Union Bank of Taiwan

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

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Union Bank of Taiwan

We have audited the accompanying balance sheets of Union Bank of Taiwan (the "Bank") as of December 31, 2011 and 2010, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. However, we did not audit the financial statements as of and for the year ended December 31, 2010 of some equity-method investees: Union Bills Finance Corporation, Union Finance International (H.K.) Limited, and Union Real-Estate Management Corporation. The carrying amount of these equity-method investments was 0.04% (NT$147,266 thousand) of the Bank's total assets as of December 31, 2010. The loss from these equity-method investments was 1.26% (NT$23,181 thousand) of the pretax income in 2010. The financial statements of these investees were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts pertaining to these investees and to these investees' information mentioned in Note 35, is based solely on the reports of the other auditors.

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 and the reports of the other auditors provide a reasonable basis for our opinion.

As stated in Notes 15 and 26 to the financial statements, the Bank sold a part of its nonperforming loans to an asset management company in 2006, and the Bank deferred related losses, amortizable over 60 months, as required by the Financial Institution Consolidation Law. Had these losses not been deferred, there would have been increases of NT$965,261 thousand in 2011 and NT$1,587,321 thousand in 2010 in pretax income. Also, the balances of the other assets and unappropriated earnings as of December 31, 2010 would have decreased by NT$965,255 thousand.

In our opinion, based on our audits and the reports of the other auditors, except for the deferred losses on nonperforming loans described in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Union Bank of Taiwan 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, the Criteria Governing the Preparation of Financial Reports by Securities Firms, 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.

We have also audited the consolidated financial statements of Union Bank of Taiwan and subsidiaries as of and for the years ended December 31, 2011 and 2010, on which we have issued a qualified opinion in our report dated March 13, 2012.

As discussed in Note 3 to the financial statements, on January 1, 2011, Union Bank of Taiwan adopted the revised Statement of Financial Accounting Standards (SFAS) No. 34 - "Financial Instruments: Recognition and Measurement" and the newly issued SFAS No. 41 - "Operating Segments."

March 13, 2012

<u>*Notice to Readers*</u>

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.

UNION BANK OF TAIWAN

BALANCE SHEETS
DECEMBER 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2011 Amount	2010 Amount	% Increase (Decrease)
CASH AND CASH EQUIVALENTS (Note 4)	$ 8,390,592	$ 8,944,278	(6)
DUE FROM THE CENTRAL BANK AND OTHER BANKS (Notes 5 and 26)	101,781,769	61,324,277	66
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 2, 6 and 30)	8,167,543	3,017,823	171
SECURITIES PURCHASED UNDER RESELL AGREEMENTS (Notes 2 and 28)	251,626	39,500	537
RECEIVABLES, NET (Notes 2, 7, 8 and 26)	15,086,661	16,808,438	(10)
DISCOUNTS AND LOANS, NET (Notes 2, 8, 26 and 30)	190,679,993	189,657,099	1
AVAILABLE-FOR-SALE FINANCIAL ASSETS (Notes 2, 9, 26 and 30)	7,516,896	6,230,049	21
HELD-TO-MATURITY INVESTMENTS (Notes 2, 10 and 30)	1,313,015	3,272,634	(60)
INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD (Notes 2 and 11)	1,114,794	1,050,576	6
OTHER FINANCIAL ASSETS, NET (Notes 2, 12, 13, 27 and 30)			
Financial assets carried at cost	450,451	452,581	-
No active market debt instruments	44,723,018	50,878,823	(12)
Others	4,457,747	5,805,683	(23)
Other financial assets, net	49,631,216	57,137,087	(13)
PROPERTY AND EQUIPMENT (Notes 2, 14, 26 and 28)			
Cost			
Land	3,530,860	3,529,565	-
Buildings	5,048,139	4,980,750	1
Machinery and equipment	1,368,261	1,409,042	(3)
Transportation equipment	262,815	267,157	(2)
Leasehold improvements	346,487	332,035	4
	10,556,562	10,518,549	-
Less: Accumulated depreciation	2,612,672	2,467,723	6
	7,943,890	8,050,826	(1)
Prepayments for equipment	12,811	38,657	(67)
Net property and equipment	7,956,701	8,089,483	(2)
GOODWILL (Notes 2 and 16)	2,119,709	2,374,485	(11)
OTHER ASSETS (Notes 2, 15 and 24)	3,714,937	5,127,948	(28)
TOTAL	$ 397,725,452	$ 363,073,677	10

LIABILITIES AND STOCKHOLDERS' EQUITY	2011 Amount	2010 Amount	% Increase (Decrease)
LIABILITIES			
Call loans and due to banks (Notes 17 and 26)	$ 7,007,256	$ 10,287,346	(32)
Financial liabilities at fair value through profit or loss (Notes 2, 6 and 30)	33,852	51,584	(34)
Securities sold under repurchase agreements (Notes 2 and 28)	34,522,173	33,596,926	3
Payables (Notes 18 and 26)	5,847,302	3,838,896	52
Deposits and remittances (Notes 19, 26 and 30)	322,756,910	289,605,854	11
Bank debentures (Notes 20 and 30)	4,890,000	4,890,000	-
Other financial liabilities (Notes 26 and 30)	337,852	318,027	6
Other liabilities (Note 2)	365,444	390,574	(6)
Total liabilities	375,760,789	342,979,207	10
STOCKHOLDERS' EQUITY (Notes 2 and 22)			
Capital stock			
Common stock at par value of NT$10.00, authorized - 3,000,000 thousand shares; issued and outstanding - 1,645,991 thousand shares	16,459,908	16,459,908	-
Preferred stock	3,025,088	3,025,088	-
Total capital stock	19,484,996	19,484,996	-
Capital surplus			
Donated capital	1,398	1,398	-
Treasury stock transactions	32,413	32,413	-
Total capital surplus	33,811	33,811	-
Retained earnings			
Legal reserve	352,978	-	-
Special reserve	874,473	-	-
Unappropriated earnings	1,826,615	1,176,594	55
Total retained earnings	3,054,066	1,176,594	160
Other equity			
Unrealized gain (loss) on financial instruments	(167,173)	155,124	(208)
Cumulative translation adjustments	(263,522)	(640,778)	(59)
Net loss not recognized as pension cost	(177,515)	(115,277)	54
Total other equity	(608,210)	(600,931)	1
Total stockholders' equity	21,964,663	20,094,470	9
CONTINGENCIES AND COMMITMENTS (Notes 2 and 28)			
TOTAL	$ 397,725,452	$ 363,073,677	10

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

(With Deloitte & Touche audit report dated March 13, 2012)

UNION BANK OF TAIWAN

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

	2011 Amount	2010 Amount	%
INTEREST REVENUE (Notes 2 and 26)	$ 9,546,475	$ 9,166,812	4
INTEREST EXPENSE (Note 26)	2,884,122	2,516,524	15
NET INTEREST	6,662,353	6,650,288	-
NET REVENUES OTHER THAN INTEREST			
Commissions and fee revenues (Notes 2 and 26)	1,796,137	1,917,872	(6)
Commissions and fee expenses (Note 2)	427,296	431,668	(1)
Net commissions and fees	1,368,841	1,486,204	(8)
Gain on financial assets and liabilities at fair value through profit or loss (Notes 2 and 6)	20,137	287,503	(93)
Realized gain on available-for-sale financial assets (Note 2)	60,147	162,912	(63)
Investment income recognized under the equity method, net (Notes 2 and 11)	90,714	5,152	1,661
Foreign exchange gain (loss), net (Note 2)	238,789	(170,169)	240
Impairment losses, net (Notes 2, 15 and 16)	(291,916)	(279,606)	4
Gain on unquoted equity investments (Note 2)	29,757	129,128	(77)
Gain on investments with no active market	18,858	-	-
Gain on disposal of collaterals assumed, net	712	145,813	(100)
Securities brokerage fee revenues, net (Note 26)	69,975	84,221	(17)
Amortization of loss on disposal of nonperforming loans (Note 15)	(965,261)	(1,587,321)	(39)
Other noninterest net revenues (expenses) (Note 26)	3,786	(13,559)	128
Total net revenues other than interest	644,539	250,278	158
Total net revenues	7,306,892	6,900,566	6
PROVISION (Note 8)			
Allowance for doubtful accounts	121,500	409,502	(70)
OPERATING EXPENSES			
Personnel expenses (Notes 2, 21 and 23)	2,346,886	2,148,514	9
Depreciation and amortization (Notes 2 and 23)	301,954	374,075	(19)
Others (Note 26)	2,315,172	2,135,963	8
Total operating expenses	4,964,012	4,658,552	7
INCOME BEFORE INCOME TAX	2,221,380	1,832,512	21
INCOME TAX EXPENSE (Notes 2 and 24)	394,765	422,087	(6)
NET INCOME	$ 1,826,615	$ 1,410,425	30

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UNION BANK OF TAIWAN

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

	2011		2010	
	Before Tax	**After Tax**	**Before Tax**	**After Tax**
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 25)				
Basic	$ 1.24	$ 1.00	$ 1.20	$ 0.92
Diluted	$ 1.14	$ 0.94	$ 1.00	$ 0.77

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

(With Deloitte & Touche audit report dated March 13, 2012) (Concluded)

UNION BANK OF TAIWAN

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

	Issued and Outstanding Common Stock		Issued and Outstanding Preferred Stock (Note 22)		Capital Surplus (Notes 2 and 22)			Retained Earnings (Accumulated Deficit) (Notes 2 and 22)				Other Equity				
	Shares (In Thousands)	Amount	Shares (In Thousands)	Amount	Donated Capital	Treasury Stock Transaction	Total	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficit)	Total	Unrealized Gain (Loss) on Financial Assets (Notes 2, 9 and 30)	Cumulative Translation Adjustment (Note 2)	Net Loss Not Recognized as Pension Cost	Total	Total Stockholders' Equity
BALANCE, JANUARY 1, 2010	1,918,824	$ 19,188,244	400,000	$ 4,000,000	$ 1,398	$ 32,413	$ 33,811	$ -	$ -	$ (5,651,650)	$ (5,651,650)	$ 17,065	$ 31,662	$ (88,902)	$ (40,175)	$ 17,530,230
Capital reduction to offset deficit	(467,671)	(4,676,712)	(97,491)	(974,912)	-	-	-	-	-	5,651,624	5,651,624	-	-	-	-	-
Issuance of common stock for merger	194,838	1,948,376	-	-	-	-	-	-	-	(233,805)	(233,805)	-	-	-	-	1,714,571
Net income in 2010	-	-	-	-	-	-	-	-	-	1,410,425	1,410,425	-	-	-	-	1,410,425
Change in unrealized gain on available-for-sale finance assets	-	-	-	-	-	-	-	-	-	-	-	127,783	-	-	127,783	127,783
Change in recognition of equity-method investments	-	-	-	-	-	-	-	-	-	-	-	10,276	(61,870)	-	(51,594)	(51,594)
Change in net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	-	-	-	(26,375)	(26,375)	(26,375)
Change in translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(610,570)	-	(610,570)	(610,570)
BALANCE, DECEMBER 31, 2010	1,645,991	16,459,908	302,509	3,025,088	1,398	32,413	33,811	-	-	1,176,594	1,176,594	155,124	(640,778)	(115,277)	(600,931)	20,094,470
Appropriation of 2010 earnings																
Legal reserve	-	-	-	-	-	-	-	352,978	-	(352,978)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	823,616	(823,616)	-	-	-	-	-	-
Net income in 2011	-	-	-	-	-	-	-	-	-	1,826,615	1,826,615	-	-	-	-	1,826,615
Change in unrealized loss on available-for-sale finance assets	-	-	-	-	-	-	-	-	-	-	-	(299,774)	-	-	(299,774)	(299,774)
Change in recognition of equity-method investments	-	-	-	-	-	-	-	-	-	-	-	(22,523)	23,096	-	573	573
Change in net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	-	-	-	(62,238)	(62,238)	(62,238)
Special reserve for default and securities trading losses	-	-	-	-	-	-	-	-	50,857	-	50,857	-	-	-	-	50,857
Change in translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	354,160	-	354,160	354,160
BALANCE, DECEMBER 31, 2011	1,645,991	$ 16,459,908	302,509	$ 3,025,088	$ 1,398	$ 32,413	$ 33,811	$ 352,978	$ 874,473	$ 1,826,615	$ 3,054,066	$ (167,173)	$ (263,522)	$ (177,515)	$ (608,210)	$ 21,964,663

