

Chang Hwa Commercial Bank, Ltd.

**Financial Statements for the
Years Ended December 31, 2011 and 2010 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Chang Hwa Commercial Bank, Ltd.

We have audited the accompanying balance sheets of Chang Hwa Commercial Bank, Ltd. as of December 31, 2011 and 2010, and the related statements of income, changes in shareholders' equity, and cash flows for the years then ended (all expressed in New Taiwan dollars). These financial statements are the responsibility of Chang Hwa Commercial Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Chang Hwa Commercial Bank as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with the Regulations Governing the Preparation of Financial Reports by Public Banks, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

Chang Hwa Commercial Bank has separately prepared consolidated financial statements for the year ended December 31, 2011 on which we have issued an unqualified opinion, based on our audits.

March 21, 2012

Notice to Readers

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

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

CHANG HWA COMMERCIAL BANK, LTD.

BALANCE SHEETS

DECEMBER 31, 2011 AND 2010

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

ASSETS	2011	2010	Percentage	LIABILITIES AND SHAREHOLDERS' EQUITY	2011	2010	Percentage
	Amount	Amount	of Variation		Amount	Amount	of Variation
			%				%
Cash and cash equivalents (Note 3)	\$ 52,948,865	\$ 33,907,482	56	LIABILITIES			
Due from Central Bank and call loans to banks (Notes 3 and 25)	79,667,740	88,513,906	(10)	Due to banks and Central Bank (Notes 15 and 25)	\$ 112,053,512	\$ 95,108,981	18
Financial assets at fair value through profit or loss, net (Notes 2 and 4)	25,020,162	19,303,952	30	Financial liabilities at fair value through profit or loss (Notes 2, 4 and 25)	2,035,814	4,489,980	(55)
Receivables, net (Notes 2, 5 and 6)	19,604,067	23,568,205	(17)	Bonds and securities sold under repurchase agreements (Notes 2 and 25)	10,726,892	13,636,714	(21)
Loans, net (Notes 2, 6 and 25)	1,122,738,843	1,046,553,781	7	Payables (Note 16)	31,956,087	25,544,088	25
Available-for-sale financial assets, net (Notes 2, 7 and 26)	57,579,949	44,084,734	31	Deposits (Notes 17 and 25)	1,288,795,742	1,240,178,989	4
Held-to-maturity financial assets, net (Notes 2, 8 and 26)	180,376,569	193,424,963	(7)	Bank notes (Note 18)	38,496,086	28,493,150	35
Investments accounted for by the equity method, net (Notes 2 and 9)	390,890	227,616	72	Accrued pension liabilities (Notes 2 and 19)	452,697	288,415	57
OTHER FINANCIAL ASSETS, NET				Other financial liabilities	1,676,663	1,170,845	43
Financial assets carried at cost (Notes 2 and 10)	4,728,434	4,728,434	-	Other liabilities (Notes 2 and 13)	<u>7,636,353</u>	<u>7,674,235</u>	-
Bond investments with no active market (Notes 2 and 11)	8,019,929	11,058,321	(27)	Total liabilities	<u>1,493,829,846</u>	<u>1,416,585,397</u>	5
Hedging derivative financial instruments (Notes 2 and 18)	149,400	148,397	1	SHAREHOLDERS' EQUITY (Note 20)			
Other miscellaneous financial assets (Notes 2, 6 and 12)	<u>45,394</u>	<u>92,358</u>	(51)	Capital stock - 8,000,000,000 shares authorized			
Other financial assets, net	<u>12,943,157</u>	<u>16,027,510</u>	(19)	Common stock issued and outstanding - 6,768,328,404 and 6,209,475,600 shares as of December 31, 2011 and 2010, respectively; par value - \$10.00	67,683,284	62,094,756	9
PROPERTY AND EQUIPMENT (Notes 2 and 13)				Retained earnings			
Cost				Legal reserve	9,123,384	8,340,729	9
Land (including revaluation increments)	16,973,023	16,980,300	-	Special reserve	241,692	-	-
Buildings (including revaluation increments)	8,021,052	7,997,758	-	Unappropriated earnings (Note 23)	9,144,268	8,211,749	11
Machinery equipment	5,098,063	4,956,025	3	Other items of shareholders' equity			
Transportation equipment	575,346	606,736	(5)	Unrealized revaluation increments	10,339,717	8,058,163	28
Miscellaneous equipment	1,437,059	1,444,194	-	Cumulative translation adjustments (Note 2)	45,884	52,779	(13)
Leasehold improvements	809,023	793,053	2	Unrealized gains or losses on financial instruments (Note 2)	(766,871)	(174,109)	340
Leased assets	<u>164,610</u>	<u>-</u>	-	Net loss not recognized as pension cost	<u>(133,402)</u>	<u>-</u>	-
Accumulated depreciation	<u>(9,574,036)</u>	<u>(9,023,046)</u>	6	Total shareholders' equity	<u>95,677,956</u>	<u>86,584,067</u>	11
Construction in progress and prepayment for buildings and equipment	<u>2,666</u>	<u>22,537</u>	(88)				
Property and equipment	<u>23,506,806</u>	<u>23,777,557</u>	(1)				
INTANGIBLE ASSETS, NET (Note 2)	<u>62,074</u>	<u>56,504</u>	10				
OTHER ASSETS							
Other miscellaneous assets (Notes 2, 14 and 26)	9,519,396	6,931,826	37				
Deferred tax assets (Notes 2 and 23)	<u>5,149,284</u>	<u>6,791,428</u>	(24)				
Total other assets	<u>14,668,680</u>	<u>13,723,254</u>	7				
TOTAL	<u>\$ 1,589,507,802</u>	<u>\$ 1,503,169,464</u>	6	TOTAL	<u>\$ 1,589,507,802</u>	<u>\$ 1,503,169,464</u>	6

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

CHANG HWA COMMERCIAL BANK, LTD.

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2011 AND 2010

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

	<u>2011</u>	<u>2010</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>Variation</u>
			%
INTEREST INCOME (Notes 2 and 25)	\$ 26,534,868	\$ 22,051,606	20
INTEREST EXPENSE (Note 25)	<u>(10,061,739)</u>	<u>(8,009,961)</u>	26
NET INTEREST INCOME	16,473,129	14,041,645	17
NET INCOME OTHER THAN INTEREST INCOME			
Fee income, net (Notes 2, 21 and 25)	3,593,549	3,819,455	(6)
Gain on financial assets and liabilities at fair value through profit or loss (Notes 2, 4 and 25)	1,210,479	241,108	402
Realized gain (loss) on available-for-sale financial assets (Note 2)	(99,194)	495,383	(120)
Investment income recognized under the equity method (Notes 2 and 9)	274,601	173,696	58
Foreign exchange gain, net (Note 2)	483,252	981,359	(51)
Other non-interest net income and losses			
Gain on sale of nonperforming loans (Note 29)	370,204	1,445,856	(74)
Gain on collection of nonperforming loans (Note 2)	3,679,373	6,532,332	(44)
Gain on financial assets carried at cost (Note 2)	259,819	269,553	(4)
Gain on disposal of property (Note 2)	11,575	131,252	(91)
Other miscellaneous net income	<u>347,586</u>	<u>354,688</u>	(2)
GROSS INCOME	<u>26,604,373</u>	<u>28,486,327</u>	(7)
PROVISION FOR LOAN LOSS (Notes 2 and 6)	<u>(3,225,183)</u>	<u>(4,749,980)</u>	(32)
OPERATING EXPENSES			
Personnel (Note 22)	(8,516,913)	(8,618,424)	(1)
Depreciation and amortization (Note 22)	(799,420)	(914,839)	(13)
Others	<u>(3,493,717)</u>	<u>(3,137,500)</u>	11
Total operating expenses	<u>(12,810,050)</u>	<u>(12,670,763)</u>	1
INCOME BEFORE INCOME TAX OF CONTINUED OPERATIONS	10,569,140	11,065,584	(4)
INCOME TAX EXPENSE (Notes 2 and 23)	<u>(1,526,785)</u>	<u>(3,239,032)</u>	(53)
NET INCOME	<u>\$ 9,042,355</u>	<u>\$ 7,826,552</u>	16

(Continued)

CHANG HWA COMMERCIAL BANK, LTD.

STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2011 AND 2010 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2011		2010	
	Pretax	After-tax	Pretax	After-tax
BASIC EARNINGS PER SHARE (Note 24)	<u>\$ 1.56</u>	<u>\$ 1.34</u>	<u>\$ 1.63</u>	<u>\$ 1.16</u>
DILUTED EARNINGS PER SHARE (Note 24)	<u>\$ 1.55</u>	<u>\$ 1.33</u>	<u>\$ 1.63</u>	<u>\$ 1.15</u>

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

(Concluded)

CHANG HWA COMMERCIAL BANK, LTD.

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars)**

	<u>Capital Stock</u> Common Stock	<u>Retained Earnings</u>			<u>Equity Adjustment</u>				<u>Total</u>
		<u>Legal Reserve</u>	<u>Special Reserve</u>	<u>Unappropriated Earnings</u>	<u>Unrealized Revaluation Increments</u>	<u>Cumulative Translation Adjustments</u>	<u>Unrealized Gain or Loss on Financial Instruments</u>	<u>Net Loss Not Recognized as Pension Cost</u>	
BALANCE, JANUARY 1, 2010	\$ 62,094,756	\$ 7,414,059	\$ -	\$ 3,174,710	\$ 8,079,304	\$ 226,445	\$ 28,011	\$ -	\$ 81,017,285
Appropriation of 2009 earnings									
Legal reserve	-	926,670	-	(926,670)	-	-	-	-	-
Cash dividends	-	-	-	(1,862,843)	-	-	-	-	(1,862,843)
Unrealized gains or losses of available-for-sale financial assets	-	-	-	-	-	-	(202,120)	-	(202,120)
Change in translation adjustments	-	-	-	-	-	(173,666)	-	-	(173,666)
Sale of land with revaluation increments	-	-	-	-	(21,141)	-	-	-	(21,141)
Net income for the year ended December 31, 2010	-	-	-	<u>7,826,552</u>	-	-	-	-	<u>7,826,552</u>
BALANCE, DECEMBER 31, 2010	62,094,756	8,340,729	-	8,211,749	8,058,163	52,779	(174,109)	-	86,584,067
Appropriation of 2010 earnings									
Legal reserve	-	782,655	-	(782,655)	-	-	-	-	-
Cash dividends	-	-	-	(1,738,653)	-	-	-	-	(1,738,653)
Stock dividends	5,588,528	-	-	(5,588,528)	-	-	-	-	-
Unrealized gains or losses of available-for-sale financial assets	-	-	-	-	-	-	(592,762)	-	(592,762)
Change in translation adjustments	-	-	-	-	-	(6,895)	-	-	(6,895)
Sale of land and buildings with revaluation increments	-	-	-	-	(11,801)	-	-	-	(11,801)
Loss provision reclassified to special reserve	-	-	241,692	-	-	-	-	-	241,692
Unrealized revaluation increment	-	-	-	-	2,293,355	-	-	-	2,293,355
Net loss not recognized as pension cost	-	-	-	-	-	-	-	(133,402)	(133,402)
Net income for the year ended December 31, 2011	-	-	-	<u>9,042,355</u>	-	-	-	-	<u>9,042,355</u>
BALANCE, DECEMBER 31, 2011	<u>\$ 67,683,284</u>	<u>\$ 9,123,384</u>	<u>\$ 241,692</u>	<u>\$ 9,144,268</u>	<u>\$ 10,339,717</u>	<u>\$ 45,884</u>	<u>\$ (766,871)</u>	<u>\$ (133,402)</u>	<u>\$ 95,677,956</u>

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

CHANG HWA COMMERCIAL BANK, LTD.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2011 AND 2010 (In Thousands of New Taiwan Dollars)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 9,042,355	\$ 7,826,552
Gains or losses with no effect on cash flows and other adjustments		
Depreciation and amortization	799,420	914,839
Investment income recognized under the equity method	(274,601)	(173,696)
Cash dividends received from equity-method investees	111,327	92,371
Gain on disposal of property, equipment and other miscellaneous assets	(11,575)	(131,252)
Gain on disposal of collaterals	(27,474)	-
Provision for loan losses	3,225,183	4,749,980
Provision for other losses	-	2,683
Amortization of discount on investment in bonds	(773,993)	(346,847)
Valuation gain on financial assets and liabilities at fair value through profit or loss	(105,598)	(101,081)
Loss (gain) on disposal of available-for-sale financial assets	255,040	(356,593)
Valuation loss on hedging financial instruments	1,933	1,159
Deferred income tax expense	1,633,606	3,032,861
Net changes in operating assets and liabilities		
Financial assets for trading purpose	(5,269,669)	(1,062,477)
Receivables	3,775,181	(11,888,277)
Other financial assets	(184,370)	821,885
Other assets - other miscellaneous assets	(73,461)	49,212
Financial liabilities at fair value through profit or loss	(2,795,109)	(928,189)
Payables	6,411,999	3,461,604
Accrued pension liabilities	30,880	(2,185,461)
Other financial liabilities	505,817	(80,706)
Other liabilities	(45,561)	79,083
Net cash provided by operating activities	<u>16,231,330</u>	<u>3,777,650</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in due from Central Bank and call loans to banks	8,846,166	1,761,220
Decrease in bonds and securities purchased under resell agreements	-	49,549
Increase in loans (including delinquent loans)	(79,163,644)	(40,690,751)
Purchase of available-for-sale financial assets	(64,424,536)	(79,817,572)
Proceeds received on sale of available-for-sale financial assets	50,854,980	66,490,754
Purchase of held-to-maturity financial assets	(961,026,799)	(1,140,129,178)
Proceeds received on redemption of matured held-to-maturity financial assets	974,075,493	1,176,988,494
Purchase of bond investments with no active market	(82,324)	(113,465)
Proceeds received on redemption of matured bond investments with no active market	3,299,013	3,704,962
Purchase of intangible assets	(25,620)	(34,218)
Purchase of property, equipment and other miscellaneous assets	(521,442)	(460,688)

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CHANG HWA COMMERCIAL BANK, LTD.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2011 AND 2010 (In Thousands of New Taiwan Dollars)

	2011	2010
Proceeds received on sale of property, equipment and other miscellaneous assets	\$ 46,773	\$ 140,194
Proceeds received on disposal of collaterals	<u>27,474</u>	<u>-</u>
Net cash used in investing activities	<u>(68,094,466)</u>	<u>(12,110,699)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in due to banks and Central Bank	16,944,531	(25,328,934)
(Decrease) increase in bonds and securities sold under repurchase agreements	(2,909,822)	8,217,326
Increase in deposits	48,616,754	29,389,471
Increase in bank notes	10,000,000	5,000,000
Cash dividends distributed	<u>(1,738,653)</u>	<u>(1,862,843)</u>
Net cash provided by financing activities	<u>70,912,810</u>	<u>15,415,020</u>
EFFECT FROM EXCHANGE RATE FLUCTUATION	<u>(8,291)</u>	<u>(173,265)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	19,041,383	6,908,706
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>33,907,482</u>	<u>26,998,776</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 52,948,865</u>	<u>\$ 33,907,482</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year		
Interest	\$ 9,668,305	\$ 8,005,509
Income tax	<u>\$ 139,617</u>	<u>\$ 340,597</u>
NON-CASH FINANCING ACTIVITIES		
Capital increase by earnings recapitalization	<u>\$ 5,588,528</u>	<u>\$ -</u>

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

(Concluded)

CHANG HWA COMMERCIAL BANK, LTD.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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

1. ORGANIZATION AND BUSINESS SCOPE

Chang Hwa Commercial Bank, Ltd. (the "Bank") was incorporated under Banking Law, Securities and Exchange Law and Taiwan Company Law on March 1, 1947 and got license from the Ministry of Economic Affairs in July 1950. Since February 1962 the Bank's shares have been listed and traded on the Taiwan Stock Exchange.

The Bank mainly engages in the following business:

- a. All commercial banking operations allowed by the Banking Law;
- b. Trust operations;
- c. International banking operations;
- d. Overseas branch operations authorized by the respective foreign governments; and
- e. Other operations authorized by the central authority.

The Bank's head office is located in Taichung City, Taiwan. The Bank has banking and trust departments in head office, 181 domestic branches, an international financing branch, three agents conducting securities brokerage activities, seven overseas branches in New York, Los Angeles, Tokyo, London, Singapore, Hong Kong, and Kunshan China.

As of December 31, 2011 and 2010, the Bank had 6,421 and 6,428 employees, respectively.

