32, 35 and 38)	802,058,331	891,936,602	(10)	Other financial liabilities (notes 25 and 35)	11,246,261	7,187,799	56
Held-to-maturity financial assets, net (notes 11, 32, 35 and 38)	227,724,845	195,221,334	17	Reserves for operation and liabilities (note 24)	467,108,298	415,927,106	12
Investments under equity method, net (note 12)	37,544,129	36,181,254	4	Other liabilities (notes 15, 26 and 27)	<u>31,707,537</u>	<u>28,289,686</u>	12
Other financial assets, net (notes 8, 9, 13, 32 and 35)	110,755,243	91,129,833	22	Total liabilities	<u>4,011,519,408</u>	<u>3,923,797,087</u>	2
Real estate investments, net (notes 14 and 15)	4,057,036	3,351,986	21	Stockholders' equity (notes 15, 28 and 29):			
Fixed assets, net (notes 15, 26 and 32)	99,049,681	77,757,512	27	Common stock	<u>90,000,000</u>	<u>90,000,000</u>	-
Intangible assets (note 16)	830,361	982,123	(15)	Additional paid-in capital	<u>112,095,429</u>	<u>111,516,202</u>	1
Other assets (notes 17, 32 and 38)	19,082,920	22,512,358	(15)	Retained earnings:			
				Legal reserve	2,352,676	1,610,266	46
				Special reserve	5,227,896	4,653,557	12
				Unappropriated retained earnings	<u>6,680,591</u>	<u>9,729,678</u>	(31)
					<u>14,261,163</u>	<u>15,993,501</u>	(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	<u>(870,753)</u>	<u>(2,183)</u>	(39,788)
					<u>33,353,048</u>	<u>42,667,969</u>	(22)
				Total stockholders' equity	249,709,640	260,177,672	(4)
				Commitments and contingencies (note 39)			
Total Assets	<u>\$ 4,261,229,048</u>	<u>4,183,974,759</u>	2	Total Liabilities and Stockholders' Equity	<u>\$ 4,261,229,048</u>	<u>4,183,974,759</u>	2

See accompanying notes to consolidated financial statements.

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	<u>30,701,427</u>	<u>26,145,652</u>	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	<u>(873,897)</u>	<u>(750,000)</u>	(17)
Net revenue	<u>79,768,292</u>	<u>87,494,640</u>	(9)
Bad debt expenses (note 9)	<u>4,999,902</u>	<u>374,535</u>	1,235
Provisions for insurance policy reserves (note 33)	<u>50,751,321</u>	<u>60,749,024</u>	(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	<u>5,007,154</u>	<u>4,562,119</u>	10
Total operating expenses	<u>19,333,759</u>	<u>18,487,962</u>	5
Income before income taxes	4,683,310	7,883,119	(41)
Income tax expense (note 28)	<u>602,719</u>	<u>459,018</u>	31
Consolidated total income	<u>\$ 4,080,591</u>	<u>7,424,101</u>	(45)
Attributable to:			
Parent company shareholders	\$ 4,080,591	7,424,101	(45)
Minority interest	<u>-</u>	<u>-</u>	-
	<u>\$ 4,080,591</u>	<u>7,424,101</u>	(45)
	Before	After	Before
	income tax	income tax	income tax
Basic earnings per share (note 30)	<u>\$ 0.52</u>	<u>0.45</u>	<u>0.88</u>
	0.82		

See accompanying notes to consolidated financial statements.

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 retained 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

See accompanying notes to consolidated financial statements.

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	<u>34,694,636</u>	<u>58,853,163</u>

See accompanying notes to consolidated financial statements.

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows (continued)

For the years ended December 31, 2011 and 2010
(expressed in thousands of New Taiwan Dollars)

	2011	2010
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	<u>(104,029,340)</u>	<u>569,318,716</u>
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	<u>36,861,535</u>	<u>(3,839,916)</u>
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	<u>\$ 867,516,718</u>	<u>903,095,459</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 39,840,996</u>	<u>36,708,999</u>
Income tax paid	<u>\$ 556,079</u>	<u>1,105,618</u>
Financial and investing activities not affecting cash:		
Unrealized gains on financial instruments	<u>\$ (20,601,155)</u>	<u>8,893,063</u>
Unrealized increments on revaluation	<u>\$ 12,059,383</u>	<u>(1,523,803)</u>
Cumulative foreign currency translation adjustments	<u>\$ 95,421</u>	<u>(336,949)</u>
Special reserve	<u>\$ 204,699</u>	<u>-</u>
Change in additional paid-in capital	<u>\$ 579,227</u>	<u>21,463</u>
Net losses not recognized as pension costs	<u>\$ (868,570)</u>	<u>(2,183)</u>

See accompanying notes to consolidated financial statements.

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES**Notes to Consolidated Financial Statements****(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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The following entities have been included 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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES**Notes to Consolidated Financial Statements****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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES**Notes to Consolidated Financial Statements**

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-due 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-due loan falls below 1%. Adopting the aforementioned rules, loan loss provision shall be accounted for under "bad debt expense" and "provision for bad debt".

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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 its 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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES**Notes to Consolidated Financial Statements****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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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 reevaluate 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
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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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 in 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.

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES**Notes to Consolidated Financial Statements****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 is 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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES**Notes to Consolidated Financial Statements**

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 probable 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.

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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

(Continued)

Notes to Consolidated Financial Statements

- 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.

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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) Reasons for and 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
	<u>\$ 97,988,304</u>	<u>60,552,750</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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	<u>\$ 867,516,718</u>	<u>903,095,459</u>

(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
	<u>\$ 488,555,403</u>	<u>518,166,823</u>

- 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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(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
	<u>85,692,763</u>	<u>68,436,705</u>
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	<u>\$ 111,746,984</u>	<u>102,094,813</u>

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	<u>\$ (7,452,108)</u>	<u>9,835,901</u>

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(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
	<u>\$ 12,402,851</u>	<u>9,746,406</u>
Bills and bonds sold under repurchase agreements:		
Government bonds	\$ 12,931,846	8,973,240
Commercial paper	2,706,204	827,971
	<u>\$ 15,638,050</u>	<u>9,801,211</u>

(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	<u>2,188,065</u>	<u>2,798,128</u>
Subtotal	91,283,701	90,835,497
Less: allowance for doubtful accounts	<u>232,652</u>	<u>241,661</u>
Total	<u>\$ 91,051,049</u>	<u>90,593,836</u>

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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	<u>\$ 2,158,381,911</u>	<u>2,083,747,129</u>

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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	<u><u>\$ 18,032,926</u></u>
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	<u><u>\$ 275,576</u></u>

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	<u><u>\$ 18,308,502</u></u>	<u><u>11,959,108</u></u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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	<u>309,954</u>	<u>19,428</u>
Total	<u>\$ 4,999,902</u>	<u>374,535</u>

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(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
	<u>735,337,138</u>	<u>807,069,845</u>
Foreign:		
Foreign bonds	55,253,521	53,988,903
Beneficiary certificates	2,800,261	3,500,225
	<u>58,053,782</u>	<u>57,489,128</u>
Less: accumulated impairment	1,296,432	1,425,895
Add: valuation adjustment	9,963,843	28,803,524
Total	<u><u>\$ 802,058,331</u></u>	<u><u>891,936,602</u></u>

- 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)
	<u><u>\$ 2,651,465</u></u>	<u><u>5,074,481</u></u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(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
	<u>141,835,165</u>	<u>124,196,015</u>
Foreign:		
Foreign bonds	86,095,915	71,467,671
Less: accumulated impairment	<u>(206,235)</u>	<u>(442,352)</u>
	<u>85,889,680</u>	<u>71,025,319</u>
	<u>\$ 227,724,845</u>	<u>195,221,334</u>

- 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		<u>\$ 37,544,129</u>		<u>36,181,254</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- 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
	<u>\$ 11,750,343</u>	<u>11,750,343</u>

- 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
	<u>\$ 2,646,724</u>	<u>1,983,813</u>

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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

Name of investee	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	-	-
	<u>\$ 463,694</u>	<u>39,343</u>	<u>40,125</u>	<u>(31,674)</u>

- 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:

Name of investee	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
	<u>\$ 579,226</u>	<u>21,463</u>	<u>(1,674,458)</u>	<u>242,186</u>

- 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.	<u>\$ 74</u>	<u>(2,183)</u>

- 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.	<u>\$ 66,638</u>	<u>-</u>

- 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
	<u>\$ 759,148</u>	<u>444,298</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- 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	<u><u>\$ 110,755,243</u></u>	<u><u>91,129,833</u></u>

- 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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(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	<u>\$ 4,057,036</u>	<u>3,351,986</u>

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	<u>111,039,229</u>	<u>90,916,152</u>
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	<u>11,989,548</u>	<u>11,335,676</u>
Accumulated impairment	-	1,822,964
Net	<u>\$ 99,049,681</u>	<u>77,757,512</u>

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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
	<u>\$ 533,104</u>

(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	<u>\$ 830,361</u>	<u>982,123</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(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	<u>\$ 19,082,920</u>	<u>22,512,358</u>

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
	<u>\$ 6,074,572</u>	<u>7,462,261</u>

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
	<u>\$ 1,044,568</u>	<u>8,138,402</u>

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 March 11, 2011 and March 8, 2010, respectively.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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
	<u>\$ 1,076,959</u>	<u>1,076,959</u>

4) Inventory

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

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	<u>\$ 249,925</u>	<u>3,575</u>

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
	<u>\$ 208,926,475</u>	<u>207,612,937</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(19) Commercial Paper Payable—Net

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

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
	<u>\$ 4,274,874</u>	<u>16,397,063</u>

For valuation of financial liabilities at fair value through profit or loss, please refer to note 35.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(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	<u>\$ 467,108,298</u>	<u>415,927,106</u>

(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	-
	<u>\$ 11,246,261</u>	<u>7,187,799</u>

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(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
	<u>\$ 31,707,537</u>	<u>28,289,686</u>

(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	<u>\$ (4,751,636)</u>	<u>(292,812)</u>	<u>(3,506,122)</u>	<u>(237,046)</u>
Vested benefit	<u>\$ (6,476,656)</u>	<u>(511,530)</u>	<u>(6,170,478)</u>	<u>(468,994)</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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	<u>\$ 1,172,026</u>	<u>81,725</u>	<u>1,069,321</u>	<u>81,233</u>

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% and 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% and 2.25%	1.50%~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	<u>\$ 602,719</u>	<u>459,018</u>

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".

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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	-	235,715
Adjustment of income taxes estimated in prior years	118	101,165
Others	27,336	23,329
Income tax expenses	<u>\$ 602,719</u>	<u>459,018</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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)	<u>\$ 129,767</u>	<u>(96,447)</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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	6,836,958	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)
		<u>\$ 2,052,632</u>		<u>3,047,782</u>
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
		<u>\$ 33,672</u>		<u>833,919</u>
Deferred income tax assets — net		<u>\$ 2,018,960</u>		<u>2,213,863</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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	<u>249,010</u>	2021
	<u>\$ 5,153,400</u>	

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)
2008	\$ -	740,542	740,551	-
2010	28,140	430,221	430,272	-
2011	20,841	797,990	806,181	-
	<u>\$ 48,981</u>	<u>1,968,753</u>	<u>1,977,004</u>	<u>-</u>

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	<u>\$ -</u>	<u>-</u>	<u>25,620</u>	<u>-</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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	<u>\$ 472,952</u>	<u>129,767</u>	<u>2,018,960</u>	<u>1,977,004</u>

	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	<u>\$ 555,465</u>	<u>(96,447)</u>	<u>2,213,863</u>	<u>25,620</u>

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

	December 31, 2011	December 31, 2010
1998 and after	<u>\$ 6,680,591</u>	<u>9,729,678</u>

(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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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	<u><u>\$ 112,095,429</u></u>	<u><u>111,516,202</u></u>

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)	<u>\$ 4,683,310</u>	<u>4,080,591</u>	<u>7,883,119</u>	<u>7,424,101</u>
Weighted average outstanding shares (shares in thousands)	<u>9,000,000</u>	<u>9,000,000</u>	<u>9,000,000</u>	<u>9,000,000</u>
Primary earnings per share (in Dollars)	<u>\$ 0.52</u>	<u>0.45</u>	<u>0.88</u>	<u>0.82</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(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
	<u>17,695,580</u>	<u>53,218,267</u>	<u>70,913,847</u>
Re-insurance expense	-	81,882	81,882
Direct 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	<u>26,971,342</u>	<u>12,617,432</u>	<u>39,588,774</u>
Net insurance income	<u>\$ (9,275,762)</u>	<u>40,600,835</u>	<u>31,325,073</u>

	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
	<u>17,418,404</u>	<u>57,340,994</u>	<u>74,759,398</u>
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	<u>24,991,430</u>	<u>15,893,273</u>	<u>40,884,703</u>
Net insurance income	<u>\$ (7,573,026)</u>	<u>41,447,721</u>	<u>33,874,695</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(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	<u>\$ 1,837,671</u>	<u>4,445,866</u>

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
	<u>\$ 1,837,671</u>	<u>4,445,866</u>

(Loss) gain 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)
	<u>\$ 37,027</u>	<u>(415,133)</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(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)
	<u>\$ 50,751,321</u>	<u>60,749,024</u>

(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	<u>\$ 180,900,778</u>	<u>105,135,563</u>	<u>286,036,341</u>

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	<u>\$ 153,492,502</u>	<u>84,636,298</u>	<u>238,128,800</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	December 31, 2011		
	Financial products with discretionary participation feature		
	Insurance Contract		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		
	Financial products with discretionary participation feature		
	Insurance Contract		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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2010		
	Financial products with discretionary participation feature		
	Insurance Contract		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 abovementioned changes in unearned premium is listed below:

	December 31, 2011		
	Financial products with discretionary participation feature		
	Insurance Contract		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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Details of provision for claims

	December 31, 2011		
	Financial products with discretionary participation feature		
	Insurance Contract		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
Unitlinked 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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2010		
	Insurance Contract	Financial products with discretionary participation feature	Total
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 abovementioned 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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(d) Details of special reserve for life insurance

December 31, 2011			
Financial products with discretionary participation feature			
	Insurance Contract		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			
Financial products with discretionary participation feature			
	Insurance Contract		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
Tota	\$ 534,031	8,070	542,101

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The reconciliation of the abovementioned 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	\$	<u>585,362</u>	<u>3,709</u>	<u>-</u>	<u>589,071</u>

(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	\$	<u>1,405,222</u>	<u>-</u>		<u>1,405,222</u>

		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	\$	<u>1,873,638</u>	<u>-</u>		<u>1,873,638</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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	<u>\$ 1,405,222</u>	<u>-</u>	<u>1,405,222</u>

(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	<u>\$ 53,437</u>	<u>1,925</u>	<u>55,362</u>

(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	<u>\$ 287,294,918</u>
Estimate of present cash flow	<u>\$ 247,430,606</u>
Provision for liability adequacy balace	<u>\$ -</u>

Short term insurance: All short term insurance are tested.

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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 the Company 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 the company 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	<u>\$ 29,442,479</u>	<u>21,366,315</u>	<u>50,808,794</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2010		
	Financial products with discretionary participation feature		
	Insurance Contract		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	<u>\$ 38,313,017</u>	<u>17,712,061</u>	<u>56,025,078</u>

3. Retained insurance claims and benefits

	December 31, 2011		
	Financial products with discretionary participation feature		
	Insurance Contract		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	<u>\$ 7,915,647</u>	<u>2,205,608</u>	<u>10,121,255</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2010		
	Financial products with discretionary participation feature		
	Insurance Contract		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	<u>\$ 13,521,167</u>	<u>965,156</u>	<u>14,486,323</u>

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- 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 year	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								<u>9,345</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Injury insurance

Occurrence year	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								<u>26,687</u>

Health insurance

Occurrence year	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								<u>17,021</u>

b) Development trend of retained business loss

Life insurance

Occurrence year	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								<u>8,723</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Injury insurance

Occurrence year	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								<u>24,572</u>

Health insurance

Occurrence year	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								<u>17,021</u>

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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	Credit rating agent	December 31, 2011	Date of rating
		Credit 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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(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 hold 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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2011		December 31, 2010	
	Book value	Notional amount	Book value	Notional amount
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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- 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)
(Losses) gains on impairment for available-for-sale financial assets	129,463	(49,406)
Valuation (losses) gains for hedging derivatives	(3,139,414)	2,768,839
(Losses) gains on impairment for bond investment in non-active	(8,138)	28,098
(Losses) gains on impairment for assets are carried at cost market	(137)	-
	<u>(2,592,017)</u>	<u>9,421,909</u>
Financial liabilities:		
Valuation (losses) gains for liabilities held for trading	14,198,760	(14,413,026)
Valuation (losses) gains for derivatives	(154,558)	(33,577)
	<u>14,044,202</u>	<u>(14,446,603)</u>
Total	<u>\$ 11,452,185</u>	<u>(5,024,694)</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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 (IMA) for calculating market risk capital to meet the requirement of the competent authority. In the future, the Bank will adopt a market risk management system 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 request of regulators.

(b) BTI

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 BTI 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, BTI 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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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 and in balance.
- 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)
December 31, 2011				
Item	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	

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Item	December 31, 2010		Percentage of total amount
	Secured amount	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.