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

(With Deloitte & Touche audit report dated March 13, 2012)

UNION BANK OF TAIWAN

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	$ 1,826,615	$ 1,410,425
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	301,954	374,075
Allowance for credit and other losses	122,734	423,484
Amortization of premium on available-for-sale financial assets	38,575	35,768
Amortization of premium on held-to-maturity investments	18,815	11,118
Amortization of discount on no-active market debt instruments	(316,053)	(76,088)
Valuation loss (gain) on financial assets and liabilities at fair value through profit or loss	72,865	(90,184)
Realized gain on sale of available-for-sale financial assets	(19,847)	(131,305)
Investment income recognized under the equity method, net	(90,714)	(5,152)
Cash dividends received from equity-method investees	25,611	21,917
Gain on sale of financial assets carried at cost	-	(83,905)
Gain on sale of debt instruments with no active market	(18,858)	-
Impairment losses on assets, net	291,916	279,606
Amortization of loss from disposal of nonperforming loans	965,261	1,587,321
Gain on disposal of collaterals assumed, net	(712)	(145,813)
Loss (gain) on disposal of property and equipment, net	(674)	6,846
Loss on the obsolescence of property and equipment	810	13,210
Deferred income taxes	223,403	219,885
Changes in operating assets and liabilities		
Held-for-trading financial assets	(2,572,520)	(2,227,711)
Receivables	1,621,777	3,672,716
Held for trading financial liabilities	3,942	(19,047)
Payables	2,008,406	532,168
Accrued pension cost	(1,056)	(97)
Net cash provided by operating activities	4,502,250	5,809,237
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in due from the Central Bank and other banks	(40,457,492)	(2,975,621)
Decrease (increase) in financial assets designated as at fair value through profit or loss	(2,671,739)	50,313
Decrease (increase) in securities purchased under resell agreements	(212,126)	250,453
Increase in discounts and loans	(1,048,064)	(20,100,442)
Proceeds of the disposal of available-for-sale financial assets	3,496,832	11,869,859
Capital return on available-for-sale financial assets	983,000	295,000
Acquisition of available-for-sale financial assets	(6,085,181)	(6,557,087)
Capital return on held-to-maturity investments	2,005,929	7,208,662
Acquisition of held-to-maturity investments	(52,125)	(305,254)
Proceeds of the disposal of no active market debt instruments	4,309,903	-
Acquisition of investments accounted for by the equity method	-	(60,550)
Proceeds of the capital reduction of investee	2,130	3,195

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UNION BANK OF TAIWAN

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

	2011	2010
Received principal on debt instruments with no active market	$ 18,181,193	$ 51,461,371
Acquisition of debt instruments with no active market	(16,000,380)	(52,862,192)
Decrease (increase) in other financial assets	1,334,936	(841,677)
Acquisition of property and equipment	(87,915)	(114,737)
Proceeds of the disposal of property and equipment	785	32,018
Proceeds of the disposal of collaterals assumed	215,683	1,043,914
Increase in other assets	(60,558)	(24,916)
Acquisition of cash and equivalents from merger	-	896,765
Net cash used in investing activities	(36,145,189)	(10,730,926)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in call loans and due to banks	(3,280,090)	(7,801,427)
Increase in securities sold under repurchase agreements	925,247	3,504,638
Increase in deposits and remittances	33,151,056	18,481,663
Increase in other financial liabilities	19,825	74,349
Decrease in other liabilities	(28,429)	(343,568)
Issuance of bank debentures	2,000,000	-
Decrease in bank debentures	(2,000,000)	(5,000,000)
Net cash provided by financing activities	30,787,609	8,915,655
EFFECT OF EXCHANGE RATE CHANGES	301,644	(610,570)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(553,686)	3,383,396
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,944,278	5,560,882
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 8,390,592	$ 8,944,278
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 2,800,638	$ 2,553,928
Income tax paid	$ 191,962	$ 53,165

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

(With Deloitte & Touche audit report dated March 13, 2012) (Concluded)

1. ORGANIZATION AND OPERATIONS

Union Bank of Taiwan (the "Bank") obtained approval from the Ministry of Finance (MOF) to be established on August 1, 1991 and was incorporated on December 31, 1991. It started operations on January 21, 1992.

The Bank engages in activities allowed under the Banking Law, which cover deposits, loans, discounts, remittances, acceptances, issuance of guarantees and letters of credit, short-term bills transactions, investments, foreign exchange transactions, savings, trust, etc.

On the Bank's merger with Chung Shing Bank, the Bank took over all of the assets, liabilities and operating units of Chung Shing Bank on March 19, 2005.

The Bank merged with the Union Bills Finance Corporation (UBF) on August 16, 2010, with the Bank as the survivor entity. Please refer to Note 34 for more merger information.

As of December 31, 2011, the Bank's operating units included Banking, Trust, Wealth Management, Security Finance, Bills Finance, International Banking Department of the Head Office, an Offshore Banking Unit (OBU), two overseas representative offices in Hong Kong and Vietnam, and 87 domestic branches.

The operations of the Bank's Trust Department are (1) trust business planning, managing and operating; and (2) custody of non-discretionary trust funds in domestic and overseas securities and mutual funds. These foregoing operations are regulated under the Banking Law and Trust Law.

The Bank's shares are traded on the Taiwan Stock Exchange.

As of December 31, 2011 and 2010, the Bank had 3,111 and 2,975 employees, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

The Bank's financial statements have been prepared in conformity with the Regulations Governing the Preparation of Financial Reports by Public Banks, the Criteria Governing the Preparation of Financial Reports by Securities Firms, Business Accounting Law, Guidelines Governing Business Accounting and accounting principles generally accepted in the Republic of China (ROC).

Since the operating cycle cannot be reasonably identified in the banking industry, accounts included in the Bank's financial statements were not classified as current or noncurrent. Nevertheless, accounts were properly categorized in accordance with the nature of each account and sequenced by their liquidity. Please refer to Note 30 for maturity analysis of assets and liabilities.

Significant accounting policies are summarized as follows:

Foreign Currencies

Nonderivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss.

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.

At the balance sheet date, foreign-currency nonmonetary assets (such as equity instruments) and liabilities that are measured at fair value are revalued using prevailing exchange rates, with the exchange differences treated as follows:

a. Recognized in stockholders' equity if the changes in fair value are recognized in stockholders' equity;
b. Recognized in profit and loss if the changes in fair value are recognized in profit or loss.

Foreign-currency nonmonetary assets and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

If the functional currency of an equity-method investee is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Bank. These adjustments are accumulated and reported as a separate component of stockholders' equity.

Accounting Estimates

Under the above guidelines, law and principles, certain estimates and assumptions have been used for the fair values of financial assets and liabilities; the allowance for doubtful accounts; depreciation of property and equipment; income tax; pension cost; loss on pending litigations; asset impairment; allowance for losses on guarantees; bonuses to employees, directors and supervisors; etc. Actual results may differ from these estimates.

Basis of Financial Statement Preparation

The accompanying financial statements include the accounts of the Head Office, OBU, all branches and the representative offices. All interoffice transactions and balances have been eliminated.

Basis of Fair Value Determination

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 or Bloomberg; and financial assets and financial liabilities without quoted prices in an active market - at values determined using valuation techniques.

Securities Purchased or Sold Under Resell or Repurchase Agreements

Securities purchased under resell agreements and securities sold under repurchase agreements are generally treated as collateralized financing transactions. Interest earned on resell agreements and interest incurred on repurchase agreement is recognized as interest income or interest expense over the life of each agreement.

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 loses control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, canceled or expired.

Financial instruments at FVTPL are initially measured at fair value. 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 (including those received in the year of investment) 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. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis, except for bond trading (settlement date basis).

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.

Financial asset and financial liabilities that give rise to offsetting changes in fair values may be designated as financial instruments at fair value through profit or loss to eliminate inconsistencies in measuring these instruments. This FVTPL designation applies to some derivative instruments and debt investments that do not qualify for hedge accounting. If the hedging items are not designated as financial instruments at fair value through profit or loss, an accounting inconsistency will arise because the profits or losses resulting from the hedged items will not be recognized during the same period as that for profits and losses generated on the hedging items. To avoid this kind of inconsistency, the Bank designated derivatives and debt investments as financial instruments at fair value through 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. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

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

Cash dividends are recognized on the ex-dividend date, 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 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 increases as a result of an event that 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. However, the straight-line method is used if there are no significant differences between the results of using the effective interest method and the straight-line 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. All regular way purchases or sales of financial assets are accounted for using a trade date basis.

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 that 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.

Other Financial Assets

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, are measured at their original cost. The accounting treatment for dividends on financial assets carried at cost is the same as 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 fixed or determinable payments and with no quoted prices in an active market are carried at amortized cost using the effective interest method. The accounting treatment for these bond investments is the same as that for held-to-maturity financial assets, except for the absence of restriction on the timing of their disposal.

Nonperforming Loans

Pursuant to "Regulations Governing the Procedures for Banking Institutions to Evaluation Assets and Deal with Nonperforming/Nonaccrual Loans" issued by the Ministry of Finance, the balances of loans and other credits extended by the Bank and the related accrued interest are classified as nonperforming when the loan is overdue and when this classification is approved by the board of directors. Nonperforming loans reclassified from loans are classified as discounts and loans; otherwise, these loans are classified as other financial assets.

Allowances for Credit Losses and for Losses on Guarantees

In determining the allowances for credit losses and for losses on guarantees, the Bank assesses the collectibility of the balances of discounts and loans, receivables, nonperforming loans, and other financial assets as well as guarantees and acceptances for the specific risks or general risks as of the balance sheet dates.

Under the regulations issued by Ministry of Finance (MOF), the Bank evaluates credit losses on the basis of the estimated collectibility.

The MOF regulations also require the grouping of loans into these five classes: Normal, special mention, substandard, with doubtful collectibility and uncollectible; the minimum allowances for credit losses and for losses on guarantees for the non-normal loans should be 2%, 10%, 50% and 100% of outstanding credits, respectively.

Later, the MOF issued a guideline stating that, within three years from January 1, 2011, the normal loans should have a minimum allowance of 0.5%, with the allowances for the four non-normal loans remaining the same. The Bank believes it can meet this new allowance requirement within three years from January 1, 2011.

Loan write-offs that are made in accordance with MOF guidelines and with the board of directors' approval are offset against the recorded allowance for credit losses.

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 the impairment of receivables originated by the Bank should be covered by SFAS No. 34. Accounts receivable are assessed for impairment at the end of each reporting period and considered 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;
- Accounts receivable becoming overdue; or
- It becoming probable that the debtor will enter into bankruptcy or undergo financial reorganization.

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

The amount of the 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 collaterals and guarantees, discounted at the receivable's original effective interest rate.

The carrying amount of the 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.

Impairment of Assets

If the recoverable amount of an asset (mainly property and equipment, intangible assets and investments accounted for by the equity method) 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 first treated as a reduction of the unrealized revaluation increment and any remaining loss is charged to earnings.

If an impairment loss 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 first recognized as gain to the extent that an impairment loss on the same revalued asset was previously charged to earnings. Any excess amount is treated as an increase in the unrealized revaluation increment.

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units (CGUs) that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually or whenever there is an indication that the CGU may be impaired. If the recoverable amount of the CGU becomes less than its carrying amount, the impairment is allocated to first reduce the carrying amount of the goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU. A reversal of an impairment loss on goodwill is disallowed.

For long-term equity investments on which the Bank has significant influence but over which it has no control, the carrying amount (including goodwill) of each investment is compared with its own recoverable amount for the purpose of impairment testing.