The Bank's parent is Taishin Financial Holding Co., Ltd. ("Taishin Financial Holding"), which had a 22.55% equity interest in the Bank as of December 31, 2011 and 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in conformity with the Regulations Governing the Preparation of Financial Reports by Public Banks, Business Accounting Law, Guidelines Governing Business Accounting, and accounting principles generally accepted in the Republic of China ("ROC"). Significant accounting policies are summarized as follows:

Foreign Currency Transactions

The financial statements of foreign operations are translated into New Taiwan dollars at the following exchange rates:

- a. Assets and liabilities - at exchange rates prevailing on the balance sheet date;
- b. Shareholders' equity - at historical exchange rates;
- c. Dividends - at the exchange rate prevailing on the dividend declaration date.
- d. Income and expenses - at average exchange rates for the year.

Exchange differences arising from the translation of the financial statements of foreign operations are recognized as a separate component of shareholders' equity. Such exchange differences are recognized in profit or loss in the year in which the foreign operations are disposed of.

Non-derivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur.

At the balance sheet date, foreign-currency monetary assets and liabilities are revalued using prevailing exchange rates and the exchange differences are recognized in profit or loss.

Accounting Estimates

Under above regulations, law and principles, certain estimates and assumptions have been used for the valuation of financial instruments, allowance for loan losses, depreciation of property and equipment, pension cost, tax expense or benefit, asset impairment, guarantees, bonuses to employees, directors and supervisors, and so on. Actual results could differ from these estimates due to changes in operations and assumptions.

For readers' convenience, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If inconsistencies arise between the English version and the Chinese version or if differences arise in the interpretation between the two versions, the Chinese version of the financial statements shall prevail.

Current/Noncurrent Assets and Liabilities

Because of its business characteristics, assets and liabilities of the Bank are classified according to their liquidity rather than classified as current or noncurrent assets or liabilities.

Basis of Financial Statements

The financial statements include the accounts of the head office, all domestic and overseas branches, offices and the international financial branch. All material intra-office account balances and transactions have been eliminated.

Financial Assets and Liabilities at Fair Value through Profit or Loss

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss ("FVTPL") include financial assets or financial liabilities held for trading and those designated as at FVTPL on initial recognition. The Bank recognizes a financial asset or a financial liability on its balance sheet when the Bank becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Bank has lost control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired.

Financial instruments at FVTPL are initially measured at fair value plus transaction costs. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. At each balance sheet date subsequent to initial recognition, financial assets or financial liabilities at FVTPL are remeasured at fair value, with changes in fair value recognized directly in profit or loss in the year in which they arise. Cash dividends received subsequently are recognized as income for the year. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in profit or loss. Regular way purchases or sales of stocks and mutual funds are recognized and derecognized on a trade date basis. Settlement date basis is applied to all other financial assets.

A derivative that does not meet the criteria for hedge accounting is classified as a financial asset or a financial liability held for trading. If the fair value of the derivative is positive, the derivative is recognized as a financial asset; otherwise, the derivative is recognized as a financial liability.

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: Publicly traded stocks - at closing prices; open-end mutual funds - at net asset values; bonds - at prices quoted by the Taiwan GreTai Securities Market; and financial assets and financial liabilities without quoted prices in an active market - at values determined using valuation techniques.

Financial assets and liabilities designated upon initial recognition as at FVTPL include (a) compound financial instruments; and (b) financial assets or liabilities which have been designated as at fair value upon initial recognition for the purpose of eliminating major differences caused by inconsistent accounting process. In addition, a portfolio of financial assets, financial liabilities or its component which is managed according to the risk control and investment policy of the Bank is designated as financial instruments at FVTPL.

Bonds or Securities Purchased/Sold under Specific Agreements

Bonds or securities purchased under resell agreement are recorded at purchase price and are accounted for as financing transactions. Bonds or securities sold under repurchase agreement are recorded at sale price. Interest revenues and expenses are recorded on accrual basis.

Delinquent Loans

According to the Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans and Bad Debts, overdue loans or other credit items including their accrued interest receivables are reclassified to delinquent loans.

The delinquent loans which are reclassified from loans are reported under loans, while others are reported as other miscellaneous financial assets.

Allowance for Loan Losses and Reserve for Guarantees

An allowance for doubtful accounts is provided on the basis of a review of the collectibility of accounts receivable. The Bank assesses the probability of collections of accounts receivable by examining the aging analysis of the outstanding receivables and assessing the value of the collateral provided by customers.

As discussed in Note 3 to the financial statements, on January 1, 2011, the Bank adopted the third-time revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." One of the main revisions is that impairment of receivables originated by a company should be covered by SFAS No. 34. Accounts receivable are assessed for impairment at the end of each reporting period and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the accounts receivable, the estimated future cash flows of the asset have been affected. Objective evidence of impairment could include:

- Significant financial difficulty of the debtor;
- Occurrence of past-due loans and receivables;
- It is becoming probable that the debtor will enter bankruptcy or financial re-organization.

Accounts receivable that are assessed as not impaired individually are further assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of accounts receivable could include the company's past experience in collection of payment and an increase in the number of delayed payments, as well as national or local economic conditions that correlate with defaults on the loans and receivables.

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

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

Available-for-sale Financial Assets

Available-for-sale financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are remeasured at fair value, with changes in fair value recognized in equity until the financial assets are disposed of, at which time, the cumulative gain or loss previously recognized in equity is included in profit or loss for the year. Regular way purchases or sales of stocks and mutual funds are recognized and derecognized on a trade date basis. Settlement date basis is applied to all other financial assets.

The recognition, derecognition and the fair value bases of available-for-sale financial assets are similar to those of financial assets at FVTPL.

Cash dividends are recognized on the ex-dividend date or upon the shareholders' resolutions, except for dividends distributed from the pre-acquisition profit which are treated as a reduction of investment cost. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares subsequent to the increase is used for recalculation of cost per share. The difference between the initial cost of a debt instrument and its maturity amount is amortized using the effective interest method, with the amortized interest recognized in profit or loss.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss of an equity instrument classified as available-for-sale is recognized directly in equity. If the fair value of a debt instrument classified as available-for-sale subsequently increases as a result of an event which occurred after the impairment loss was recognized, the decrease in impairment loss is reversed to profit.

Held-to-maturity Financial Assets

Held-to-maturity financial assets are carried at amortized cost using the effective interest method. Held-to-maturity financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. Profit or loss is recognized when the financial assets are derecognized, impaired, or amortized. Settlement date basis is applied to all held-to-maturity financial assets.

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

Investments Accounted for by the Equity Method

Investments in which the Bank exercises significant influence over the investees' operating and financial policy decisions are recognized at cost and the carrying amount is increased or decreased by the investor's share of the profit or loss of the investee. Distributions received from an investee reduce the carrying amount of the investment. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares subsequent to the increase is used for recalculation of cost per share.

Financial Assets Carried at Cost

Investments in equity instruments with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks and stocks traded in the Emerging Stock Market, are measured at their original cost. The accounting treatment for dividends on financial assets carried at cost is similar to that for dividends on available-for-sale financial assets. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

Bond Investments with No Active Market

Bond investments with fixed or determinable payments and without quoted prices in an active market are carried at amortized cost using the effective interest method. The accounting treatment for such bond investments is similar to that for held-to-maturity financial assets, except for the absence of restriction on the timing of their disposal.

Hedging Derivative Financial Instruments

Derivatives that qualify as effective hedging instruments are measured at fair value, with subsequent changes in fair value recognized either in profit or loss, or in shareholders' equity, depending on the nature of the hedging relationship.

Financial Asset Securitization

According to the Statute for Financial Asset Securitization, mortgage loans and their related rights owned by original institution can be transferred to a specific purpose trust for issuing asset backed securities and funds raised from such issuance should be transferred to the original institution. Under such structure, controls over contractual rights of such financial assets are transferred to the buyers of the asset backed securities, except for subordinated asset backed securities, recorded as available-for-sale financial assets, issued for the purpose of credit enhancement. Therefore, transferred financial assets are derecognized and any resulting gains or losses are recognized in the net income or loss.

Because there is no market price for the retained right, fair value is assessed by making the best estimate of loss rate on the creditor's right, advance principal repayment rate and discount rate of related risks to project the present value of future cash flows.

Property, Equipment, Leased Assets and Idle Assets

Property, equipment, leased assets and idle assets are stated at cost plus revaluation increment less accumulated depreciation. Major additions and improvements to property, equipment, leased assets and idle assets are capitalized, while costs of repairs and maintenance are expensed currently.

Depreciation is calculated using the straight-line method over estimated useful lives as follows: Buildings - 10 to 60 years; machinery equipment - 4 to 16 years; transportation equipment - 2 to 30 years; miscellaneous equipment - 3 to 40 years; leasehold improvements - 5 years.

The related cost (including revaluation increment), accumulated depreciation, accumulated impairment losses and any unrealized revaluation increment of an item of property, plant and equipment are derecognized from the balance sheet upon its disposal. Any gain or loss on disposal of the asset is included in nonoperating gains or losses in the year of disposal.

If the recoverable amount of an item of property, equipment, leased assets and idle assets is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is charged to earnings unless the asset is carried at a revalued amount, in which case the impairment loss is treated as a deduction of the unrealized revaluation increment.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased accordingly, but the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized in earnings, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as an increase in the unrealized revaluation increment.

Assumed Collateral and Residuals

Assumed collateral and residuals are accounted as other miscellaneous assets and recorded at cost. An impairment loss is recognized when the cost is higher than fair value at each subsequent balance sheet date.

Intangible Assets

Intangible assets acquired are initially recorded at cost and are amortized on a straight-line basis over their estimated useful lives. Computer software is amortized over 3-5 years.

Pensions

Pension cost under a defined benefit plan is determined by actuarial valuations. Contributions made under a defined contribution plan are recognized as pension cost during the years in which employees render services.

Reserve for Default Losses and Losses on Trading Securities

According to the Rules Governing the Administration of Securities Firms, 0.0028% of monthly brokerage income must be provided as a reserve for default losses (recorded as other liabilities) until the balance of the reserve equals \$200,000 thousand. Such reserve can only be used to offset default losses or other purposes as approved by the Securities and Futures Bureau ("SFB").

According to the Rules Governing the Administration of Securities Firms, 10% of the excess of monthly gains on trading securities over monthly losses should be set aside as a reserve (recorded as other liabilities) until the balance of the reserve equals \$200,000 thousand. Such reserve can only be used to offset actual losses.

The FSC issued on January 11, 2011 Order No. Financial-Supervisory-Securities-Firms-09900738571 to delete articles 11 and 12 of the amended Regulations Governing Securities Firms. As a result, the balances of trading loss reserve and default reserve are reclassified to special reserve. The special reserve shall not be used for purposes other than covering the losses of the company or, when the special reserve reaches 50 percent of the amount of paid-in capital, half of it may be used for capitalization.

Interest Income and Fee Income Recognition

The interest income on loans is recognized on an accrual basis. When the loans become past due and are considered uncollectible, the principal and interest receivable are transferred to delinquent loan accounts, and the accrual of interest income is stopped. Interest income will be recognized when the delinquent interest is collected. If the repayment of loan is extended under an agreement, the related interest should be recognized as deferred revenue, classified into other liability and recognized as income when collected.

Fee income is recognized when income is received and main service is completed.

Income Tax

The Bank applies intra-year and inter-year allocations for its income tax. Deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused loss carryforward and unused tax credits. Valuation allowance is provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized.

Tax is separately levied on interest from short-term bills and securitized instruments, and recognized as tax expenses in current period.

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

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Hedge Accounting

The Bank enters into derivatives in order to manage interest risk exposures on assets and liabilities. The transaction is accounted as fair value hedge to manage the fair value risk from market interest rate changes of a fixed interest payable. At the inception of the hedge, the Bank prepared formal designation and documentation of the hedging relationship between hedging instruments and the hedged items or transactions, the risk management objective and strategy and how the Bank will assess the hedging instrument effectiveness.

Under fair value hedge, gains or losses from hedging instrument are offset against the exposure of hedged item fair value attributable to the hedged risk. Changes in the fair value of derivatives that are designated and qualified as fair value hedges of interest rate risk are recorded as a gain or loss in current period. Changes in the fair value of the hedged items attributable to the hedged risk are recorded as a gain or loss and used to adjust the carrying value of the hedged items.

Commitments and Contingencies

If losses on commitments and contingencies are considered probable and can be reasonably estimated, the losses are recorded in the statement of income for the current period. If the amount could not be evaluated reasonably, the facts should be disclosed.

Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2010 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2011.

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

Financial Instruments

On January 1, 2011, the Bank adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." The main revisions include (1) original loans and receivables are included in applicable scope of SFAS No. 34; (2) additional guidelines on impairment testing of financial assets carried at amortized cost when a debtor has financial difficulties and the terms of obligations have been modified; and (3) accounting treatment by a debtor for modifications in the terms of obligations.

Operating Segments

On January 1, 2011, the Bank adopted the newly issued SFAS No. 41 - "Operating Segments." The requirements of the statement are based on the information about the components of the Bank that management uses to make decisions about operating matters. SFAS No. 41 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Bank's chief operating decision maker in order to allocate resources to the segments and assess their performance. This statement supersedes SFAS No. 20, "Segment Reporting." For this accounting change, the Bank restated the segment information.

4. CASH AND CASH EQUIVALENTS/DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS

a. Cash and cash equivalents

	<u>December 31</u>	
	2011	2010
Cash on hand	\$ 8,820,730	\$ 8,205,253
Checks for clearing	18,382,183	6,165,941
Due from banks	24,765,051	18,709,497
Foreign currencies on hand	<u>980,901</u>	<u>826,791</u>
	<u>\$ 52,948,865</u>	<u>\$ 33,907,482</u>

b. Due from Central Bank and call loans to banks

	<u>December 31</u>	
	2011	2010
Call loans to banks	\$ 22,733,656	\$ 33,821,447
Reserve for checking account	16,652,741	15,495,883
Reserve for demand account	34,385,941	32,675,457
Reserve for foreign deposit	166,197	195,715
Others	<u>5,729,205</u>	<u>6,325,404</u>
	<u>\$ 79,667,740</u>	<u>\$ 88,513,906</u>

5. FINANCIAL INSTRUMENTS AT FVTPL

	<u>December 31</u>	
	2011	2010
<u>Financial assets at FVTPL</u>		
Financial assets held for trading		
Investment in bills	\$ 17,806,599	\$ 12,404,939
Domestic quoted stocks	-	24,646
Mutual funds	97,663	97,313
Government bonds	2,937,290	2,705,502
Overseas corporate bonds and bank notes	-	91,591
Forward exchange contracts	140,816	336,773

(Continued)

	December 31	
	2011	2010
Interest rate swaps	\$ 558,690	\$ 420,706
Cross-currency swaps	97,512	6,688
Currency swaps	1,804,649	1,276,588
Currency call option premium	241,013	245,361
Futures	<u>67,247</u>	<u>93,207</u>
	<u>23,751,479</u>	<u>17,703,314</u>
Designated financial assets at FVTPL		
Interest rate-linked combination instruments	<u>1,268,683</u>	<u>1,600,638</u>
	<u>\$ 25,020,162</u>	<u>\$ 19,303,952</u>

(Concluded)

The par value of bonds and notes provided for transactions with repurchase agreements were \$7,194,800 thousand and \$8,638,500 thousand as of December 31, 2011 and 2010, respectively.

	December 31	
	2011	2010
<u>Financial liabilities at FVTPL</u>		
Financial liabilities held for trading		
Forward contracts	\$ 106,986	\$ 274,612
Currency swaps	1,090,494	3,310,816
Cross-currency swaps	-	165,539
Interest rate swaps	598,186	488,555
Currency put option premium	240,148	245,351
Asset-swap options	-	3,986
Government bonds short sales	<u>-</u>	<u>1,121</u>
	<u>\$ 2,035,814</u>	<u>\$ 4,489,980</u>

The Bank entered into derivative contracts during the years ended December 31, 2011 and 2010 to manage exposures due to exchange rate and interest rate fluctuations. The financial risk management objective of the Bank is to minimize risks due to changes in fair value and cash flows.