Collateral which the Company and its subsidiaries requires may include a deposit receipt, 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 are disclosed below:

Items	(In millions of NTD)	
	December 31, 2011	Maximum credit exposure (notes 2 and 3)
	Book value	
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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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	157,232
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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(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:

Industry type	(In millions of NTD)		
	December 31, 2011		Greatest credit exposure
	Book value (note 1)	Percentage of total loans (%)	(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	<u>\$ 2,176,415</u>	<u>100.00</u>	<u>1,889,673</u>

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Industry 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	<u>\$ 2,095,417</u>	<u>100.00</u>	<u>1,830,730</u>

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:

Areas type	(In millions of NTD) 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	<u>\$ 2,176,415</u>	<u>100.00</u>	<u>1,889,673</u>

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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	<u>\$ 2,095,417</u>	<u>100.00</u>	<u>1,830,730</u>

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.

Item	Unit: million dollars	
	Amount of disclosure of the greatest credit exposure	
	December 31, 2011	December 31, 2010
Irrevocable loan commitments (loan commitments)	<u>\$ 390,357</u>	<u>545,305</u>
Amounts due from credit	<u>\$ 43,112</u>	<u>35,706</u>
Guarantees receivable	<u>\$ 71,390</u>	<u>43,952</u>

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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				Total
		1~30 days	31~90 days	91 days~ one year	Over one year	
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	\$	<u>601,456,662</u>	<u>671,894,681</u>	<u>620,996,761</u>	<u>1,694,059,650</u>	<u>3,588,407,754</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2011				
	1~30 days	31~90 days	91 days~ one year	Over one year	Total
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	<u>\$ 430,855,599</u>	<u>406,362,691</u>	<u>1,110,361,224</u>	<u>1,536,554,738</u>	<u>3,484,134,252</u>
Gaps	<u>\$ 170,601,063</u>	<u>265,531,990</u>	<u>(489,364,463)</u>	<u>157,504,912</u>	<u>104,273,502</u>

Note: The table contains the amounts for the bank departments of BOT only.

		December 31, 2010				
		1~30 days	31~91 days	91 days~ one year	Over one 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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Note: The table contains the amounts for the bank departments of 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 repricing 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 repricing 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~ one year	Over one 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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Note: The table contains the amounts for the bank departments of BOT only.

	December 31, 2010				
	1~30 days	31~90 days	91 days~ one year	Over one 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 the bank departments of BOT only.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(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:

Item	December 31, 2011	
	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%

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Item	December 31, 2010 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%

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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:

		December 31, 2011	
Hedged item	Designated hedging instruments	Original amount	Fair value
Foreign bonds	Swap	\$ 9,031,487	3,074
Foreign bonds	Swap	15,668,237	(409,907)
		December 31, 2010	
Hedged item	Designated hedging instruments	Original amount	Fair value
Foreign bonds	Swap	\$ 590,241	5,051
Foreign bonds	Swap	4,639,975	(255,349)

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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, IRSs 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	Total	December 31, 2011		
		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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Price information is publicly available.

Note 2: 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 set 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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

3. The risk administrative office is the 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 administrative office 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 protocols

(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 in 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 protocols

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- b) Establish a 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 safety system 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 excessive 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 Finance Department, OBU, and foreign branches. The business recorded by BOT includes loan assets, transaction assets, and off-balance-sheet positions.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- c) Re-assessment 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 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%.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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 comply 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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(37) Related-Party Transactions

1) Name of related party and relationship

Name of related-party	Relationship with the Company
Hua Nan Financial Holdings Co., Ltd.	Investee company of BOT and BTLI under the equity method
Taiwan Life Insurance Co., Ltd.	Investee company of BOT and BTLI under the equity method
Tang-Eng Iron Works Co., Ltd.	Investee company of BOT under the equity method
Kaohsiung Ammonium Sulfate Co., Ltd.	Investee company of BOT under the equity method
Tai Yi Real-Estate Management Co., Ltd.	Investee company of BOT under the equity method
Other related parties	Directors, supervisors, managers, their spouses and relatives

2) Significant related-party transactions

1. Placement with banks

	December 31, 2011		December 31, 2010	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	<u>\$ 127,729</u>	<u>0.03</u>	<u>3,047,218</u>	<u>0.59</u>

2. Deposits of banks

	December 31, 2011		December 31, 2010	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	<u>\$ 728,860</u>	<u>2.88</u>	<u>168,398</u>	<u>0.67</u>

Interest rates of related-party transactions are the same as those with non-related parties.

3. Call loans to banks (included in due from banks)

	Highest balance	Ending balance	2011	Interest expense
			Annual interest rate (%)	
Hua Nan Financial Holdings Co., Ltd.	\$ 8,572,450	<u>-</u>	0.200~0.800	<u>2,035</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

		2010		
	Highest balance	Ending balance	Annual interest rate (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$ 11,056,085	<u>447,500</u>	0.104~1.35	<u>14,758</u>

Interest rates of related-party transactions are the same as those with non-related parties.

4. Deposits

	December 31, 2011		December 31, 2010	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	\$ 47,659	-	42,391	-
Taiwan Life Insurance Co., Ltd.	11,168	-	505,498	0.02
Kaohsiung Ammonium Tang-Eng Iron Works Co., Sulfate Co., Ltd.	101,734 357	0.01 -	120,766 165	- -
Total	<u>\$ 160,918</u>	<u>0.01</u>	<u>668,820</u>	<u>0.02</u>

The interest rates applied are computed by the basic rates displayed, thus, the interest rate for deposits is similar as those between the related parties and other general non-related parties.

5. Receivable

	December 31, 2011		December 31, 2010	
	Amount	Percentage of deposits of banks	Amount	Percentage of deposits of banks
Hua Nan Financial Holding Co., Ltd.	<u>\$ 1,589</u>	<u>-</u>	<u>1,931</u>	<u>-</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

6. Mortgage loans for real estate (in discounts and loans)

Mortgage loans for real estate for the Company and its subsidiaries' directors, supervisors, and staff and their spouses and close relatives for the year's periods ended December 31, 2011 and 2010:

	December 31, 2011	December 31, 2010
Mortgage loans for real estate	\$ <u>312,807</u>	<u>231,827</u>
Interest receivable	\$ <u>213</u>	<u>125</u>

The interest range was 0.95% to 1.76% and 0.79% to 1.70% for the years periods ended December 31, 2011 and 2010, respectively.

7. Loans

December 31, 2011							
Category	Amount or name of related party	Highest balance in current period	Ending balance	Status of performance		Type of collateral	Differences in transaction terms between related and non-related parties
				Performing loans	Non-performing loans		
Consumer loans	36	19,559	12,857	12,857	-	None	None
House mortgages	99	545,136	442,658	442,658	-	Land and building	None
Other loans	Tang-Eng Iron Works Co., Ltd.	104,566	-	-	-	Land and building	None
"	Tang-Eng Iron Works Co., Ltd.	266,141	266,141	266,141	-	Land and building	None
"	Tang-Eng Iron Works Co., Ltd.	1,500,000	900,000	900,000	-	Land and building	None
Call loans to banks	Hua Nan Financial Holdings Co., Ltd.	23,711,368	1,060	1,060	-	None	None

December 31, 2010							
Category	Amount or name of related party	Highest balance in current period	Ending balance	Status of performance		Type of collateral	Differences in transaction terms between related and non-related parties
				Performing loans	Non-performing loans		
Consumer loans	31	19,553	15,600	15,600	-	None	None
House mortgages	130	444,831	408,070	408,070	-	Land and building	None
Other loans	Tang-Eng Iron Works Co., Ltd.	357,536	250,000	250,000	-	Land and building and securities	None
"	Tang-Eng Iron Works Co., Ltd.	830,000	-	-	-	"	None
"	Tang-Eng Iron Works Co., Ltd.	600,000	-	-	-	"	None
"	Tang-Eng Iron Works Co., Ltd.	170,500	33,638	33,638	-	"	None
"	Tang-Eng Iron Works Co., Ltd.	1,500,000	1,500,000	1,500,000	-	"	None
Call loans to banks	Hua Nan Financial Holding Co., Ltd.	8,303,775	5,000	5,000	-	None	None

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1: The consumer loans to staff and mortgage loans to staff can be lumped together for disclosure of other loans is sorted by interested parties.

Note 2: Collateral is classified by real estate, short-term notes, government bonds, secured or non-secured bonds, TSEC and OTC stocks, non-TSEC and non-OTC stocks, and others.

8. Derivative instruments:

December 31, 2011						
Name of related party	Title of derivative instruments	Contract period	Nominal amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	AEBH410927 forward	2004.11.30~2012.01.12	141,326	237	Valuation adjustment of financial assets at fair value through profit or loss — current — held-for-trading — forward	237
Taiwan Life Insurance Co., Ltd.	AEBH411027 forward	2004.12.31~2012.01.12	139,814	234	„	234
Taiwan Life Insurance Co., Ltd.	AEBH510877 forward	2005.11.25~2012.01.12	144,842	243	„	243
Taiwan Life Insurance Co., Ltd.	BHSW010121 swap	2010.05.07~2012.02.16	150,148	1,085	Valuation adjustment of financial assets at fair value through profit or loss — current — held for trading — swap	1,085
Taiwan Life Insurance Co., Ltd.	BHSW010122 swap	2010.05.07~2012.02.16	450,443	3,256	„	3,256
Taiwan Life Insurance Co., Ltd.	BHSW010141 swap	2010.06.25~2011.02.14	2,714,535	7,733	„	7,733
Taiwan Life Insurance Co., Ltd.	BHSW010205 swap	2010.10.15~2012.02.07	603,310	1,691	„	1,691
Taiwan Life Insurance Co., Ltd.	BHSW110252 swap	2011.09.22~2012.01.13	453,447	601	„	601
Taiwan Life Insurance Co., Ltd.	BHSW810239 swap	2008.11.06~2012.01.13	151,149	200	„	200

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011						
Name of related party	Title of derivative instruments	Contract period	Nominal amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	BHSW910020 swap	2009.02.09~2012.01.13	141,732	188	Valuation adjustment of financial assets at fair value through profit or loss — current — held for trading — swap	188
Taiwan Life Insurance Co., Ltd.	BHSW910022 swap	2009.02.18~2012.01.13	241,838	321	"	321
Taiwan Life Insurance Co., Ltd.	BHSW910064 swap	2009.04.09~2012.01.13	302,298	401	"	401
Taiwan Life Insurance Co., Ltd.	BHSW910339 swap	2009.12.17~2012.02.16	110,080	8,682	"	8,682

December 31, 2010						
Name of related party	Title of derivative instruments	Contract period	Nominal amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	AEBH410927 forward	2004.11.30~2011.01.10	141,536	(3,594)	Valuation adjustment of financial liabilities at fair value through profit or loss — current — held for trading — forward	(3,594)
Taiwan Life Insurance Co., Ltd.	AEBH411027 forward	2004.12.31~2011.01.10	140,022	(3,556)	"	(3,556)
Taiwan Life Insurance Co., Ltd.	AEBH510877 forward	2005.11.25~2011.01.10	145,058	(3,684)	"	(3,684)

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010						
Name of related party	Title of derivative instruments	Contract period	Nominal amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	BHSW610021 swap	2010.05.07~2011.03.14	150,160	(2,900)	Valuation adjustment of financial liabilities at fair value through profit or loss — current — held for trading — swap	(2,900)
Taiwan Life Insurance Co., Ltd.	BHSW010122 swap	2010.05.07~2011.03.14	450,480	(8,701)	"	(8,701)
Taiwan Life Insurance Co., Ltd.	BHSW010141 swap	2010.06.25~2011.01.07	2,688,930	(34,092)	"	(34,092)
Taiwan Life Insurance Co., Ltd.	BHSW010179 swap	2010.09.08~2011.02.14	300,560	(5,861)	"	(5,861)
Taiwan Life Insurance Co., Ltd.	BHSW010205 swap	2010.10.15~2011.03.22	594,364	(5,479)	"	(5,479)
Taiwan Life Insurance Co., Ltd.	BHSW810239 swap	2008.11.06~2011.01.31	159,345	(11,944)	"	(11,944)
Taiwan Life Insurance Co., Ltd.	BHSW910020 swap	2009.02.09~2011.01.31	149,417	(11,200)	"	(11,200)
Taiwan Life Insurance Co., Ltd.	BHSW910022 swap	2009.02.18~2010.01.31	254,952	(19,111)	"	(19,111)
Taiwan Life Insurance Co., Ltd.	BHSW910064 swap	2009.04.09~2011.01.31	318,690	(23,888)	"	(23,888)
Taiwan Life Insurance Co., Ltd.	BHSW910339 swap	2009.12.17~2011.02.10	1,203,380	(24,505)	"	(24,505)

Note 1: The disclosure of the derivative instruments is by related party.

Note 2: Derivative financial instruments are assessed by the fair value method. Any relevant net present value created shall be recognized as current valuation adjustment.

Note 3: The ending balances of financial assets / liabilities at fair value through profit or loss and hedging derivative assets / liabilities are shown in the balance sheet item amount column.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

3) Information on related party transactions amounting to more than \$100,000 thousand

1. BOT

Since the related-party transactions had been offset when the Company prepared the consolidated financial statements, only one of the consolidated parties needs to disclose its related-party information.

(a) Name of related-party and relationship

Name of related party	Relationship with Bank of Taiwan
Taiwan Financial Holding Co., Ltd.(the Company)	Parent Company
BankTaiwan Life Insurance Co., Ltd. (BTLI)	Subsidiary held completely by the Company
BankTaiwan Securities Co., Ltd. (BTS)	Subsidiary held completely by the Company
Hua Nan Financial Holdings Co., Ltd	Investee company of BOT under the equity method
Taiwan Life Insurance Co., Ltd.	Investee company of BOT under the equity method
Tang-Eng Iron Works Co., Ltd.	Investee company of BOT under the equity method
Kaohsiung Ammonium Sulfate Co., Ltd.	Investee company of BOT under the equity method
Others	Directors, supervisors, managers, their spouses and relatives

(b) Significant related-party transactions

a) Deposits of banks

	December 31, 2011	December 31, 2010
Hua Nan Financial Holdings Co., Ltd.	<u><u>\$ 726,860</u></u>	<u><u>168,398</u></u>

Interest rates of related-party transactions are the same as those with non-related parties.

b) Call loans from banks (included in due to banks)

		2011		
	Highest balance	Ending balance	Interest rate (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$ 8,572,450	<u><u>-</u></u>	0.2~0.8	<u><u>2,035</u></u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

			2010		
	Highest balance	Ending balance	Interest rate (%)	Interest expense	
Hua Nan Financial Holding Co., Ltd.	\$ 11,056,085	<u>447,500</u>	0.104~1.35	<u>14,758</u>	

Interest rates of related-party transactions are the same as those with non-related parties.

Other assets

	December 31, 2011	December 31, 2010
The Company	<u>\$ 4,371,752</u>	<u>5,620,865</u>

c) Deposits

	December 31, 2011	December 31, 2010
The Company	\$ 171,328	37,084
BTLI	14,707,240	18,211,604
BTS	300,697	553,290
Taiwan Life Insurance Co., Ltd.	11,168	505,498
Kaohsiung Ammonium Sulfate Co., Ltd.	101,734	120,766
Total	<u>\$ 15,292,167</u>	<u>19,428,242</u>

Except for a favorable interest rate for the limited amounts of staff savings deposits, interest rates of related-party transactions are the same as general accounts.

Interest expense

	December 31, 2011	December 31, 2010
BTLI	<u>\$ 88,454</u>	<u>111,263</u>

d) Fee revenue

	December 31, 2011	December 31, 2010
BTLI	<u>\$ 842,883</u>	<u>789,956</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

e) Loans

December 31, 2011							
Category	Amount or name of related party	Highest balance in current period	Ending balance	Status of performance		Type of collateral	Differences in transaction terms between related and nonrelated parties
				Performing loans	Non-performing loans		
Consumer loans	36	19,559	12,857	12,857	-	None	None
House mortgages	99	545,136	442,658	442,658	-	Land and building	None
Other loans	Tang-Eng Iron Works Co., Ltd.	104,566	-	-	-	Land and building	None
"	Tang-Eng Iron Works Co., Ltd.	266,141	266,141	266,141	-	Land and building	None
"	Tang-Eng Iron Works Co., Ltd.	1,500,000	900,000	900,000	-	Land and building	None
"	BankTaiwan Securities Co., Ltd.	83,899	-	-	-	Letter of guarantee	None
"	BankTaiwan Securities Co., Ltd.	521,000	-	-	-	Letter of guarantee	None
"	BankTaiwan Securities Co., Ltd.	3,869,756	-	-	-	Letter of guarantee	None
"	Taiwan Financial Holding Co., Ltd.	5,700,000	5,700,000	5,700,000	-	Letter of guarantee	None
Call loans to banks	Hua Nan Financial Holdings Co., Ltd.	23,711,368	1,060	1,060	-	None	None

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010							
Category	Amount or name of related party	Highest balance in current period	Ending balance	Status of performance		Type of collateral	Differences in transaction terms between related and nonrelated parties
				Performing loans	Non-performing loans		
Consumer loans	31	19,553	15,600	15,600	-	None	None
House mortgages	130	444,831	408,070	408,070	-	Lands and buildings	None
Other loans	Tang-Eng Iron Works Co., Ltd.	357,536	250,000	250,000	-	Lands, buildings and securities	None
"	Tang-Eng Iron Works Co., Ltd.	830,000	-	-	-	Lands, buildings and securities	None
"	Tang-Eng Iron Works Co., Ltd.	600,000	-	-	-	Lands, buildings and securities	None
"	Tang-Eng Iron Works Co., Ltd.	170,500	33,638	33,638	-	Lands, buildings and securities	None
"	Tang-Eng Iron Works Co., Ltd.	1,500,000	1,500,000	1,500,000	-	Lands, buildings and securities	None
"	BankTaiwan Securities Co., Ltd.	603,017	82,017	82,017	-	Lands, buildings, certificates of deposit and letter of guarantee	None
"	Taiwan Financial Holding Co., Ltd.	5,600,000	5,600,000	5,600,000	-	Letter of guarantee	None
Call loans to banks	Hua Nan Financial Holdings Co., Ltd.	8,303,775	5,000	5,000	-	None	None

Note 1: The consumer loans to staff and mortgage loans to staff can be lumped together for disclosure. The disclosure of other loan is sorted by interested parties.