Investments Accounted for by the Equity Method

Investments in which the Bank holds 20 percent or more of the investees' voting shares or exercises significant influence over the investees' operating and financial policy decisions are accounted for by the equity method.

The acquisition cost is allocated to the assets acquired and liabilities assumed on the basis of their fair values at the date of acquisition, and the acquisition cost in excess of the fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not amortized. The fair value of the net identifiable assets acquired in excess of the acquisition cost is used to reduce the fair value of each of the noncurrent assets acquired (except for financial assets other than investments accounted for by the equity method, noncurrent assets held for sale, deferred income tax assets, prepaid pension or other postretirement benefit) in proportion to the respective fair values of the noncurrent assets, with any excess recognized as an extraordinary gain.

Profits from downstream transactions with an equity-method investee are eliminated in proportion to the Bank's percentage of ownership in the investee; however, if the Bank has control over the investee, all the profits are eliminated. Profits from upstream transactions with an equity-method investee are eliminated in proportion to the Bank's percentage of ownership in the investee.

When the Bank subscribes for its investee's newly issued shares at a percentage different from its current percentage of ownership in the investee, the Bank records the change in its equity in the investee's net assets as an adjustment to investments, with a corresponding amount credited or charged to capital surplus. When the adjustment should be debited to capital surplus, but the capital surplus arising from long-term investments is insufficient, the shortage is debited to retained earnings.

When the Bank's share in losses of an investee over which the Bank has significant influence equals its investment in that investee plus any advances made to the investee, the Bank discontinues applying the equity method. The Bank continues to recognize its share in losses of the investee if (a) the Bank commits to provide further financial support to the investee or (b) the losses of the investee are considered to be temporary and sufficient evidence shows imminent return to profitability.

When the Bank's share in losses of an investee over which the Bank has control exceeds its investment in the investee, unless the other stockholders of the investee have assumed legal or constructive obligations and have demonstrated the ability to make payments on behalf of the investee, the Bank has to bear all of the losses in excess of the capital contributed by stockholders of the investee. If the investee subsequently reports profits, these profits are first attributed to the Bank to the extent of the excess losses previously borne by the Bank.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Major additions and improvements to property and equipment are capitalized, while repairs and maintenance are expensed currently.

Depreciation is provided on a straight-line basis over estimated useful lives as follows: buildings and improvements, 50 to 55 years; machinery and equipment, 3 to 5 years; transportation equipment, 3 to 5 years; and leasehold improvements, 5 years. Property and equipment still in use beyond their original estimated useful lives are further depreciated over their newly estimated useful lives.

Upon sale or disposal of property and equipment, their cost and related accumulated depreciation are removed from their respective accounts. Any resulting gain (loss) is credited (charged) to current income.

Goodwill

Goodwill arising on the acquisition of another company was previously amortized over the estimated life of five years. Effective January 1, 2006, based on the newly released Statement of Financial Accounting Standards No. 37 - "Intangible Assets," goodwill is no longer amortized and instead is tested for impairment annually.

Collaterals Assumed

Collaterals assumed (included in other assets) are recorded at cost, which includes the assumed prices and any necessary repairs to make the collaterals saleable, and evaluated at the lower of cost or net realizable value as of the balance sheet date.

Other Assets

Deferred charges, which include the costs of computer system software and telephone installation, are amortized on the straight-line basis over five years.

The loss on sale of nonperforming loans should be recognized in the year of disposal to comply with accounting principles generally accepted in the Republic of China. In addition, the difference between the carrying amount and selling price of the nonperforming loans disposed of is amortized over 60 months in accordance with Rule No. 15 of the Financial Institution Consolidation Law (Note 15).

Pension Cost

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 year in which employees render services.

Curtailment or settlement gains or losses on the defined benefit plan are recognized as part of the net pension cost for the year.

Compound Instruments

The components of compound instruments are treated separately as liabilities and equity instrument in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar noncompound instrument (including any embedded non-equity derivatives). This fair value is recorded as a liability on an amortized cost basis until the liability is extinguished on instrument conversion or maturity. The carrying value of the equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This carrying value is recognized and included in equity and is not subsequently remeasured.

Based on the newly released Statement of Financial Accounting Standards No. 36 - "Financial Instruments: Disclosure and Presentation," transaction costs of bonds issued on or after January 1, 2006 are allocated in proportion to the liability and equity components of the bonds.

Reserve for Default Losses

Under the regulations of the Securities and Futures Bureau (SFB), the Bank will provide a default reserve equal to 0.0028% of the total consigned trades monthly until the accumulated reserve reaches $200,000 thousand. This reserve is used only to offset actual losses resulting from customers' default or other losses as approved by the SFB.

Reserve for Securities Trading Losses

Under the regulations issued by the SFB, the Bank recognizes a trading loss reserve monthly at 10% of the net gain on sale of securities until this reserve reaches $200,000 thousand. It should be used only to offset actual losses on the sale of securities.

Under the Financial Supervisory Commission letter No. 09900738571 released on January 11, 2011, securities firms became no longer required to recognize the reserve for default losses and reserve for securities trading losses from January 1, 2011.

Income Tax

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

Tax credits for research and development expenditures are recognized using the flow-through method.

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 stockholders approve the retention of earnings.

Recognition of Interest Revenue and Service Fees

Interest revenue on loans is recorded by the accrual method. No interest revenue is recognized in the accompanying financial statements on loans and other credits extended by the Bank that are classified as nonperforming loans. The interest revenue on these loans/credits is recognized upon collection.

Under a Ministry of Finance regulation, the interest revenue on credits covered by agreements that extend their repayment periods is recorded as deferred revenue and recognized as revenue upon collection.

Service fees are recorded as revenue upon receipt and substantial completion of activities involved in the earnings process.

Contingencies

A loss is recognized if it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. If the impairment loss or liability incurrence is possible and the related amount cannot be reasonably estimated, a footnote disclosure of the circumstances that might give rise to the possible loss or liability should be made.

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." Among the main revisions is the inclusion of loans and receivables originated by the Bank among the items now covered by SFAS No. 34.

Operating Segments

On January 1, 2011, the Bank adopted the newly issued SFAS No. 41 - “Operating Segments.” The statement requires that segment information be disclosed on the basis of the information about the components of the Bank that management uses to make operating decisions. SFAS No. 41 requires the 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 as of and for the year ended December 31, 2010 to conform to the disclosures as of and for the year ended December 31, 2011.

4. CASH AND CASH EQUIVALENTS

	December 31	
	2011	2010
Cash on hand	$ 3,730,621	$ 3,256,466
Checks for clearing	3,635,427	1,639,146
Due from banks	1,024,544	4,048,666
	$ 8,390,592	$ 8,944,278

5. DUE FROM THE CENTRAL BANK AND OTHER BANKS

	December 31	
	2011	2010
Due from the Central Bank		
Deposit reserve - checking account	$ 7,343,378	$ 3,652,952
Required deposit reserve	8,408,101	7,642,173
Deposit reserve - foreign-currency deposits	30,290	29,152
Deposit account in Central Bank	86,000,000	50,000,000
	$ 101,781,769	$ 61,324,277

Under a directive issued by the Central Bank of the ROC, New Taiwan dollar (NTD)-denominated deposit reserves are determined monthly at prescribed rates on average balances of customers’ NTD-denominated deposits, which are subject to withdrawal restrictions.

In addition, the foreign-currency deposit reserves are determined at rates prescribed for balances of foreign-currency deposits. These reserves may be withdrawn momentarily and are noninterest earning.

6. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2011	2010
Financial assets held for trading		
Commercial paper	$ 3,575,646	$ 2,618,625
Negotiable certificates of deposit	1,512,400	-
Domestic quoted stocks	98,257	33,093

(Continued)

	December 31	
	2011	**2010**
Government bonds	$ 51,983	$ 52,741
Corporate bonds	50,735	51,004
Forward exchange contracts	110,757	164,207
Currency swap contracts	8,033	5,152
Option contracts	997	7,491
	5,408,808	2,932,313
Financial assets designated as at fair value through profit or loss		
Corporate bonds	2,758,735	85,510
	$ 8,167,543	$ 3,017,823
Financial liabilities held for trading		
Forward exchange contracts	$ 32,292	$ 43,947
Currency swap contracts	563	168
Option contracts	997	7,469
	$ 33,852	$ 51,584

(Concluded)

The Bank engaged in derivative transactions in 2011 and 2010 mainly to accommodate customers' needs and manage its exposure positions. The financial risk management object of the Bank was to minimize risks due to changes in fair value or cash flows.

The contract amounts (notional amounts) of derivative transactions for accommodating customers' needs and managing its exposure positions as of December 31, 2011 and 2010 were as follows:

	December 31	
	2011	**2010**
Forward exchange contracts	$ 9,271,383	$ 7,125,486
Currency swap contracts	15,762,905	8,450,517
Option contracts		
Buy	503,266	440,489
Sell	503,266	440,489

The gains or losses on financial assets and liabilities at fair value through profit or loss in 2011 and 2010 were as follows:

	2011	**2010**
Net gain on financial assets at fair value through profit or loss	$ 123,034	$ 201,421
Net gain (loss) on financial liabilities at fair value through profit or loss	(102,897)	86,082
Gain, net	$ 20,137	$ 287,503
Realized gain	$ 93,002	$ 197,319
Unrealized gain (loss)	(72,865)	90,184
Gain, net	$ 20,137	$ 287,503

The financial instruments at fair value through profit or loss amounting to $3,677,469 thousand and $2,722,740 thousand as of December 31, 2011 and 2010 had been sold under repurchase agreements.

7. RECEIVABLES, NET

	December 31	
	2011	2010
Accounts receivable	$ 13,480,088	$ 15,139,486
Asset-backed commercial paper	1,561,672	1,608,794
Interest receivable	605,686	612,842
Interbank clearing fund receivable	300,685	304,458
Income tax refund receivable	145,259	268,013
Receivable on disposal of property and equipment	138,783	309,605
Acceptances receivable	106,760	131,767
Collection receivable	64,244	62,880
Others	15,062	84,762
	16,418,239	18,522,607
Less: Allowance for credit losses	1,331,578	1,714,169
	$ 15,086,661	$ 16,808,438

8. DISCOUNTS AND LOANS, NET

		December 31	
		2011	2010
Discounts and overdraft		$ 87,178	$ 118,064
Accounts receivable - financing		99,528	133,336
Loans			
Short-term	- unsecured	15,163,198	14,734,833
	- secured	35,873,027	28,246,782
Medium-term	- unsecured	8,511,019	9,812,574
	- secured	27,165,831	24,847,313
Long-term	- unsecured	5,964,654	7,824,029
	- secured	99,023,101	103,958,979
Import and export negotiations		117,814	84,434
Overdue loans		601,434	1,332,448
		192,606,784	191,092,792
Less: Allowance for credit losses		1,926,791	1,435,693
		$ 190,679,993	$ 189,657,099

As of December 31, 2011 and 2010, the balances of nonaccrual loans were $601,434 thousand and $1,332,448 thousand, respectively. The unrecognized interest revenues on nonperforming loans were $13,334 thousand in 2011 and $54,408 thousand in 2010.

In 2011 and 2010, the Bank wrote off certain credits after completing the required legal procedures.

As discussed in Note 3 to the financial statements, the Bank assessed the impairment loss of loans and receivables on the basis of a newly revised Statement of Financial Accounting Standard (SFAS) No. 34 - "Financial Instruments: Recognition and Measurement." As a result, no impairment loss was recognized on due from the Central Bank and other banks. Impairment of other loans and accounts receivable are summarized as follows:

Loans

Items		Gross Loans	Allowance for Possible Losses
		December 31, 2011	December 31, 2011
With objective evidence of impairment	Assessed individual impairment	$ 3,030,153	$ 1,229,267
	Assessed collective impairment	639,371	179,015
With no objective evidence of impairment	Assessed collective impairment	189,273,888	518,509

Note 1: The amount of gross loans does not include the allowance for possible losses or discounts (premiums).

Note 2: The amount of gross loans include the interests receivable of $229,868 thousand and acceptances receivable amounting to $106,760 thousand.