The nominal principal amounts of outstanding derivative contracts as of December 31, 2011 and 2010 were as follows:

	December 31	
	2011	2010
Currency swaps	\$ 298,258,090	\$ 157,030,844
Currency options	39,946,404	16,968,098
Forward exchange contracts	24,479,648	32,352,125
Interest rate swaps and asset-swap options	77,620,685	66,551,332
Cross-currency swaps	2,119,250	2,468,118

Profit or loss of financial assets and liabilities for trading purpose for the years ended December 31, 2011 and 2010 were as follows:

	<u>Year Ended December 31</u>	
	<u>2011</u>	<u>2010</u>
Financial assets		
Gain on disposal	\$ 6,676,187	\$ 3,834,163
Gain on valuation	446,542	4,697,638
Dividend revenue	<u>-</u>	<u>610</u>
	<u>7,122,729</u>	<u>8,532,411</u>
Financial liabilities		
Loss on disposal	(5,571,306)	(3,694,746)
Loss on valuation	<u>(340,944)</u>	<u>(4,596,557)</u>
	<u>(5,912,250)</u>	<u>(8,291,303)</u>
Net gain or loss	<u>\$ 1,210,479</u>	<u>\$ 241,108</u>

6. RECEIVABLES, NET

	<u>December 31</u>	
	<u>2011</u>	<u>2010</u>
Accounts receivable	\$ 10,145,449	\$ 13,923,532
Tax refund receivable	747,310	500,872
Revenue receivable	202,172	202,590
Interest receivable	2,456,178	2,041,132
Acceptance receivable	6,252,183	6,960,883
Other receivables	170,121	153,251
Less allowance for receivables	<u>(369,346)</u>	<u>(214,055)</u>
	<u>\$ 19,604,067</u>	<u>\$ 23,568,205</u>

Please refer to Note 7 for the movements of allowance for receivables.

7. LOANS, NET

a. The details of loans are as follows:

	<u>December 31</u>	
	<u>2011</u>	<u>2010</u>
Negotiated	\$ 5,886,615	\$ 6,083,982
Overdraft	1,554,978	1,194,037
Short-term loans	320,612,225	322,961,530
Receivable amount for margin loans	320,257	531,503
Medium-term loans	327,186,634	265,425,148
Long-term loans	478,413,105	458,181,190
Delinquent loans	<u>3,866,282</u>	<u>5,627,585</u>
	1,137,840,096	1,060,004,975
Less allowance for loan losses	<u>(15,101,253)</u>	<u>(13,451,194)</u>
	<u>\$ 1,122,738,843</u>	<u>\$ 1,046,553,781</u>

b. Movements of allowance for receivables and loans are as follows:

	Year Ended December 31, 2011			
	Receivables	Loans	Other Financial Assets	Total
Balance, January 1, 2011	\$ 214,055	\$ 13,451,194	\$ 7,564	\$ 13,672,813
Provision for loan losses	189,200	3,109,425	48,525	3,347,150
Loans written off	(33,929)	(1,405,653)	(26,471)	(1,466,053)
Others	<u>20</u>	<u>(53,713)</u>	<u>4,893</u>	<u>(48,800)</u>
Balance, December 31, 2011	<u>\$ 369,346</u>	<u>\$ 15,101,253</u>	<u>\$ 34,511</u>	<u>\$ 15,505,110</u>

	Year Ended December 31, 2010			
	Receivables	Loans	Other Financial Assets	Total
Balance, January 1, 2010	\$ 701,622	\$ 12,491,903	\$ 36,122	\$ 13,229,647
Provision (reverse) for loan losses	(443,180)	5,174,724	62,305	4,793,849
Loans written off	(56,017)	(4,078,057)	(99,085)	(4,233,159)
Others	<u>11,630</u>	<u>(137,376)</u>	<u>8,222</u>	<u>(117,524)</u>
Balance, December 31, 2010	<u>\$ 214,055</u>	<u>\$ 13,451,194</u>	<u>\$ 7,564</u>	<u>\$ 13,672,813</u>

The delinquent loans of which the accrual of interest income was stopped internally as of December 31, 2011 and 2010 were \$3,866,282 thousand and \$5,627,585 thousand, respectively. The interest income on delinquent loans not accrued in 2011 and 2010 was \$111,736 thousand and \$153,070 thousand, respectively.

The Bank did not write off any loans without legal claim process in 2011 and 2010.

c. Details of provision for loan losses for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Provision for receivable and loan (including delinquent loan) losses	\$ 3,347,150	\$ 4,793,849
Reserve for guarantees	<u>(121,967)</u>	<u>(43,869)</u>
	<u>\$ 3,225,183</u>	<u>\$ 4,749,980</u>

- d. Details of receivables and allowance for loan accounts for the year ended December 31, 2011 were as follows:

Receivables

Item		Total Receivable	Total Allowance
		December 31, 2011	December 31, 2011
Objective evidence of impairment	Individual assessment of impairment	\$ 307,458	\$ 202,192
	Combined assessment of impairment	71,417	28,999
None objective evidence of impairment	Combined assessment of impairment	18,847,228	138,155
Total		\$ 19,226,103	\$ 369,346

Note: The amount of receivable did not include the amount of allowance for receivables and adjustment for discount (premium).

Loans

Items		Total Loans	Total Allowance
		December 31, 2011	December 31, 2011
Objective evidence of impairment	Individual assessment of impairment	\$ 12,211,096	\$ 7,227,613
	Combined assessment of impairment	4,003,171	884,130
None objective evidence of impairment	Combined assessment of impairment	1,121,625,829	6,989,510
Total		\$ 1,137,840,096	\$ 15,101,253

Note: The amount of loans did not include the amount of allowance for loans and adjustment for discount (premium).

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2011	2010
Domestic quoted stocks	\$ 2,219,138	\$ 2,203,637
Government bonds	38,914,471	29,180,872
Corporate bonds	5,064,137	5,585,127
Bank notes	<u>11,382,203</u>	<u>7,115,098</u>
	<u>\$ 57,579,949</u>	<u>\$ 44,084,734</u>

The par values of bonds provided for transactions with repurchase agreements were \$3,112,300 thousand and \$4,393,000 thousand as of December 31, 2011 and 2010, respectively.

Government bonds placed as deposits in courts as of December 31, 2011 and 2010 were \$734,700 thousand and \$781,200 thousand, respectively. Government bonds placed as operating deposits as of December 31, 2011 and 2010 were both \$290,000 thousand.

9. HELD-TO-MATURITY FINANCIAL ASSETS

	<u>December 31</u>	
	2011	2010
Certificates of deposits issued by the Central Bank	\$ 168,900,000	\$ 182,300,000
Government bonds	186,359	264,800
Bank notes	6,318,024	7,427,513
Corporate bonds	<u>4,972,186</u>	<u>3,432,650</u>
	<u>\$ 180,376,569</u>	<u>\$ 193,424,963</u>

The overseas branches' bonds as collateral for operations as of December 31, 2011 and 2010 were \$242,175 thousand and \$294,219 thousand, respectively.

Certificate of deposits placed as reserves for clearing at the Central Bank were \$37,500,000 thousand and \$5,000,000 thousand as of December 31, 2011 and 2010, respectively.

10. INVESTMENT ACCOUNTED FOR BY THE EQUITY METHOD

	<u>December 31</u>			
	2011		2010	
	Carrying Value	Ownership Interest (%)	Carrying Value	Ownership Interest (%)
CHB Life Insurance Agency Co., Ltd. (CHB Insurance Agency)	\$ 341,194	100.00	\$ 189,531	100.00
CHB Insurance Brokerage Co., Ltd. ("CHB Insurance Brokerage")	<u>49,696</u>	100.00	<u>38,085</u>	100.00
	<u>\$ 390,890</u>		<u>\$ 227,616</u>	

The investment income for the years ended December 31, 2011 and 2010 was based on the investees' financial statements audited by independent auditors for the same year. The investment income recognized under the equity method was as follows:

	2011	2010
CHB Insurance Agency	\$ 242,708	\$ 151,160
CHB Insurance Brokerage	<u>31,893</u>	<u>22,536</u>
	<u>\$ 274,601</u>	<u>\$ 173,696</u>

11. FINANCIAL ASSETS CARRIED AT COST

	<u>December 31</u>	
	2011	2010
Domestic unquoted common stocks	<u>\$ 4,728,434</u>	<u>\$ 4,728,434</u>

12. BOND INVESTMENT WITH NO ACTIVE MARKET

	December 31	
	2011	2010
Preferred stock - Taiwan High Speed Rail Co., Ltd.	\$ 1,300,000	\$ 1,300,000
Beneficiary securities and asset backed securities	404,591	602,258
Corporate bonds and bank notes	<u>6,315,338</u>	<u>9,156,063</u>
	<u>\$ 8,019,929</u>	<u>\$ 11,058,321</u>

13. OTHER MISCELLANEOUS FINANCIAL ASSETS

	December 31	
	2011	2010
Inward remittance	\$ 23,017	\$ 25,206
Delinquent loans reclassified from other accounts (excluding loans)	56,888	74,716
Less allowance for loan losses	<u>(34,511)</u>	<u>(7,564)</u>
	<u>\$ 45,394</u>	<u>\$ 92,358</u>

Please refer to Note 7 for the movement of allowance for delinquent loans reclassified from other accounts (excluding loans).

14. PROPERTY AND EQUIPMENT

	December 31			
	2011		2010	
	Cost	Accumulated Depreciation	Carrying Value	Carrying Value
Land	\$ 16,973,023	\$ -	\$ 16,973,023	\$ 16,980,300
Buildings	8,021,052	(3,136,641)	4,884,411	5,018,064
Machinery equipment	5,098,063	(4,073,361)	1,024,702	1,245,641
Transportation equipment	575,346	(469,133)	106,213	121,403
Miscellaneous equipment	1,437,059	(1,264,210)	172,849	186,215
Leasehold improvements	809,023	(617,529)	191,494	203,397
Leased assets	164,610	(13,162)	151,448	-
Construction in progress and prepayments for buildings and equipment	<u>2,666</u>	<u>-</u>	<u>2,666</u>	<u>22,537</u>
	<u>\$ 33,080,842</u>	<u>\$ (9,574,036)</u>	<u>\$ 23,506,806</u>	<u>\$ 23,777,557</u>

The Bank revalued its land in years 1956, 1961, 1962, 1968, 1970, 1971, 1975, 1980, 1987, 1991, 1992, 1997, 2001, and 2011 and revalued its buildings in year 1977. The total amounts of revaluation increments recognized for land and buildings were \$20,149,266 thousand and \$108,475 thousand, respectively.

Total revaluation increment of land and buildings decreases because of sale, disposal and expropriation by government. The balances of total revaluation increments as of December 31, 2011 and 2010 were as follows:

	December 31			
	2011		2010	
	Land	Buildings	Land	Buildings
Property and equipment	\$ 12,521,663	\$ 80,546	\$ 12,480,372	\$ 80,974
Other miscellaneous assets	<u>6,891,471</u>	<u>12,533</u>	<u>4,397,674</u>	<u>12,533</u>
	<u>\$ 19,413,134</u>	<u>\$ 93,079</u>	<u>\$ 16,878,046</u>	<u>\$ 93,507</u>

Reserve for land revaluation increment tax accounted as other liabilities amounted to \$5,860,648 thousand and \$5,607,113 thousand as of December 31, 2011 and 2010, respectively.

15. OTHER MISCELLANEOUS ASSETS

	December 31	
	2011	2010
Refundable deposits	\$ 122,716	\$ 99,005
Assumed collateral and residuals	37,105	62,632
Less: Accumulated impairment	(37,105)	(62,632)
Prepayments	1,721,959	1,706,186
Leased assets	7,600,839	5,097,805
Idle assets	27,038	27,038
Others	<u>46,844</u>	<u>1,792</u>
	<u>\$ 9,519,396</u>	<u>\$ 6,931,826</u>

As of December 31, 2011, the estimated future rental receivables under the contracts were as follows:

Period	Amount
2012	\$ 177,427
2013	119,704
2014	91,063
2015	70,289
2016	59,240

16. DUE TO BANKS AND CENTRAL BANK

	December 31	
	2011	2010
Due to Central Bank	\$ 25,292	\$ 30,353
Due to banks	12,805,177	21,731,307
Bank overdraft	905,154	1,378,872
Call loans from banks	90,815,432	62,558,733
Deposits transferred from the Postal Bureau	<u>7,502,457</u>	<u>9,409,716</u>
	<u>\$ 112,053,512</u>	<u>\$ 95,108,981</u>

17. PAYABLES

	<u>December 31</u>	
	<u>2011</u>	<u>2010</u>
Accounts payable	\$ 20,482,603	\$ 12,705,164
Collections for customers	290,738	349,716
Accrued expenses	1,861,965	2,067,257
Interest payable	1,767,725	1,374,092
Acceptances	6,480,541	7,874,126
Dividends payable	137,940	138,528
Factoring payable	370,472	447,876
Others	<u>564,103</u>	<u>587,329</u>
	<u>\$ 31,956,087</u>	<u>\$ 25,544,088</u>

18. DEPOSITS

	<u>December 31</u>	
	<u>2011</u>	<u>2010</u>
Checking deposit	\$ 38,560,488	\$ 35,753,409
Demand deposit	265,724,458	263,119,909
Time deposit	279,890,880	268,576,868
Negotiable certificates of deposit	10,146,600	7,468,300
Savings deposit	693,654,556	664,319,577
Remittances	<u>818,760</u>	<u>940,926</u>
	<u>\$ 1,288,795,742</u>	<u>\$ 1,240,178,989</u>

19. BANK NOTES

The Bank has issued bank notes to enhance its capital adequacy ratio and raise medium to long-term operating funds. The Bank issued subordinated bank notes on September 26, 2007, May 19, 2008, December 15, 2008, September 15, 2009, June 29, 2010, March 11, 2011, and April 18, 2011 as follows:

The Bank issued \$5,000 million subordinated bank notes-96-1 with 7-year terms on September 26, 2007.

The Bank issued \$5,000 million subordinated bank notes-97-1 with 7-year terms on May 19, 2008.

The Bank issued \$8,350 million subordinated bank notes-97-2 with 7-year terms on December 15, 2008.

The Bank issued \$5,000 million subordinated bank notes-98-1 with 7-year terms on September 15, 2009.

The Bank issued \$5,000 million perpetual subordinated bank notes-99-1 on June 29, 2010.

The Bank issued \$3,300 million subordinated bank notes-100-1 on March 31, 2011, divided into Financial Debentures A \$2,200 million with 7-year terms and Financial Debenture B \$1,100 million with 10-year terms.

The Bank issued \$6,700 million subordinated bank notes-100-2 with 10-year terms on April 18, 2011.

The outstanding balance and details of subordinated bank notes are as follows:

Bank Note	Interest Rate and Maturity Date	December 31	
		2011	2010
<u>Hedged financial liabilities at fair value</u>			
97-1	7-year term, interest payable annually, annual interest 3.10%, maturity date: May 19, 2015	\$ 2,000,000	\$ 2,000,000
	Valuation adjustment	<u>146,086</u>	<u>143,150</u>
		<u>2,146,086</u>	<u>2,143,150</u>
<u>Non-hedged bank notes payable</u>			
96-1	7-year term, interest payable annually, determined at the 90-day commercial paper fixing rate in the secondary market plus 0.35%, provided by Reuters Limited, maturity date: September 26, 2014	5,000,000	5,000,000
97-1	7-year term, interest payable annually, annual interest 3.10%, maturity date: May 19, 2015	3,000,000	3,000,000
97-2	7-year terms, interest payable annually, annual interest 3.05%, maturity date: December 15, 2015	8,350,000	8,350,000
98-1	7-year terms, interest payable annually, annual interest 2.30%, maturity date: September 15, 2016	5,000,000	5,000,000
99-1	No maturity date, interest payable annually, annual interest from first to tenth year is 3.15%, after tenth year is 4.15%	5,000,000	5,000,000
100-1	7-year terms, interest payable annually, annual interest 1.65%, maturity date: March 11, 2018	2,200,000	-
100-1	10-year terms, interest payable annually, annual interest 1.72%, maturity date: March 11, 2021	1,100,000	-
100-2	10-year terms, interest payable annually, determined at the 90-day commercial paper fixing rate in the secondary market plus 0.20%, provided by Reuters Limited, maturity date: April 18, 2021	<u>6,700,000</u>	<u>-</u>
		<u>36,350,000</u>	<u>26,350,000</u>
		<u>\$ 38,496,086</u>	<u>\$ 28,493,150</u>

The Bank engaged in derivative transactions as hedging tools for the 97-1 fixed interest bank notes with 7-year terms mentioned above to avoid fair value risks due to changes in interest rates. The interest rate swaps nominal principal was \$2,000,000 thousand and the balance of \$149,400 thousand and \$148,397 thousand as of December 31, 2011 and 2010 were accounted as hedging derivative financial assets.

20. PENSION EXPENSE

The pension plan under the Labor Pension Act (the "LPA") is a defined contribution plan. Based on the LPA, the Bank makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Such pension costs were \$109,421 thousand and \$169,378 thousand for the years ended December 31, 2011 and 2010, respectively.