Note 2: Collateral is classified by real estate, short-term notes, government bonds, secured or non-secured bonds, TSEC and OTC stocks, and others.

f) Derivative instruments

December 31, 2011						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	AEBH410927 forward	2004.11.30~2012.01.12	141,326	237	Valuation adjustment of financial assets at fair value through profit or loss — current — held-for-trading — forward	237
Taiwan Life Insurance Co., Ltd.	AEBH411027 forward	2004.12.31~2012.01.12	139,814	234	Valuation adjustment of financial assets at fair value through profit or loss — current — held for trading —forward	234

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	AEBH510877 forward	2005.11.25~2012.01.12	144,842	243	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – forward	243
Taiwan Life Insurance Co., Ltd.	BHSW010121 swap	2010.05.07~2012.02.16	150,148	1,085	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	1,085
Taiwan Life Insurance Co., Ltd.	BHSW010122 swap	2010.05.07~2012.02.16	450,443	3,256	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	3,256
Taiwan Life Insurance Co., Ltd.	BHSW010141 swap	2010.06.25~2011.02.14	2,714,535	7,733	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	7,733
Taiwan Life Insurance Co., Ltd.	BHSW010205 swap	2010.10.15~2012.02.07	603,310	1,691	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	1,691
Taiwan Life Insurance Co., Ltd.	BHSW110252 swap	2011.09.22~2012.01.13	453,447	601	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	601
Taiwan Life Insurance Co., Ltd.	BHSW810239 swap	2008.11.06~2012.01.13	151,149	200	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	200
Taiwan Life Insurance Co., Ltd.	BHSW910020 swap	2009.02.09~2012.01.13	141,732	188	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	188

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	BHSW910022 swap	2009.02.18~2012.01.13	241,838	321	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	321
Taiwan Life Insurance Co., Ltd.	BHSW910064 swap	2009.04.09~2012.01.13	302,298	401	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	401
Taiwan Life Insurance Co., Ltd.	BHSW910339 swap	2009.12.17~2012.02.16	110,080	8,682	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	8,682
Bank Taiwan Life Insurance Co., Ltd.	CLSW010067 swap	2010.03.04~2012.03.08	603,060	1,668	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	1,668
Bank Taiwan Life Insurance Co., Ltd.	CLSW010081 swap	2010.03.11~2012.02.17	1,207,040	2,812	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	2,812
Bank Taiwan Life Insurance Co., Ltd.	CLSW010111 swap	2010.04.19~2012.03.22	1,211,040	(2,226)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(2,226)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010117 swap	2010.05.04~2012.02.09	1,051,085	7,637	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	7,637
Bank Taiwan Life Insurance Co., Ltd.	CLSW010164 swap	2010.08.16~2012.01.18	1,440,325	72,943	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	72,943

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Bank Taiwan Life Insurance Co., Ltd.	CLSW010168 swap	2010.08.20~2012.01.30	1,871,870	94,724	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	94,724
Bank Taiwan Life Insurance Co., Ltd.	CLSW010181 swap	2010.09.13~2012.02.17	603,520	1,406	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	1,406
Bank Taiwan Life Insurance Co., Ltd.	CLSW010184 swap	2010.09.17~2012.03.22	908,280	(1,669)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(1,669)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010196 swap	2010.09.28~2012.06.29	603,540	(1,210)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(1,210)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010223 swap	2010.11.10~2012.06.15	1,202,680	2,535	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	2,535
Bank Taiwan Life Insurance Co., Ltd.	CLSW010235 swap	2010.11.22~2012.02.29	1,204,960	4,709	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	4,709
Bank Taiwan Life Insurance Co., Ltd.	CLSW010238 swap	2010.12.06~2012.03.08	1,507,650	4,170	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	4,170
Bank Taiwan Life Insurance Co., Ltd.	CLSW110005 swap	2011.01.10~2012.01.12	1,149,920	60,895	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	60,895

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Bank Taiwan Life Insurance Co., Ltd.	CLSW110028 swap	2011.01.20~2012.01.30	1,727,880	87,438	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	87,438
Bank Taiwan Life Insurance Co., Ltd.	CLSW110068 swap	2011.02.22~2012.02.29	1,506,200	5,886	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	5,886
Bank Taiwan Life Insurance Co., Ltd.	CLSW110079 swap	2011.05.27~2012.03.30	1,848,056	(5,176)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(5,176)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810104 swap	2008.04.30~2012.02.23	603,500	1,381	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	1,381
Bank Taiwan Life Insurance Co., Ltd.	CLSW810225 swap	2008.10.16~2012.02.23	2,715,750	6,214	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	6,214
Bank Taiwan Life Insurance Co., Ltd.	CLSW810247 swap	2008.11.20~2012.04.24	1,198,480	8,871	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	8,871
Bank Taiwan Life Insurance Co., Ltd.	CLSW810273 swap	2008.12.22~2012.04.24	149,810	1,109	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	1,109
Bank Taiwan Life Insurance Co., Ltd.	CLSW910009 swap	2009.01.23~2012.01.31	287,260	15,284	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	15,284

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Bank Taiwan Life Insurance Co., Ltd.	CLSW910010 swap	2009.01.23~ 2012.01.31	287,260	15,284	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	15,284
Bank Taiwan Life Insurance Co., Ltd.	CLSW910011 swap	2009.01.23~ 2012.01.31	287,260	15,284	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	15,284
Bank Taiwan Life Insurance Co., Ltd.	CLSW910012 swap	2009.01.23~ 2012.01.31	287,260	15,284	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	15,284
Bank Taiwan Life Insurance Co., Ltd.	CLSW910014 swap	2009.01.23~ 2012.01.31	574,520	30,568	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	30,568
Bank Taiwan Life Insurance Co., Ltd.	CLSW910017 swap	2009.02.04~ 2012.03.08	482,448	1,334	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	1,334
Bank Taiwan Life Insurance Co., Ltd.	CLSW910033 swap	2009.03.18~ 2012.04.24	299,620	2,218	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	2,218
Bank Taiwan Life Insurance Co., Ltd.	CLSW910101 swap	2009.05.04~ 2012.02.09	150,155	1,091	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	1,091
Bank Taiwan Life Insurance Co., Ltd.	CLSW910117 swap	2009.05.14~ 2012.02.23	603,500	1,381	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	1,381

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Bank Taiwan Life Insurance Co., Ltd.	CLSW910155 swap	2009.06.08~2012.02.13	2,438,440	(18,593)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(18,593)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910158 swap	2009.06.11~2012.02.17	1,810,560	4,218	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	4,218
Bank Taiwan Life Insurance Co., Ltd.	CLSW910201 swap	2009.07.29~2012.01.31	172,356	9,170	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	9,170
Bank Taiwan Life Insurance Co., Ltd.	CLSW910207 swap	2009.08.04~2012.02.09	300,310	2,182	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	2,182
Bank Taiwan Life Insurance Co., Ltd.	CLSW910228 swap	2009.08.26~2012.06.29	1,508,850	(3,025)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(3,025)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910259 swap	2009.09.28~2012.06.29	1,207,080	(2,420)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(2,420)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910267 swap	2009.10.13~2012.02.17	301,760	703	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	703

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Bank Taiwan Life Insurance Co., Ltd.	CLSW910287 swap	2009.10.19~2012.03.22	302,760	(556)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(556)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910313 swap	2009.11.04~2012.02.09	300,310	2,182	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	2,182
Bank Taiwan Life Insurance Co., Ltd.	CLSW910315 swap	2009.11.05~2012.02.10	577,060	27,897	Valuation adjustment of financial assets at fair value through profit or loss – current – held for trading – swap	27,897

December 31, 2010						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	AEBH410927 forward	2004.11.30~2011.01.10	141,536	(3,594)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – forward	(3,594)
Taiwan Life Insurance Co., Ltd.	AEBH411027 forward	2004.12.31~2011.01.10	140,022	(3,556)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – forward	(3,556)
Taiwan Life Insurance Co., Ltd.	AEBH510877 forward	2005.11.25~2011.01.10	145,058	(3,684)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – forward	(3,684)

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	BHSW010121 swap	2010.05.07~2011.03.14	150,160	(2,900)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(2,900)
Taiwan Life Insurance Co., Ltd.	BHSW010122 swap	2010.05.07~2011.03.14	450,480	(8,701)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(8,701)
Taiwan Life Insurance Co., Ltd.	BHSW010141 swap	2010.06.25~2011.01.07	2,688,930	(34,092)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(34,092)
Taiwan Life Insurance Co., Ltd.	BHSW010179 swap	2010.09.08~2011.02.14	300,560	(5,861)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(5,861)
Taiwan Life Insurance Co., Ltd.	BHSW010205 swap	2010.10.15~2011.03.22	594,364	(5,479)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(5,479)
Taiwan Life Insurance Co., Ltd.	BHSW810239 swap	2008.11.06~2011.01.31	159,345	(11,944)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(11,944)
Taiwan Life Insurance Co., Ltd.	BHSW910020 swap	2009.02.09~2011.01.31	149,417	(11,200)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(11,200)

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	BHSW910022 swap	2009.02.18~2011.01.31	254,952	(19,111)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(19,111)
Taiwan Life Insurance Co., Ltd.	BHSW910064 swap	2009.04.09~2011.01.31	318,690	(23,888)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(23,888)
Taiwan Life Insurance Co., Ltd.	BHSW910339 swap	2009.12.17~2011.02.10	1,203,380	(24,505)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(24,505)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010067 swap	2010.03.04~2011.06.08	611,380	(24,068)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(24,068)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010081 swap	2010.03.11~2011.06.15	1,216,700	(42,389)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(42,389)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010095 swap	2010.04.01~2011.01.06	1,555,350	(80,407)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(80,407)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010111 swap	2010.04.19~2011.03.22	1,214,200	(36,395)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(36,395)

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Bank Taiwan Life Insurance Co., Ltd.	CLSW010117 swap	2010.05.04~2011.05.09	1,067,500	(38,607)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(38,607)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010164 swap	2010.08.16~2011.02.18	1,592,500	(119,036)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(119,036)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010168 swap	2010.08.20~2011.01.24	2,068,950	(152,381)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(152,381)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010172 swap	2010.08.25~2011.01.27	2,079,025	(162,607)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(162,607)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010175 swap	2010.08.30~2011.03.01	1,914,120	(146,259)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(146,259)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010181 swap	2010.09.13~2011.06.15	608,350	(21,194)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(21,194)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010184 swap	2010.09.17~2011.03.22	910,650	(27,296)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(27,296)

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Bank Taiwan Life Insurance Co., Ltd.	CLSW010196 swap	2010.09.28~2011.03.31	627,720	(38,948)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(38,948)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010223 swap	2010.11.10~2011.02.14	1,226,080	(47,268)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(47,268)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010235 swap	2010.11.22~2011.02.24	1,209,520	(30,913)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(30,913)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010238 swap	2010.12.06~2011.06.08	1,528,450	(60,169)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(60,169)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810104 swap	2008.04.30~2011.06.23	609,910	(22,917)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(22,917)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810108 swap	2008.05.07~2011.05.13	157,960	(10,983)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(10,983)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810109 swap	2008.05.07~2011.05.13	1,168,904	(81,271)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(81,271)

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Bank Taiwan Life Insurance Co., Ltd.	CLSW810130 swap	2008.06.30~2011.02.23	1,592,550	(119,199)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(119,199)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810207 swap	2008.09.26~2011.05.13	1,895,520	(131,791)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(131,791)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810208 swap	2008.09.26~2011.05.13	631,840	(43,930)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(43,930)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810211 swap	2008.09.30~2011.05.13	126,368	(8,786)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(8,786)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810212 swap	2008.09.30~2011.05.13	947,760	(65,895)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(65,895)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810225 swap	2008.10.16~2011.06.23	2,744,595	(103,125)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(103,125)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810241 swap	2008.11.13~2011.02.23	637,020	(47,680)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(47,680)

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Bank Taiwan Life Insurance Co., Ltd.	CLSW810242 swap	2008.11.13~2011.02.23	1,592,550	(119,199)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(119,199)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810247 swap	2008.11.20~2011.04.22	1,231,560	(54,941)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(54,941)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810265 swap	2008.12.15~2011.02.23	318,510	(23,840)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(23,840)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810273 swap	2008.12.22~2011.04.22	153,945	(6,868)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(6,868)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910009 swap	2009.01.23~2011.04.29	307,460	(13,380)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(13,380)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910010 swap	2009.01.23~2011.04.29	307,460	(13,380)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(13,380)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910011 swap	2009.01.23~2011.04.29	307,460	(13,380)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(13,380)

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Bank Taiwan Life Insurance Co., Ltd.	CLSW910012 swap	2009.01.23~2011.04.29	307,460	(13,380)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(13,380)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910014 swap	2009.01.23~2011.04.29	614,920	(26,759)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(26,759)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910017 swap	2009.02.04~2011.06.08	489,104	(19,254)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(19,254)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910033 swap	2009.03.18~2011.04.22	307,890	(13,735)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(13,735)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910101 swap	2009.05.04~2011.05.09	152,500	(5,515)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(5,515)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910110 swap	2009.05.07~2011.05.13	1,263,680	(87,861)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(87,861)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910117 swap	2009.05.14~2011.06.23	609,910	(22,917)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(22,917)

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Bank Taiwan Life Insurance Co., Ltd.	CLSW910155 swap	2009.06.08~2011.04.12	2,471,760	(117,665)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(117,665)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910158 swap	2009.06.11~2011.06.15	1,825,050	(63,583)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(63,583)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910174 swap	2009.06.29~2011.01.06	311,070	(16,081)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(16,081)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910201 swap	2009.07.29~2011.04.29	184,476	(8,028)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(8,028)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910207 swap	2009.08.04~2011.05.09	305,000	(11,031)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(11,031)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910228 swap	2009.08.26~2011.03.31	1,569,300	(97,370)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(97,370)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910259 swap	2009.09.28~2011.03.31	1,255,440	(77,896)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(77,896)

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Bank Taiwan Life Insurance Co., Ltd.	CLSW910267 swap	2009.10.13~2011.06.15	304,175	(10,597)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(10,597)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910287 swap	2009.10.19~2011.03.22	303,550	(9,099)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(9,099)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910298 swap	2009.10.23~2011.01.27	1,589,550	(115,386)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(115,386)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910313 swap	2009.11.04~2011.05.09	305,000	(11,031)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(11,031)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910315 swap	2009.11.05~2011.02.10	633,540	(44,083)	Valuation adjustment of financial liabilities at fair value through profit or loss – current – held for trading – swap	(44,083)

Note 1: The disclosure of the derivative instruments is by related party.

Note 2: Derivative financial instruments are assessed by the fair value method. Any relevant net present value created shall be recognized as current valuation adjustment.