Receivables

Items		Gross Receivables	Allowance for Possible Losses
		December 31, 2011	December 31, 2011
With objective evidence of impairment	Assessed individual impairment	$ 2,132,606	$ 1,032,924
	Assessed collective impairment	2,745,424	246,000
With no objective evidence of impairment	Assessed collective impairment	10,805,448	52,654

Note 1: The amount of gross receivables does not include the allowance for possible losses or discounts (premiums).

Note 2: The amount of gross receivables does not include the amounts of interests receivable of $229,868 thousand, acceptances receivable amounting to $106,760 thousand, refundable income tax of $145,259 thousand, interest receivable of $251,693 thousand on financial assets and liabilities and others amounting to $1,181 thousand.

Note 3: The financial reports for the six months ended June 30, 2011 and for the year ended December 31, 2011 do not need to contain comparative information.

The changes in the allowance for credit losses on discounts and loans receivables are summarized as follows:

	2011	2010
Balance, beginning of year	$ 3,149,862	$ 3,400,100
Provision	121,500	409,502
Write-off	(1,013,709)	(1,756,459)
Recovery of written-off credits	1,009,770	922,326
Merger with Union Bill Finance Corporation	-	176,289
Reclassifications	(9,857)	-
Effects of changes in foreign exchange rates	803	(1,896)
Balance, end of year	$ 3,258,369	$ 3,149,862

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2011	2010
Government bonds	$ 2,707,520	$ 1,804,883
Corporate bonds	2,393,246	3,137,901
Mutual funds	904,568	366,672
Domestic quoted stocks	769,179	506,408
Overseas quoted stocks	742,383	414,185
	$ 7,516,896	$ 6,230,049

The available-for-sale financial assets amounting to $4,254,626 thousand and $4,076,647 thousand as of December 31, 2011 and 2010, respectively, had been sold under repurchase agreements.

Entie Securities Finance Company ("Entie Finance"), an investee of the Bank, merged with and was absorbed by the Capital Group on March 1, 2010. Based on the Operating Rules of the Taiwan Stock Exchange Corporation, the common shares held by the Bank, which had been newly issued by the Capital Group for its merger with the Bank, should be placed in centralized custody with the Taiwan Securities Central Depository Co., Ltd. Half of these shares may be withdrawn after six months from their listing date. The remaining shares may all be withdrawn after a year from their listing date.

10. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2011	2010
Government bonds	$ 664,350	$ 1,435,157
Corporate bonds	399,871	399,754
Asset-based securities	248,794	1,437,723
	$ 1,313,015	$ 3,272,634

The held-to-maturity investments amounting to $214,574 thousand and $1,429,903 thousand as of December 31, 2011 and 2010, respectively, had been sold under repurchase agreements.

11. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31			
	2011		2010	
	Amount	Holding Ratio (%)	Amount	Holding Ratio (%)
Union Finance and Leasing International Corporation	$ 806,789	100.00	$ 738,898	100.00
Union Security Investment Trust Corporation	121,178	35.00	116,145	35.00
Union Finance International (H.K.) Limited	80,941	99.99	93,221	99.99
Union Real-Estate Management Corporation	66,721	40.00	54,045	40.00
Union Insurance Broker Company	24,793	100.00	25,424	100.00
Union Information Technology Corporation	14,372	99.99	22,843	99.99
	$ 1,114,794		$ 1,050,576	

Investment income (loss) recognized under the equity method was as follows:

	Years Ended December 31	
	2011	2010
Union Finance and Leasing International Corporation	$ 62,941	$ 10,145
Union Security Investment Trust Corporation	5,033	1,554
Union Finance International (H.K.) Limited	2,566	3,305
Union Real-Estate Management Corporation	12,676	271
Union Insurance Broker Company	15,969	18,384
Union Information Technology Corporation	(8,471)	(1,750)
Union Bills Finance Corporation	-	(26,757)
	$ 90,714	$ 5,152

On the available-for-sale financial assets held by the Bank’s subsidiaries, the unrealized loss of $22,523 thousand in 2011 and the unrealized gain of $10,276 thousand in 2010 were included in stockholders’ equity.

In June 2010, Union Security Investment Trust Corporation issued 17,300 thousand shares and then reduced its capital to offset its deficit. The Bank proportionately subscribed for 6,055 thousand shares amounting to $60,550 thousand.

Union Bills Finance Corporation merged with the Bank on August 16, 2010, with the Bank as survivor entity. For further information, please refer to Note 34.

12. FINANCIAL ASSETS CARRIED AT COST

	December 31	
	2011	2010
Unquoted stocks		
Financial Information Service Company	$ 118,782	$ 118,782
Taiwan Asset Management Corporation	100,000	100,000
Taiwan Future Exchange Corporation	71,250	71,250
Taiwan Financial Asset Service Corporation	50,000	50,000
Other	110,419	112,549
	$ 450,451	$ 452,581

The above equity investments, which had no quoted prices in an active market and had fair values that could not be reliably measured, were carried at cost.

13. NO-ACTIVE MARKET DEBT INSTRUMENTS

	December 31	
	2011	2010
Asset-based securities	$ 44,723,018	$ 50,877,566
Securitized beneficial certificates of securitization	-	1,257
	$ 44,723,018	$ 50,878,823

The no-active market debt instruments amounting to $37,547,378 thousand and $34,541,660 thousand as of December 31, 2011 and 2010, respectively, had been sold under repurchase agreements.

14. PROPERTY AND EQUIPMENT

	December 31	
	2011	2010
Cost	$ 10,556,562	$ 10,518,549
Less: Accumulated depreciation		
Buildings	848,000	739,956
Machinery and equipment	1,247,404	1,251,702
Transportation equipment	229,498	220,377
Leasehold improvements	287,770	255,688
	2,612,672	2,467,723
Prepayments for equipment	12,811	38,657
Net property and equipment	$ 7,956,701	$ 8,089,483

15. OTHER ASSETS

	December 31	
	2011	2010
Deferred tax assets, net (Note 24)	$ 3,145,535	$ 3,323,224
Collaterals assumed, net	297,951	546,392
Deferred charges	138,523	177,804
Prepayments	132,119	113,051
Deferred loss from disposal of nonperforming loans	-	965,255
Other	809	2,222
	$ 3,714,937	$ 5,127,948

In 2006, the Bank sold to Morgan Stanley Union Bank Asset Management Corporation (MSUB) nonperforming loans with a carrying value of $9,557,282 thousand at the contract price of $1,610,025 thousand and recognized a loss of $7,947,257 thousand. The Bank deferred and amortized this loss over 60 months in accordance with the Financial Institution Consolidation Law. The remaining unamortized balance was recorded as other assets. Had the losses not been deferred, the pretax income would have increased by $965,261 thousand in 2011 and $1,587,321 thousand in 2010, and the balances of the other assets and unappropriated earnings as of December 31, 2010 would have decreased by $965,255 thousand.

As of December 31, 2011 and 2010, the remaining payments of $138,783 thousand and $309,601 thousand, respectively, on the above transaction had not been received from MSUB.

After evaluating the net fair value of the collaterals assumed, the Bank recognized impairment losses of $37,140 thousand in 2011 and $173,146 thousand in 2010.

16. GOODWILL

The Bank acquired Chung Shing Bank ("Chung Shing") on March 19, 2005 and recognized goodwill amounting to $3,309,000 thousand. The goodwill amortization period was five years, and the amortization expense in 2005 was $551,500 thousand. However, the amortization of goodwill became no longer required from January 1, 2006.

The Bank merged with Union Bills Finance Corporation on August 16, 2010 and recognized goodwill amounting to $130,498 thousand. For further information, please refer to Note 34.

For the impairment test on Chung Shing, the Bank treated individual business units as cash-generating units (CGUs). Goodwill resulting from the merger was allocated to the relevant CGUs. The recoverable amount was determined by the value in use of each CGU and was calculated at the present values of the forecast cash flows for the next five years based on the going-concern assumption. Future cash flows were estimated on the basis of Chung Shing's present operations and will be adjusted depending on the business outlook and economic trends.

As a result of the impairment test, the Bank recognized a goodwill impairment loss of $254,776 thousand in 2011 and $125,651 thousand in 2010. As of December 31, 2011 and 2010, the balances of accumulated impairment were $768,289 thousand and $513,513 thousand, respectively.

17. CALL LOANS AND DUE TO OTHER BANKS

	December 31	
	2011	**2010**
Due to Chunghwa Post Co., Ltd.	$ 6,972,990	$ 10,225,910
Due to the Central Bank and other banks	23,492	50,974
Overdraft	10,774	10,462
	$ 7,007,256	$ 10,287,346

18. PAYABLES

	December 31	
	2011	2010
Notes and checks in clearing	$ 3,635,427	$ 1,639,146
Interest payable	813,803	730,318
Accrued expenses	477,025	381,256
Tax payable	163,344	249,808
Collection payable	154,184	131,120
Bank acceptances payable	108,719	134,883
Accounts payable on wire transfers received	67,440	63,400
Trust fund payable	8,584	51,497
Others	418,776	457,468
	$ 5,847,302	$ 3,838,896

19. DEPOSITS AND REMITTANCES

	December 31	
	2011	2010
Savings deposits	$ 213,217,552	$ 194,756,958
Time deposits	61,012,350	52,125,463
Demand deposits	43,028,473	38,225,437
Checking deposits	4,356,838	3,579,848
Negotiable certificates of deposit	1,033,900	736,600
Inward and outward remittances	107,797	181,548
	$ 322,756,910	$ 289,605,854

20. BANK DEBENTURES

	December 31		
	2011	2010	Term
First subordinated bank debentures issued in 2005	$ -	$ 2,000,000	Fixed interest rate of 2.60%; maturity: June 2011
First subordinated bank debentures issued in 2006 - class A	1,190,000	1,190,000	Fixed interest rate of 2.60%; maturity: May 2012
First subordinated bank debentures issued in 2006 - class B	800,000	800,000	One year time savings deposit rate of First Bank plus 0.3%; maturity: November 2013
First subordinated bank debentures issued in 2009	900,000	900,000	Fixed interest rate of 2.95%; maturity: June 2016
First subordinated bank debentures issued in 2011	2,000,000	-	Fixed interest rate of 2.78%; maturity: June 2018
	$ 4,890,000	$ 4,890,000	

21. PENSION PLAN

The pension plan under the Labor Pension Act (LPA) is a defined contribution plan. Based on the LPA, the rate of the Bank's monthly contributions to employees' individual pension accounts is at 6% of monthly salaries and wages. Related pension costs were $88,298 thousand in 2011 and $81,448 thousand in 2010.

Under the Labor Standards Law, the Bank has a defined benefit pension plan covering all regular employees. The Bank makes monthly contributions at 2% of salaries and wages to the Labor Pension Fund (managed by the employees' pension fund administrative committee) deposited in the Bank of Taiwan and to an employee pension account (in the Taipei branch of the Bank), respectively. The Bank recognized defined benefit pension costs of $43,628 thousand in 2011 and $38,849 thousand in 2010.

Information on the defined benefit plan is as follows:

a. Components of net periodic pension cost

	Year Ended December 31	
	2011	2010
Service cost	$ 19,011	$ 21,153
Interest cost	22,441	17,354
Projected return on plan assets	(10,697)	(9,832)
Amortization		
Prior service cost	(519)	(519)
Loss of pension cost	16,865	12,611
Curtailment or settlement gain	(3,473)	(1,918)
Net periodic pension cost	$ 43,628	$ 38,849

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

	December 31	
	2011	2010
Benefit obligation		
Vested benefit obligation	$ (126,789)	$ (99,989)
Non-vested benefit obligation	(623,080)	(553,789)
Accumulated benefit obligation	(749,869)	(653,778)
Additional benefits based on future salaries	(390,111)	(351,379)
Projected benefit obligation	(1,139,980)	(1,005,157)
Fair value of plan assets	567,150	532,241
Funded status	(572,830)	(472,916)
Unrealized net prior service cost	(4,344)	(4,894)
Unrecognized net loss	571,970	471,551
Additional liability	(177,515)	(115,278)
Accrued pension cost (included in other liabilities)	$ (182,719)	$ (121,537)
Vested benefits	$ (140,119)	$ (111,559)

c. Actuarial assumptions as of December 31, 2011 and 2010

	December 31	
	2011	**2010**
Discount rate used in determining present values	2.00%	2.25%
Future salary increase rate	3.00%	3.00%
Expected rate of return on plan assets	2.00%	2.00%

	Year Ended December 31	
	2011	**2010**
d. Contributions to the fund	$ 44,038	$ 57,218
e. Payments from the fund	$ (16,410)	$ (19,536)

22. STOCKHOLDERS' EQUITY

a. In the stockholders' meeting on June 15, 2007, the stockholders resolved to raise publicly or privately the Bank's cash capital by $8,000,000 thousand through a one-time or a serial share issuance depending on the market situation. On September 26, 2007, the Bank privately issued 400,000 thousand preferred shares at NT$10.00 par value and 6% dividend rate.