Based on the defined benefit plan under Labor Standard Law (the “LSL”), pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Bank contributes amounts based on total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. The pension fund is deposited in the Bank of Taiwan in the committee’s name. The Bank recognized pension costs of \$570,114 thousand and \$534,773 thousand for the years ended December 31, 2011 and 2010, respectively.

Information about the defined benefit plan was as follows:

a. Components of net pension cost

	Years Ended December 31	
	2011	2010
Service cost	\$ 506,655	\$ 466,419
Interest cost	139,853	146,292
Projected return on pension funds	(112,579)	(77,752)
Amortization	<u>36,185</u>	<u>(186)</u>
Net pension cost	<u>\$ 570,114</u>	<u>\$ 534,773</u>

b. Reconciliation of funded status of the plan and accrued pension cost

	December 31	
	2011	2010
Benefit obligation		
Vested benefit obligation	\$ 4,069,057	\$ 3,588,082
Non-vested benefit obligation	<u>2,239,265</u>	<u>1,978,122</u>
Accumulated benefit obligation	6,308,322	5,566,204
Additional benefit based on future salaries	<u>1,602,913</u>	<u>1,476,455</u>
Projected benefit obligation	7,911,235	7,042,659
Fair value of plan assets	<u>(5,866,741)</u>	<u>(5,413,947)</u>
Funded status	2,044,494	1,628,712
Unrecognized net transitional obligation	1,160	1,404
Unrecognized gains or losses	(1,737,475)	(1,350,873)
Additional liabilities	133,402	-
Others	<u>11,116</u>	<u>9,172</u>
Accrued pension cost	<u>\$ 452,697</u>	<u>\$ 288,415</u>
Vested benefit	<u>\$ 4,596,711</u>	<u>\$ 4,153,184</u>

c. Actuarial assumptions

	December 31	
	2011	2010
Discount rate used in determining present values	1.75%	2.00%
Future salary increase rate	2.00%	2.00%
Expected rate of return on plan assets	1.75%	2.00%

21. CAPITAL STOCK

Common Stock

As of December 31, 2010, the Bank's authorized and registered capital was \$65,000,000 thousand divided into 6,500,000 thousand shares at \$10 dollars par value. The Bank's total paid-in capital was \$62,094,756 thousand divided into 6,209,476 thousand outstanding shares at \$10 dollars par value. In August 2011, the Bank had resolved earnings recapitalization and increased the Bank's registered capital and paid-in capital by \$15,000,000 thousand and \$5,588,528 thousand, respectively. As of December 31, 2011, the Bank's authorized and registered capital was \$80,000,000 thousand divided into 8,000,000 thousand shares at \$10 dollars par value. The Bank's total paid-in capital was \$67,683,284 thousand divided into 6,768,328 thousand outstanding shares at \$10 dollars par value.

Capital Surplus

Under the Company Law, capital surplus can only be used to offset a deficit. However, the capital surplus from share issued in excess of par and donations may be capitalized, which however is limited to 10% of the Bank's registered capital and only after the approval of the authorities. Under the revised Company Law issued on January 4, 2012, the aforementioned capital surplus also may be distributed in cash.

Distribution of Earnings and Dividend Policy

Under the Bank's Articles of Incorporation, the Bank should make appropriations from its net income in the following order:

- a. Payment of income taxes;
- b. Offset of prior years' losses, if any;
- c. 30% as legal reserve and if needed, special reserve;
- d. Dividends to shareholders as proposed by the Board of Directors and resolved in the general shareholders' meeting.
- e. 1% to 1.5% as bonuses to directors and supervisors based on the approval of the Board of Directors.
- f. 1% to 8% as bonuses to employees based on the approval of the Board of Directors.

For the years ended December 31, 2011 and 2010, the bonus to employees was \$506,372 thousand and \$563,512 thousand, respectively, and the remuneration to directors and supervisors was \$79,121 thousand and \$88,049 thousand, respectively. The bonus to employees and remuneration to directors and supervisors represent 8% and 1.25%, based on past experiences, of net income (net of the bonus to employees and remuneration to directors and supervisors) minus legal reserve. If the actual amounts subsequently resolved by the shareholders differ from the proposed amounts, the differences are recorded in the year of shareholders' resolution as a change in accounting estimate.

An amount equal to the net debit balance of certain shareholders' equity accounts (including unrealized revaluation increment, unrealized gain or loss on financial instruments, cumulative translation adjustments) shall be transferred from unappropriated earnings to a special reserve. Any special reserve appropriated may be reversed to the extent of the decrease in the net debit balance.

Legal reserve shall be appropriated until it has reached the Bank's paid-in capital. This reserve may be used to offset a deficit. Under the revised Company Law issued on January 4, 2012, when the legal reserve has exceeded 25% of the company's paid-in capital, the excess may be transferred to capital or distributed in cash.

The Bank cannot distribute cash dividends or purchase treasury stocks if the Bank has any of the situations cited in Item 1, Section 1, Article 44 of the Banking Law.

The maximum amount of cash dividends cannot exceed 15% of the Bank's total capital if the Bank's capital surplus is less than the capital based on Section 1.

The restriction of the cash dividends stated above does not apply if the Bank's capital surplus exceeds the capital or the Bank's financial position satisfied the criteria by the authority and also the Bank appropriates the legal reserve based on the Company Law.

The Bank's dividends and bonus are mainly paid in cash and stock dividends shall not be more than half of total dividends. When the capital adequacy ratio is lower than the regulation ratio plus 1%, the cash dividends shall not be more than 30% of total dividends, and others will be stock dividends.

The appropriations of earnings for 2010 and 2009 had been approved in the shareholders' meetings on June 10, 2011 and June 2, 2010. The appropriations and dividends per share were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (NT\$)</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Legal reserve	\$ 782,655	\$ 926,670	\$-	\$-
Dividends of common stock - cash	1,738,653	1,862,843	0.28	0.30
Dividends of common stock - stock	5,588,528	-	0.90	-

On June 10, 2011 and June 2, 2010, the shareholders decided to distribute \$563,512 thousand and \$172,978 thousand of bonus to employees; \$88,049 thousand and \$21,622 thousand of remuneration to directors and supervisors from the 2011 and 2010 earnings, and the shareholders did not distribute stock as bonus to employees.

Information about the bonus to employees, directors and supervisors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

22. FEE INCOME, NET

	<u>Years Ended December 31</u>	
	<u>2011</u>	<u>2010</u>
Fee income	\$ 4,023,695	\$ 4,213,151
Fee expense	<u>(430,146)</u>	<u>(393,696)</u>
	<u>\$ 3,593,549</u>	<u>\$ 3,819,455</u>

23. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	<u>Years Ended December 31</u>	
	<u>2011</u>	<u>2010</u>
Personnel expenses		
Salary	\$ 7,346,398	\$ 7,444,287
Labor and health insurance	430,580	404,263
Pension	679,535	704,151
Others	60,400	65,723
Depreciation	778,410	897,579
Amortization	21,010	17,260

24. INCOME TAX

- a. A reconciliation of income tax expense based on income before income tax at the statutory rate (17%) and income tax expense was as follows:

	2011	2010
Income tax expense at the statutory rate	\$ 1,796,754	\$ 1,881,149
Tax effect on adjusting items:		
Permanent differences		
Tax-exempt income	(123,494)	(152,845)
Others	(3,814)	85
Temporary differences	226,405	(804,721)
Loss carryforwards used	<u>(1,801,173)</u>	<u>(835,817)</u>
Current income tax expense	94,678	87,851
Additional 10% income tax on unappropriated earnings	-	29,939
Deferred income tax expense		
Temporary differences	(226,405)	804,721
Loss carryforwards	1,801,173	835,817
Effect of tax law changes on deferred income tax	-	1,487,994
Tax separately levied on trust securities	5	-
Tax separately levied on interest from short-term bills	-	1,008
Non-deductible tax of overseas branches	-	56,957
Others	<u>(142,666)</u>	<u>(65,255)</u>
Income tax expense	<u>\$ 1,526,785</u>	<u>\$ 3,239,032</u>

In May 2010, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduced a profit-seeking enterprise's income tax rate from 20% to 17%, effective January 1, 2010.

- b. The details of deferred income tax assets and liabilities as of December 31, 2011 and 2010 were as follows:

	<u>December 31</u>	
	2011	2010
Deferred income tax assets		
Loss carryforwards	\$ 3,034,167	\$ 4,894,177
Unrealized loss on reserves	-	8,539
Allowance for bad debts in excess of tax limit	1,973,603	1,743,724
Unrealized exchange loss	418,149	-
Unrealized loss on investments	249,325	296,119
Unrealized loss on derivative financial instruments	<u>-</u>	<u>341,390</u>
	<u>5,675,244</u>	<u>7,283,949</u>
Deferred income tax liabilities		
Unrealized exchange gains	-	(483,380)
Unrealized gain on derivative financial instruments	(521,951)	-
Deferred income on pension	<u>(4,009)</u>	<u>(9,141)</u>
	<u>(525,960)</u>	<u>(492,521)</u>
	<u>\$ 5,149,284</u>	<u>\$ 6,791,428</u>

- c. Loss carryforwards as of December 31, 2011 and 2010:

Expiry Year	Unused Amount	
	2011	2010
2015	<u>\$ 3,034,167</u>	<u>\$ 4,894,177</u>

- d. The 2008 income tax returns had been examined and cleared by the tax authority. The Bank had adjusted tax expense according to the 2007 income tax return examined and cleared by the tax authority. Since the Bank has further doubts about the clearance, the Bank is filing an appeal to a high court.

- e. Information about integrated income tax was as follows:

	December 31	
	2011	2010
Unappropriated earnings generated on and after January 1, 1998	<u>\$ 9,144,268</u>	<u>\$ 8,211,749</u>

As at December 31, 2011 and 2010, the balance of the imputation credits which can be allocated to the shareholders amounted to \$285,121 thousand and \$190,625 thousand.

The creditable ratio for distribution of earnings of 2011 and 2010 was 3.12% (estimate) and 2.32%, respectively.

For distribution of earnings generated after January 1, 1998, the ratio for the imputation credits allocated to shareholders of the Bank is based on the balance of the ICA as of the date of dividend distribution. The expected creditable ratio for the 2010 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

25. EARNINGS PER SHARE

	Year Ended December 31, 2011				
	Amounts (Numerator)		Weighted Average Number of Shares Outstanding (Denominator) (In Thousands)	EPS (NT\$)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
Basic EPS					
Income for the year	\$ 10,569,140	\$ 9,042,355	6,768,328	<u>\$ 1.56</u>	<u>\$ 1.34</u>
Effect of dilutive potential common stock					
Bonus to employees	<u>-</u>	<u>-</u>	<u>30,783</u>		
Diluted EPS	<u>\$ 10,569,140</u>	<u>\$ 9,042,355</u>	<u>6,799,111</u>	<u>\$ 1.55</u>	<u>\$ 1.33</u>

	Year Ended December 31, 2010				
	Amounts (Numerator)		Weighted Average Number of Shares Outstanding (Denominator) (In Thousands)	EPS (NT\$)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
Basic EPS					
Income for the year	\$ 11,065,584	\$ 7,826,552	6,768,328	<u>\$ 1.63</u>	<u>\$ 1.16</u>
Effect of dilutive potential common stock					
Bonus to employees	<u>-</u>	<u>-</u>	<u>21,757</u>		
Diluted EPS	<u>\$ 11,065,584</u>	<u>\$ 7,826,552</u>	<u>6,790,085</u>	<u>\$ 1.63</u>	<u>\$ 1.15</u>

The Bank presumes that the entire amount of bonus to employees will be settled in shares and the resulting potential shares are included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. Such dilutive effect of the potential shares should be included in the calculation of diluted EPS until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

The weighted average number of shares outstanding for EPS calculation has been retroactively adjusted for the issuance of employee stock bonuses distributed out of earnings for the year ended December 31, 2010 and stock dividends. This adjustment caused the basic and diluted after income tax EPS for the year ended December 31, 2010 to decrease from NT\$1.26 to NT\$1.16 and NT\$1.15, respectively.

26. RELATED-PARTY TRANSACTIONS

a. Related parties and their relationships with the Bank

Related Party	Relationship with the Bank
Various individuals	Directors, supervisors, managers
CHB Insurance Agency	Equity-method investee
CHB Insurance Brokerage	Equity-method investee
Taishin Financial Holding	The Bank's corporate director
Taishin International Bank Co., Ltd. ("Taishin Bank")	A subsidiary of the Bank's corporate director
Shin Kong Life Insurance Co., Ltd. ("Shin Kong Life Insurance")	Chairman is the second immediate family of the Bank's corporate director and supervisor
Anlon Co., Ltd.	Same as above
An Hsin Real-Estate	Equity-method investee of a subsidiary of the Bank's corporate director
Dah Chung Bills Finance Corp.	Corporate director is a subsidiary's corporate director.
Other	As per SFAS No. 6 "Disclosure for related party transactions," other related party

b. Significant transactions with related parties

1) Deposits

	Balance	Percentage of Deposits (%)	Interest Rate Range (%)	Interest Expense
Balance as of December 31, 2011	\$ 1,891,212	0.15	0-13	\$ 24,172
Balance as of December 31, 2010	1,651,490	0.13	0-13	22,649

The interest rate for managers' deposits amounting to \$480 thousand per person was 13% per annum. The part of deposit exceeding \$480 thousand will earn interest calculated at the demand savings rate. The interest rates and others terms provided to the other related parties are the same as those offered to general public.

2) Loans

	Balance	Percentage of Loans (%)	Interest Rate Range (%)	Interest Revenue
Balance as of December 31, 2011	\$ 584,234	0.05	1.34-3.06	\$ 8,363
Balance as of December 31, 2010	558,254	0.05	1.12-2.83	6,830

Year Ended December 31, 2011

	Ending Balance	Highest Amount	Normal Loans	Non- performing Loans	Collateral	Difference in Terms Between Related Parties and Non-related Parties
<u>Consumer loans</u>						
22 accounts	\$ 6,882	\$ 8,321	\$ 6,882	\$ -	Credit	None
<u>Self-use residential mortgage loans</u>						
104 accounts	545,162	577,507	545,162	-	Real estate	None
<u>Others</u>						
Anlon Co., Ltd.	30,000	30,000	30,000	-	Real estate	None
3 accounts (Note)	2,190	2,219	2,190	-	Deposit	None

Year Ended December 31, 2010

	Ending Balance	Highest Amount	Normal Loans	Non- performing Loans	Collateral	Difference in Terms Between Related Parties and Non-related Parties
<u>Consumer loans</u>						
25 accounts	\$ 7,519	\$ 9,192	\$ 7,519	\$ -	Credit	None
<u>Self-use residential mortgage loans</u>						
107 accounts	518,646	588,638	518,646	-	Real estate	None

(Continued)

Year Ended December 31, 2010

	Ending Balance	Highest Amount	Normal Loans	Non-performing Loans	Collateral	Difference in Terms Between Related Parties and Non-related Parties
<u>Others</u>						
Anlon Co., Ltd.	\$ 30,000	\$ 30,000	\$ 30,000	\$ -	Real estate	None
9 accounts (Note)	2,090	4,175	2,090	-	Deposit	None
						(Concluded)

Note: The balance of every single entity is not over 1% of the total ending balance

Loans to managers for mortgage within \$8,000 thousand and credit loan within \$800 thousand per person bore interest at 1.64% and 1.42% in 2011 and 2010, respectively. The interest rates and other terms provided to the other related parties are the same as those offered to the public.

3) Derivatives

2011						
Related Party	Derivative Contracts	Period	Nominal Principal Amount (In Thousands)	Valuation Gain (Loss)	Account	Balance
Shin Kong Life Insurance	Currency swaps	2011.04.29-2012.04.30	US\$ 50,000	\$ 82,827	Financial assets at FVTPL	\$ 82,827
		2011.05.09-2012.05.09	US\$ 30,000	56,441	Financial assets at FVTPL	56,441
		2011.11.30-2012.11.30	US\$ 25,000	(731)	Financial liabilities at FVTPL	(731)
2010						
Related Party	Derivative Contracts	Period	Nominal Principal Amount (In Thousands)	Valuation Gain (Loss)	Account	Balance
Shin Kong Life Insurance	Currency swaps	2010.04.28-2011.04.29	US\$ 50,000	\$(88,943)	Financial liabilities at FVTPL	\$(88,943)
		2010.05.05-2011.05.09	US\$ 30,000	(56,460)	Financial liabilities at FVTPL	(56,460)
		2010.12.29-2011.02.25	US\$ 25,000	(3,397)	Financial liabilities at FVTPL	(3,397)

4) Due to other banks

Year	Related Party	Branch	Highest Amount (In Thousands)	Ending Balance (In Thousands)	Percentage of Due to Banks (%)
2011	Taishin Bank	New York Branch	US\$ 85	US\$ 67	-
2010	Taishin Bank	New York Branch	US\$ 57	US\$ 16	-

5) Call loans to banks and call loans from banks

The Bank's due to related parties were as follows:

Year	Name of Related Parties	Department	Highest Balance (In Thousands)	Ending Balance (In Thousands)	Maximum Limit	Interest Rate %	Interest Expense (In Thousands)
2011	Taishin Bank	New York branch	US\$ 35,000	\$ -	According to counterparts	0.20-0.26	US\$ 1
	Taishin Bank	Los Angeles branch	US\$ 18,000	-	According to counterparts	0.25	US\$ -

6) Operating leases

Both CHB Insurance Agency and CHB Insurance Brokerage rented offices from the Bank for three years and paid rental monthly. The rent revenues received from CHB Insurance Agency and CHB Insurance Brokerage were \$1,711 thousand and \$1,118 thousand, respectively for the year ended December 31, 2011 and \$1,565 thousand and \$1,004 thousand, respectively for the year ended December 31, 2010.