Note 3: The ending balance of financial assets/liabilities at fair value through profit or loss and hedging derivative assets/liabilities are shown in the balance sheet item amount column.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- g) The expense of shared assets was allocated to BOT, BTLI, BTS, and the Company as follows:

	2011		2010	
	Amount	Percentage of account balance	Amount	Percentage of account balance
The Company	\$ 7,468	-	5,687	-
BTLI	45,341	0.04	39,303	0.04
BTS	53,394	0.05	56,300	0.06
Total	<u>\$ 106,203</u>	<u>0.09</u>	<u>101,290</u>	<u>0.10</u>

- (c) Total amount of the major management's salaries and bonus

The related information about the salaries and bonus for BOT's major management in 2011 and 2010 is as follows:

	2011	2010
Salaries	\$ 21,689	20,922
Bonus	12,282	11,704
Business expenses	1,108	1,142

2. BTLI

- (a) Name of related party and relationship

Name of related-party	Relationship with BTLI
Taiwan Financial Holding Co., Ltd.(the Company)	Parent Company
BOT	100%-owned subsidiary of the Company under the equity method
BTS	100%-owned subsidiary of the Company under the equity method
Hua Nan Financial Holdings Co., Ltd.	Investee company of BOT and BTLI under the equity method
Taiwan Life Insurance Co., Ltd.	Investee company of BOT and BTLI under the equity method

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

a) Deposit

	December 31, 2011		December 31, 2010	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	\$ <u>104,428</u>	<u>-</u>	<u>3,042,880</u>	<u>0.01</u>

b) Other Receivable

Name of related parties	Summary	December 31, 2011	December 31, 2010
Hua Nan Financial Holdings Co., Ltd.	Interest income	\$ <u>1,589</u>	<u>19</u>

c) Significant related-party transactions—Mortgage loans for real estate (in discounts and loans)

Mortgage loans for real estate for the Company and its subsidiaries' directors, supervisors, and staff and their spouses and close relatives for 2011 and 2010

	December 31, 2011	December 31, 2010
Mortgage loans for real estate	\$ <u>312,807</u>	<u>231,827</u>
Interest receivable	\$ <u>213</u>	<u>119</u>

For the years periods ended December 31, 2011 and 2010, the annual interest rates ranged from 0.95% to 1.76% and 0.79% to 1.70%, respectively.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

d) Non-derivative financial instrument

Name of related parties	Summary	Content	December 31, 2011	December 31, 2010
Hua Nan Financial Holdings Co., Ltd.	Financial bonds	Cost	\$ 900,000	900,000
	(recorded as Available-for-sale financial assets)	revaluation adjustment	(11)	(12)
			<u>\$ 899,989</u>	<u>899,988</u>
		Interest income	<u>\$ 14,850</u>	<u>1,587</u>

(b) Total amount of the major management's salaries and bonus

The related information about the salaries and bonus for BTLI's major management in 2011 and 2010 is as follows:

	2011	2010
Salaries	\$ 9,405	8,955
Bonus	5,324	6,932
Business expenses	570	840

3. BTS

(a) Name of related party and relationship

Name of related party	Relationship with TBS
Taiwan Financial Holding Co., Ltd.(the Company)	Parent Company
BOT	100%-owned subsidiary of the Company under the equity method
BTLI	100%-owned subsidiary of the Company under the equity method

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Total amount of the major management's salaries and bonus

The related information about the salaries and bonus for BTS's major management in 2011 and 2010 is as follows:

		2011	2010
Salaries	\$	7,831	7,763
Bonus		4,854	4,226
Business expenses		899	410

4) Total amount of the major management's salaries and bonus

The related information about the salaries and bonus for the Company and its subsidiaries' major management in 2011 and 2010 is as follows:

		2011	2010
Salaries	\$	43,965	42,788
Bonus		24,421	24,802
Business expenses		9,265	8,976

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(38) Pledged Assets

Pledged assets	Purpose of pledge	Book value	
		December 31, 2011	December 31, 2010
Available-for-sale financial assets — bonds	Guarantee deposit for provisional attachments	\$ 224,000	293,300
Available-for-sale financial assets — bonds	Operating deposit for securities trading	150,000	100,000
Available-for-sale financial assets — bonds	Guarantee deposit for trust business compensation reserve	100,000	150,000
Available-for-sale financial assets — negotiable certificates of time deposits	Central Bank - Interbank Funds transfer	25,000,000	25,000,000
Held-to-maturity financial assets — Government bonds	Guarantee deposit for provisional attachment	300,000	250,000
Held-to-maturity financial assets — bonds	Guarantee deposit for provisional attachments or taxation appeals	12,200	12,200
Other assets — refundable deposit	Operating guarantee deposit	1,701,112	1,708,352
Other assets — refundable deposits	Lease guarantee deposit	52,491	2,580
Total		<u>\$ 27,539,803</u>	<u>27,516,432</u>

Note: BTS's operating guarantee deposit pledged with time deposit of BOT amounting to \$265,000 has been offset due to related party transaction.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(39) Commitments and Contingencies

- 1) As of December 31, 2011 and 2010, the significant commitments of the Company and its subsidiaries were as follows:

	December 31, 2011	December 31, 2010
Contract guarantee on behalf of counter-parties	\$ 5,395,979	5,565,923
Traveler's checks held on consignment	1,087,707	910,992
Marketable securities held as custodian	1,613,920,171	1,583,086,920
Letters of credit	43,112,360	35,705,957
Goods held in custody	10,797,009	8,095,388
Issuance of New Taiwan Dollars	1,322,680,282	1,206,905,438
Guarantee notes payable	240,200	306,530
Registered government bonds for sale	331,884,300	301,422,600
Registered short-term bills for sale	265,095,673	225,014,126
Consigned sales of goods	1,947,495	2,251,450
Trust liabilities	505,848,030	458,952,804
Guarantees	71,389,619	43,951,879
Total	<u>\$ 4,173,398,825</u>	<u>3,872,170,007</u>

- 2) Construction in progress and significant purchase agreements:

BOT—the details of construction in progress and significant purchase agreements are as follows:

Name of contract	December 31, 2011		December 31, 2010	
	Contract amount	Amount not paid	Contract amount	Amount not paid
Construction of Nan Zih Branch	\$ -	-	279,583	-
Construction of Yi Lan Branch	-	-	294,869	19,905
Construction of Dong Gang Branch	-	-	119,394	6,205
Total	<u>\$ -</u>	<u>-</u>	<u>693,846</u>	<u>26,110</u>

The construction of Yi Lan Branch and Don Gang Branch was completed on June 9 and July 28, 2011, respectively.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

3) Operating leases

All subsidiaries have entered into operating leases for their branches. As of December 31, 2011, the minimum payments on lease contract commitments for the next five years were as follows:

Period	Amount
2012.01.01~2012.12.31	\$ 336,137
2013.01.01~2013.12.31	250,154
2014.01.01~2014.12.31	130,020
2015.01.01~2015.12.31	53,776
2016.01.01~2016.12.31	22,745
	<u>\$ 792,832</u>

- 4) BTS had several proxy delivery agreements with certain securities companies. In accordance with these agreements, the companies have agreed to be BTS's first and second proxy. If BTS is unable to fulfill its obligations to the TSE, the proxies must then act pursuant to said obligations and responsibilities.

(40) Significant Disaster Loss: None.

(41) Significant Subsequent Events: None.

(42) Others

- 1) A summary of personnel costs and depreciation, depletion, and amortization expenses, categorized by function, for the six-month periods ended December 31, 2011 and 2010, is as follows:

Function Nature	2011			2010		
	Cost of goods sold	Operating expenses	Total	Cost of goods sold	Operating expenses	Total
Personnel costs						
Salaries	-	10,825,711	10,825,711	-	10,653,961	10,653,961
Labor and health insurance	-	589,987	589,987	-	571,654	571,654
Pension	-	1,401,456	1,401,456	-	1,270,152	1,270,152
Other employment	-	196,563	196,563	-	190,535	190,535
Depreciation	32,941	1,008,895	1,041,836	28,336	958,987	987,323
Amortization	-	446,304	446,304	-	447,917	447,917

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

2) Cross-selling with subsidiaries

1. Cross-selling:

Please see Note 35 "Related Parties" for further descriptions.

2. Integrate business activities:

From June 2009, the Company established marketing plans consolidating subsidiaries' distribution of channels and products to allocate resources more efficiently. Moreover, to promote sales of insurance, securities and wealth management. By promoting sales cooperation aggressively, the Company is expecting to make it more effective and efficient.

3. Cross utilization of information:

In accordance to the amendment of "Financial Holding Company Act" on January 21, 2009 and Regulations governing mutual marketing in subsidiaries" on October 21, 2009, the Company and its subsidiaries concluded and signed "Agreement of Privacy Exchange" on December 16, 2009, to cope with the change of duties in the company and to enhance the protection of privacy. The Company and its subsidiaries also signed "Agreement of Customer Privacy" on February 25, 2010 to further protect and limit inappropriate use of private details.

4. Locations and business utilities:

The company applied to government for "Location set up for operating other business" and had been approved. By December 2011, the company had 149 branches, providing securities services; 158 branches and 5 simple-functioned branches, providing insurance services. They provide securities and insurances services in banks.

5. Allocation on revenues, costs, expenses, profits and losses:

Allocation of Revenue, Cost and Expense is calculated based on the proportion of actual sales among subsidiaries.

3) Capital adequacy ratios

Unit: Thousand NTD, %

Unit: Thousand NTD, %

December 31, 2011				
Entity	Item	Ownership interest	Eligible capital	Legal capital
The Company		-	249,627,602	255,426,564
Bank of Taiwan		100.00	187,365,815	131,687,943
BankTaiwan Life Insurance		100.00	1,846,923	658,278
BankTaiwan Securities		100.00	10,448,676	7,850,196
Less: deductible item			(255,373,942)	(255,373,942)
Subtotal			193,915,074	140,249,039
Consolidated capital adequacy ratio				138.26

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Unit: Thousand NTD, %

Unit: Thousand NTD, %

December 31, 2010				
Entity	Item	Ownership interest	Eligible capital	Legal capital
	The Company	100.00	260,127,964	265,642,548
	Bank of Taiwan	100.00	176,521,653	118,922,025
	BankTaiwan Life Insurance	100.00	11,022,399	7,548,714
	BankTaiwan Securities	100.00	2,896,702	667,907
	Less: deductible item		(265,594,540)	(265,594,540)
	Subtotal		184,974,178	127,186,654
Consolidated capital adequacy ratio				145.44

4) Eligible capital

Unit: Thousand NTD

December 31, 2011	
Item	Amount
Common stock	90,000,000
Additional paid-in capital	112,095,429
Legal reserve	2,352,676
Special reserve	5,227,896
Accumulated profit	6,680,591
Equity adjustments	33,353,048
Less: goodwill	-
Less: deferred assets	82,038
Less: treasury stock	-
Consolidated eligible capital	249,627,602

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Unit: Thousand NTD

December 31, 2010	
Item	Amount
Common stock	90,000,000
Additional paid-in capital	111,516,202
Legal reserve	1,610,266
Special reserve	4,653,557
Accumulated profit	9,729,697
Equity adjustments	42,667,969
Less: goodwill	-
Less: deferred assets	40,565
Less: treasury stock	-
Consolidated eligible capital	260,137,126

- 5) Disclosures of total amounts or ratios with respect to credit extensions, endorsements, or other transactions undertaken by a financial holding Company and its subsidiaries for the same individual, the same related individual, or the same affiliated enterprises in accordance with Article 46 of the "Financial Holding Company Act":

Unit: Million NTD, %

December 31, 2011		
Name	Total amount of credit extensions, endorsements or other transactions	% of net asset value
The same individual		
Central Bank of the Republic of China (Taiwan)	622,903	249.45
National Treasury Agency, Ministry of Finance, R.O.C.	292,407	117.10
Taiwan Power Company	163,802	65.60
Taiwan High Speed Rail Corporation	74,681	29.91
Taichung City Government	39,785	15.93
CPC Corporation, Taiwan	31,765	12.72
Hua Nan Financial Holdings Co., Ltd	30,900	12.37
Taiwan Railway Administration	28,472	11.40
Bureau of National Health Insurance	28,100	11.25
Chi Mei Optoelectronics Corporation	20,811	8.33
Yunlin county Government	19,898	7.97
Formosa Petrochemical Corporation	19,574	7.84
China Steel Corporation	19,458	7.79

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011		
Name	Total amount of credit extensions, endorsements or other transactions	% of net asset value
Tainan City Government	18,095	7.25
AU Optronics Corp.	17,236	6.90
New Taipei City Government	15,541	6.22
Miaoli County Government	15,184	6.08
Dragon Steel Corporation	15,144	6.06
Hsinchu County Government	13,272	5.31
Chiayi County Government	12,427	4.98
Yilan County Government	12,320	4.93
Ginnie Mae	12,252	4.91
High speed railway associated construction funds	11,636	4.66
Formos Plastics Corporation	11,285	4.52
First Financial Holding Co., Ltd.	11,067	4.43
Foxconn Technology Group	10,952	4.39
EVA Airways Corporation	10,896	4.36
Taiwan Business Bank	10,670	4.27
China Airlines Ltd.	10,211	4.09
Yang Ming Marine Transport Corp	10,198	4.08
R.S.E.A. Engineering Corporation	10,157	4.07
Nan Ya Plastics Corporation	9,986	4.00
Formosa Chemicals & Fibre Corp.	9,539	3.82
Pingtung County Government	8,641	3.46
Changhua County Government	7,864	3.15
Promos Technologies Inc.	7,780	3.12
Nantou County Government	7,726	3.09
Cathay Financial Holding Co., Ltd.	7,608	3.05
Taiwan Area National Freeway Bureau, MOTC	7,100	2.84
Evergreen Marine Corporation	6,901	2.76
Prince Housing and Development Corp.	6,883	2.76
Hsinchu City Government	6,707	2.69
Mega Bills Financial Holding Company	6,498	2.60
Shin Kong Financial Holding Co., Ltd.	5,800	2.32
Mega Financial Holding Company	5,711	2.29

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011		
Name	Total amount of credit extensions, endorsements or other transactions	% of net asset value
Kommunalbanken	5,684	2.28
Fubon Financial Holding Co., Ltd.	5,678	2.27
Wan-bao development Co., Ltd.	5,400	2.16
Export Import Bank of Korea	5,383	2.16
International Bank for Reconstruction and Development	5,318	2.13
Anz Banking Group Ltd.	5,295	2.12
Taipei Fubon Commercial Bank Co., Ltd.	5,216	2.09
Deutsche Bank	5,171	2.07
Apple Inc.	5,028	2.01
COMMONWEALTH BANK OF AUSTRALIA	4,840	1.94
Far Eastern Departement Stores Co., Ltd.	4,808	1.93
Hualien County government	4,755	1.90
SAC PEI TAIWAN HOLDINGS	4,725	1.89
Export Processing Zone Administration, MOEA	4,638	1.86
Staatsbank fur Baden Wurttemberg	4,636	1.86
Yuanta Financial Holdings Co., Ltd.	4,566	1.83
Linyuan Investment Co., Ltd.	4,500	1.80
Ever Fortune Fnergy Co., Ltd.	4,293	1.72
European Investment Bank	4,260	1.71
Taishin Financial Holding Co., Ltd.	4,173	1.67
CITIGROUP INC	4,162	1.67
ASE Group	4,091	1.64
Uni-President Enterprises Corp.	4,078	1.63
Run-Cheng Investment Co., Ltd.	4,000	1.60
Development Bank of Singapore	3,988	1.60
Kaohsiung Rapid Transit Corp.	3,961	1.58
Taoyuan County Government	3,950	1.58
Cathay Commercial Bank	3,927	1.57
China Development Bank	3,910	1.57
Freddie Mac	3,883	1.56
International Financial Corporation	3,861	1.55
KFW Bankengruppe	3,772	1.51

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011		
Name	Total amount of credit extensions, endorsements or other transactions	% of net asset value
Pegatron	3,724	1.49
Tatung Company	3,715	1.49
Quanta Computer Co., Ltd.	3,671	1.47
North Rhine-Westphalian Bank	3,632	1.45
Nanya Technology Corporation	3,595	1.44
BNP PARIBAS	3,592	1.44
Inotera Memories, Inc.	3,567	1.43
ROYAL BANK OF CANADA	3,511	1.41
Land Bank	3,487	1.40
HSBC Holdings plc	3,433	1.37
Fannie mae	3,386	1.36
Kaohsiung City Government	3,319	1.33
Inter-American Development Bank	3,312	1.33
Science Park Administration	3,262	1.31
Nordic Investment Bank	3,255	1.30
Keelung City Government	3,217	1.29
Hiwin Technology Co., Ltd.	3,188	1.28
Export Development Canada	3,148	1.26
Inventec Co., Ltd.	3,117	1.25
Shin Kong Commercial Bank Co., Ltd.	3,117	1.25
Taipei 101 Mall	3,114	1.25
International Bills finance Corporation	3,114	1.25
Rich Development Construction Co., Ltd.	3,056	1.22
E.SUN Commerical Bank	3,055	1.22
The same related individual		
Mr./Ms. Lin and related individual	8,218	3.29
Mr./Ms. Cheng and related individual	4,442	1.78
Mr./Ms. Kuo and related individual	4,208	1.69
Mr./Ms. Chen and related individual	3,723	1.49
Mr./Ms. Wu and related individual	3,646	1.46
The same affiliated enterprise		
Taiwan Power Company	167,082	66.91

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011		
Name	Total amount of credit extensions, endorsements or other transactions	% of net asset value
Simosa Group and its affiliates	73,329	29.37
China Steel Corporation Group	42,108	16.86
China Petroleum Corporation Group	35,521	14.22
Huanan Financial Holding Co., Ltd. and its affiliates	31,810	12.74
AU Optronics Corp. and its affiliates	23,992	9.61
Linyuan Investment Co., Ltd. and its affiliates	23,911	9.58
Ever green Group	23,412	9.38
Chi Mei Technology and its affiliates	21,794	8.73
Mega Financial Holding Company and its affiliates	16,246	6.51
First Financial Holding Co., Ltd. and its affiliates	14,003	5.61
Shin Kong Financial Holding Co., Ltd. and its affiliates	13,976	5.60
Fubon Financial Holding Co., Ltd. and its affiliates	13,606	5.45
Far Eastern Group and its affiliates	13,150	5.27
Foxconn Technology Group	12,840	5.14
Yang Ming Marine Transport Corp. and its affiliates	10,347	4.14
China Airlines Group	10,215	4.09
Uni-President Enterprises Corp. and its affiliates	9,676	3.87
Tatung Company and its affiliates	9,462	3.79
Chi Mei Corporation and its affiliates	9,115	3.65
Tainan Spinning Co., Ltd. and its affiliates	8,556	3.43
Ruentex Group and its affiliates	8,300	3.32
Promos Technologies Inc.	7,780	3.12
UMC and its affiliates	7,266	2.91
YFY Group and its affiliates	7,024	2.81
ASUS and its affiliates	6,932	2.78
Chinatrusta and its affiliates	6,926	2.77
Lealea Group	6,269	2.51
Taishin Financial Holding Co., Ltd.	5,860	2.35
E United Group and its affiliates	5,689	2.28
ASE Group and its affiliates	5,659	2.27
Big Rich Media and its affiliates	5,558	2.23
HSBC	5,262	2.11