Under the Bank's Articles of Incorporation, after the Bank appropriates the legal and special reserves from its net income (less any deficit), the Bank should use part of the remainder as dividends to the preferred stockholders. In their meeting on June 13, 2008, the Bank's stockholders passed a resolution to amend the Articles of Incorporation. Based on this amendment, the issuance of preferred dividends will no longer be whenever the Bank makes profits and instead will be made only under common stockholders' resolutions approving this issuance. The preferred stockholders can participate in the distribution of the remaining earnings at the ratio of one preferred share for one common share after earnings distribution to the common stockholders but cannot participate in the distribution of capital surplus transferred to common stock. A preferred share can be converted into one common share a year after the issuance date. The Bank, upon getting approval from the Banking Bureau, can call back some or all of the outstanding preferred shares after six years from the issuance date at the price of the issuance amount plus unpaid accumulated dividends.

To improve the Bank's financial structure, the board of directors of the Bank approved on May 19, 2010 a capital reduction to offset its deficit of $5,651,624 thousand by decreasing common stock by 467,671 thousand shares and preferred stock by 97,491 thousand shares, for a total of 565,162 thousand shares equal to a capital reduction of 24.3728%.

The Bank merged with Union Bills Finance Corporation (UBF) on August 16, 2010 by issuing 194,838 thousand common shares to the stockholders of UBF (see Note 34) at NT$8.8 per share and consequently debited $233,805 thousand to retained earnings. After the merger, the issued capital of the Bank amounted to $19,484,996 thousand, including $3,025,088 thousand in preferred shares.

b. Capital surplus

Under the Company Law, capital surplus may be used to offset a deficit. However, the capital surplus from shares issued in excess of par (additional paid-in capital from issuance of common shares, conversion of bonds and treasury stock transactions) and donations may be capitalized within a certain percentage of the Bank's paid-in capital. Under the revised Company Law issued on January 4, 2012, the foregoing capital surplus may be distributed in cash. However, capital surplus from long-term investments may not be used for any purpose.

c. Retained earnings

The Bank's Articles of Incorporation provide that annual net income less any prior years' deficit should be appropriated in the following order:

1) 30% as legal reserve;

2) Special reserve, as deemed proper;

3) Dividends;

4) The remainder:

    a) Employees' bonus of at least 10%;

    b) Retained earnings, as deemed proper;

    c) The remainder, together with prior year's unappropriated earnings: 95% as bonus to stockholders and 5% as remuneration to directors and supervisors.

These appropriations should be resolved by the stockholders in the following year and given effect to in the financial statements of that year.

The board of directors (BOD) decides the appropriation and distribution of cash and stock dividends, taking into account the Bank's overall financial and economic condition, future profitability and capital expenditure requirements. In view of the Bank's need for capital to expand its operations and meeting of capital adequacy ratios, primarily cash dividends will be declared in the next three years, with the related proposal to be submitted in the stockholders' meeting for approval.

The estimated bonus to employees and remuneration to directors and supervisors, which were at least 10% of net income (net of legal reserve, special reserve and dividends) and 5%, respectively, of unappropriated earnings (net income abovementioned and net of the bonus to employees plus accumulated unappropriated earnings from prior years) were recognized for 2011. The amounts were estimated on the basis of past experiences. Material differences between these estimates and the amounts proposed by the Board of Directors in the following year are adjusted for in the year of the proposal. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate.

Based on a directive issued by the Securities and Futures Bureau (SFB), an amount equal to the net debit balance of certain stockholders' equity accounts (including unrealized gain or loss on financial instruments, net loss not recognized as pension cost, cumulative translation adjustments, except the treasury stock) should 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.

Under an SFB directive, if a financial institution's nonperforming loans are sold to an asset management corporation and the loss on this sale is amortized over five years, a special reserve should be appropriated from retained earnings at an amount equal to the difference of the loss on sale of nonperforming loans and the amortized amount, as required by the Financial Institution Consolidation Law, and the special reserve appropriated from retained earnings is subject to earnings appropriation.

The appropriations from earnings for 2010 were approved in the stockholders' meeting on June 9, 2011. The appropriations were as follows:

	2010
Legal reserve	$ 352,978
Special reserve	823,616

The appropriations from the 2011 earnings were proposed by the board of directors on March 7, 2012. The appropriations, including the dividends per share, were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 547,984	
Stock dividends on common shares	658,396	$0.4
Cash dividends on preferred shares	757,611	0.6
Stock dividends on preferred shares	121,004	0.4

The 2011 appropriations of earnings, bonus to employees and remuneration to directors and supervisors will be presented to the stockholders in their meeting on June 22, 2012.

The information on the proposed and resolved earnings appropriation is available on the Market Observation Post System web site of the Taiwan Stock Exchange.

Legal reserve should 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 Bank's paid-in capital, the excess may be transferred to capital or distributed in cash.

In addition, the Banking Law provides that, before the balance of the reserve reaches the aggregate par value of the outstanding capital stock, annual cash dividends should not exceed 15% of aggregate par value of the outstanding capital stock of the Bank.

Based on the Financial Supervisory Commission's Letter No. 09900738571 released in January 2011, securities firms are required to transfer their accumulated reserve for default losses and reserve for securities trading losses up to December 31, 2010 to special reserves.

In 2011, the Bank transferred its reserve for default losses of $48,589 thousand, reserve for securities trading losses of $10,528 thousand, and deferred income tax assets amounting to $8,260 thousand, which totaled $50,857 thousand in 2010, to special reserve.

The above special reserve may be used only for capitalizing half of it if the reserve has reached at least 50% of the paid-in capital or for offsetting a deficit.

Except for non-ROC resident stockholders, all stockholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Bank.

23. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	2011	2010
Personnel expenses		
Salaries and wages	$ 1,568,821	$ 1,476,573
Bonus and rewards	453,740	384,154
Labor insurance and national health insurance	175,387	157,870
Pension	131,926	121,474
Other	17,012	8,443
	$ 2,346,886	$ 2,148,514
Depreciation	$ 219,776	$ 266,864
Amortization	$ 82,178	$ 107,211

24. INCOME TAX EXPENSE

A reconciliation of income tax expense based on income before income tax at the statutory rates of 17% and income tax expense was as follows:

	Years Ended December 31	
	2011	2010
Income tax expense at the statutory rate	$ 377,635	$ 311,527
Tax effect of adjusting items:		
Permanent differences		
Tax-exempt income	(340,028)	(449,872)
Others	(8,774)	(3,489)
Temporary differences	65,296	72,657
Loss carryforwards used	(94,129)	-
Loss carryforwards	-	69,177
Additional income tax under the Alternative Minimum Tax Act	191,030	198,022
Current income tax expense	191,030	198,022
Deferred income tax expense		
Temporary differences	(44,520)	(50,883)
Investment tax credits	6,424	5,792
Loss carryforwards produced	142,124	332,818
Effect of tax law changes on deferred income tax	-	650,799
Adjustment in valuation allowance due to changes in tax laws	-	(124,752)
Other adjustment in valuation allowance	119,375	(593,889)
Tax separately levied on interest from short-term bills	-	3
Adjustments for prior years' tax	(19,668)	4,177
	$ 394,765	$ 422,087

Deferred income tax assets (liabilities) were as follows:

	December 31	
	2011	2010
Loss carryforwards	$ 3,303,701	$ 3,445,826
Investment tax credit	3,082	9,506
Reserve for default	452	8,683
Unrealized loss on collaterals assumed	15,917	9,603
Impairment loss on financial assets	164,105	164,105
Allowance for credit losses	201,575	180,418
Unrealized valuation gain on derivative instruments	(13,285)	(19,592)
Investment loss under the equity method	729	1,165
Amortization of goodwill	(344,266)	(383,142)
Unrealized exchange gains or losses	(6,771)	21,168
Accrued pension cost	(1,261)	(1,473)
Cumulative translation adjustments	53,974	-
	3,377,952	3,436,267
Less: Allowance for valuation of deferred income tax assets	232,417	113,043
Net deferred income tax assets (included in other assets)	$ 3,145,535	$ 3,323,224

Under the Financial Institution Merger Act, the loss carryforwards from deferred income tax assets were recalculated on the basis of the proportion of shares in the surviving entity held by the Bank's stockholders after the merger, and the recalculated loss carryforwards can be deducted from taxable income of the next five years.

As of December 31, 2011, investment tax credits comprised the following:

Laws and Statutes	Tax Credit Source	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Personnel training expenditures	$ 1,882	$ 1,882	2012
		1,200	1,200	2013
		$ 3,082	$ 3,082	

Loss carryforwards as of December 31, 2011 comprised the following:

Unused Amount	Expiry Year
$ 432,449	2013
1,514,764	2015
2,673,860	2016
7,360,995	2017
3,598,322	2018
3,654,973	2019
198,175	2020
$ 19,433,538	

The Bank's income tax returns through 2007 had been examined and cleared by the tax authorities.

As of December 31, 2011 and 2010, the balances of the imputation credits allocable to the stockholders were $386,199 thousand and $412,712 thousand, respectively.

The creditable ratios for the distribution of earnings of 2011 and 2010 were 20.48% (estimate) and 20.48% (actual), respectively.

For the distribution of earnings generated after January 1, 1998, the ratio for the imputation credits allocable to stockholders of the Bank is based on the balance of the ICA as of the date of dividend distribution. Thus, the expected creditable ratio for the 2011 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

25. EARNINGS PER SHARE

The Bank issued convertible preferred stock, which could be transferred to common stock of the Bank; thus, the capital structure of the Bank is complicated, and the calculation of basic and diluted earnings per share (EPS) is required.