7) Others

The Bank recognized fee income from CHB Insurance Agency and CHB Insurance Brokerage for providing personnel and channel services. The income from CHB Insurance Agency and CHB Insurance Brokerage for 2011 was \$670,155 thousand and \$53,515 thousand respectively, and for 2010 was \$618,187 thousand and \$54,800 thousand, respectively.

c. Compensation of directors, supervisors and management personnel:

	<u>Years Ended December 31</u>	
	<u>2011</u>	<u>2010</u>
Salaries	\$ 60,674	\$ 47,359
Incentives	13,122	14,532
Bonus	<u>80,967</u>	<u>90,120</u>
	<u>\$ 154,763</u>	<u>\$ 152,011</u>

The compensation of directors, supervisors and management personnel for the years ended December 31, 2011 and 2010 was based on the estimation in 2012 and had been approved by shareholders in their annual meeting held in 2011.

27. PLEDGED ASSETS

The summary of the Bank's pledged assets as of December 31, 2011 and 2010 were as follows:

Pledged Assets	Description	2011	2010
Available-for-sale financial assets	Government bonds	\$ 1,024,700	\$ 1,071,200
Held-to-maturity financial assets	Government bonds, corporate bonds and certificate of deposits	37,742,175	5,294,219
Refundable deposits	Cash	122,716	99,005

28. CONTINGENT LIABILITIES AND COMMITMENTS

a. In addition to those mentioned in Note 5, the Bank had the following contingent liabilities and commitments as of December 31, 2011 and 2010:

	2011	2010
Repayment note and time deposit held for custody	\$ 7,056,153	\$ 7,517,509
Liabilities on joint loans	984,193	1,007,160
Guarantees issued in guarantee business	30,496,884	31,270,339
Unused issued letters of credit	25,200,037	29,093,509
Trust liabilities	250,084,882	264,972,425
Unused loan commitments	238,463,174	289,163,348

b. The Bank entered into operating leases for its domestic branch premises. Significant provisions of the contracts were as follows:

- 1) The lease periods range from one to ten years. Rental payments are made annually.
- 2) As of December 31, 2011, the estimated future lease payments under the lease contracts were as follows:

	Amount
2012	\$ 467,553
2013	323,454
2014	218,120
2015	146,064
2016	93,096

c. The Department of National Defense of Iran as the recipient requested Chang Hwa Bank to release US\$15,000 thousand. On August 1, 2002, the Supreme Court decided in favor of Chang Hwa Bank. The Department of National Defense of Iran filed another legal suit against Chang Hwa Bank in the Taipei District Court. On September 10, 2004, the Taipei District Court decided in favor of Chang Hwa Bank. However, the Department of National Defense of Iran filed another legal suit against Chang Hwa Bank in the Taiwan High Court on October 6, 2004. On July 13, 2010, the Taiwan High Court decided in favor of Chang Hwa Bank. The Department of National Defense of Iran filed another legal suit against Chang Hwa Bank in the Supreme Court on August 10, 2010. On November 4, 2010, the Supreme Court ordered the Taiwan High Court to review the ruling. On December 27, 2011, the Taiwan High Court decided in favor of Chang Hwa Bank. The Department of National Defense of Iran filed another legal suit against Chang Hwa Bank in the Supreme Court on January 19, 2012.

29. SUBSEQUENT EVENTS

On February 24, 2012, the board of directors of the Bank had agreed to revalue part of its land to adopt International Financial Reporting Standard (IFRS). The revaluation resulted in an increase of \$672,083 thousand in other items of stockholders' equity - unrealized revaluation increments, and the Bank had recognized the revaluation on January 1, 2012 (IFRS transition date).

30. DISCLOSURES OF FINANCIAL INSTRUMENTS INFORMATION

a. Fair value of financial instruments

	December 31			
	2011		2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Financial assets</u>				
Cash and cash equivalents	\$ 52,948,865	\$ 52,948,865	\$ 33,907,482	\$ 33,907,482
Due from Central Bank and call loans to banks	79,667,740	79,667,740	88,513,906	88,513,906
Financial assets at FVTPL	25,020,162	25,020,162	19,303,952	19,303,952
Receivables, net	19,604,067	19,604,067	23,568,205	23,568,205
Loans, net	1,122,738,843	1,122,738,843	1,046,553,781	1,046,553,781
Available-for-sale financial assets, net	57,579,949	57,579,949	44,084,734	44,084,734
Held-to-maturity financial assets, net	180,376,569	180,305,626	193,424,963	193,472,931

(Continued)

	December 31			
	2011		2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Investments accounted for by the equity method, net	\$ 390,890	\$ -	\$ 227,616	\$ -
Financial assets carried at cost	4,728,434	-	4,728,434	-
Bonds investment with no active market	8,019,929	8,002,151	11,058,321	10,103,570
Hedging derivative financial assets	149,400	149,400	148,397	148,397
Other miscellaneous financial assets	45,394	45,394	92,358	92,358
Refundable deposits	122,716	122,716	99,005	99,005
<u>Financial liabilities</u>				
Due to banks and Central Bank	112,053,512	112,053,512	95,108,981	95,108,981
Financial liabilities at FVTPL	2,035,814	2,035,814	4,489,980	4,489,980
Bonds and securities sold under repurchase agreements	10,726,892	10,726,892	13,636,714	13,636,714
Payables	31,956,087	31,956,087	25,544,088	25,544,088
Deposits	1,288,795,742	1,288,795,742	1,240,178,989	1,240,178,989
Bank notes	38,496,086	40,786,650	28,493,150	30,225,949
Other financial liabilities	1,676,663	1,676,663	1,170,845	1,170,845
Guarantee deposits	1,061,867	1,061,867	1,173,699	1,173,699
				(Concluded)

b. Methods and assumptions used to estimate the fair values of financial instruments were as follows:

- 1) The carrying amounts of the following short-term financial instruments approximate their fair values because of their short maturities: Due from the Central Bank and call loans from banks, bonds purchased under resell agreements, receivables, other financial assets, due to banks and the Central Bank, bonds and securities sold under repurchase agreements, payables, remittances and other financial liabilities.
- 2) Fair values of financial instruments at FVTPL, available-for-sale, held-to-maturity financial assets, hedging derivative financial instruments and bank notes are based on their quoted prices in an active market.

For debt instruments, the valuation model adopted by the Bank uses benchmark interest rate of each time period to infer every currency's zero-coupon yield curve and calculated forward rate and discount rate based on the assumption that there are no arbitrage opportunities in market. In addition, the Bank would set appropriate credit parameter based on the credit rating of the issuers of long-term debt instruments.

For derivative instruments, the valuation model adopted by the Bank determines the fair value of holding position based on available parameter in public market.

The fair value of forward exchange contract is determined by forward rate which is offered by the Reuters Pricing System on maturity date of each contract. Except for those offered by counterparty, the fair value of interest rate swap and cross currency swap is evaluated by the average of bid and ask prices offered by the Reuters Pricing System of each contract, and applied consistently.

Fair values of bond investments with no active market are based on their transaction prices or quoted prices made by market makers. For those investments with no transaction prices or quoted prices, their fair values are determined by use of valuation techniques.

- 3) Loans and deposits are interest-bearing financial assets and liabilities and their carrying values approximate their fair values. The carrying amount of delinquent loans is the estimated collectable amount which is the book value less allowance for bad debt. Therefore, the fair value of loans and deposits is determined at their carrying value.
- 4) Investments accounted for by the equity method and financial assets carried at cost are investments in unquoted shares, which have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.
- 5) Refundable deposits and guarantee deposits have no specific maturity dates. Fair value of these instruments was determined at their carrying value.
- c. Fair values of financial assets and liabilities based on quoted market prices or valuation techniques were as follows:

	December 31			
	2011		2010	
	Quoted Market Price	Valuation Techniques	Quoted Market Price	Valuation Techniques
<u>Financial assets</u>				
Financial assets at FVTPL	\$ 20,908,799	\$ 4,111,363	\$ 15,417,198	\$ 3,886,754
Available-for-sale financial assets	57,579,949	-	44,084,734	-
Held-to-maturity financial assets	-	180,305,626	-	193,472,931
Bonds investment with no active market	-	8,002,151	-	10,103,570
Hedging derivative financial instruments	-	149,400	-	148,397
<u>Financial liabilities</u>				
Financial liabilities at FVTPL	-	2,035,814	-	4,489,980
Bank notes	-	40,786,650	-	30,225,949

- d. Valuation gains (losses) from changes in fair value of financial instruments at FVTPL using quoted market prices were \$23,845 thousand and \$(3,397) thousand for the years ended December 31, 2011 and 2010, respectively. Valuation gains from changes in fair value of financial instruments at FVTPL determined using valuation techniques were \$81,755 thousand and \$104,478 thousand for the years ended December 31, 2011 and 2010, respectively.
- e. The interest income (expense) associated with financial assets (liabilities) other than at FVTPL was as follows:

	Years Ended December 31	
	2011	2010
Total interest income	\$ 26,351,099	\$ 21,955,259
Total interest expense	10,061,739	7,903,799

f. Fair value input levels were as follows:

(In Thousands of New Taiwan Dollars)

Fair Value Measurement of Financial Instruments	December 31, 2011			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial products</u>				
Assets				
Financial assets at FVTPL	\$ 22,110,235	\$ 3,029,408	\$ 18,172,577	\$ 908,250
Trading assets	20,841,552	3,029,408	17,812,144	
Bond investments	2,937,289	2,931,745	5,544	
Others	17,904,263	97,663	17,806,600	
Financial assets designated upon initial recognition as at fair value through profit or loss	1,268,683		360,433	908,250
Available-for-sale financial assets	57,579,949	27,007,812	30,351,685	220,452
Stock investments	2,219,138	2,219,138	-	-
Bond investments	55,360,811	24,788,674	30,351,685	220,452
Other financial assets	8,002,151	5,466,262	840,136	1,695,753
Bond investments without active market	8,002,151	5,466,262	840,136	1,695,753
<u>Derivative financial products</u>				
Assets				
Financial assets at FVTPL	2,909,927	67,247	2,842,680	-
Other financial assets	149,400	-	149,400	-
Hedging derivative financial instruments	149,400	-	149,400	-
Liabilities				
Financial liabilities at FVTPL	2,035,814	-	2,035,814	-

Changes in Level 3 financial assets were as follows:

(In Thousands of New Taiwan Dollars)

Item	Beginning Balance	Valuation Gains (Losses)	Increase		Decrease		Ending Balance
			Buy or Issue	Transfer In	Sell, Disposal	Transfer Out	
Financial assets designated upon initial recognition as at fair value through profit or loss	\$ 590,780	\$ -	\$ 908,250	\$ -	\$ (590,780)	\$ -	\$ 908,250
Available-for-sale financial assets	374,712	22,740	-	-	-	(177,000)	220,452
Other financial assets							
Bond investments without active market	1,869,736	39,223	-	-	(213,206)	-	1,695,753

g. Information of financial risk was as follows:

1) Market price risk

The Bank uses the market risk factor sensitivity as the instrument for market risk controls. The market risk factor sensitivity refers to the change in value resulting from a unit change in a specific market risk factor. Market risk factors include interest rate, exchange rate, price of equity instruments and commodity prices. The market risk factor sensitivity of the Bank discloses the market risks derived from different risk positions on the trading book.

Foreign exchange rate factor, FX Delta, refers to the net risk positions of different currencies on balance sheet date, that is, the effect of the change in present value due to 100% change in foreign exchange for each currency. The foreign exchange rate factor sensitivity not only includes those of foreign-currency derivatives, but also integrates the risk sensitivity of spot foreign rate positions for hedging purpose and spot position of different currencies.

Interest rate factor sensitivity refers to the effect (DV01 or PVBP) of change in present value of future cash flows generated from spot rate positions and interest-rate derivative positions incurred by moving upwards the yield curves under evaluation by 0.01% (one b.p.) on the interest rate structure.

Risk sensitivity of equity instruments refers to the effect of price change in the value of derivative positions due to 100% price change in equity instruments and in underlying assets of derivative instruments. The Bank engages in the trading of equity instruments including stock, exchange traded funds, and stock-index options.

Market Risk Type	Currency	December 31		
		2011	2010	
Exchange rate risk value	EUR	\$ 3,404	\$ 1,318	
	JPY	6,181	7,117	
	USD	898,168	918,394	
	Others	116,182	371,911	
Interest rate sensitivity DV01	Interest curve of bonds	TWD	(14,772)	(14,329)
		USD	(446)	(432)
		EUR	(38)	(53)
		GBP	-	(11)
	Interest curve of IRS	TWD	331	(243)
		USD	(24)	(93)
	Interest curve of CCS	TWD	52	(37)
USD		(31)	48	
Equity securities risk value	TWD	-	29,486	
	USD	97,869	92,795	

2) Credit risk

Credit risks refer to the losses from financial instruments incurred from non-performance of the contracted obligations by the Bank's counterparties or others. The Bank provides loans, loan commitments and guarantees based on prudent credit evaluations. The average secured loans are weighted 73.56% approximately of overall loans. The collaterals that the Bank demands to be pledged on loans, loan commitments or guarantees are normally cash, inventory, marketable securities or other property. When the counterparties or others default, the Bank has rights to enforce the collaterals or other guarantees and effectively reduce credit risks. In disclosures on the maximum amounts of credit risk exposures, the market values of the collaterals are not considered. The maximum credit risk exposures of various financial assets are the same as carrying values. Please refer to accompanying financial statements.

The contract amounts of financial assets with off-balance-sheet credit risks held by the Bank as of December 31, 2011 and 2010 were as follows:

	December 31	
	2011	2010
Guarantees in guarantee business	\$ 30,496,884	\$ 31,270,339
Unused issued letters of credit	25,200,037	29,093,509
Unused loan commitments (excluding credit card)	238,463,174	289,163,348

Prominent concentration of credit risks occurs when transaction parties for financial instruments prominently concentrate on one party, or on a few that are in similar business lines or exhibit similar economic characteristics. The characteristics for concentration of credit risks include the nature of business activities engaged by debtors. The Bank has not engaged in transactions that involved a prominent concentration of one client or one transaction party, but have transaction parties of similar industry type or from similar region.

The prominent concentration of credit risk was as follows:

Industry Type	December 31			
	2011		2010	
	Carrying Value	Percentage of Item (%)	Carrying Value	Percentage of Item (%)
Financial and insurance	\$ 58,059,210	5	\$ 46,475,316	4
Manufacturing	334,795,624	29	288,350,355	27
Wholesale and retail	100,212,964	9	89,022,443	8
Real estate and leasing	50,840,606	5	39,122,028	4
Service	19,674,233	2	15,244,316	2
Individuals	387,410,482	34	373,994,704	35
Others	<u>186,846,977</u>	16	<u>207,795,813</u>	20
	<u>\$ 1,137,840,096</u>		<u>\$ 1,060,004,975</u>	

Geographic Location	December 31			
	2011		2010	
	Carrying Value	Percentage of Item (%)	Carrying Value	Percentage of Item (%)
Asia	\$ 1,086,678,847	96	\$ 1,008,710,044	95
North America	37,888,609	3	40,916,342	4
Europe	9,453,868	1	7,513,528	1
Others	<u>3,818,772</u>	-	<u>2,865,061</u>	-
	<u>\$ 1,137,840,096</u>		<u>\$ 1,060,004,975</u>	

3) Liquidity risk

The Bank's ratio of liquidity reserve is 17.11% and 20.86% as of December 31, 2011 and 2010, respectively. Since the capital and operating funds are deemed sufficient to meet the cash flow need for the performance of all the contracted obligations, liquidity risk is not considered to be significant.