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011		
Name	Total amount of credit extensions, endorsements or other transactions	% of net asset value
Yuanta Financial Holding Co., Ltd. and its affiliates	5,027	2.01
High Wealth Construction and its affiliates	4,595	1.84
Baotai development Co., Ltd. and its affiliates	4,558	1.83
Tang Eng Iron Works Co., Ltd. and its affiliates	4,529	1.81
Wells Fargo	4,510	1.81
E.SUN Financial Holding Co., Ltd. and its affiliates	4,385	1.76
Chailease Group	4,309	1.73
De-Chan Motors Group	4,293	1.72
CITI	4,254	1.70
Quanta Computer Co., Ltd. and its affiliates	4,239	1.70
China Development Financial Holding Corporation and its affiliates	3,836	1.54
Waterland Finance Co., Ltd. and its affiliates	3,709	1.49
Wintek Technology Group	3,611	1.45
Taiwan Cement Corporation and its affiliates	3,409	1.37
Hiwin Technology Group	3,383	1.35
Inventec Corporation and its affiliates	3,250	1.30
Barclays	3,069	1.23
Total	2,708,259	

December 31, 2010		
Name	Total amount of credit extensions, endorsements or other transactions	% of net asset value
The same individual		
Central Bank of the Republic of China (Taiwan)	694,691	267.01
National Treasury Agency, Ministry of Finance, R.O.C.	277,058	106.49
Taiwan Power Company	160,193	61.57
Taiwan High Speed Rail Corporation	74,477	28.63
Taichung City Government	35,361	13.59
Taiwan Railway Administration	32,734	12.58
Hua Nan Financial Holdings Co., Ltd.	28,910	11.11

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010		
Name	Total amount of credit extensions, endorsements or other transactions	% of net asset value
New Taipei City Government	26,600	10.22
Bureau of National Health Insurance	24,600	9.46
CPC Corporation, Taiwan	20,923	8.04
Chi Mei Optoelectronics Corporation	20,774	7.98
Yunlin county Government	19,544	7.51
China Steel Corporation	18,811	7.23
Finance Bureau Kaohsiung City Government	17,925	6.89
Dragon Steel Corporation	16,205	6.23
Tainan City Government	14,700	5.65
Hsinchu County Government	14,616	5.62
AU Optronics Corp.	14,207	5.46
First Financial Holding Co., Ltd.	13,793	5.30
TaiwanBusiness Bank	13,721	5.27
Formosa Petrochemical Corporation	13,198	5.07
Yilan County Government	12,847	4.94
Ginnie Mae	12,648	4.86
Chiayi County Government	11,987	4.61
R.S.E.A. Engineering Corporation	10,769	4.14
Miaoli County Government	9,996	3.84
Yang Ming Marine Transport Corp.	9,940	3.82
Nan Ya Plastics Corporation Co., Ltd.	9,934	3.82
EVA Airways Corporation	9,898	3.80
Related to high speed railway construction funds	9,432	3.63
Formosa Chemicals & Fibre Corp.	9,344	3.59
Promos Technologies Inc.	9,308	3.58
Changhua County Government	9,295	3.57
Nantou County Government	9,128	3.51
Cathay Financial Holding Co., Ltd.	8,833	3.39
Taoyuan County Government	8,818	3.39
Central Deposit Insurance Corp.	8,100	3.11
Hsinchu City Government	8,067	3.10
Pingtung County Government	8,052	3.09

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010		
Name	Total amount of credit extensions, endorsements or other transactions	% of net asset value
China Airlines Ltd.	7,405	2.85
Foxconn Technology Group	7,333	2.82
Mega International Commercial Bank	6,345	2.44
Mega Financial Holding Company	6,222	2.39
Kommunalbanken	5,968	2.29
Taiwan Water Corp.	5,957	2.29
Fubon Financial Holding Co., Ltd.	5,935	2.28
Shin Kong Financial Holding Co., Ltd.	5,800	2.23
Yuanta Financial Holdings	5,609	2.16
Freddie Mac	5,594	2.15
Taipei Fubon Commercial Bank Co., Ltd.	5,447	2.09
Apple Inc.	5,370	2.06
Prince Housing and Development Corp.	5,131	1.97
KFW Bankengruppe	5,109	1.96
Evergreen Marine Corporation	4,864	1.87
Hualien county Government	4,851	1.86
Export processing zone administration, MOEA	4,819	1.85
SAC PEI TAIWAN HOLDINGS	4,725	1.82
European Investment Bank	4,258	1.64
Inotera Memories, Inc.	4,213	1.62
CITIGROUP INC	4,017	1.54
Deutsche Bank	3,969	1.53
Municipality Finance PLC	3,817	1.47
Fannie Mae	3,766	1.45
Far Eastern Textile Ltd.	3,745	1.44
Australian and New Zealand Bank	3,722	1.43
Highwealth Construction	3,658	1.41
China Development Financial Holdings	3,653	1.40
Nordic Investment Bank	3,622	1.39
Rich Development Construction Co., Ltd.	3,416	1.31
Inter-American Development Bank	3,378	1.30
Uni president Enterprises Corp.	3,370	1.30

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010		
Name	Total amount of credit extensions, endorsements or other transactions	% of net asset value
Taiwan Mobile Co., Ltd.	3,323	1.28
North Rhine-Westphalian Bank	3,322	1.28
Tatung Company	3,312	1.27
Taipei Financial Center corporation	3,304	1.27
Chi Mei Corporation	3,290	1.26
Export Import Bank of Korea	3,265	1.25
Kaohsiung Rapid Transit Corp.	3,264	1.25
Chunghwa Picture Tubes, Ltd.	3,262	1.25
Tang-Eng Iron Works Co., Ltd.	3,250	1.25
Keelung City Government	3,233	1.24
Land Bank of Taiwan	3,159	1.21
Nanya Technology Corporation	3,152	1.21
Taitung County Government	3,079	1.18
Powerchip Semiconductor Corp.	3,040	1.17
Taishin Financial Holding	3,038	1.17
E.SUN Financial Holding Co., Ltd.	3,007	1.16
The same related individual		
Mr./Ms. Chen and related individual	3,723	1.43
Mr./Ms. Kuo and related individual	3,623	1.39
The same affiliated enterprises		
Formosa Pastic Group	54,691	21.02
China Steel Corporation Group	43,204	16.61
Huanan Financial Holding Co., Ltd. and its affiliates	30,053	11.55
Foxconn Technology Group	30,004	11.53
Ever green Group	19,540	7.51
AU Optronics Corp. and its affiliates	17,834	6.85
Fubon Financial Holding Co., Ltd. and its affiliates	16,708	6.42
First Financial Holding Co., Ltd. and its affiliates	15,762	6.06
Mega Financial Holding Company and its affiliates	14,913	5.73
Cathay Financial Group	13,827	5.31
Shin Kong Financial Holding Co., Ltd. and its affiliates	12,305	4.73
Far Eastern Group	11,883	4.57

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010		
Name	Total amount of credit extensions, endorsements or other transactions	% of net asset value
Yang Ming Marine Transport Corp. and its affiliates	10,093	3.88
Promos Technologies Inc.	9,308	3.58
Uni-President Enterprises Corp. and its affiliates	9,067	3.48
Tatung Company and its affiliates	8,852	3.40
Chi Mei Corporation and its affiliates	8,372	3.22
Taiwan Cement Corporation and its affiliates	7,573	2.91
China Airlines Group	7,430	2.86
Tainan Spinning Co., Ltd. and its affiliates	7,043	2.71
Yuanta Financial Holding Co., Ltd. and its affiliates	6,576	2.53
E United Group	5,996	2.30
Chinatrust Financial Holding Company Group	5,948	2.29
Yuen Foong Yu Group	5,601	2.15
Bigrichmedia and its affiliates	5,591	2.15
China Development Financial Holding Corporation and its affiliates	5,224	2.01
Taishin financial Holding and its affiliates	5,050	1.94
LEALEA GROUP	4,792	1.84
Tai Po Development and its affiliates	4,740	1.82
E.SUN Financial Holding Co., Ltd. and its affiliates	4,481	1.72
Advanced Semiconductor Engineering Group and its affiliates	4,479	1.72
JPMorgan Chase & Co.	4,429	1.70
Reuntex Group and its affiliates	4,392	1.69
Wintek Corporation and its affiliates	4,356	1.67
Chailease Group and its affiliates	4,227	1.62
United Microelectronics Corporation and its affiliates	4,221	1.62
Powerchip Semiconductor Corp. and its affiliates	4,166	1.60
Citigroup	4,151	1.60
Highwealth Construction and its affiliates	3,658	1.41
Compal Electronics Corporation and its affiliates	3,503	1.35
Barclays	3,418	1.31
Tang Eng Iron Works Co., Ltd. and its affiliates	3,410	1.31

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010		
Name	Total amount of credit extensions, endorsements or other transactions	% of net asset value
Ideal Bike co., Ltd. and its affiliates	3,280	1.26
Total	<u><u>2,397,322</u></u>	

Note 1: Taiwan High Speed Rail Corporation is included.

2. This form discloses total amounts which reach the lower of 5% of net worth or \$3 billion with respect to credit extensions, endorsements, or other transactions undertaken by a financial holding Company and its subsidiaries for the same individual, the same related individual, or the same affiliated enterprises.
3. Credit extensions mean loans, discounts, overdrafts, acceptances, guarantees, and other business items designated by the central competent authority-in-charge.
4. Endorsements mean endorsements and guarantees of bills corporations.
5. Other transactions mean the following transactions with the same individual, the same related individual, or the same affiliated enterprises:
 - (1) Invest or purchase securities whose issuers are these related parties.
 - (2) Purchase these related parties' real estate or other assets.
 - (3) Sell securities, real estate, or other assets to these related parties.
 - (4) Sign contracts to give money or supply labor.
 - (5) Act as an agent or broker of the financial holding company or its subsidiaries, or supply services on a commission or expenses basis.
 - (6) Conducting the above transactions with third parties that are stakeholders in these related parties, or transactions in which these related parties participate with third parties.
 - (7) The amounts of negotiable certificates issued by a bank subsidiary are not included in the calculation.
 - (8) The amounts of financial institutions' repurchase agreements are not included in the calculation.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

6) The disclosures according to Statement of Financial Accounting Standards No 28:

1. Loan quality, concentration of credit risk, and policies on allowance for bad debts arising from loans and advances to customers

(a) Loan quality

Type / Item			December 31, 2011				
			Amount of overdue loans	Total amount of loans	Ratio	Allowance for bad debt	Coverage ratio
Enterprise	Secured		3,063,664	529,151,229	0.58 %	9,553,203	311.82 %
	Non-secured		1,792,161	1,006,480,293	0.18 %	4,104,641	229.03 %
Consumer finance	Household mortgage		2,883,236	408,856,119	0.71 %	2,385,189	82.73 %
	Cash card		-	-	-	-	-
	Micro credit		114,067	8,860,282	1.29 %	87,705	76.89 %
	Others	Secured	491,008	68,705,528	0.71 %	305,373	62.19 %
		Non-secured	1,316,419	149,486,023	0.88 %	1,458,131	110.76 %
Total			9,660,555	2,171,539,474	0.44 %	17,894,242	185.23 %
			Overdue receivables	Account receivable	Ratio	Allowance bad debt	Cover ratio
Credit card business			4,273	1,039,246	0.41 %	12,012	281.11 %
Factoring receivables – non-recourse			-	10,054,670	- %	86,714	-

Type / Item			December 31, 2010				
			Amount of overdue loans	Total amount of loans	Ratio	Allowance for bad debt	Coverage ratio
Enterprise	Secured		3,774,613	473,494,947	0.80 %	3,424,698	90.73 %
	Non-secured		3,045,462	1,006,570,258	0.30 %	4,515,246	148.26 %
Consumer finance	Household mortgage		3,701,637	388,523,166	0.95 %	2,012,207	54.36 %
	Cash card		-	-	-	-	-
	Micro credit		177,289	11,175,663	1.59 %	214,308	120.88 %
	Others	Secured	629,450	65,048,818	0.97 %	353,492	56.16 %
		Non-secured	1,608,788	146,287,809	1.10 %	1,022,032	63.53 %
Total			12,937,239	2,091,100,661	0.62 %	11,541,983	89.22 %
			Overdue receivables	Account receivable	Ratio	Allowance bad debt	Cover ratio
Credit card business			3,198	1,050,171	0.30 %	7,644	239.02 %
Factoring receivables – non-recourse			-	7,008,990	- %	21,027	- %

Note 1: For loan business: Overdue loans represent the amounts of reported overdue loans pursuant to the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" issued by the FSC. For credit card business: Overdue receivables are regulated by the Banking Bureau letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: For loan business: NPL Ratio = NPL/Total Loans. For credit card business: Delinquency Ratio = Overdue receivables/Accounts receivable.

Note 3: For loan business: Coverage Ratio = LLR/NPL. For credit card business: Coverage Ratio = Allowance for credit losses/Overdue receivables.

Note 4: Household mortgage means the purpose of financing is to purchase, build, or fix up a dwelling, and the dwelling owned by the borrower, spouse, or children fully secures the loan.

Note 5: Micro credit is regulated by the Banking Bureau letter dated December 19, 2005 (Ref. No. 09440010950)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 6: Others in consumer finance refer to secured or non-secured loans excluding mortgage, cash card, micro credit, and credit card.

Note 7: Account receivables—factoring without recourse: As required by the Banking Bureau letter dated July 19, 2005 (Ref. No. 094000494), provision for bad debt is recognized once no compensation is received from the factoring or insurance company.

Note 8: Account receivable of credit card business in including overdue receivable, account receivable and other receivable.

(b) The amounts of excluded NPL and excluded overdue receivables

(Expressed in thousand of New Taiwan Dollars)

	December 31, 2011		December 31, 2010	
	Excluded NPL	Excluded overdue receivables	Excluded NPL	Excluded overdue receivables
As a result of debt negotiation and loans agreement	5,309	-	6,996	-
As a result of debt solvency and restart plan	121,013	18,902	143,774	15,586
Total	126,322	18,902	150,770	15,586

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Concentration of credit extensions

Unit: Million, %

December 31, 2011			
Rank (Note 1)	Group Name (Note 2)	Credit Extensions Balance (Note 3)	% of Net Asset Value
1	A Company — transportation and storage	72,181	28.91%
2	B Company — plastic products manufacturing	49,320	19.75%
3	C Company — basic metal manufacturing	37,224	14.91%
4	D Company — optoelectronic materials and components manufacturing	23,166	9.28%
5	E Company — optoelectronic materials and components manufacturing	22,704	9.09%
6	F Company — transportation and storage	21,353	8.55%
7	G Company — financial holdings and insurance	10,400	4.16%
8	H Company — textile mills	9,848	3.94%
9	I Company — computer and accessories manufacturing	9,461	3.79%
10	J Company — transportation and storage	9,060	3.63%

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010			
Rank	Group Name	Credit extensions balance	% of net asset value
1	A Company – transportation and storage	71,971	27.66%
2	B Company – basic metal manufacturing	37,610	14.46%
3	C Company – plastic products manufacturing	31,847	12.24%
4	D Company – optoelectronic materials and components manufacturing	26,552	10.21%
5	E Company – transportation and storage	19,483	7.49%
6	F Company – optoelectronic materials and components manufacturing	16,491	6.34%
7	G Company – retail trade	12,659	4.87%
8	H Company – computer and accessories manufacturing	9,232	3.55%
9	I Company – semi-conductor manufacturing	8,865	3.41%
10	J Company – transportation and storage	8,721	3.35%

Note 1: Top ten borrowers (excluding government or state-owned utilities) according to total credit extensions. Arrange according to the total amount of credit extensions, please list the name of top ten corporations, and not belong to government or public ones. If the creditor belongs to a group corporation, show the subtotaled amount of the group corporation, and disclose by using "Code" plus "Industry category"; if the creditor is a group corporation, disclose the category that expose most. The rule of disclosing industry category should follow Directorate-General of Budget, Accounting and Statistics' standard.

Note 2: Groups are regulated in the Supplementary Provisions to the Taiwan Stock Exchange Corporation Criteria for Review of Securities Listings, Article 6.

Note 3: Total credit extensions comprise loans (including import bills negotiated, export bills negotiated, overdrafts, short-term loans, short-term secured loans, receivables from pecuniary finance, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, and overdue receivables), exchange bills negotiated, factoring receivable without recourse, acceptances receivable, and guarantees issued.

- Information on concentration of credit risk of assets, liabilities, and off-balance-sheet items: Please see note 35.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

3. The average amount of assets and liabilities, as well as the current rate, is disclosed as follows:

Subsidiary – BOT

	December 31, 2011		December 31, 2010	
	Average	Average interest rate (%)	Average	Average interest rate (%)
Interest-earnings assets:				
Call loans and placement with banks	\$ 79,446,442	0.89	107,209,206	0.71
Placement with Central Bank	427,424,964	0.88	514,699,202	0.69
Financial assets	760,840,638	1.23	797,347,272	0.98
Negotiation, discounts and total loans	2,104,126,925	1.77	2,048,534,841	1.59
Interest-bearing liabilities:				
Deposit of Central Bank	14,907,629	-	13,854,500	-
Loans of Central Bank and other bank	1	-	-	-
Deposits and call loans from banks	169,216,584	0.66	156,353,505	0.49
Demand deposit	249,427,075	0.12	241,623,875	0.09
Demand savings	619,970,857	0.72	620,031,773	0.62
Time savings	1,577,427,974	1.78	1,541,974,187	1.58
Time deposits	459,641,375	1.02	622,873,001	0.83
Government deposits	216,911,936	0.32	213,161,202	0.26
Structured products	13,159,542	0.62	-	-

Note1: Average is calculated by daily average of interest-earning assets and interest-bearing liabilities from January to current month.