The numerators and denominators used in computing EPS are summarized as follows:

	Numerator (Amounts)		Denominator (Shares in Thousands)	Earnings Per Share (NT$)	
	Pretax	After Tax		Pretax	After Tax
2011					
Basic EPS	$ 2,221,380	$ 1,826,615	1,645,991		
Less: Preferred dividends	(181,505)	(181,505)			
Basic EPS					
Income for the year attributable to common stockholders	2,039,875	1,645,110		$ 1.24	$ 1.00
Effect of potential dilutive convertible preferred stock	181,505	181,505	302,509		
Diluted EPS	$ 2,221,380	$ 1,826,615	1,948,500	$ 1.14	$ 0.94
2010					
Basic EPS	$ 1,832,512	$ 1,410,425	1,524,818	$ 1.20	$ 0.92
Effect of potential dilutive convertible preferred stock	-	-	302,509		
Diluted EPS	$ 1,832,512	$ 1,410,425	1,827,327	$ 1.00	$ 0.77

26. RELATED-PARTY TRANSACTIONS

In addition to those disclosed in other footnotes, significant transactions between the Bank and related parties are summarized as follows:

a. Related parties and their relationships with the Bank

Related Party	Relationship with the Bank
Union Finance and Leasing International Corporation (UFLIC)	Subsidiary
Union Information Technology Corporation (UIT)	Subsidiary
Union Insurance Broker Company (UIB)	Subsidiary
Union Finance International (H.K.) Limited	Subsidiary
Union Securities Investment Trust Corporation (USITC)	Subsidiary
Union Capital (Cayman) Corp.	Subsidiary of UFLIC
New Asian Ventures Ltd.	Subsidiary of UFLIC
Union Bills Finance Corporation (UBF)	Subsidiary (merged with the Bank on August 16, 2010, with the Bank as survivor entity)
Union Real-Estate Management Corporation	Equity-method investee
Hung-Kou Construction Inc., Ltd. ("Hung-Kou")	Its chairman is a second-degree relative of the Bank's director/general manager
Union Ran Zheng Co., Ltd. (URZ)	Its chairman is a second-degree relative of the Bank's director/general manager
The Liberty Times Co., Ltd. ("Liberty Times")	The Bank's director/general manager and the chairman of the board of directors are the director and supervisor, respectively, of Liberty Times
Long Shan Lin Corporation	Its chairman is a second-degree relative of the Bank's director/general manager
Yong-Xuan Co., Ltd. ("Yong-Xuan")	Its chairman is a second-degree relative of the Bank's director/general manager
Liu Jin Fu	Director
Union Enterprise Construction Co., Ltd. (UECC)	Director
Zhong Li Venture Corporation	Director
Jiang Jhen Syong	Director
Lin Ci Yong	Supervisor
Bao Xing Investment Corporation	Supervisor
Yu-Pang Co., Ltd. ("Yu-Pang")	Supervisor
Li Tsai Jhao Mei	Wife of the Bank's director
T-Movies Theater Co.	Wife of the Bank's director, Lee Yu Quan, is its chairman.
Yu Quan Kai Fa Co., Ltd.	The wife of the Bank's director, Lee Yu Quan, is its chairman.
Morgan Stanley Union Bank Assets Management Corporation (MSUB)	Related party in substance
Liang Ji Investment Corporation	Related party in substance
Union Recreation Enterprise Corporation	Related party in substance
Entie Securities Finance Co.	Related party in substance (merged with Capital Group, the survivor company, on March 1, 2010)
Others	Directors, supervisors, managers, and their relatives and affiliates.

b. Significant transactions with related parties:

1) Loans

December 31, 2011

Type	Account Volume or Name	Highest Balance in the Year Ended December 31, 2011	Ending Balance	Loan Classification: Normal Loans	Loan Classification: Nonperforming Loans	Collaterals	Differences in Terms of Transaction with Those for Unrelated Parties
Consumer loans	3	$ 1,150	$ 1,010	$ 1,010	$ -	-	None
Self-used housing mortgage loans	16	61,489	50,894	50,894	-	Real estate	None
Other loans	Union Finance and Leasing International Corporation	1,634,634	1,568,880	1,568,880	-	Land, building and time deposit	None

December 31, 2010

Type	Account Volume or Name	Highest Balance in the Year Ended December 31, 2010	Ending Balance	Loan Classification: Normal Loans	Loan Classification: Nonperforming Loans	Collaterals	Differences in Terms of Transaction with Those for Unrelated Parties
Consumer loans	2	$ 1,301	$ 708	$ 708	$ -	-	None
Self-used housing mortgage loans	21	86,108	32,616	32,616	-	Real estate	None
Other loans	Union Finance and Leasing International Corporation	1,562,480	1,287,851	1,287,851	-	Land, building and time deposit	None
Other loans	Long Shan Lin Corporation	1,350,000	600,000	600,000	-	Land and buildings	None
Other loans	Li Chang Yao Ye Co.	58,807	35,314	35,314	-	Land and factory	None
Other loans	T-Movies Theater Co.	99,479	99,479	99,479	-	Land and buildings	None

	December 31		Interest Revenue		
	Amount	%	Rate	Amount	%
2011	$ 1,620,784	0.85%	1.02%-3.82%	$ 34,181	0.36%
2010	2,055,968	1.08%	0.30%-3.10%	30,334	0.33%

2) Deposits

	December 31		Interest Expense		
	Amount	%	Rate	Amount	%
2011	$ 3,899,528	1.21%	0%-4.76%	$ 28,561	0.99%
2010	5,121,726	1.77%	0%-5.35%	26,737	1.06%

3) Guarantees and letters of credit

December 31, 2011

Name	Highest Balance in the Year Ended December 31, 2011	Ending Balance	Balance of Guarantees and Letters of Credit (Note)	Rate	Collateral
Union Recreation Enterprise Corporation	$ 82,232	$ 79,749	$ -	0.3%-0.5%	Time deposits
The Liberty Times Co., Ltd.	62,178	4,942	-	0.05%	Land and buildings
Long Shan Lin Corporation	71,040	71,040	-	0.3%	Time deposits

December 31, 2010

Name	Highest Balance in the Year Ended December 31, 2010	Ending Balance	Balance of Guarantees and Letters of Credit (Note)	Rate	Collateral
Union Recreation Enterprise Corporation	$ 88,442	$ 79,749	$ -	0.3%-0.5%	Time deposits
The Liberty Times Co., Ltd.	49,566	8,866	-	0.05%	Land and buildings
Long Shan Lin Corporation	71,040	71,040	-	0.3%	Time deposits
Union Finance International (H.K.) Limited	80,522	-	-	0.5%	None

Note: Reserve for guarantee loss is provided on the basis of the estimated unrecoverable amount.

4) Due from banks (included in due from the Central Bank and other banks) - UBF

	Highest Balance During the Year	Balance as of December 31	Rate	Interest Revenue
2010	$ 1,700,000	$ -	0.15%-0.37%	$ 559

5) Call loans (included in call loans and due to banks) - UBF

	Highest Balance During the Year	Balance as of December 31	Rate	Interest Expense
2010	$ 200,000	$ -	0.15%	$ 8

6) Securities brokerage fees

	Years Ended December 31	
	Amount	%
2011	$ 2,821	4.03
2010	2,692	3.20

7) Consulting and advisory contract

The Bank and UFLIC entered into a three-year consulting contract in October 2009. UFLIC's services included consultation on management, marketing, and promotion activities on auto loans as well as on loan management and collection of overdue loans, etc. (excluding the approval of loan applications). Before the expiry of the contract, the Bank and UFLIC ended the contract, and this contract termination was approved by the board of directors on March 16, 2011. The consulting fees and related expenses paid were $19,037 thousand in 2011 and $70,165 thousand in 2010 (both amounts included in other operating expenses), and the accrued expense as of 2010 was $8,288 thousand.

8) Leases

a) The Bank as lessee

Under operating lease agreements with terms of one year to five years, the Bank rents from related parties office spaces for use by the Head Office, Trust, International Banking Dept., Wealth Management, Consumer Banking Dept., Security Finance Dept., Credit Card Dept., Northern Collaterals Assumed Appraise Center, and five branches. Rentals are payable quarterly, with some contracts allowing placement with the lessors of lease deposits in lieu of rental payments. Rental expenses and lease deposits were as follows:

	Lease Deposit (Included in Other Financial Assets)		**Rental Expense (Included in Other Operating Expense)**	
	Amount	**%**	**Amount**	**%**
<u>2011</u>				
Yu-Pang	$ 454,400	10.19	$ 13,634	0.59
Hung-Kuo	218,760	4.91	100,045	4.32
Yong-Xuan	13,649	0.31	57,475	2.48
UECC	4,384	0.10	9,253	2.40
UFLIC	-	-	3,447	0.15
<u>2010</u>				
Yu-Pang	454,400	7.83	12,498	0.59
Hung-Kuo	219,105	3.77	99,910	4.68
Yong-Xuan	13,905	0.24	57,452	2.69
UECC	4,384	0.08	9,242	0.43
UFLIC	-	-	2,117	0.10

The Bank rented cars for business use from UFLIC; the rental expenses were $7,495 thousand in 2011 and $5,969 thousand in 2010. Rentals payable as of December 31, 2011 and 2010 were $64 thousand and $32 thousand, respectively.

b) The Bank as lessor

The Bank’s South Taoyuan Branch, Kaohsiung Branch, Mincynan Branch, Chiayi Branch and Fucheng Branch leased part of their office premises to UFLIC under operating lease agreements starting from May 2011 to April 2016, from June 2011 to December 2015, from April 2011 to September 2017, from July 2009 to July 2014, and from April 2011 to February 2014, respectively. The leasing revenues received were $1,131 thousand in 2011 and $2,130 thousand in 2010. The lease deposits received (included in other financial liabilities) were $227 thousand in 2011 and $492 thousand in 2010. The Bank’s Beitun Branch leased part of its office to UBF under an operating lease agreement effective from February 2006 to August 2010. The leasing revenues received were $261 thousand in 2010.

9) The disposal of nonperforming loans and assuming of related collaterals

On June 27, 2006 and September 20, 2006, the Bank sold to Morgan Stanley Union Bank some of its nonperforming loans and related collateral property for $995,000 thousand and $615,025 thousand, respectively. Of this amount, $138,783 thousand and $309,601 thousand had not been received as of December 31, 2011 and 2010, respectively (refer to Note 15).

10) Available-for-sale financial assets

As of December 31, 2011 and 2010, the Bank had purchased 48,344 thousand and 23,047 thousand units, respectively, of beneficial certificates issued by USITC, which amounted to $554,130 thousand and $306,792 thousand, respectively.

11) UIT sold computers, related material and software and provided network service to the Bank. The related purchase and service fee in 2011 and 2010 were $90,638 thousand and $99,194 thousand, respectively.

12) The Bank provided insurance consulting service and sales assistance to UIB. The commission and fee revenues were $145,951 thousand in 2011 and $166,049 thousand in 2010. The commission revenues on insurance premium (included in commissions and fee revenue) were $173,825 thousand in 2011 and $159,101 thousand in 2010.

Under the Banking Law, except for consumer and government loans, credits extended by the Bank to any related party should be fully secured, and the credit terms for related parties should be similar to those for unrelated parties.

For transactions between the Bank and related parties, the terms are similar to those transacted with third parties, except for the preferential interest rates offered to employees for savings and loans within prescribed amounts.

c. Compensation of directors, supervisors and management personnel:

	Years Ended December 31	
	2011	**2010**
Salaries	$ 17,499	$ 18,700
Incentives	3,877	2,820
Traveling fare	1,732	1,840
Special compensation	480	480
Car rental and oil subsidy	2,486	1,569
	$ 26,074	$ 25,409

27. PLEDGED ASSETS

As of December 31, 2011 and 2010, government bonds and bank debentures, which amounted to $179,800 thousand and $231,800 thousand (both amounts included in other financial assets), respectively, had been provided to the courts and the Bank of Taiwan as guarantee deposits on provisional seizures against the debtors' properties, as reserve for credit card receivables, as guarantee deposits on bills finance operations, and as trust reserve. In addition, as of December 31, 2011 and 2010, negotiable certificates of deposit, which amounted to $2,500,000 thousand and $3,000,000 thousand, respectively (both amounts included in other financial assets), had been provided to the Central Bank as collateral for day-term overdraft.