The derivative instruments held by the Bank, except for interest rate swaps with leveraging effects, have very little probabilities of failing to be sold with reasonable prices in the market, and thus have very low liquidity risks.

Basic management policies adopted by the Bank for financial instruments are to match maturity and interest rate of financial assets and liabilities and to control unmatched gap. Because of uncertainty of transaction terms and differences in maturity dates and interest rates, financial assets and liabilities always can not match perfectly, and this kind of gap may cause potential gain or loss. The Bank does the maturity analysis of financial assets and liabilities according to their characteristic in order to analyze their liquidity. The maturity analysis was as follows:

Financial Instrument	December 31, 2011						
	Less Than One Month	One Month to Three Months	Three Months to Six Months	Six Months to A Year	One Year to Seven Years	Over Seven Years	Total
<u>Assets</u>							
Cash and cash equivalents	\$ 51,553,351	\$ 1,244,139	\$ 151,375	\$ -	\$ -	\$ -	\$ 52,948,865
Due from Central Bank and call loans to banks	31,755,069	19,557,264	6,722,631	21,632,776	-	-	79,667,740
Financial assets at FVTPL	21,770,811	753,133	605,044	341,825	1,549,349	-	25,020,162
Interest receivable and revenue receivable	1,747,352	219,030	145,159	238,931	305,265	2,613	2,658,350
Loans (excluding delinquent loans)	107,048,324	130,580,178	110,793,854	104,134,907	394,706,301	286,710,250	1,133,973,814
Available-for-sale financial assets	525,957	455,406	389,124	1,362,041	48,637,110	6,210,311	57,579,949
Held-to-maturity financial assets	78,797,351	68,534,231	24,135,748	651,635	8,246,058	11,546	180,376,569
Investments accounted for by the equity method	-	-	-	-	390,890	-	390,890
Financial assets carried at cost	-	-	-	-	4,728,434	-	4,728,434
Bond investments with no active market	495,661	1,681,651	2,380,060	495,256	2,627,791	339,510	8,019,929
Hedging derivative financial instruments	-	-	-	-	149,400	-	149,400
Total assets	<u>293,693,876</u>	<u>223,025,032</u>	<u>145,322,995</u>	<u>128,857,371</u>	<u>461,340,598</u>	<u>293,274,230</u>	<u>1,545,514,102</u>
<u>Liabilities</u>							
Due to banks and Central Bank	74,304,118	28,356,533	1,084,182	8,894	797,328	-	104,551,055
Deposit transferred from the Postal Bureau	760,507	1,785,830	839,919	4,116,201	-	-	7,502,457
Financial liabilities held for trading	789,368	371,336	201,496	110,853	562,761	-	2,035,814
Bonds and securities sold under repurchase agreements	7,567,127	2,960,365	199,400	-	-	-	10,726,892
Interest payable	448,065	292,590	394,178	604,780	28,112	-	1,767,725
Deposits	190,240,719	170,730,629	154,183,106	259,979,181	512,843,347	-	1,287,976,982
Bank notes	-	-	-	-	25,696,086	12,800,000	38,496,086
Total liabilities	<u>274,109,904</u>	<u>204,497,283</u>	<u>156,902,281</u>	<u>264,819,909</u>	<u>539,927,634</u>	<u>12,800,000</u>	<u>1,453,057,011</u>
Net current gap	<u>\$ 19,583,972</u>	<u>\$ 18,527,749</u>	<u>\$ (11,579,286)</u>	<u>\$ (135,962,538)</u>	<u>\$ (78,587,036)</u>	<u>\$ 280,474,230</u>	<u>\$ 92,457,091</u>
Financial Instrument	December 31, 2010						
	Less Than One Month	One Month to Three Months	Three Months to Six Months	Six Months to A Year	One Year to Seven Years	Over Seven Years	Total
<u>Assets</u>							
Cash and cash equivalents	\$ 29,423,482	\$ 3,097,500	\$ 1,386,500	\$ -	\$ -	\$ -	\$ 33,907,482
Due from Central Bank and call loans to banks	43,498,309	17,551,553	6,814,061	20,649,983	-	-	88,513,906
Financial assets at FVTPL	16,308,563	551,643	578,503	512,780	1,352,463	-	19,303,952
Interest receivable and revenue receivable	1,370,171	246,252	109,059	241,275	276,226	739	2,243,722
Loans (excluding delinquent loans)	91,179,446	122,791,788	119,527,851	105,651,476	334,315,512	280,911,317	1,054,377,390
Available-for-sale financial assets	396,227	749,823	422,218	859,927	36,893,490	4,763,049	44,084,734
Held-to-maturity financial assets	106,725,947	60,621,647	17,577,333	2,090,723	6,398,068	11,245	193,424,963
Investments accounted for by the equity method	-	-	-	-	227,616	-	227,616
Financial assets carried at cost	-	-	-	-	4,728,434	-	4,728,434
Bond investments with no active market	-	501,791	696,637	1,814,451	7,555,368	490,074	11,058,321
Hedging derivative financial instruments	-	-	-	-	148,397	-	148,397
Total assets	<u>288,902,145</u>	<u>206,111,997</u>	<u>147,112,162</u>	<u>131,820,615</u>	<u>391,895,574</u>	<u>286,176,424</u>	<u>1,452,018,917</u>

(Continued)

Financial Instrument	December 31, 2010						
	Less Than One Month	One Month to Three Months	Three Months to Six Months	Six Months to A Year	One Year to Seven Years	Over Seven Years	Total
Liabilities							
Due to banks and Central Bank	\$ 56,773,984	\$ 26,419,476	\$ 2,438,645	\$ 67,160	\$ -	\$ -	\$ 85,699,265
Deposit transferred from the Postal Bureau	1,554,145	2,056,057	915,494	4,884,020	-	-	9,409,716
Financial liabilities held for trading	1,430,316	1,117,355	1,177,256	308,828	456,225	-	4,489,980
Bonds and securities sold under repurchase agreements	11,676,112	1,960,602	-	-	-	-	13,636,714
Interest payable	321,666	205,280	379,378	446,967	20,801	-	1,374,092
Deposits	202,696,510	159,653,155	144,947,753	239,151,877	492,788,768	-	1,239,238,063
Bank notes	-	-	-	-	28,493,150	-	28,493,150
Total liabilities	<u>274,452,733</u>	<u>191,411,925</u>	<u>149,858,526</u>	<u>244,858,852</u>	<u>521,758,944</u>	<u>-</u>	<u>1,382,340,980</u>
Net current gap	<u>\$ -14,449,412</u>	<u>\$ -14,700,072</u>	<u>\$ -(2,746,364)</u>	<u>\$ (113,038,237)</u>	<u>\$ (129,863,370)</u>	<u>\$ -286,176,424</u>	<u>\$ -69,677,937</u>

(Concluded)

4) Cash flow risk and fair value risk from change in interest rates

The Bank's cash flow risks as a result of change in interest rates refer to cash flow fluctuations in the future from its assets with floating rates and liabilities with floating rates. The Bank evaluates interest rates risks in trends of interest rate and engages in trading of interest rates swaps in accordance with risk levels and operational needs to reduce cash flow risks as a result of change in interest rates.

a) Expected revaluation date and expected settlement date

As of December 31, 2011 and 2010, expected revaluation date and expected settlement date are not affected by settlement date designated in the contract. Interest risks are presented with the carrying amounts of financial assets and liabilities according to revaluation date and settlement date in the following table.

Financial Instrument	December 31, 2011						
	Less Than One Month	One Month to Three Months	Three Months to Six Months	Six Months to A Year	One Year to Seven Years	Over Seven Years	Total
Assets							
Due from Central Bank and call loans to banks	\$ 28,016,269	\$ 12,070,364	\$ 1,060,567	\$ 34,385,941	\$ -	\$ -	\$ 75,533,141
Financial assets at FVTPL	21,743,302	269,538	-	-	-	-	22,012,840
Loans	231,331,854	812,826,576	68,089,368	12,838,274	8,805,910	81,832	1,133,973,814
Available-for-sale financial assets	5,036,000	7,131,432	593,150	703,332	35,907,037	5,989,860	55,360,811
Held-to-maturity financial assets	80,071,270	70,802,922	23,700,000	440,811	5,361,566	-	180,376,569
Bond investments with no active market	2,164,236	3,755,693	-	-	2,100,000	-	8,019,929
Hedging derivative financial instruments	-	-	-	-	149,400	-	149,400
Total assets	<u>368,362,931</u>	<u>906,856,525</u>	<u>93,443,085</u>	<u>48,368,358</u>	<u>52,323,913</u>	<u>6,071,692</u>	<u>1,475,426,504</u>
Liabilities							
Borrowing	80,817,381	23,392,019	1,060,567	-	-	-	105,269,967
Deposit transferred from Post Bureau	641,682	6,860,775	-	-	-	-	7,502,457
Bonds and securities sold under repurchase agreements	7,587,077	2,940,415	199,400	-	-	-	10,726,892
Deposits	222,717,911	306,859,113	624,774,108	88,187,830	5,445,945	-	1,247,984,907
Bank notes	-	11,700,000	-	-	20,696,086	6,100,000	38,496,086
Total liabilities	<u>311,764,051</u>	<u>351,752,322</u>	<u>626,034,075</u>	<u>88,187,830</u>	<u>26,142,031</u>	<u>6,100,000</u>	<u>1,409,980,309</u>
Interest sensitivity gap	<u>\$ -56,598,880</u>	<u>\$ -555,104,203</u>	<u>\$ (532,590,990)</u>	<u>\$ (39,819,472)</u>	<u>\$ -26,181,882</u>	<u>\$ (28,308)</u>	<u>\$ -65,446,195</u>

Financial Instrument	December 31, 2010						
	Less Than One Month	One Month to Three Months	Three Months to Six Months	Six Months to A Year	One Year to Seven Years	Over Seven Years	Total
Assets							
Due from Central Bank and call loans to banks	\$ 38,860,041	\$ 13,898,094	\$ 2,713,419	\$ 32,675,457	\$ -	\$ -	\$ 88,147,011
Financial assets at FVTPL	15,793,541	681,465	327,666	-	-	-	16,802,672
Loans	301,204,234	640,188,319	76,838,076	27,341,876	8,022,717	782,168	1,054,377,390
Available-for-sale financial assets	3,602,168	3,809,577	667,879	902,940	28,397,670	4,500,863	41,881,097
Held-to-maturity financial assets	108,657,211	64,041,485	16,500,000	1,101,736	3,124,531	-	193,424,963
Bond investments with no active market	3,377,165	5,581,156	-	-	2,100,000	-	11,058,321
Hedging derivative financial instruments	-	-	-	-	148,397	-	148,397
Total assets	<u>471,494,360</u>	<u>728,200,096</u>	<u>97,047,040</u>	<u>62,022,009</u>	<u>41,793,315</u>	<u>5,283,031</u>	<u>1,405,839,851</u>
Liabilities							
Borrowing	65,911,116	17,423,825	2,398,815	63,232	-	-	85,796,988
Deposit transferred from Post Bureau	1,554,145	7,855,571	-	-	-	-	9,409,716
Bonds and securities sold under repurchase agreements	11,755,912	1,880,802	-	-	-	-	13,636,714
Deposits	224,227,259	282,550,647	611,072,631	78,995,509	5,316,642	-	1,202,162,688
Bank notes	-	5,000,000	-	-	18,493,150	5,000,000	28,493,150
Total liabilities	<u>303,448,432</u>	<u>314,710,845</u>	<u>613,471,446</u>	<u>79,058,741</u>	<u>23,809,792</u>	<u>5,000,000</u>	<u>1,339,499,256</u>
Interest sensitivity gap	<u>\$ 168,045,928</u>	<u>\$ 413,489,251</u>	<u>\$ (516,424,406)</u>	<u>\$ (17,036,732)</u>	<u>\$ 17,983,523</u>	<u>\$ 283,031</u>	<u>\$ 66,340,595</u>

b) Effective interest rate (excluding financial assets at FVTPL)

As of December 31, 2011 and 2010, the effective interest rates of financial instruments held or issued by the Bank on main currencies are as follows:

	December 31			
	2011		2010	
	NTD	USD	NTD	USD
Available-for-sale financial assets				
Government bonds	1.08%	-	1.17%	2.63%
Financial bonds	-	1.17%	2.70%	0.50%
Corporate bonds	1.68%	2.62%	1.74%	2.56%
Asset-backed securities	-	1.15%	-	1.04%
Held-to-maturity financial assets				
Certificate deposits in Central Bank	0.95%	-	0.72%	-
Government bonds				
Financial bonds	1.24%	0.90%	2.71%	0.51%
Corporate bonds	1.40%	0.90%	1.41%	0.90%
Bond investments with no active market				
Financial bonds	-	0.77%	-	0.61%
Corporate bonds	2.65%	0.68%	2.65%	0.54%
Asset-backed securities	-	0.65%	-	0.62%
Loans				
Short-term loan	1.94%	1.91%	1.73%	1.43%
Medium to long-term loans	1.98%	1.80%	1.84%	1.57%
Long-term liabilities				
Bank notes	2.27%	-	2.58%	-

h. Fair value hedge

Hedged Item	Financial Instrument Designated as Hedging Instrument	Designated as Hedging Instrument			
		December 31, 2011		December 31, 2010	
		Nominal Principal Amount	Fair Value	Nominal Principal Amount	Fair Value
Bank notes	Interest rate swap	\$ 2,000,00	\$ 149,400	\$ 2,000,000	\$ 148,397

- 1) Hedging type: Fair value hedging.
- 2) Hedging objective: To minimize risks due to the variation of fair value, which results from fluctuation of interest rate, by converting fixed-rate note to floating-rate note.
- 3) Hedging method: By signing interest swap contract.
- 4) Hedging effect: 4 hedging trades were made in 2011. The actual offset result is considered highly effective since the variation of the fair value of the hedged instrument and of the hedging instrument is within 80%-125%, which has met the hedging accounting criterion suggested in the Statement of Financial Accounting Standards. The realized gain of fair-value hedging is \$45,789 thousand for the year ended December 31, 2011, accounted as other non-interest net income and losses.

i. Reclassification information

On July 1, 2008, the Bank reclassified its financial assets in accordance with the newly amended SFAS No. 34, "Financial Instruments: Recognition and Measurement". The fair values at the reclassification date were as follows:

	Before Reclassification	After Reclassification
Available-for-sale financial assets	\$ 14,246,193	\$ -
Bonds investments with no active market	<u>-</u>	<u>14,246,193</u>
	<u>\$ 14,246,193</u>	<u>\$ 14,246,193</u>

In view of the Bank's intention of not selling the abovementioned available-for-sale financial assets within a short period of time as a result of the economic instability and deterioration of the world's financial markets that has occurred during the third quarter of 2008, the Bank reclassified these available-for-sale financial assets to bonds investments with no active market.

The effective interest rate of the available-for-sale financial assets which have been reclassified to bonds investments with no active market financial assets is 1.66%. The estimated recoverable cash flows amounted to \$7,311,379 thousand.