Note2: The calculation disclosed is from the banking department.

Note3: Excess interest is included in the saving interest rate for demand and timed deposit.

4. Ratios of interest-rate-sensitive assets to liabilities and of interest-rate-sensitive spread to net equity

Balance sheet interest rate sensitivity – for NTD

Subsidiary – BOT

December 31, 2011

Unit: Thousand NTD, %

	1~90 days	91~180 days	181 days to one year	Total
Interest-rate-sensitive assets	\$ 1,485,212,568	1,282,755,366	290,047,314	3,058,015,248
Interest-rate-sensitive liabilities	192,636,073	2,433,759,573	425,650,104	3,052,045,750
Interest rate sensitivity gap	1,292,576,495	(1,151,004,207)	(135,602,790)	5,969,498
Net worth				246,679,631
Ratio of interest-rate-sensitive assets to liabilities				100.20
Ratio of interest rate sensitivity gap to net worth				2.42

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010

	1~90 days	91~180 days	181 days to one year	Total
Interest-rate-sensitive assets	\$ 1,640,441,260	1,176,812,684	159,064,535	2,976,318,479
Interest-rate-sensitive liabilities	225,920,966	2,521,028,612	227,977,058	2,974,926,636
Interest rate sensitivity gap	1,414,520,294	(1,344,215,928)	(68,912,523)	1,391,843
Net worth				251,335,947
Ratio of interest-rate-sensitive assets to liabilities				100.05
Ratio of interest rate sensitivity gap to net worth				0.55

Note 1: The above amounts include only New Taiwan Dollar amounts held by the Bank subsidiary's onshore branches (i.e., excluding foreign currency).

Note 2: Interest-rate-sensitive assets and liabilities refer to the revenues or costs of interest-earning assets and interest-bearing liabilities which are affected by interest rate changes.

Note 3: Interest rate sensitivity gap = Interest-rate-sensitive assets — Interest-rate-sensitive liabilities.

Note 4: Ratio of interest-rate-sensitive assets to liabilities = Interest-rate-sensitive assets/Interest-rate-sensitive liabilities (only interest-rate-sensitive assets and liabilities within one year, in New Taiwan Dollars).

Note 5: Ratio of interest rate sensitivity gap to net value = Interest rate sensitivity gap / net value.

Balance sheet interest rate sensitivity — for USD

Subsidiary — BOT

December 31, 2011

Unit: Thousand USD, %

	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest-rate-sensitive assets	\$ 20,320,716	4,229,999	1,778,879	1,116,053	27,445,647
Interest-rate-sensitive liabilities	21,722,210	3,934,428	1,364,888	206,973	27,228,499
Interest rate sensitivity gap	(1,401,494)	295,571	413,991	909,080	217,148
Net worth					(41,843)
Ratio of interest-rate-sensitive assets to liabilities					100.80
Ratio of interest rate sensitivity gap to net worth					(518.96)

December 31, 2010

	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest-rate-sensitive assets	\$ 16,141,921	4,868,370	1,424,550	988,609	23,423,450
Interest-rate-sensitive liabilities	17,457,697	4,214,828	1,290,154	140,827	23,103,506
Interest rate sensitivity gap	(1,315,776)	653,542	134,396	847,782	319,944
Net worth					14,686
Ratio of interest-rate-sensitive assets to liabilities					101.38
Ratio of interest rate sensitivity gap to net worth					2,178.56

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1: The above amounts include only U.S. Dollar amounts held by the onshore branches, OBU, and offshore branches of the Bank and exclude contingent assets and contingent liabilities.

Note 2: Interest-rate-sensitive assets and liabilities refer to the revenues or costs of interest-earning assets and interest-bearing liabilities which are affected by interest rate changes.

Note 3: Interest rate sensitivity gap = Interest-rate-sensitive assets — Interest-rate-sensitive liabilities.

Note 4: Ratio of interest-rate-sensitive assets to liabilities = Interest-rate-sensitive assets/Interest-rate-sensitive liabilities (only interest-rate-sensitive assets and liabilities within 180 days, in U.S. Dollars).

Note 5: Ratio of interest rate sensitivity gap to net value = interest rate sensitivity gap / net value.

5. Profitability

(a) The Company

Unit: %

Item		December 31, 2011	December 31, 2010
Return on total assets	Before income tax	1.48	2.80
	After income tax	1.53	2.81
Return on net worth	Before income tax	1.54	2.89
	After income tax	1.60	2.91
Profit margin		100.07	98.89

(b) The company and subsidiaries

Unit: %

Item		December 31, 2011	December 31, 2010
Return on total assets	Before income tax	0.11	0.19
	After income tax	0.10	0.18
Return on net worth	Before income tax	1.84	3.09
	After income tax	1.60	2.91
Profit margin		5.12	8.49

(c) Subsidiary — BOT

Unit: %

Item		December 31, 2011	December 31, 2010
Return on total assets	Before income tax	0.11	0.20
	After income tax	0.09	0.18
Return on net worth	Before income tax	1.80	3.18
	After income tax	1.49	2.88
Profit margin		13.41	27.76

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(d) Subsidiary – BTLI

Unit: %

Item		December 31, 2011	December 31, 2010
Return on total assets	Before income tax	0.09	0.02
	After income tax	0.11	0.12
Return on net worth	Before income tax	3.46	0.69
	After income tax	4.28	3.58
Profit margin		0.73	0.69

(e) Subsidiary – BTS

Unit: %

Item		December 31, 2011	December 31, 2010
Return on total assets	Before income tax	2.03	3.53
	After income tax	1.53	2.87
Return on net worth	Before income tax	2.99	4.62
	After income tax	2.25	3.75
Profit margin		15.47	22.35

Note 1: Return on total assets = Income before (after) income tax/Average total assets.

Note 2: Return on net worth = Income before (after) income tax/Average net worth.

Note 3: Profit margin = Income after income tax/Total operating revenues.

Note 4: Income before (after) income tax is the income in the first months accumulated to the current quarter.

Note 5: Return on total assets and net worth has been annualized.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

6. Major foreign currency position, net

Subsidiary – BOT

(expressed in thousands of New Taiwan Dollars)

December 31, 2011			December 31, 2010		
Currency	Amount in functional currency	Amount in New Taiwan Dollars	Currency	Amount in functional currency	Amount in New Taiwan Dollars
GBP	28,276	1,319,924	USD	394,267	11,630,877
USD	9,406	284,767	JPY	3,016,498	1,092,576
SGD	11,289	263,034	GBP	18,756	854,355
CNY	35,211	168,907	CNY	153,948	687,594
ZAR	6,270	23,262	SGD	15,763	360,528

Note 1: The major foreign currencies are the top five amounts after all functional currencies are converted to New Taiwan Dollars.

Note 2: The major foreign currency net position is the absolute value of each foreign currency net position.

7. Duration analysis of assets and liabilities

Term Structure Analysis of NTD-denominated Assets and Liabilities

Subsidiary – BOT

December 31, 2011

Unit: Thousand NTD

	Total	Amount for each remaining period to maturity				
		Day 1 to day 30	Day 31 to day 90	Day 91 to day 180	Day 181 to 1 year	Over 1 year
Main capital inflow on maturity	\$ 3,822,254,738	802,311,389	678,469,732	385,900,252	373,328,997	1,582,244,368
Main capital outflow on maturity	4,176,475,777	478,582,783	556,460,135	508,071,726	915,866,757	1,717,494,376
Interval gap	(354,221,039)	323,728,606	122,009,597	(122,171,474)	(542,537,760)	(135,250,008)

December 31, 2010

	Total	Amount for each remaining period to maturity				
		Day 1 to day 30	Day 31 to day 90	Day 91 to day 180	Day 181 to 1 year	Over 1 year
Main capital inflow on maturity	\$ 3,759,621,399	889,994,289	578,316,017	348,684,135	231,059,106	1,711,567,852
Main capital outflow on maturity	4,290,523,630	544,127,505	495,347,238	543,412,244	1,019,809,738	1,687,826,905
Interval gap	(530,902,231)	345,866,784	82,968,779	(194,728,109)	(788,750,632)	23,740,947

Note: The table includes only assets and liabilities denominated in NTD held in head office and domestic and overseas branches; assets and liabilities denominated in foreign currencies are excluded.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Term Structure Analysis of USD-denominated Assets and Liabilities

Subsidiary – BOT

December 31, 2011

Unit: Thousand USD

	Total	Amount for each remaining period to maturity				
		Day 1 to day 30	Day 31 to day 90	Day 91 to day 180	Day 181 to 1 year	Over 1 year
Main capital inflow on maturity	\$ 23,314,824	6,889,263	9,450,063	3,625,532	1,574,075	1,775,891
Main capital outflow on maturity	22,818,079	11,880,343	6,980,792	2,006,354	1,343,291	607,299
Interval gap	496,745	(4,991,080)	2,469,271	1,619,178	230,784	1,168,592

December 31, 2010

	Total	Amount for each remaining period to maturity				
		Day 1 to day 30	Day 31 to day 90	Day 91 to day 181	Day 181 to 1 year	Over 1 year
Main capital inflow on maturity	\$ 20,312,625	7,119,199	5,938,070	4,382,325	1,350,149	1,522,882
Main capital outflow on maturity	19,907,610	11,254,352	4,469,203	2,302,642	1,271,577	609,836
Interval gap	405,015	(4,135,153)	1,468,867	2,079,683	78,572	913,046

Note 1: The above amounts are book values of the assets and liabilities of the onshore branches and offshore banking unit of the subsidiary BOT in U.S. dollars, without off-balance-sheet amounts (for example, the issuance of negotiable certificates of deposits, bonds or stocks).

Note 2: If the overseas assets are at least 10% of the total assets, there should be additional disclosures.

8. The trade information about stakeholders who are borrowers, guarantors or collateral providers
 - (a) Name and relationship of the related party: Please see note 37. The credit part shows the stakeholders in accordance with "The Banking Act of the Republic of China", Article 33-1.
 - (b) Significant transactions with related party:
 - a) Loans: Please see note 37.
 - b) Guarantee payment: none.
 - c) Transactions involving derivative financial instruments: Please see note 37.
 - d) Transactions involving selling non-performing loans: none.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

7) Financial information classified by business type

For the year ended December 31, 2011

Unit: thousand NTD

Businesses Items	Banking business	Insurance business	Securities business	Government Insurance	Other operations	Total
Net interest income	21,834,638	8,047,261	108,848	1,396,332	-	31,387,079
Net non-interest income	14,515,608	38,287,671	367,672	(4,785,817)	(3,921)	48,381,213
Net revenues	36,350,246	46,334,932	476,520	(3,389,485)	(3,921)	79,768,292
Bad debt expense	4,990,799	8,285	252	566	-	4,999,902
Provision for insurance reserves	7,053,760	47,224,441	-	(3,526,880)	-	50,751,321
Operating expense	17,942,105	824,807	313,176	136,829	116,842	19,333,759
Net income before cumulative effect of changes in accounting principle and income tax	6,363,582	(1,722,601)	163,092	-	(120,763)	4,683,310
Income tax expense	789,301	(67,076)	24,012	-	(143,518)	602,719
Cumulative effect of changes in accounting principle	-	-	-	-	-	-
Net income	5,574,281	(1,655,525)	139,080	-	22,755	4,080,591

For the year ended December 31, 2010

Unit: thousand NTD

Businesses Items	Banking business	Insurance business	Securities business	Government Insurance	Other operations	Total
Net interest income	19,300,358	5,976,324	96,904	1,060,828	(676)	26,433,738
Net non-interest income	33,314,568	42,373,051	444,849	(15,068,123)	(3,443)	61,060,902
Net revenues	52,614,926	48,349,375	541,753	(14,007,295)	(4,119)	87,494,640
Net revenues	376,029	(1,429)	(65)	-	-	374,535
Provision for insurance reserves	28,276,890	46,610,579	-	(14,138,445)	-	60,749,024
Operating expense	17,154,184	766,841	326,525	131,150	109,262	18,487,962
Net income before cumulative effect of changes in accounting principle and income tax	6,807,823	973,384	215,293	-	(113,381)	7,883,119
Income tax expense	741,837	(262,821)	27,882	-	(47,880)	459,018
Cumulative effect of changes in accounting principle	-	-	-	-	-	-
Net income	6,065,986	1,236,205	187,411	-	(65,501)	7,424,101

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- 8) The balance sheets and statements of income of government employee's insurance department of BOT

1. Balance sheets

	Government employees insurance department	
	December 31, 2011	December 31, 2010
Cash and cash equivalents	\$ 24,911,164	16,895,308
Financial assets at fair value through profit or loss	65,802,579	64,574,377
Receivables, net	23,330,050	19,293,627
Held-to-maturity financial assets, net	50,321,722	53,631,156
Fixed assets	6,832	7,493
Intangible assets	442	1,254
Other assets, net	13,690,111	20,126,389
Total assets	\$ 178,062,900	174,529,604
Financial liabilities at fair value through profit or loss	\$ 5,254	-
Payables	33,146	31,978
Other liabilities	178,024,500	174,497,626
Total liabilities	178,062,900	174,529,604
Total Liabilities and Shareholders' Equity	\$ 178,062,900	174,529,604

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Statements of income

	Government employees insurance department	
	2011	2010
Net interest income	\$ 1,396,332	1,060,828
Non-interest income, net		
Service fee expenses	114,692	128,967
Gain (loss) on financial assets and liabilities at fair value through profit or loss	(8,021,468)	7,014,054
Foreign exchange gain (loss)	838,664	(4,207,957)
Other non-interest income		
Premium income	17,695,580	17,418,404
Recovered reserves for insurance premium	-	284
Government subsidy	18,619,038	17,871,279
Insurance payments	(26,971,342)	(24,991,430)
Provision for insurance premium reserve	(3,526,880)	(14,138,729)
Miscellaneous expense	(7,221)	(24,550)
Net revenue	<u>137,395</u>	<u>131,150</u>
Bad debt expense	<u>566</u>	<u>-</u>
Operating expense		
Personnel expense	120,411	115,149
Depreciation and amortization expense	3,295	3,454
Other business and administrative expense	<u>13,123</u>	<u>12,547</u>
	<u>136,829</u>	<u>131,150</u>
Net income	<u>\$ -</u>	<u>-</u>

Note: Losses incurred by Government employee's insurance department prior to May 30, 1999 are audited and subsidized by the ministry of finance. Losses incurred after May 31, 1999 shall be covered by adjusting insurance rate.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD.**Balance Sheet**

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	\$ 171,358	37,114	362
Receivables, net	2,026,209	25,622	7,808
Investments under equity method, net	255,373,942	265,595,960	(4)
Fixed assets, net	7,644	7,854	(3)
Intangible assets, net	31	45	(31)
Other assets, net	4,305,803	5,793,134	(26)
Total Assets	\$ 261,884,987	271,459,729	(4)
Liabilities and Stockholders' Equity			
Short term loans	\$ 5,700,000	5,600,000	2
Payables	1,988,369	15,873	12,427
Accrued pension liabilities	56,288	45,206	25
Other liabilities	4,430,690	5,620,978	(21)
Total liabilities	12,175,347	11,282,057	8
Stockholders' equity			
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 earnings	6,680,591	9,729,678	(31)
	14,261,163	15,993,501	(11)
Equity adjustments:			
Unrealized increments on revaluation	27,175,554	15,116,171	80
Cumulative foreign currency translation adjustment	(370,052)	(465,473)	(20)
Unrealized gain on financial instruments	7,418,299	28,019,454	(74)
Net loss 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)
Total Liabilities and Stockholders' Equity	\$ 261,884,987	271,459,729	(4)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD.

Statement of Income

For the years December 31, 2011 and 2010
(expressed in thousands of New Taiwan Dollars)

	2011	2010	Percentage change (%)
Revenues:			
Income from equity investments under equity method	\$ 4,127,132	7,532,044	(45)
Other gains	2,821	3,083	(8)
	<u>4,129,953</u>	<u>7,535,127</u>	(45)
Expenses:			
Operating expenses	140,732	131,247	7
Other expenses and losses	52,148	27,659	89
	<u>192,880</u>	<u>158,906</u>	21
Income before income tax	3,937,073	7,376,221	(47)
Income tax benefits	<u>(143,518)</u>	<u>(47,880)</u>	(200)
Net income	<u><u>\$ 4,080,591</u></u>	<u><u>7,424,101</u></u>	(45)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD.

Statement of Changes in Stockholders' Equity

For the years December 31, 2011 and 2010
(expressed in thousands of New Taiwan Dollars)

	Cumulative for									
	Common stock	Additional paid-in capital	Legal reserve	Special reserve	Unappropriated retained earnings		Net loss not recognized as pension cost	Unrealized gain (loss) 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
Net income for the year 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 gain (loss) on 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
Net income for the year 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 (loss) on 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	-	-	-	204,699	-	-	-	-	-	204,699
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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD.