28. CONTINGENCIES AND COMMITMENTS

Financial instruments, contingencies and commitments of the Bank, in addition to those disclosed in Note 30, are summarized as follows:

a. Operating leases

The Bank rents several office premises for its branches under operating leases ranging from 2 to 20 years. Rentals are payable monthly, quarterly or annually. For the Nanking E. Rd., San Chung, and Wujia branches, lease deposits are made in lieu of lease payments. The rental expenses were recognized at imputed interests of 1.08% in 2011 and 0.83% in 2010. Future minimum lease payments are as follows:

Year	**Amount**
2012	$ 388,782
2013	353,551
2014	287,750
2015	188,017
2016	73,837

The present value of total rentals of $272,632 thousand for beyond 2017 is about $254,826 thousand, discounted at the Bank's one-year time deposit interest rate of 1.360% on December 31, 2011.

b. Computer equipment purchase contracts

The Bank had contracts to buy computer equipment and software for $44,452 thousand, of which $19,662 thousand had been paid as of December 31, 2011.

c. Securities sold under repurchase agreements

As of December 31, 2011, securities with a total cost of $34,522,173 thousand were sold under agreements for repurchase between January 2012 and May 2012. The repurchase price is based on the notional amount plus interest, which is calculated at the agreed-upon interest rate.

d. Securities purchased under resell agreements

As of December 31, 2011, securities with a total cost of $251,626 thousand were purchased under agreements to resell for $251,713 thousand in January 2012.

e. Balance sheet of trust accounts and trust property and equipment accounts

Balance Sheet of Trust Accounts
December 31, 2011

Trust Assets	**Amount**	**Trust Liabilities and Capital**	**Amount**
Bank deposits	$ 3,015,199	Income tax payable	$ 52
Investments		Marketable securities payable	7,330,424
Mutual funds	33,146,210	Trust capital	44,037,252
Common stock	172,174	Reserve and deficit	(139,004)
Short-term bills and securities purchased under resell agreements	73,565		
Accounts receivable	1,612		
Stock in custody	7,330,424		
Real estate - land and building	7,489,540		
Total	$ 51,228,724	Total	$ 51,228,724

Balance Sheet of Trust Accounts
December 31, 2010

Trust Assets	Amount	Trust Liabilities and Capital	Amount
Bank deposits	$ 2,145,758	Income tax payable	$ 26
Investments		Expenses payable	1
Mutual funds	33,188,406	Marketable securities payable	6,464,159
Common stock	169,444	Trust capital	38,713,535
Short-term bills and securities		Reserve and deficit	(193,305)
purchased under resell agreements	39,686		
Accounts receivable	1,819		
Stock in custody	6,464,159		
Real estate - land and building	2,975,144		
Total	$ 44,984,416	Total	$ 44,984,416

Trust Income Statement
Year Ended December 31, 2011

	Amount
Trust income	
Interest revenue - demand accounts	$ 472
Interest revenue - time deposits	5,392
Interest revenue - short-term bills and securities purchased under resell agreements	232
Cash dividend	17,625
Realized capital gain - fund	571
Income from beneficial certificates	618
Total trust income	24,910
Trust expense	
Management expense	4,398
Taxation	164,689
Realized capital loss - fund	2,297
Other	13,084
Total trust expense	184,468
Loss before tax	(159,558)
Income tax expense	(2,423)
Loss after tax	(161,981)
Unrealized capital gain - GTSM stock	40,744
Unrealized capital gain - fund	243
Unrealized capital loss - GTSM stock	(868)
Unrealized capital loss - fund	(1,065)
Net loss	$ (122,927)

Note: The trust income statements above are not included in the Bank's income statements.

Trust Income Statement
Year Ended December 31, 2010

	Amount
Trust income	
Interest revenue - demand accounts	$ 197
Interest revenue - time deposits	3,401
Interest revenue - short-term bills and securities purchased under resell agreements	8
Cash dividend	11,821
Other revenue	912
Realized capital gain - fund	1,962
Income from beneficial certificates	1,047
Total trust income	19,348
Trust expense	
Management expense	4,026
Taxation	207,800
Realized capital loss - fund	270
Other	34,532
Total trust expense	246,628
Loss before tax	(227,280)
Income tax expense	(236)
Loss after tax	(227,516)
Unrealized capital gain - GTSM stock	43,817
Unrealized capital gain - fund	972
Unrealized capital loss - fund	(666)
Net loss	$ (183,393)

Note: The trust income statements above are not included in the Bank's income statements.

Trust Property and Equipment Accounts
December 31, 2011

Investment Portfolio	Amount
Bank deposits	$ 3,015,199
Investments	
Mutual funds	33,146,210
Common stock	172,174
Short-term bills and securities purchased under resell agreements	73,565
Accounts receivable	1,612
Stock in custody	7,330,424
Real estate - land and buildings	7,489,540
	$ 51,228,724

Trust Property and Equipment Accounts
December 31, 2010

Investment Portfolio	Amount
Bank deposits	$ 2,145,758
Investments	
Mutual funds	33,188,406
Common stock	169,444
Short-term bills and securities purchased under resell agreements	39,686
Accounts receivable	1,819
Stock in custody	6,464,159
Real estate - land and buildings	2,975,144
	$ 44,984,416

29. AVERAGE AMOUNT AND AVERAGE INTEREST RATE OF INTEREST-EARNING ASSETS AND INTEREST-BEARING LIABILITIES

Average balance is calculated by the daily average balance of interest-earning assets and interest-bearing liabilities.

	2011	
	Average Balance	Average Rate (%)
Interest-earning assets		
Cash and cash equivalents	$ 913,309	0.79
Due from the Central Bank and other banks	80,163,764	0.77
Financial assets at fair value through profit or loss	6,500,141	0.77
Securities purchased under resell agreements	347,839	0.73
Discounts and loans	191,483,124	2.62
Accounts receivable - credit card	10,894,811	9.82
Available-for-sale financial assets	7,993,028	0.95
Held-to-maturity investments	2,270,566	3.16
No-active market debt instruments	50,017,185	5.16
Interest-bearing liabilities		
Call loans and due to other banks	657,356	0.11
Due to Chunghwa Post Co., Ltd.	8,076,022	1.31
Securities sold under repurchase agreements	35,821,867	0.62
Demand deposits	39,637,391	0.14
Savings - demand deposits	84,519,439	0.27
Time deposits	54,569,995	1.08
Time-savings deposits	119,090,755	1.30
Negotiable certificates of deposit	1,395,520	0.68
Bank debentures	4,846,959	2.51

	2010	
	Average Balance	**Average Rate (%)**
Interest-earning assets		
Cash and cash equivalents	$ 894,294	0.70
Due from the Central Bank and other banks	66,476,771	0.55
Financial assets at fair value through profit or loss	1,921,479	0.67
Securities purchased under resell agreements	448,783	0.39
Discounts and loans	178,326,954	2.52
Accounts receivable - credit card	12,353,069	11.52
Available-for-sale financial assets	8,217,169	0.98
Held-to-maturity investments	6,005,322	4.91
No-active market debt instruments	52,477,456	4.55
Interest-bearing liabilities		
Call loans and due to other banks	1,251,244	0.17
Due to Chunghwa Post Co., Ltd.	14,614,516	1.08
Securities sold under repurchase agreements	33,310,743	0.58
Demand deposits	34,581,322	0.10
Savings - demand deposits	78,976,152	0.24
Time deposits	51,348,591	0.87
Time-savings deposits	107,991,613	1.18
Negotiable certificates of deposit	830,071	0.34
Bank debentures	7,322,419	2.64

30. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments

	December 31			
	2011		2010	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Assets				
Financial assets at fair value through profit or loss	$ 8,167,543	$ 8,167,543	$ 3,017,823	$ 3,017,823
Available-for-sale financial assets	7,516,896	7,516,896	6,230,049	6,230,049
Other short-term financial assets	125,365,389	125,365,389	86,848,480	86,848,480
Discounts and loans, net	190,679,993	190,679,993	189,657,099	189,657,099
Held-to-maturity financial assets	1,313,015	1,328,865	3,272,634	3,301,223
Financial assets carried at cost	450,451	-	452,581	-
No-active market debt instruments	44,723,018	44,569,296	50,878,823	50,674,438
Other financial assets	4,457,747	4,457,747	5,805,683	5,805,683
Liabilities				
Financial liabilities at fair value through profit or loss	33,852	33,852	51,584	51,584
Other short-term financial liabilities	47,321,184	47,321,184	47,654,908	47,654,908
Deposits	322,649,113	322,649,113	289,424,306	289,424,306
Bank debentures	4,890,000	5,023,408	4,890,000	4,932,140
Other financial liabilities	337,852	337,852	318,027	318,027

b. Methods and assumptions applied in estimating the fair values disclosures for financial instruments are as follows:

1) The carrying amounts of the following short-term financial instruments approximate their fair values because of their short maturities: Cash and cash equivalents, due from the Central Bank and other banks, securities purchased under resell agreements, receivables (tax refundable excluded), call loans and due to banks, securities sold under repurchase agreements, payable (tax payable excluded) and remittances.

2) Fair values of financial instruments designated as at FVTPL and available-for-sale or held-to-maturity financial assets are based on their quoted prices in an active market. For those instruments with no quoted market prices, their fair values are determined using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants to price financial instruments.

   Fair values of derivatives are based on their quoted prices in an active market. For those derivatives with no quoted market prices, their fair values are determined using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants to price financial instruments.

   Fair values of forward contracts, interest rate swap and cross-currency swap contracts are estimated on the basis of forward rates provided by Reuters.

   The fair values of no-active debt instruments are based on quoted prices of counter-parties and adjusted by evaluations of debtor's credit.

3) Discounts and loans and deposits are interest-earning assets and interest-bearing liabilities. Thus, their carrying amounts represent fair values. The fair value of nonperforming loans is based on their carrying amount, which is net of allowance for credit losses.

4) Financial assets carried at cost are investments in unquoted shares, i.e., shares that have no quoted prices in an active market and entail an unreasonably high cost to determine their fair values. Therefore, no fair value is presented.

5) Refundable deposits have no specified maturity date; thus, their market value is estimated on the basis of their carrying value in the balance sheet. The carrying value of the guarantee deposits received is used as the basis to estimate their market values.

6) The fair values of bank debentures are estimated on the basis of prices published by the GreTai Securities Market.

7) The fair values of forward contracts, cross-currency swap contracts and interest rate swap contracts are based on present value techniques. Option fair values are based on estimates using the Black Scholes model.

c. Fair values of financial assets and financial liabilities determined on the basis of quoted market prices or estimates made using valuation techniques are summarized as follows:

	December 31			
	2011		2010	
	Quoted Market Prices	Estimates Based on Valuation Techniques	Quoted Market Prices	Estimates Based on Valuation Techniques
Financial assets				
Financial assets at fair value through profit or loss	$ 98,257	$ 8,069,286	$ 33,093	$ 2,984,730
Available-for-sale financial assets	2,416,130	5,100,766	1,287,265	4,942,784
Held-to-maturity investments	-	1,328,865	-	3,301,223
No-active market debt instruments	-	44,569,296	-	50,674,438
Financial liabilities				
Financial liabilities at fair value through profit or loss	-	33,852	-	51,584

The fair value hierarchy of the Bank's financial instruments as of December 31, 2011 was as follows:

	December 31, 2011			
	Total	Level 1	Level 2	Level 3
Nonderivative financial instruments				
Assets				
Financial assets at fair value through profit or loss (FVTPL)				
Held-for-trading financial assets				
Stock	$ 98,257	$ 98,257	$ -	$ -
Debt instruments	102,718	-	102,718	-
Commercial paper	3,575,646	-	3,575,646	-
Negotiable certificates of deposit	1,512,400	-	1,512,400	-
Financial assets designated as at FVTPL on initial recognition	2,758,735	-	2,723,656	35,079
Available-for-sale financial assets				
Stock	1,511,562	1,511,562	-	-
Debt instruments	5,100,766	-	5,100,766	-
Beneficial certificates	904,568	904,568	-	-
Held-to-maturity financial assets	1,328,865	-	1,328,865	-
No-active market debt instruments	44,569,296	-	44,569,296	-
Derivative financial instruments				
Assets				
Financial assets at FVTPL	119,787	-	118,790	997
Liabilities				
Financial liabilities at FVTPL	33,852	-	32,855	997

1) The above table shows the financial instruments carried at fair value that have been categorized under the three levels of fair value hierarchy.

2) Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities. As stated in Statement of Financial Accounting Standards (SFAS) No. 34 - "Financial Instruments: Recognition and Measurement," active markets are those with all of the following conditions: (i) the products traded in the market are homogeneous, (ii) willing parties are available anytime in the market, and (iii) price information is available to the public.

3) Level 2 - inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e., prices) or indirectly (i.e., derived from prices).

4) Level 3 - inputs not based on observable market data (unobservable inputs).