The reclassified financial assets (excluding those that had been derecognized) as of December 31, 2011 and 2010 were as follows:

	December 31			
	2011		2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Bonds investments with no active market	\$ 5,515,180	\$ 5,466,262	\$ 8,356,041	\$ 8,233,834

The gains or losses and adjustments of shareholders' equity recorded for the reclassified financial assets (excluding those that had been derecognized before December 31, 2011 and 2010) for the years ended December 31, 2011 and 2010 and the pro forma gains or losses assuming no reclassifications had been made were as follows:

	Years Ended December 31			
	2011		2010	
	Gains (Losses) Recorded	Pro Forma Gains (Losses)	Gains (Losses) Recorded	Pro Forma Gains (Losses)
Available-for-sale financial assets	\$ 124,352	\$ 213,391	\$ 158,995	\$ (464,986)

31. OTHER DISCLOSURES OF FINANCIAL INSTITUTION

a. Asset quality

Business Type \ Item		December 31, 2011					December 31, 2010				
		Non-Performing Loans (Note a)	Loans	Non-performing Loans Ratio (Note b)	Allowance For Loan Losses	Coverage Ratio (Note c)	Non-Performing Loans (Note a)	Loans	Non-performing Loans Ratio (Note b)	Allowance For Loan Losses	Coverage Ratio (Note c)
Corporate finance	Secured	\$ 1,520,756	\$ 322,528,184	0.47%	\$ 7,669,512	504.32%	\$ 2,906,941	\$ 291,316,568	1.00%	\$ 5,029,848	173.03%
	Unsecured	991,710	427,577,416	0.23%	4,339,299	437.56%	442,584	394,689,100	0.11%	3,318,794	749.87%
Consumer finance	Mortgage loans (Note d)	1,205,277	290,485,445	0.41%	2,135,592	177.19%	1,537,272	293,253,357	0.52%	3,674,292	239.01%
	Cash cards (Note h)	-	-	-	-	-	-	-	-	-	-
	Credit loans (Note e)	2,218	1,978,179	0.11%	13,165	593.55%	17,050	2,006,714	0.85%	31,673	185.77%
	Others (Note f)	Secured	413,207	92,707,599	0.45%	697,864	168.89%	690,200	75,274,865	0.92%	1,238,749
Unsecured		131,528	2,563,273	5.13%	245,821	186.90%	132,592	3,464,371	3.83%	157,838	119.04%
Total		4,264,696	1,137,840,096	0.37%	15,101,253	354.10%	5,726,639	1,060,004,975	0.54%	13,451,194	234.89%

Business Type \ Item		December 31, 2011					December 31, 2010				
		Non-Performing Loans (Note a)	Loans	Non-performing Loans Ratio (Note b)	Allowance For Loan Losses	Coverage Ratio (Note c)	Non-Performing Loans (Note a)	Loans	Non-performing Loans Ratio (Note b)	Allowance For Loan Losses	Coverage Ratio (Note c)
Credit card		\$ 1,234	\$ 887,323	0.14%	\$ 6,546	530.47%	\$ 1,288	\$ 718,851	0.18%	\$ 5,841	453.49%
No recourse receivable factoring (Note g)		-	8,534,101	-	62,684	-	-	11,857,377	-	-	-

Business Type \ Item	December 31, 2011		December 31, 2010	
	Non-performing Loans Exempted from Reporting	Non-performing Receivables Exempted from Reporting	Non-performing Loans Exempted from Reporting	Non-performing Receivables Exempted from Reporting
Negotiated loans transacted in accordance with the agreement and exempted from reporting as non-performing loans (Note i)	\$ 922	\$ 6,824	\$ 1,189	\$ 10,182
Negotiated accounts receivable transacted in accordance with the agreement and exempted from reporting as non-performing receivables (Note j)	9,409	5,701	2,585	6,605
Total	10,331	12,525	3,774	16,787

- Note a: Nonperforming loans are classified in accordance with the Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past Due/Non-performing Loans and Bad Debts issued by MOF. Non-performing loans of credit cards are defined in the Letter issued by the Banking Bureau on July 6, 2005. (Ref. No. Jin-Guan-Yin (4) 0944000378).
- Note b: Nonperforming loans ratio = $\text{Nonperforming loan} \div \text{Loans}$
Nonperforming loans of credit card ratio = $\text{Nonperforming loans of credit cards} \div \text{Accounts receivable}$
- Note c: Coverage ratio of allowances for loan losses = $\text{Allowances for loan losses} \div \text{Nonperforming loans}$
Coverage ratio of allowance for loan losses of credit card = $\text{Allowance for loan losses of credit card} \div \text{Nonperforming loans of credit cards}$
- Note d: Mortgage loans are for borrowers to build or repair buildings, allowing the borrowers, spouse or minor children to fully use their buildings as collateral and to mortgage their rights to financial institutions.
- Note e: Credit loans are defined in the Letter issued by the Banking Bureau on December 19, 2005 (Ref. No. Jin-Guan-Yin (4) 09440010950), excluding credit loans of credit cards and cash cards.
- Note f: The other consumer financial businesses are defined as secured or unsecured consumer financial businesses, excluding mortgage loans, cash cards, credit loans and credit cards.
- Note g: In accordance with the Letter issued by the Banking Bureau on July 19, 2005 (Ref. No. Jin-Guan-Yin (5) 094000494) non-recourse receivable factorings are not defined as non-performing loans until compensation from factors or insurance companies are ascertained to be non-recoverable.
- Note h: The Bank does not engage in cash card business.
- Note i: Negotiated loans and accounts receivable transacted in accordance with the agreement and exempted from reporting as non-performing loans are disclosed in accordance with the Letter issued by Banking Bureau on April 25, 2006 (Ref. No. Jin-Guan-Yin (1) 09510001270).
- Note j: Loans and receivables transacted in accordance with debt clearance and renewal regulation and exempted from reporting as non-performing loans or receivables are disclosed in accordance with the Letter issued by Banking Bureau on September 15, 2008 (Ref. No. Jin-Guan-Yin (1) 09700318940).

b. Concentration of credit risk

December 31, 2011			
Rank (Note a)	Transaction Party (Note b)	Loans (Note c)	As Proportion of Net Equity (%)
1	A Corporation (014910 Railway transportation industry)	\$35,103,316	36.69%
2	B Group (011820 Oil refining, petrochemicals and raw materials manufacturing industry)	34,000,914	35.54%
3	C Group (012641 Liquid crystal panel and components manufacturing industry)	19,162,269	20.03%
4	D Group (015101 Airline industry)	13,801,702	14.43%
5	E Group (012641 Liquid crystal panel and components manufacturing industry)	10,905,759	11.40%
6	F Group (012412 Steel manufacturing industry)	8,115,215	8.48%
7	G Group (015010 Marine Transportation industry)	6,243,937	6.53%
8	H Group (012641 Liquid crystal panel and components manufacturing industry)	5,958,909	6.23%
9	I Group (Computers manufacturing industry)	5,573,153	5.82%
10	J Group (015010 Marine Transportation industry)	5,496,256	5.74%

December 31, 2010			
Rank (Note a)	Transaction Party (Note b)	Loans (Note c)	As Proportion of Net Equity (%)
1	A Corporation (014910 Railway transportation industry)	\$34,737,562	40.12%
2	B Group (011820 Oil refining, petrochemicals and raw materials manufacturing industry)	30,471,261	35.19%
3	C Group (012641 Liquid crystal panel and components manufacturing industry)	20,939,014	24.18%
4	D Group (015101 Airline industry)	10,644,184	12.29%
5	E Group (012641 Liquid crystal panel and components manufacturing industry)	8,059,586	9.31%
6	F Group (012412 Steel manufacturing industry)	7,440,120	8.59%
7	K Group (012412 Steel manufacturing industry)	6,896,978	7.97%
8	L Group (016611 Securities industry)	6,847,715	7.91%
9	G Group (015010 Marine Transportation industry)	6,804,241	7.86%
10	H Group (012641 Liquid crystal panel and components manufacturing industry)	6,301,558	7.28%

Note a: Sorted by the balance of loans on December 31, 2011 and 2010, excluding government or state-run business. The number of transaction party which belongs to a group business was included in the balance of group business.

Note b: Transaction party is in accordance with article 6 of the Supplementary Provisions to the Taiwan Stock Exchange Corporation Criteria for Review of Securities Listings.

Note c: Loans include import and export bill negotiations, bills discounted, overdraft, short-term loan, short-term secured loan, receivable financing, medium-term loan, medium-term secured loan, long-term loan, long-term secured loan, delinquent loans, inward remittances, factoring without recourse, acceptance, and guarantee.

c. Interest-earning assets and interest-bearing liabilities

The average balances and average interest rates of interest-earning assets and interest-bearing liabilities for the years ended December 31, 2011 and 2010 were as follows:

	December 31			
	2011		2010	
	Average Value	Average Interest Rate %	Average Value	Average Interest Rate %
<u>Assets</u>				
Due from banks and call loans to banks	\$ 105,183,265	1.16	\$ 88,117,376	0.93
Due from Central Bank	57,749,543	0.41	56,727,335	0.35
Financial assets - bonds and bills	264,051,810	1.10	270,418,410	0.89
Loans	1,103,756,187	1.87	1,007,267,860	1.76
<u>Liabilities</u>				
Due to banks and call loans from banks	173,598,504	1.08	136,186,195	0.80
Deposits transferred from the Postal Bureau	8,052,424	1.34	20,917,971	1.13
Demand deposits	689,118,110	0.32	636,557,922	0.28
Time deposits	550,148,956	1.05	546,093,661	0.85
Negotiable certificates of deposits	8,597,648	0.58	5,683,534	0.30
Bank notes	35,762,055	2.32	25,897,945	2.50

d. Interest rate sensitivity

(In Thousands of New Taiwan Dollars; %)

Item	December 31, 2011				
	1-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year	Total
Interest-sensitive assets	\$ 1,073,006,053	\$ 63,678,233	\$ 13,159,263	\$ 93,453,431	\$ 1,243,296,980
Interest-sensitive liabilities	401,472,093	613,418,523	72,394,141	31,893,818	1,119,178,575
Interest sensitivity gap	671,533,960	(549,740,290)	(59,234,878)	61,559,613	124,118,405
Net worth					92,321,882
Ratio of interest-sensitive assets to liabilities					111.09%
Ratio of interest sensitivity gap to net assets					134.44%

Note a: The amounts listed above include accounts in N.T. dollars only (i.e., excluding foreign currency) for both head office and domestic branches.

Note b: Interest-sensitive assets and liabilities are interest-earning assets and interest-bearing liabilities with income or cost affected by interest rate fluctuations.

Note c: Interest sensitivity gap = Interest-sensitive assets - Interest-sensitive liabilities

Note d: Ratio of interest-sensitive assets to interest-sensitive liabilities = $\frac{\text{Interest-sensitive assets}}{\text{Interest-sensitive liabilities}}$ (N.T. dollars only)

(In Thousands of U.S. Dollars; %)

Item	December 31, 2011					
	1-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year	Total	
Interest-sensitive assets	\$ 6,325,442	\$ 768,675	\$ 35,181	\$ 49,684	\$ 7,178,982	
Interest-sensitive liabilities	7,534,776	294,449	429,299	6,800	8,265,324	
Interest sensitivity gap	(1,209,334)	474,226	(394,118)	42,884	(1,086,342)	
Net worth						97,521
Ratio of interest-sensitive assets to liabilities						86.86%
Ratio of interest sensitivity gap to net assets						(1113.96%)

Note a: The amounts listed above include accounts in U.S. dollars only for domestic branches, OBU, and overseas branches, excluding contingent assets and contingent liabilities.

Note b: Interest-sensitive assets and liabilities are interest-earning assets and interest-bearing liabilities with income or cost affected by interest rate fluctuations.

Note c: Interest sensitivity gap = Interest-sensitive assets - Interest-sensitive liabilities

Note d: Ratio of interest-sensitive assets to interest-sensitive liabilities = $\frac{\text{Interest-sensitive assets}}{\text{Interest-sensitive liabilities}}$
(U.S. dollars only)

e. Profitability

Item	December 31	
	2011	2010
Return on total assets	Pretax	0.68%
	After tax	0.58%
Return on net worth	Pretax	11.60%
	After tax	9.92%
Profit margin		27.47%

Note a: Return on total assets = $\frac{\text{Income before (after) tax}}{\text{Average assets}}$

Note b: Return on net worth = $\frac{\text{Income before (after) tax}}{\text{Average net worth}}$

Note c: Profit margin = $\frac{\text{Income after tax}}{\text{Gross income}}$

Note d: Profitability presented above is cumulative from January 1 to December 31 of 2011 and 2010, respectively.

f. Maturity analysis of assets and liabilities

(In Thousands of New Taiwan Dollars)

	Total	December 31, 2011				
		Period Remaining until Due Date and Amount Due				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	More Than 1 year
Major maturity cash inflows	\$ 1,467,370,980	\$ 264,441,439	\$ 232,457,960	\$ 142,986,285	\$ 108,131,242	\$ 719,354,054
Major maturity cash outflows	1,632,927,049	228,486,669	245,411,446	197,464,805	313,133,753	648,430,376
Gap	(165,556,069)	35,954,770	(12,953,486)	(54,478,520)	(205,002,511)	70,923,678

Note: The amounts listed above include accounts in N.T. dollars only (i.e., excluding foreign currency) for both head office and domestic branches.

(In Thousands of U.S. Dollars)

	Total	December 31, 2011				
		Period Remaining until Due Date and Amount Due				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	More Than 1 year
Major maturity cash inflows	\$ 10,593,491	\$ 3,368,001	\$ 3,368,468	\$ 1,952,722	\$ 675,519	\$ 1,228,781
Major maturity cash outflows	11,151,516	4,102,046	2,764,754	1,464,747	979,864	1,840,105
Gap	(558,025)	(734,045)	603,714	487,975	(304,345)	(611,324)

Note: The amounts listed above include accounts in U.S. dollars for head office, domestic branches, and OBU.

g. Special memorandum items

Item	Cases and Amount
Management or any employee being involved in lawsuit for any fault in business in one year	None
The Bank being fined for disobeying the Banking Law in one year	None
The Bank being punished by MOF for any fault in one year	2011.07.25 notice. The staff of domestic operation department served invested finance-related enterprises, CHB Life Insurance Agency Co., Ltd. and CHB Insurance Brokerage Co., Ltd., in positions other than director or supervisor and thus, violated Regulations Governing Investments in Other Enterprises by Commercial Banks Article 2 Paragraph 1 Subparagraph 2. According to the Banking Act of the Republic of China Article 61-1 Paragraph 1, correction notice was served.
The Bank incurred losses over \$50,000 thousand for management or employee fraud or for any security incident in one year	None

Note: "In one year" above means the one year period ended December 31, 2011.

h. Transferring ownerships of non-performing loans

1) Summary of non-performing loans

	December 31, 2011						
	Transferring Date	Composition of NPLs	Book Value (Note a)	Transferring Price	Gain on Disposal (Note b)	Agreement with Added Terms	Relationship
Deutsche Bank London Branch	2011.04.08	Corporate loans	\$ -	\$ 16,638	\$ 16,638	None	None
Eartex Union Co., Ltd	2011.05.17	Corporate secured loans	256,225	501,094	244,869	None	None
Bank of America	2011.07.20	Corporate loans	-	108,697	108,697	None	None
	December 31, 2010						
	Transferring Date	Composition of NPLs	Book Value (Note a)	Transferring Price	Gain on Disposal (Note b)	Agreement with Added Terms	Relationship
Mega Asset Management Co., Ltd.	2009.12.18	Corporate secured loans	\$ 755,740	\$ 2,201,596	\$ 1,445,856	Repurchased defective assets	None

Note a: Book value = Original loan balance - Allowance

Note b: Gain on disposal = Transferring price - Book value - Related cost

- 2) The non-performing loans that amounted to \$1 billion (excluding related-party transactions) were categorized as follows:

Entity: Mega Asset Management Co., Ltd.

Base Day: December 18, 2009

Composition of NPLs		Original Amounts (Note a)	Book Value	Authorized Price (Note b)
Corporate	Secured	\$ 2,195,730	\$ 755,740	\$ 2,201,596
	Unsecured	-	-	-
Individual	Secured	Mortgage loans	-	-
		Vehicles loans	-	-
		Others	-	-
	Unsecured	Credit cards	-	-
		Cash cards	-	-
		Small amount consumer credit	-	-
		Others	-	-
Total		2,195,730	755,740	2,201,596

Note a: The original amounts include the aggregate of the balance of non-performing loans (without deducting allowance) and the amounts which had been written-off by the Bank.

Note b: The authorized price refers to the transferring price which is allocated among non-performing loans by estimating the recovery of loans.

i. Capital adequacy

Item		Period	December 31, 2011	June 30, 2011	December 31, 2010
Self-owned capital	Tier I capital		\$ 87,857,735	\$ 83,262,302	\$ 80,169,294
	Tier II capital		32,246,211	33,707,326	24,902,851
	Tier III capital		-	-	-
	Self-owned capital		120,103,946	116,969,628	105,072,145
Risk-weighted assets	Credit risk	Standardized approach	998,250,438	981,762,251	931,504,640
		IRB	-	-	-
		Real estate securitization	264,823	677,703	871,575
	Operation risk	Basic indicator approach	-	-	-
		Standardized approach/ optional standard	35,044,538	35,044,538	37,994,375
		Advanced internal-rating based approach	-	-	-
	Market price risk	Standardized approach	7,651,638	8,861,038	8,040,838
		Internal model approach	-	-	-
	Total			1,041,211,437	1,026,345,530
Capital adequacy ratio			11.54%	11.40%	10.74%
Tier I capital to risk weighted assets ratio			8.44%	8.11%	8.19%
Tier II capital to risk weighted assets ratio			3.10%	3.28%	2.55%
Tier III capital to risk weighted assets ratio			-	-	-
Common stock equity to total assets ratio			4.26%	4.07%	4.13%
Gearing ratio			5.69%	5.51%	5.39%

Note: 1. The ratios are calculated in accordance with the Letters issued by the MOF on January 4, 2007 (Ref. No. Jin-Guan-Yin 09610000025) and on June 30, 2009 (Ref. No. Jin-Guan-Yin 09810003110).