Statement of Cash Flows

For the years December 31, 2011 and 2010
(expressed in thousands of New Taiwan Dollars)

	2011	2010
Cash flows from operating activities:		
Net income	\$ 4,080,591	7,424,101
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	2,011	1,732
Cash dividends received in excess of gains on equity investments recognized under the equity method	500,704	(1,712,457)
Increase in receivables	(2,000,587)	(25,487)
Increase in deferred tax assets	(32,310)	(22,389)
Increase in other assets	(6)	(2,308)
Increase (decrease) in payables	1,972,496	(1,930)
Decrease in accrued pension liabilities	6,470	4,676
Net cash provided by operating activities	4,529,369	5,665,938
Cash flows from investing activities:		
Increase in long-term investments under equity method	-	(4,000,000)
Purchase of fixed assets	(1,787)	(1,815)
Increase in refundable deposits	-	(143)
Net cash used in investing activities	(1,787)	(4,001,958)
Cash flows from financing activities:		
Increase in short-term loans	100,000	3,600,000
Increase (decrease) in guarantee deposits received	32	(82)
Prepaid dividends	(4,493,370)	(6,633,727)
Net cash used in financing activities	(4,393,338)	(3,033,809)
Net increase (decrease) in cash and cash equivalents	134,244	(1,369,829)
Cash and cash equivalents at beginning of year	37,114	1,406,943
Cash and cash equivalents at end of year	\$ 171,358	37,114
Supplemental disclosure of cash flow information:		
Interest paid	\$ 50,951	26,858
Income tax paid	\$ -	51
Financial and investing activities not affecting cash:		
Unrealized increments on revaluation	\$ 12,059,383	(1,523,803)
Cumulative foreign currency translation adjustments	\$ 95,421	(336,949)
Unrealized loss on financial instruments	\$ (20,601,154)	8,893,062
Net loss not recognized as pension cost	\$ (868,570)	(2,183)
Additional paid-in capital from investee company	\$ 579,227	21,263
Special reserve	\$ 204,699	-

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

10) Subsidiaries' condensed consolidated balance sheets and statements of income

1. Condensed balance sheets

	BOT	
	December 31, 2011	December 31, 2010
Cash and cash equivalents	\$ 76,426,176	44,476,364
Due from Central Bank and call loans to banks	488,555,403	518,166,823
Financial assets at fair value through profit or loss	110,886,007	99,875,033
Bonds and bills purchased under resell agreements	3,231,949	600,294
Receivables, net	86,422,934	84,272,771
Discounts and loans, net	2,153,645,232	2,079,558,679
Available-for-sale financial assets, net	757,373,465	837,360,582
Held-to-maturity financial assets, net	50,942,589	54,207,507
Investments under equity method, net	32,479,598	31,330,008
Other financial assets, net	72,207,332	69,201,006
Fixed assets	97,864,904	76,596,999
Intangible assets	821,057	969,574
Other assets, net	15,119,110	18,607,244
Total assets	\$ 3,945,975,756	3,915,222,884
Due to Central Bank and other banks	\$ 208,926,475	207,612,937
Financial liabilities at fair value through profit or loss	3,902,885	18,985,604
Bonds and bills sold under repurchase agreements	14,906,165	9,429,373
Payables	39,471,579	38,952,004
Deposits and remittances	3,218,010,687	3,185,931,012
Accrued pension liability	4,566,754	3,389,155
Other financial liabilities	5,756,183	1,048,528
Other liabilities	204,028,632	198,325,665
Total liabilities	3,699,569,360	3,663,674,278
Common stock	70,000,000	70,000,000
Additional paid-in capital	106,077,872	105,581,440
Retained earnings	30,938,920	32,923,901
Other shareholder's equity	39,389,604	43,043,265
Total shareholders' equity	246,406,396	251,548,606
Total Liabilities and Shareholders' Equity	\$ 3,945,975,756	3,915,222,884

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	BTLI	
	December 31, 2011	December 31, 2010
Current assets	\$ 39,081,370	37,878,890
Loans	10,436,679	9,870,467
Funds and investments	272,198,966	232,732,354
Fixed assets	891,852	899,336
Intangible assets	236,786	225,761
Other assets, net	8,875,541	9,408,414
Total assets	\$ 331,721,194	291,015,222
Current liabilities	\$ 30,533,072	31,853,580
Long-term liabilities	359,877	307,528
Reserve for operations and other liabilities	288,493,364	241,010,090
Other liabilities	6,657,642	7,025,867
Total liabilities	326,043,955	280,197,065
Common stock	11,000,000	11,000,000
Capital surplus	445,373	362,579
Accumulated deficit	273,573	(89,263)
Other shareholders' equity	(6,040,707)	(455,159)
Total shareholders' equity	5,678,239	10,818,157
Total Liabilities and Shareholders' Equity	\$ 331,722,194	291,015,222

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	BTS	
	December 31, 2011	December 31, 2010
Current assets	\$ 4,023,383	3,923,137
Fixed assets	285,281	253,323
Intangible assets	1,522	2,784
Other assets, net	548,454	516,336
Net brokering accounts — debit	38,738	-
Total assets	\$ 4,897,378	4,695,580
Current liabilities	\$ 1,452,896	1,203,425
Other liabilities	155,175	227,182
Net brokering accounts — credit	-	35,777
Total liabilities	1,608,071	1,466,384
Common stock	3,000,000	3,000,000
Non-appropriated surplus	285,157	149,333
Unrealized incremental value from revaluation	145,232	89,070
Unrealized net loss not recognized as pension cost	(61,314)	-
Unrealized gain on financial instrument	(79,768)	(9,207)
Total shareholders' equity	3,289,307	3,229,196
Total Liabilities and Shareholders' Equity	\$ 4,897,378	4,695,580

2. Condensed income statements

	BOT	
	December 31, 2011	December 31, 2010
Net interest income	\$ 23,186,559	20,269,138
Non-interest income, net	4,412,784	5,257,020
Net revenue	27,599,343	25,526,158
Credit provisions	4,991,365	376,029
Operating expenses	18,117,605	17,323,324
Income before tax	4,490,373	7,826,805
Income after tax	3,701,072	7,084,968
EPS — before tax (dollars)	0.64	1.12
EPS — after tax (dollars)	0.53	1.01

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	BTLI	
	December 31, 2011	December 31, 2010
Operating revenues	\$ 62,771,485	65,085,942
Operating costs	61,619,108	64,226,603
Gross Profit	1,152,377	859,339
Operating expenses	871,158	805,488
Operating revenues	281,219	53,851
Non-operating revenue	24,879	48,524
Non-operating expenses	20,546	39,373
Income before tax	285,552	63,002
Income after tax	352,628	325,823
EPS — before tax (dollars)	0.26	0.07
EPS — after tax (dollars)	0.32	0.36

	BTS	
	December 31, 2011	December 31, 2010
Revenue	\$ 568,072	632,249
Expenses	470,628	483,114
Income before tax	97,444	149,135
Income after tax	73,432	121,253
EPS — before tax (dollars)	0.32	0.50
EPS — after tax (dollars)	0.24	0.40

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

11) Government audit adjustments for fiscal year ended December 31, 2010 and 2009

The Company and its subsidiaries' accounting records as of and for the year ended 2010 and 2009, has been audited by the MoA, and the resulting adjustments are summarized are as follows:

December 31, 2010

Balance sheet	As audited by auditors December 31, 2010	Adjustments — Increase (decrease)	As audited by the MoA, December 31, 2010
Assets			
Cash and cash equivalents	\$ 60,551,598	1,152	60,552,750
Receivables, net	90,593,396	440	90,593,836
Liabilities			
Payable	70,926,682	(329)	70,926,353
Other liabilities	28,288,062	1,624	28,289,686
Stockholders' equity			
Unappropriated retained earnings	9,729,697	(19)	9,729,678
Income statement	As audited by auditors 2010	Adjustments — Increase (decrease)	As audited by the MoA, 2010
Interest income	\$ 53,578,753	(999,363)	52,579,390
Net income on service charges and commissions	3,805,135	1,244	3,806,379
Foreign exchange gains (losses)	(3,600,578)	(23)	(3,600,601)
Other business and administrative expenses	9,684,862	137	9,684,999
Income before income taxes	7,882,998	121	7,883,119
Income tax benefits	458,878	140	459,018
Net income	7,424,120	(19)	7,424,101

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009

Balance sheet	As audited by auditors December 31, 2009	Adjustments — Increase (decrease)	As audited by the MoA, December 31, 2009
Assets			
Financial assets measured at fair value through profit or loss, net	\$ 72,498,558	(5)	72,498,553
Receivables, net	95,050,125	(201,678)	94,848,447
Other assets	18,498,045	243,231	18,741,276
Liabilities			
Payable	91,773,529	(30,031)	91,743,498
Stockholders' equity			
Unappropriated retained earnings	8,790,072	61,714	8,851,786
Income statement	As audited by auditors 2009	Adjustments — Increase (decrease)	As audited by the MoA, 2009
Interest income	\$ 54,199,940	(2,055)	54,197,885
Net income on service charges and commissions	3,216,707	78,701	3,295,408
Gains (losses) on financial assets and liabilities at fair value through profit or loss	5,644,487	(148,685)	5,495,802
Foreign exchange gains (losses)	1,564,396	27	1,564,423
Other business and administrative expenses	4,530,883	(284,529)	4,246,354
Income before income taxes	8,685,253	125	8,685,378
Income tax benefits	(34,196)	(61,589)	(95,785)
Net income	8,719,449	61,714	8,781,163

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

12) Significant effect of foreign currency assets and liabilities is summarized as follows:

1. BOT

	December 31, 2011			December 31, 2010		
	Currency (thousand)	Exchange rate	NT	Currency (thousand)	Exchange rate	NT
Financial assets:						
Monetary items						
USD	9,018,170	30.2750	273,025,097	9,001,651	29.5000	265,548,705
HKD	12,422,465	3.8970	48,410,346	7,666,903	3.7900	29,057,562
MYR	3,989	9.5360	38,039	2,495	9.5624	23,858
GBP	429,575	46.6800	20,052,561	497,898	45.5500	22,679,752
AUD	580,397	30.7450	17,844,306	598,990	30.0281	17,986,532
CAD	42,915	29.6700	1,273,288	6,330	29.5118	186,810
SGD	1,395,628	23.3000	32,518,132	1,180,280	22.8718	26,995,128
CHF	5,017	32.1850	161,472	4,738	31.5339	149,408
JPY	106,085,406	0.3897	41,341,483	109,938,180	0.3622	39,819,609
ZAR	1,288,822	3.7100	4,781,530	1,160,947	4.4426	5,157,623
SEK	6,255	4.3900	27,459	4,296	4.3671	18,761
NZD	6,725	23.4100	157,432	9,652	22.7593	219,673
THB	218,376	0.9583	209,270	156,570	0.9788	153,251
PHP	32,161	0.6906	22,210	16,641	0.6733	11,204
IDR	3,491,497	0.0034	11,871	2,399,609	0.0033	7,919
EUR	364,612	39.2200	14,300,083	431,135	39.2468	16,920,669
KRW	7,128,657	0.0262	186,771	5,058,219	0.0261	132,020
CNY	366,597	4.7970	1,758,566	163,159	4.4664	728,733
VND	8,005,820	0.0015	12,009	5,095,010	0.0015	7,643
Non-monetary items						
USD	841,066	30.2750	25,463,273	40	29.5000	1,180
HKD	45,116	3.8970	175,817	3,018	3.7900	11,438
MYR	3,982	9.5360	37,972	-	9.5624	-
GBP	46,605	46.6800	2,175,521	96	45.5510	4,373
AUD	164,017	30.7450	5,042,703	-	-	-
CAD	34,123	29.6700	1,012,429	-	29.5118	-
SGD	14,669	23.3000	341,788	377	22.8718	8,623
CHF	223	32.1850	7,177	-	31.5339	-
JPY	3,311,074	0.3897	1,290,326	26,091	0.3622	9,450
ZAR	51,165	3.7100	189,822	1,773	4.4426	7,877
SEK	1,050	4.3900	4,610	-	-	-
NZD	247	23.4100	5,782	-	-	-
THB	1,877	0.9583	1,799	-	-	-
PHP	32,161	0.6906	22,210	-	-	-
IDR	3,491,497	0.0034	11,871	-	-	-
EUR	136,887	39.2200	5,368,708	-	-	-

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2011			December 31, 2010		
	Currency (thousand)	Exchange rate	NT	Currency (thousand)	Exchange rate	NT
KRW	7,128,657	0.0262	186,771	-	-	-
CNY	221,436	4.7970	1,062,228	-	-	-
VND	8,005,820	0.0015	12,009	-	0.0015	-
Financial liabilities:						
Monetary items						
USD	11,409,937	30.2750	345,435,843	11,365,118	29.5000	335,270,981
HKD	12,187,584	3.8970	47,495,015	7,641,054	3.7900	28,959,595
MYR	6	9.5360	57	7	9.5624	67
GBP	492,548	46.6800	22,992,141	557,311	45.5510	25,386,073
AUD	654,621	30.7450	20,126,323	644,740	30.0281	19,360,317
CAD	123,792	29.6700	3,672,909	120,570	29.5118	35,588,238
SGD	1,334,091	23.3000	31,084,320	1,123,231	22.8718	25,690,315
CHF	19,240	32.1850	619,239	10,486	31.5339	330,664
JPY	82,494,495	0.3897	32,148,105	87,692,863	0.3622	31,762,355
ZAR	9,577,014	3.7100	35,530,722	6,619,409	4.4426	29,407,386
SEK	34,305	4.3900	150,599	22,206	4.3671	96,976
NZD	364,478	23.4100	8,532,430	580,654	22.7593	13,215,279
THB	254	0.9583	243	18	0.9788	18
EUR	320,918	39.2200	12,586,404	409,932	39.2468	16,088,519
KRW	-	0.0262	-	-	-	-
CNY	145,223	4.7970	696,635	9,211	4.4664	41,140
Non-monetary items						
USD	11,193	30.2750	338,868	-	-	-
HKD	54,490	3.8970	212,348	-	-	-
MYR	-	9.5360	-	-	-	-
GBP	2,397	46.6800	111,892	-	-	-
SGD	13,041	23.3000	303,855	-	-	-
JPY	962,268	0.3897	374,996	-	-	-
ZAR	15,892	3.7106	58,959	-	-	-

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

2. BTLI

	December 31, 2011			December 31, 2010		
	Currency (thousand)	Exchange rate	NT	Currency (thousand)	Exchange rate	NT
Financial assets:						
Monetary items						
AUD	259,694	30.7450	7,984,304	163,403	30.0281	4,906,681
CAD	42,044	29.6700	1,247,436	25,318	29.5118	747,175
EUR	59,439	39.2200	2,331,204	68,256	39.2468	22,678,827
HKD	182,302	3.8970	710,430	92,402	3.9700	350,205
JPY	300	0.3897	117	300	0.3622	109
NZD	298	23.4100	6,966	2,287	22.7593	52,055
USD	3,557,058	30.2750	107,689,929	2,606,461	29.5000	76,890,586
CNY	462,041	4.7970	2,216,409	-	-	-
Financial liabilities:						
Monetary items						
USD	282,089	30.2750	8,540,243	105,365	29.5000	3,108,280

13) Disclosure on adopting IFRSs for the year ended 2011:

- 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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Plan Content	Responsible Department (or Responsible Person)	Status
◎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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Plan Content	Responsible Department (or Responsible Person)	Status
◎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
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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Plan Content	Responsible Department (or Responsible Person)	Status
◎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	

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Plan Content	Responsible Department (or Responsible Person)	Status
◎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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Plan Content	Responsible Department (or Responsible Person)	Status
◎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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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	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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Plan Content	Responsible Department (or Responsible Person)	Status
◎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	Completed

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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 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
Phase 4 - Implementation and adjustment: (2013.01.01 ~ 2013.12.31)		
◎Consolidate management information	Planning Department	In Progress
◎Process analysis and improvement procedures for IFRS conversion	Accounting and relative Department	In Progress
◎Ensure the disclosure and preparation of financial statements in compliance with the requirements of IFRS and formulate necessary response to changes	Accounting Department	In Progress

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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	<p>a) Minimum pension liability: The Company accrues the minimum pension liability in accordance with the actuarial report; under IFRS, there are no minimum standard.</p> <p>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.</p> <p>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.</p>
Financial Products	<p>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.</p> <p>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.</p>
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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Accounting issue

Difference explanation

- | | |
|--|--|
| Affiliated companies under equity method | <p>(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.</p> <p>(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.</p> |
|--|--|

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.

(43) 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.

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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	Location	Main operations	Percentage of shares	Invested amount	Gain (loss) on investment	Consolidated Information				Remarks
						Number of shares	Pro-forma shares	Total		
								Number of shares	Percentage of shares	
Bank of Taiwan Co., Ltd.	No.120, Section 1, Chongching South Road, Taipei City	Operation of banks	100.00 %	246,406,396	3,701,072	7,000,000,000	-	7,000,000,000	100.00 %	Note 4
BankTaiwan Life Insurance Co. Ltd.	6th floor, No.69, Section 2, Dunhua South Road, Taipei City	Life insurance	100.00 %	5,678,239	352,628	1,100,000,000	-	1,100,000,000	100.00 %	Note 4
BankTaiwan Securities Co. Ltd.	No.58, Section 1, Chongching South Road, Taipei City	Securities	100.00 %	3,289,307	73,432	300,000,000	-	300,000,000	100.00 %	Note 4
Hua Nan Financial Holding Co. Ltd.	No. 38, Sec.1, Chongching S. Rd. Taipei City	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.	No.17 and 18, Syuchang St., Taipei City	Life insurance	21.60 %	1,987,762	62,708	185,040,012	-	185,040,012	21.59 %	-
Kaohsiung Ammonium Sulfate Co., Ltd.	8F., No.53, Tonghua 4th Rd., Kaohsiung	Liquidating	91.86 %	2,420,898	(28,212)	303,131,576	-	303,131,576	91.86 %	-
Tang Eng Iron Works Co., Ltd.	5F, No. 53, Tonghua 4th Rd., Kaohsiung	Iron industry	21.37 %	1,653,863	103,479	74,802,414	-	74,802,414	21.37 %	-
Tai Yi Real-Estate Management Co., Ltd.	3F., No.56, Dunhua N. Rd., Taipei City	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.