2. Formula:

a. Self-owned capital = Tier I capital + Tier II capital + Tier III capital

- b. Risk-weighted assets = Credit risk-weighted assets + (Operation risk Capital + Market price risk Capital) × 12.5
- c. Capital Adequacy = Self-owned capital ÷ Risk-weighted assets
- d. Tier I capital to risk weighted assets ratio = Tier I capital ÷ Risk-weighted assets
- e. Tier II capital to risk weighted assets ratio = Tier II capital ÷ Risk-weighted assets
- f. Tier III capital to risk weighted assets ratio = Tier III capital ÷ Risk-weighted assets
- g. Common stock equity to total assets ratio = Common stock equity ÷ Total assets
- h. Gearing ratio = Tier I capital ÷ Average-assets adjusted
- j. Primary foreign currencies

The significant foreign-currency financial assets and liabilities as of December 31, 2011 and 2010 were as follows:

	December 31					
	2011			2010		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>						
Monetary items						
USD	\$ 7,543,307	30.2750	\$ 228,373,619	\$ 7,733,387	29.5000	\$ 228,134,917
GBP	85,615	46.6800	3,996,508	24,265	45.5510	1,105,295
AUD	556,645	30.7450	17,114,051	528,823	30.0281	15,879,550
HKD	2,069,708	3.8970	8,065,652	2,071,502	3.7900	7,850,993
SGD	68,459	23.3000	1,595,095	71,708	22.8718	1,640,091
CAD	55,438	29.6700	1,644,845	40,668	29.5118	1,200,186
JPY	95,913,470	0.3897	37,377,479	78,376,218	0.3622	28,387,866
EUR	280,386	39.2200	10,996,739	261,179	39.2468	10,250,440
NZD	109,577	23.4100	2,565,198	51,803	22.7593	1,179,000
CNY	249,267	4.7970	1,195,734	92,160	4.4664	411,623
Non-monetary items						
USD	75,512	30.2750	2,286,126	81,319	29.5000	2,398,911
<u>Financial liabilities</u>						
Monetary items						
USD	8,484,159	30.2750	256,857,914	9,554,029	29.5000	281,843,856
GBP	145,618	46.6800	6,797,448	64,632	45.5510	2,944,052
AUD	603,469	30.7450	18,553,654	491,532	30.0281	14,759,772
HKD	1,970,560	3.8970	7,679,272	1,857,821	3.7900	7,041,142
SGD	49,407	23.3000	1,151,183	55,502	22.8718	1,269,431
CAD	100,176	29.6700	2,972,222	40,652	29.5118	1,199,714
ZAR	1,083,276	3.7100	4,018,954	659,849	4.4426	2,931,445
JPY	91,865,139	0.3897	35,799,845	72,842,115	0.3622	26,383,414
EUR	386,071	39.2200	15,141,705	365,159	39.2468	14,331,322
NZD	270,849	23.4100	6,340,575	176,813	22.7593	4,024,140

k. Trust accounts

Under Article 3 of the Trust Law, the Bank can offer trust services. The items and amounts of trust accounts as of December 31, 2011 and 2010 were as follows:

	<u>December 31</u>	
	<u>2011</u>	<u>2010</u>
Special purpose trust accounts - domestic	\$ 32,625,502	\$ 34,744,192
Special purpose trust accounts - foreign	68,768,492	66,045,420
Insurance trust	1,004	1,003
Retirement and breeds trust	255,700	172,184
Umbilical-cord-blood trust	429,074	526,220
Money claim and guarantee trust	454,060	605,014
Marketable securities trust	509,548	635,849
Real estate trust	3,707,880	3,582,461
Securities under custody	<u>143,333,622</u>	<u>158,660,082</u>
	<u>\$ 250,084,882</u>	<u>\$ 264,972,425</u>

l. Disclosures on trust assets and liabilities and assets register as required by Enforcement Rules of ROC Trust Law Article 17 were as follows:

Balance Sheet of Trust

Trust Assets	<u>December 31</u>		Trust Liabilities	<u>December 31</u>	
	<u>2011</u>	<u>2010</u>		<u>2011</u>	<u>2010</u>
Bank deposits	\$ 826,084	\$ 1,152,008	Trust capital		
Insurance claims	134,200	145,200	Money trust	\$ 102,284,103	\$ 101,817,669
Financial assets			Insurance claims	134,200	145,200
Common stocks	489,122	520,586	Marketable securities trust	489,122	520,586
Mutual funds	101,809,551	101,108,082	Real estate trust	3,852,966	3,726,071
Adjustments	(9,130)	102,815	Securities under custody		
Interest receivable	326	579	payable	143,333,622	158,660,082
Land	2,990,536	2,350,978	Administration payable	66	68
Buildings	20,002	13,114	Supervision payable	-	31
Construction in progress	490,569	918,981	Income taxes payable	32	58
Securities under custody	143,333,622	158,660,082	Profit and loss		
			Realized capital through		
			profit and loss	(672)	(3,017)
			Investment profit and loss	112,909	(13,532)
			Realized capital gain -		
			mutual funds	1,709	-
			Unrealized capital gain -		
			mutual funds	507	1,128
			Unrealized capital gain -		
			common stocks	49,681	142,732
			Realized capital loss -		
			mutual funds	(6)	-
			Unrealized capital loss -		
			mutual funds	(30,062)	(13,574)
			Unrealized capital loss -		
			common stock	(29,257)	(27,471)
			Unappropriated retained		
			earnings	(112,061)	16,394
			Interests and dividends		
			revenues	33,934	-
			Other expenses	<u>(35,911)</u>	<u>-</u>
Total trust assets	<u>\$ 250,084,882</u>	<u>\$ 264,972,425</u>	Total trust liabilities	<u>\$ 250,084,882</u>	<u>\$ 264,972,425</u>

Trust Assets Register

Investments	December 31	
	2011	2010
Bank deposits	\$ 826,084	\$ 1,152,008
Insurance claims	134,200	145,200
Financial assets		
Common stocks	509,546	635,848
Mutual funds	101,779,997	101,095,635
Land	2,990,536	2,350,978
Buildings	20,002	13,114
Construction in progress	490,569	918,981
Others	326	579
Securities under custody	<u>143,333,622</u>	<u>158,660,082</u>
 Total trust assets	<u>\$ 250,084,882</u>	<u>\$ 264,972,425</u>

Income Statement of Trust

Investments	Years Ended December 31	
	2011	2010
Revenue		
Interest income	\$ 2,920	\$ 2,855
Dividends	31,014	39,842
Gain on mutual funds	<u>-</u>	<u>2,187</u>
	33,934	44,884
Expense		
Maintenance	(1,992)	(2,166)
Tax expense	(292)	(249)
Others	<u>(33,627)</u>	<u>(56,001)</u>
	(35,911)	(58,416)
Realized capital gain - mutual funds	1,709	-
Unrealized capital gain - mutual funds	507	1,128
Unrealized capital gain - quoted stocks	49,681	142,732
Realized capital loss - mutual funds	(6)	(3,017)
Unrealized capital loss - mutual funds	(30,062)	(13,574)
Unrealized capital loss - quoted stocks	<u>(29,257)</u>	<u>(27,471)</u>
	<u>\$ (9,405)</u>	<u>\$ 86,266</u>

32. LOANS TO PARTIES WITH COMMON INTERESTS

Investees' Names (Note a)	Investees' Location	Principal Business Activities	Ownership Interest (%) at Ending Balance	Investment Book Value	Recognized Investment Income (Loss) of Current Period	Sum of Ownership (Note a)			
						Current Shares	Imputed Shares (Note b)	Shares	Ownership Interest (%)
CHB Insurance Agency (Note c)	Taipei City	Personal insurance agent	100.00%	\$ 341,194	\$ 242,708	\$ 5,000,000	-	5,000,000	100.00%
CHB Insurance Brokerage (Note c)	Taipei City	Property insurance broker	100.00%	49,696	31,893	800,000	-	800,000	100.00%
MasterLink Securities Corp.	Taipei City	Security brokerage	4.06%	561,444	-	60,047,459	-	60,047,459	4.06%
Taiwan Stock Exchange Co.	Taipei City	Securities brokerage, margin lending, and underwriting financial products	3.00%	72,012	-	17,951,707	-	17,951,707	3.00%
Taiwan Sugar Co.	Tainan City	Manufacture correlative products of sugar and crop	0.41%	61,540	-	32,286,333	-	32,286,333	0.41%
Taiwan Power Co.	Taipei City	Generate electric power, power distribution, and cable assemble	0.71%	1,872,923	-	235,726,532	-	235,726,532	0.71%
Chunghwa Chemical Synthesis & Biotech Co., Ltd.	New Taipei City	Western medicine manufacture and sell	0.22%	8,858	-	171,000	-	171,000	0.22%
Taipei Foreign Exchange Inc.	Taipei City	Exchange trading, DEPOS, and Swap	3.53%	7,000	-	860,000	-	860,000	4.34%
Lieu-An Service Co., Ltd.	Taipei City	ATM purchase, rental, and repair or maintenance	5.00%	1,250	-	250,000	-	250,000	10.00%
CDIB & Partners Investment Holding Co.	Taipei City	Investment	4.95%	500,000	-	54,000,000	-	54,000,000	4.95%
ING Securities Investment & Trust Co.	Taipei City	Securities investment trust	6.32%	40,812	-	3,197,700	-	3,197,700	6.32%
Financial Information Service Co., Ltd.	Taipei City	Type II telecommunications business	1.16%	46,446	-	15,450,750	-	15,450,750	3.43%
Taiwan Futures Exchange	Taipei City	Futures exchange	1.00%	20,000	-	5,741,603	-	5,741,603	2.11%
Asia Pacific Broadband Telecom Co. (Note d)	Taipei City	Type I & type II telecommunications business	0.46%	30,000	-	30,000,000	-	30,000,000	0.91%
Taiwan Assets Management Co., Ltd.	Taipei City	Acquisition of delinquent loans, evaluation, auction, and management	11.35%	2,000,000	-	210,000,000	-	210,000,000	11.92%
Taiwan Financial Asset Service Co.	Taipei City	Auction assets of the recognition of an impartial third party	2.94%	50,000	-	10,000,000	-	10,000,000	5.88%
Financial Evolution Co., Ltd.	Taipei City	Financial information systems development	5.13%	19,285	-	1,771,047	-	1,771,047	5.13%
Taiwan Depository & Clearing Corporation	Taipei City	Provide book-entry of securities transactions	0.08%	6,749	-	1,558,783	-	1,558,783	0.50%
Sunlight Assets Management Co., Ltd.	Taipei City	Acquisition of delinquent loans, evaluation, auction, and management	0.70%	417	-	1,134,085	-	1,134,085	18.90%
Tai Yu Products Corporation	Taichung City	Frozen agricultural products	4.77%	(Note 5)	-	5,748,382	-	5,748,382	4.77%
Chi-Yi Construction Management Company	New Taipei City	Residential development and lease	3.09%	(Note 5)	-	556,965	-	556,965	3.09%

Note a: The investees' voting shares, and imputed shares were owned by the Bank and related parties.

Note b: Imputed shares are considered if equity securities such as convertible bonds, warrants, etc., or derivative contracts such as stock options, are converted.

Note c: Included the original investment amount and profit and loss recognized under the equity method.

Note d: Included the original investment amount of \$150,000 thousand minus accumulated impairment of \$120,000 thousand.

Note e: The Bank had recognized the loss on investment in Tai Yu Products Corporation and Chi-Yi Construction Management Company.

33. DISCLOSURES UNDER STATUTORY REQUIREMENTS

Material Transactions

According to Guidelines Governing the Preparation of Financial Reports by Public Banks Rule 16, the disclosure of related information was as follows:

No.	Item	Explanation
1	Accumulated purchases and sales balance of specific investees' marketable security over NT\$300 million or 10% of outstanding capital as of December 31, 2011	None
2	Acquisition of fixed assets over NT\$300 million or 10% of outstanding capital as of December 31, 2011	None
3	Disposal of fixed assets over NT\$300 million or 10% of outstanding capital as of December 31, 2011	None
4	Discount on fees income from related parties over NT\$5 million	None
5	Receivables from related parties over NT\$300 million or 10% of outstanding capital	None
6	Sale of NPL	Note 30
7	Securitized instruments and related assets which are in accordance with the Statute for Financial Assets Securitization and the Statute for Real Estate Securitization	None
8	Other significant transactions which may affect decisions of the users of the financial statements	None

Information on the Bank's Investees

No.	Item	Explanation
1	Investees' names, locations, etc.	Table 1
2	Capital lending to another party	None
3	Endorsement for another party	None
4	Marketable securities held as of December 31, 2011	None
5	Derivative instrument	None
6	Accumulated purchases and sales balance of specific marketable security over NT\$300 million or 10% of outstanding capital for the year ended December 31, 2011	None
7	Acquisition of property, plant and equipment over NT\$300 million or 10% of outstanding capital for the year ended December 31, 2011	None
8	Disposal of property, plant and equipment over NT\$300 million or 10% of outstanding capital for the year ended December 31, 2011	None
9	Discount on fees income from related parties over NT\$5 million	None
10	Receivables from related parties over NT\$300 million or 10% of outstanding capital	None
11	Sale of NPL by subsidiary	None
12	Other significant transactions which may affect decisions of the users of the financial statements	None

Investment in Mainland China: Table 2

34. OPERATING SEGMENT FINANCIAL INFORMATION

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on services delivered or provided. The Bank's reportable segments under SFAS No. 41 are sorted by operation. The results of operations and assets/liabilities of each segment are disclosed in the consolidated financial statements of the Bank.

CHANG HWA COMMERCIAL BANK, LTD.

**INFORMATION ON INVESTEEES' NAMES, LOCATIONS
YEAR ENDED DECEMBER 31, 2011**

(In Thousands of New Taiwan Dollars, Except for Percentage and Shares)

Investor	Investees' Names	Investees' Location	Line of Business	Original Investment Amount		Ending Balance			Net Income (Loss) of Current Period	Recognized Income (Loss) of Current Period	Note
				End of Year 2011	End of Year 2010	Shares	Ownership Interest (%)	Book Value			
Chang Hwa Bank	CHB Insurance Agency	6F, No. 57, Zhong Shan N. Rd., Sec. 2, Taipei City, Taiwan, R.O.C.	Life insurance agency	\$ 2,008	\$ 2,008	5,000,000	100.00	\$ 341,194	\$ 242,708	\$ 242,708	
	CHB Insurance Brokerage	6F, No. 57, Zhong Shan N. Rd., Sec. 2, Taipei City, Taiwan, R.O.C.	Property insurance brokerage	2,000	2,000	800,000	100.00	49,696	31,893	31,893	

CHANG HWA COMMERCIAL BANK, LTD.

INFORMATION OF INVESTMENT IN MAINLAND CHINA
YEAR ENDED DECEMBER 31, 2011

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

1.

Investee	Main Businesses and Products	Total Amount of Capital (US\$ in Thousand)	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2011 (US\$ in Thousand)	Investment Flows (US\$ in Thousand)		Accumulated Outflow of Investment from Taiwan as of December 31, 2011 (US\$ in Thousand)	Percentage of Ownership	Equity in the Earnings (Losses)	Carrying Value as of December 31, 2011	Accumulated Inward Remittance of Earnings as of December 31, 2011
					Outflow	Inflow					
Chang Hwa Commercial Bank, Ltd. Kunshan Branch	Banking	\$ 2,202,168 (US\$ 74,650)	Note 1.e.	\$ 2,202,168 (US\$ 74,650)	\$ -	\$ -	\$ 2,202,168 (US\$ 74,650)	-	\$ -	\$ -	\$ -

Accumulated Investment in Mainland China as of December 31, 2011 (US\$ in Thousand)	Investment Amounts Authorized by Investment Commission, MOEA (US\$ in Thousand)	Upper Limit on Investment regulated by Investment Commission, MOEA (US\$ in Thousand) (Note 2)
US\$74,650	US\$74,650	\$12,152,593

Note 1: The five methods of investment are as follows:

- Investment in Mainland China by remittance through a third area.
- Investment in Mainland China through establishment of new enterprise in a third area.
- Investment in Mainland China through reinvestment in existing enterprise in a third area.
- Direct investment in Mainland China.
- Others.

Note 2: In accordance with the "Bank, Financial Holding Corporation and Related Party Invest China Business Rules" announced by FSC, the accumulated outflow of operating funds and investment from the following parties may not exceed 15% of net assets while they applied:

- Banks in Taiwan (or subsidiaries in a third area) which establish branches, subsidiaries or acquire shares or capital contribution from local shareholders in Mainland China.
- The subsidiaries, whose issued stocks carry voting rights or more than 50% of capital is held by banks in Taiwan, have investment in Mainland China.