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

Note 4: The above transactions had been eliminated in preparing consolidated financial statements.

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	Payment status	Counter party	Relation-ship	The ex-transferred information (when counter party is related-party)				Price deciding basis	Acquiring purpose	Other
							Owner	Relation-ship	Transfer rate	Amount			
BTLI	Taipei Chong-cheng District, Chong-ching S.Road Sec 1 no.57 FL.2,B1, B1-1 and B1-2	100.6.21	740,125	Paid in	Radium Techonlogy	None	-	-	-	-	Price valuation report	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.

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

11. Information regarding selling non-performing loans:

(a) Summary of transaction information of NPL disposition

Subsidiary-BOT

Date	Counter-party	Content	Book value	Selling price	Gain (loss) on disposal	Additional condition	The relationship of the counter-party and the
2011.01.07	A	Working capital loans, capital expenditure loans	-	6,043	6,043	None	None
2011.04.19	B	Working capital loans, capital expenditure loans	254,785	242,045	(12,740)	None	None
2011.09.09	C	Working capital loans, capital expenditure loans	36,494	164,311	127,817	None	None

(b) The information of a transaction of NPL disposition up to \$1,000,000 should be disclosed: none.

12. The type of and related information on securitized instruments which were authorized to be engaged in according to the "Financial Asset Securitization Act" or the "Real Estate Securitization Act": none.

13. Other material transaction items which were significant to people who use the information in the financial statements: none.

3) Information on subsidiaries' investment in China:

In order to accelerate the investment speed in China approved by the Board of Directors, BOT has agreed to upgrade the representative office in Shang-hai as branch approved by the Financial Supervisory Commission and Ministry of Economy on February 10, 2011 and March 31, 2011, respectively. The upgrade is currently in progress.

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(44) Operational Department:

1) Segment Information

December 31, 2011

	Government emj								
	Bank Assetsdepartment		Procurement department	Trade department	Life insurance department	Securities department	Other department	Offset amount	Total
Cash and cash equivalents	\$ 50,489,558	24,911,164	624,645	400,809	36,200,692	47,687	171,358	(14,857,609)	97,988,304
Placement with Central Bank and call loans to banks	488,555,403	-	-	-	-	-	-	-	488,555,403
Financial assets at fair value through profit or loss	45,083,428	65,802,579	-	-	979,164	425,168	-	(543,355)	111,746,984
Bonds and bills purchased under resell agreements	3,231,949	-	-	-	8,993,341	177,561	-	-	12,402,851
Receivables, net	62,883,039	23,330,050	9,076	200,769	2,857,977	1,811,155	855,446	(896,463)	91,051,049
Loans and discounts, net	2,153,645,232	-	-	-	10,436,679	-	-	(5,700,000)	2,158,381,911
Available-for-sale financial assets, net	757,373,465	-	-	-	43,264,835	1,420,031	-	-	802,058,331
Held-to-maturity financial assets, net	620,867	50,321,722	-	-	176,782,256	-	-	-	227,724,845
Long-term investment under equity method, net	32,479,598	-	-	-	5,064,531	-	255,373,942	(255,373,942)	37,544,129
Other financial assets, net	72,207,332	-	-	-	38,547,881	-	-	30	110,755,243
Real estate investments, net	-	-	-	-	4,057,036	-	-	-	4,057,036
Fixed assets, net	97,845,861	6,832	7,875	4,336	891,852	285,281	7,644	-	99,049,681
Intangible assets, net	815,019	442	3,375	2,221	7,751	1,522	31	-	830,361
Other assets, net	9,020,338	13,690,111	3,384,358	6,020,484	3,637,199	728,973	4,305,803	(21,704,346)	19,082,920
Total assets	\$ 3,774,251,089	178,062,900	4,029,329	6,628,619	331,721,194	4,897,378	260,714,224	(299,075,685)	4,261,229,048
Liabilities									
Deposit of Central Bank and other banks	\$ 208,926,475	-	-	-	-	499,537	-	-	209,426,012
Financial liabilities at fair value through profit or loss	3,897,631	5,254	-	-	915,132	212	-	(543,355)	4,274,874
Bonds and bills sold under repurchase agreements	14,906,165	-	-	-	-	731,885	-	-	15,638,050
Payables	37,312,050	33,146	121,551	2,004,832	29,617,940	219,636	817,606	(896,463)	69,230,298
Deposits and remittances	3,218,010,687	-	-	-	-	-	-	(15,122,609)	3,202,888,078
Accrued pension liability	-	-	-	-	-	-	5,700,000	(5,700,000)	-
Other financial liabilities	5,756,183	-	-	-	5,490,078	-	-	-	11,246,261
Reserve for operations and liabilities	591,434	178,024,500	-	-	288,492,364	-	-	-	467,108,298
Other liabilities	39,235,446	-	3,488,963	4,251,224	1,527,441	156,801	4,486,978	(21,439,316)	31,707,537
Total liabilities	3,528,636,071	178,062,900	3,610,514	6,256,056	326,042,955	1,608,071	11,004,584	(43,701,743)	4,011,519,408
Stockholders' equity									
Common stock	70,000,000	-	-	-	11,000,000	3,000,000	90,000,000	(84,000,000)	90,000,000
Capital surplus	106,077,872	-	-	-	445,373	-	112,095,429	(106,523,245)	112,095,429
Legal reserve	24,119,287	-	-	-	-	21,486	2,352,676	(24,140,773)	2,352,676
Special reserve	518,561	-	-	-	-	190,239	5,227,896	(708,800)	5,227,896
Unappropriated retained earnings	5,509,694	-	418,815	372,563	273,573	73,432	6,680,591	(6,648,077)	6,680,591
Unrealized increment on revaluation	26,581,673	-	-	-	448,649	145,232	27,175,554	(27,175,554)	27,175,554
Cumulative foreign currency translation	(366,046)	-	-	-	(4,006)	-	(370,052)	370,052	(370,052)
Unrealized gain (loss) on financial instruments	13,983,157	-	-	-	(6,485,091)	(79,768)	7,418,299	(7,418,298)	7,418,299
Net loss not recognized as pension cost	(809,180)	-	-	-	(259)	(61,314)	(870,753)	870,753	(870,753)
Total stockholders' equity	245,615,018	-	418,815	372,563	5,678,239	3,289,307	249,709,640	(255,373,942)	249,709,640
Total liabilities and stockholders' equity	\$ 3,774,251,089	178,062,900	4,029,329	6,628,619	331,721,194	4,897,378	260,714,224	(299,075,685)	4,261,229,048

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

2011

	Government emj								
	Bank department	Procurement department	Trade department	Life insurance department	Securities department	Other department	Offset amount	Total	
Interest revenue	\$ 52,367,793	1,396,332	63	1	8,339,231	125,951	190	(141,055)	62,088,506
Less: interest expense	(30,577,630)	-	-	-	(203,516)	(13,109)	(48,227)	141,055	(30,701,427)
Interest income, net	21,790,163	1,396,332	63	1	8,135,715	112,842	(48,037)	-	31,387,079
Non-interest income, net									
Service fee income, net	4,330,980	114,692	535,869	(21,245)	(1,551,492)	371,128	-	(1,004)	3,778,928
Net insurance business income, net	-	(9,275,762)	-	-	40,600,835	-	-	-	31,325,073
Gain (loss) on financial assets and liabilities at fair value through profit or loss	3,892,395	(8,021,468)	-	-	(4,233,289)	(17,546)	-	927,800	(7,452,108)
Realized gain on available-for-sale financial assets	1,363,849	-	-	-	1,283,560	4,056	-	-	2,651,465
Realized gain on hold-to-maturity financial assets	-	-	-	-	64,704	-	-	-	64,704
Gain on long-term investment under equity method	2,255,273	-	-	-	391,451	-	-	-	2,646,724
Gain on real estate investment	-	-	-	-	72,399	-	-	(29,170)	43,229
Foreign exchange gain (loss)	1,757,424	838,664	-	293	3,154,023	-	-	(926,796)	4,823,608
Gain on asset revaluation (impairment loss)	37,027	-	-	-	-	-	-	-	37,027
Other non-interest income	(8,958,540)	18,611,747	6,856	471,610	471,530	4,314	(1,290)	(143,664)	10,462,563
Net revenue	26,468,571	3,664,205	542,788	450,659	48,389,436	474,794	(49,327)	(172,834)	79,768,292
Bad debt expense	4,990,869	566	-	-	8,285	252	-	(70)	4,999,902
Provisions for insurance policy reserves	-	3,526,810	-	-	47,224,441	-	-	70	50,751,321
Operating expense	17,778,708	136,829	123,973	78,095	871,158	377,098	140,732	(172,834)	19,333,759
Net income before tax	3,698,994	-	418,815	372,564	285,552	97,444	(190,059)	-	4,683,310
Income tax expense	789,301	-	-	-	(67,076)	24,012	(143,518)	-	602,719
Net income	\$ 2,909,693	-	418,815	372,564	352,628	73,432	(46,541)	-	4,080,591

December 31, 2010

	Government emj								
	Bank Assetsdepartment		Procurement department	Trade department	Life insurance department	Securities department	Other department	Offset amount	Total
Cash and cash equivalents	\$ 27,243,313	16,895,308	296,027	41,716	34,241,140	38,993	37,114	(18,240,861)	60,552,750
Placement with Central Bank and call loans to banks	518,166,823	-	-	-	-	-	-	-	518,166,823
Financial assets at fair value through profit or loss	35,300,656	64,574,377	-	-	4,880,879	18,673	-	(2,679,772)	102,094,813
Bonds and bills purchased under resell agreements	600,294	-	-	-	9,074,555	71,557	-	-	9,746,406
Receivables, net	64,945,452	19,293,627	10,332	23,360	3,637,750	2,729,730	25,622	(72,037)	90,593,836
Loans and discounts, net	2,079,558,679	-	-	-	9,870,467	-	-	(5,682,017)	2,083,747,129
Available-for-sale financial assets, net	837,360,582	-	-	-	53,770,593	805,427	-	-	891,936,602
Held-to-maturity financial assets, net	576,351	53,631,156	-	-	141,013,827	-	-	-	195,221,334
Long-term investment under equity method, net	31,330,008	-	-	-	4,851,246	-	265,595,960	(265,595,960)	36,181,254
Other financial assets, net	69,201,006	-	-	-	21,928,827	-	-	-	91,129,833
Real estate investments, net	-	-	-	-	3,351,986	-	-	-	3,351,986
Fixed assets, net	76,575,448	7,493	8,925	5,133	899,336	253,323	7,854	-	77,757,512
Intangible assets, net	958,852	1,254	5,187	4,281	9,720	2,784	45	-	982,123
Other assets, net	17,614,967	20,126,389	3,512,545	1,121,005	3,484,896	775,093	5,793,134	(29,915,671)	22,512,358
Total assets	\$ 3,759,432,431	174,529,604	3,833,016	1,195,495	291,015,222	4,695,580	271,459,729	(322,186,318)	4,183,974,759

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010

	Government emj								
	Bank Liabilitiesdepartment		Procurement department	Trade department	Life insurance department	Securities department	Other deaprtment	Offset amount	Total
Deposit of Central Bank and other banks	\$ 207,612,937	-	-	-	-	-	-	-	207,612,937
Financial liabilities at fair value through profit or loss	-	-	-	-	-	479,781	-	-	479,781
Bonds and bills sold under repurchase agreements	18,985,604	-	-	-	91,231	-	-	(2,679,772)	16,397,063
Payables	9,429,373	-	-	-	-	371,838	-	-	9,801,211
Deposits and remittances	38,044,692	31,978	183,511	691,823	31,762,349	268,165	15,873	(72,038)	70,926,353
Accrued pension liability	3,185,931,012	-	-	-	-	-	-	(18,755,861)	3,167,175,151
Other loans	-	-	-	-	-	82,017	5,600,000	(5,682,017)	-
Other financial liabilities	1,048,528	-	-	-	6,139,271	-	-	-	7,187,799
Reserve for operations and liabilities	281,340	174,497,626	-	-	241,010,090	138,062	-	(12)	415,927,106
Other liabilities	47,386,044	-	3,143,727	173,745	1,194,124	126,521	5,666,184	(29,400,659)	28,289,686
Total liabilities	3,508,719,530	174,529,604	3,327,238	865,568	280,197,065	1,466,384	11,282,057	(56,590,359)	3,923,797,087
Stockholders' equity									
Common stock	70,000,000	-	-	-	11,000,000	3,000,000	90,000,000	(84,000,000)	90,000,000
Capital surplus	105,581,440	-	-	-	362,579	-	111,516,202	(105,944,019)	111,516,202
Legal reserve	21,993,796	-	-	-	-	9,360	1,610,266	(22,003,156)	1,610,266
Special reserve	1,645,137	-	-	-	-	18,720	4,653,557	(1,663,857)	4,653,557
Unappropriated retained earnings	8,449,263	-	505,778	329,927	(89,263)	121,253	9,729,678	(9,316,958)	9,729,678
Unrealized increment on revaluation	14,640,018	-	-	-	387,083	89,070	15,116,171	(15,116,171)	15,116,171
Cumulative foreign currency translation	(455,457)	-	-	-	(10,016)	-	(465,473)	465,473	(465,473)
Net loss not recognized as pension cost	(1,915)	-	-	-	(268)	-	(2,183)	2,183	(2,183)
Unrealized gain (loss) on financial instruments	28,860,619	-	-	-	(831,958)	(9,207)	28,019,454	(28,019,454)	28,019,454
Total stockholders' equity	250,712,901	-	505,778	329,927	10,818,157	3,229,196	260,177,672	(265,595,959)	260,177,672
Total liabilities and stockholders' equity	\$ 3,759,432,431	174,529,604	3,833,016	1,195,495	291,015,222	4,695,580	271,459,729	(322,186,318)	4,183,974,759

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

2010

	Government emj								
	Bank Assetsdepartment	Procurement department	Trade department	Life insurance department	Securities department	Other deaprtment	Offset amount	Total	
Interest revenue	\$ 45,294,436	1,060,828	108	1	6,257,619	105,131	475	(139,208)	52,579,390
Less: interest expense	(26,086,235)	-	-	-	(170,032)	(4,846)	(23,747)	139,208	(26,145,652)
Interest income, net	19,208,201	1,060,828	108	1	6,087,587	100,285	(23,272)	-	26,433,738
Non-interest income, net									
Service fee income, net	4,197,211	128,967	616,850	20,102	(1,546,820)	406,295	-	(16,226)	3,806,379
Net insurance business income, net	-	(7,573,026)	-	-	41,447,721	-	-	-	33,874,695
Gain (loss) on financial assets and liabilities at fair value through profit or loss	2,567,082	7,014,054	-	-	4,277,117	(6,986)	-	(4,015,366)	9,835,901
Realized gain on available-for-sale financial assets	1,987,283	-	-	-	3,050,343	36,855	-	-	5,074,481
Realized gain on hold-to-maturity financial assets	-	-	-	-	660,642	-	-	-	660,642
Gain on long-term investment under equity method	1,667,093	-	-	-	316,720	-	-	-	1,983,813
Gain on real estate investment	-	-	-	-	185,380	-	-	(29,654)	155,726
Foreign exchange gain (loss)	3,532,642	(4,207,957)	-	(2,449)	(6,938,203)	-	-	4,015,366	(3,600,601)
Gain on asset revaluation (impairment loss)	(88,625)	-	-	-	(326,508)	-	-	-	(415,133)
Other non-interest income	(8,713,875)	17,847,013	18,504	384,955	265,090	6,097	(1,304)	(121,481)	9,684,999
Net revenue	24,357,012	14,269,879	635,462	402,609	47,479,069	542,546	(24,576)	(167,361)	87,494,640
Bad debt expense	376,104	-	-	-	(1,429)	(65)	-	(75)	374,535
Provisions for insurance policy reserves	-	14,138,729	-	-	46,610,579	-	-	(284)	60,749,024
Operating expense	16,989,808	131,150	129,684	72,682	806,917	393,476	131,247	(167,002)	18,487,962
Net income before tax	6,991,100	-	505,778	329,927	63,002	149,135	(155,823)	-	7,883,119
Income tax expense	741,837	-	-	-	(262,821)	27,882	(47,880)	-	459,018
Net income	\$ 6,249,263	-	505,778	329,927	325,823	121,253	(107,943)	-	7,424,101

2) Geographical information:

The Company and its subsidiaries categorizes oversea operational department in accordance to their location. As the income and non-current assets do not meet the substantial material amount, the Bank will not disclose the information.

3) Information of important clients

As the company and its subsidiaries do not contain any client of more than 10% of income, the information will not be disclosed.