Other information on financial assets in level 3 in 2011 is as follows:

(In Thousands of New Taiwan Dollars)

Items	Beginning Balance	Valuation Gain (Loss) in Net Income or Stockholders' Equity	Amount of Increase		Amount of Decrease		Ending Balance
			Purchase or Change in Fair Value	Transfer to Level 3	Sale or Change in Fair Value	Transfer from Level 3	
Financial assets at fair value through profit or loss							
Financial assets designated as at FVTPL on initial recognition	$ 85,510	$ (431)	$ 30,000	$ -	$ (80,000)	$ -	$ 35,079
Derivative financial assets	7,491	(9,004)	25,816	-	(23,306)	-	997

Other information on financial liabilities in level 3 in 2011 is as follows:

(In Thousands of New Taiwan Dollars)

Items	Beginning Balance	Valuation Gain (Loss) in Net Income or Stockholders' Equity	Amount of Increase		Amount of Decrease		Ending Balance
			Purchase or Change in Fair Value	Transfer to Level 3	Sale or Change in Fair Value	Transfer from Level 3	
Financial liabilities at fair value through profit or loss							
Derivative financial liabilities	$ 7,469	$ (9,248)	$ 28,342	$ -	$ (25,566)	$ -	$ 997

On financial instruments with fair values determined through valuation techniques, valuation showed gains of $39,842 thousand in 2011 and $89,326 thousand in 2010.

As of December 31, 2011 and 2010, the interest income (expense) associated with financial assets (liabilities) other than those at FVTPL was as follows:

	Years Ended December 31	
	2011	2010
Total interest income	$ 9,496,704	$ 9,153,962
Total interest expense	2,884,122	2,516,524

For the changes in fair value of available-for-sale financial assets, the Bank recognized in stockholders' equity the unrealized losses of $279,928 thousand in 2011 and the unrealized gains of $259,088 thousand in 2010, of which $19,847 thousand and $131,305 thousand, respectively, were reclassified to current gain in the income statement.

d. Financial risks

1) Market risk

On the risk management of the Bank, please refer to Note 31.

2) Credit risk

The Bank is exposed to credit risk in the event of default on contracts by counter-parties or third parties. The Bank makes credit commitments and issues financial guarantees and standby letters of credit only after careful evaluation of customers' creditworthiness. On the basis of the result of the credit evaluation, the Bank may require collateral before drawings are made against the credit facilities. As of December 31, 2011 and 2010, the ratios of secured loans to total loans were 84.49% and 82.82%, respectively, and the ratio of secured financial guarantees and standby letters of credits to the totals of these two financial instruments were 37.53% and 36.13%, respectively. Collaterals held vary and may include cash, inventories, marketable securities, and other properties. If customers default, the Bank will, as required by circumstances, foreclose the collaterals or execute other rights arising from the guarantees received. The maximum potential amount of future payments represents the notional amounts that could be lost under the guarantees if there is a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or of collaterals held or pledged.

The Bank has significant credit commitments principally relating to credit cards issued and credit facilities extended. The terms of most of the credit commitments range from a half year to 10 years. Loan interest rates ranged from 1.40% to 7.25% in 2011 and from 1.02% to 7.00% in 2010, and the highest interest rate for credit cards throughout many years, including 2011, has been 19.99%. The Bank also provided guarantees on customers' loans and letters of credit obtained from third parties. The maturity dates of these commitments were not concentrated in a particular period.

The amounts of financial contracts with off-balance-sheet credit risks as of December 31, 2011 and 2010 were as follows:

	December 31	
	2011	**2010**
Credit commitments for credit cards	$ 172,680,945	$ 174,597,000
Guarantees and standby letters of credit	10,223,821	9,837,554
Irrevocable loan commitments	900,303	535,838

The maximum exposure of counterparties presented above were based on evaluations of off-balance sheet credit risk contracts with positive amounts on the balance sheet date. Concentrations of credit risk exist when changes in economic or other factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Bank's total credit exposure. The Bank manages credit risk by maintaining a diversified portfolio, limiting its exposure to any one geographic region, country or individual creditor and monitoring the exposure continually. Credit risk profiles by region were not significant on December 31, 2011 and 2010. The Bank's most significant concentrations of credit risk as of December 31, 2011 and 2010 are summarized as follows:

	Carrying Amount	
Credit Risk Profile	**December 31**	
by Counter-party	**2011**	**2010**
Consumer	$ 140,643,383	$ 146,782,202
Private sector	39,922,216	35,005,468
Government	-	2,174,000
	$ 180,565,599	$ 183,961,670

Credit Risk Profile by Industry Sector	December 31, 2011	Credit Risk Profile by Industry Sector	December 31, 2010
Real estate activities	$ 14,658,821	Real estate activities	$ 12,225,152
Commercial	7,450,261	Commercial	7,521,571
Manufacturing	6,022,603	Finance and insurance	4,943,447
	$ 28,131,685		$ 24,690,170

The amounts of the credit risks of the above loans were the same as their carrying amounts.

3) Liquidity risk

As of December 31, 2011 and 2010, the liquidity reserve ratios were 29.97% and 21.13%, respectively. The Bank has sufficient capital and working capital to execute all its contract obligations and has no liquidity risk. The possibility of failing to liquidate the derivative financial instruments at reasonable prices is remote.

The management policy of the Bank is to match the maturity and interest rate of its assets and liabilities. Due to the uncertainty resulting from terms of transactions, the maturities and interest rates of assets and liabilities usually did not fully match each other. This gap may give rise to gain or loss.

The Bank applied the appropriate method to group assets and liabilities. The maturity analysis of assets and liabilities was as follows:

	December 31, 2011					
	Due in One Month	Due Between after One Month and Three Months	Due Between after Three Months and Six Months	Due Between after Six Months and One Year	Due After One Year	Total
Assets						
Cash and cash equivalents	$ 7,887,592	$ 135,000	$ 162,000	$ 206,000	$ -	$ 8,390,592
Due from the Central Bank and other banks	73,106,171	21,426,807	1,553,316	2,584,946	3,110,529	101,781,769
Financial assets at fair value through profit or loss	5,569,794	26,712	1,541	1,326	2,568,170	8,167,543
Securities purchased under resell agreements	251,626	-	-	-	-	251,626
Receivables	5,430,305	3,480,702	2,421,023	3,932,730	1,153,479	16,418,239
Discounts and loans	8,576,978	10,365,330	15,542,071	38,094,496	120,027,909	192,606,784
Available-for-sale financial assets	150,502	-	231,413	400,832	6,734,149	7,516,896
Held-to-maturity investments	393,765	-	-	234,171	685,079	1,313,015
No active market debt instruments	-	-	-	-	44,723,018	44,723,018
	101,366,733	35,434,551	19,911,364	45,454,501	179,002,333	381,169,482
Liabilities						
Call loans and due to banks	34,266	-	2,500,000	4,472,990	-	7,007,256
Financial liabilities at fair value through profit or loss	23,814	8,778	635	625	-	33,852
Securities sold under repurchase agreements	21,263,332	13,248,798	10,043	-	-	34,522,173
Payables	4,169,924	779,244	486,689	222,011	189,434	5,847,302
Deposits and remittance	28,260,490	39,075,349	51,066,384	95,219,848	109,134,839	322,756,910
Bank debentures	-	-	-	1,190,000	3,700,000	4,890,000
	53,751,826	53,112,169	54,063,751	101,105,474	113,024,273	375,057,493
Net liquidity gap	$ 47,614,907	$ (17,677,618)	$ (34,152,387)	$ (55,650,973)	$ 65,978,060	$ 6,111,989

	December 31, 2010					
	Due in One Month	Due Between after One Month and Three Months	Due Between after Three Months and Six Months	Due Between after Six Months and One Year	Due After One Year	Total
Assets						
Cash and cash equivalents	$ 8,441,278	$ 135,000	$ 162,000	$ 206,000	$ -	$ 8,944,278
Due from the Central Bank and other banks	51,001,623	2,811,383	2,584,032	2,142,937	2,784,302	61,324,277
Financial assets at fair value through profit or loss	2,992,371	9,299	11,652	4,501	-	3,017,823
Securities purchased under resell agreements	39,500	-	-	-	-	39,500
Receivables	5,814,951	3,874,896	2,710,456	4,409,251	1,713,053	18,522,607
Discounts and loans	7,801,276	8,243,834	14,237,611	32,244,742	128,555,329	191,092,792
Available-for-sale financial assets	-	-	253,804	676,567	5,299,678	6,230,049
Held-to-maturity investments	141,320	-	-	1,885,435	1,245,879	3,272,634
No active market debt instruments	221	442	664	1,327	50,876,169	50,878,823
	76,232,540	15,074,854	19,960,219	41,570,760	190,484,410	343,322,783
Liabilities						
Call loans and due to banks	61,436	-	5,700,000	4,525,910	-	10,287,346
Financial liabilities at fair value through profit or loss	34,584	3,997	8,451	4,401	151	51,584
Securities sold under repurchase agreements	26,637,022	6,959,904	-	-	-	33,596,926
Payables	2,271,780	787,827	406,654	185,823	186,812	3,838,896
Deposits and remittance	31,346,739	35,690,114	49,400,560	77,069,543	96,098,898	289,605,854
Bank debentures	2,000	-	-	1,988,000	2,900,000	4,890,000
	60,353,561	43,441,842	55,515,665	83,773,677	99,185,861	342,270,606
Net liquidity gap	$ 15,878,979	$ (28,366,988)	$ (35,555,446)	$ (42,202,917)	$ 91,298,549	$ 1,052,177

31. MARKET RISK CONTROL AND HEDGE STRATEGY

a. Risk managing indicators and strategy

The Bank's main risks are credit risk, market risk and liquidity risk. The risk management policies are 1) short-term goal - to integrate and collect any risk variables to set up quantifiable risk quote; and 2) long-term goal - to maximize stockholders' return by setting up a risk management and evaluation system and properly allocating capital in a way that is most beneficial to stockholders.

b. Quantifiable risk measurement and control

1) Credit risk: The goal is to control risk at a tolerable level by setting up measurement tools that quantify risk across products and businesses. Then, the Bank established model loan procedures for employees to follow to ensure the protection of stockholders and depositors from loan risks.

   a) Setting up credit risk measurement system and database when making loans and reserving the historical data of credit risk measurement.

   b) Setting up a credit rating system linked to the interest spread.

   c) Adjusting the credit risk measurement model and instruments in light of the economy, forecasting and customer attributes to ensure that data match actual current conditions.

2) Market risk: The goal is to set up risk identifying, evaluating, monitoring, reporting and controlling procedures. The Bank has established risk management procedures and mechanisms under the guidelines of Basel II and plans to build a risk management system to ensure that the outcomes of risk-taking activities are predictable and are within the Bank's risk tolerance parameter and that there is an appropriate balance between risk and reward.

    a) The trade limit control: The limit approved by the board of directors or senior management committees includes the limit on investments, transactions involving counter-parties and traders' financial instrument transactions as well as total trading limit.

    b) The price risk control: The marked-to-market valuation method is used to measure the open position on the basis of daily settlement prices. The data on sensitivity analysis of all outstanding positions and stop-loss monitor information can be obtained through the trading management system.

    c) The risk report: To ensure risk control effectively, outstanding position reports and integrated risk management reports are available on a continuing basis.

3) Operational risk: For risk management, the Bank established the following:

    a) Strategy and control procedures at all bank levels;

    b) A database and reporting system on operational risk loss data by activity unit or activity and keep the data to improve internal control;

    c) An information and employee backup system to carry out stop-loss procedures in certain situations.

4) Liquidity risk

    The Bank actively manages the diversification of its deposit liabilities by source, type of depositor, instrument and term. It measures and forecasts cash commitments daily and conducts regular liquidity crisis stress testing. The Bank's liquidity contingency plan provides the framework from which to determine an appropriate action plan in the event of a liquidity crisis.

32. CAPITAL ADEQUACY RATIO

(In Thousands of New Taiwan Dollars, %)

Items			December 31, 2011 Union Bank	December 31, 2011 Consolidated
Eligible capital	Tier 1 capital		$ 15,534,886	$ 16,252,529
	Tier 2 capital		5,245,841	5,757,287
	Tier 3 capital		-	-
	Eligible capital		20,780,727	22,009,816
Risk-weighted assets	Credit risk	Standardized approach	157,020,298	164,071,544
		Internal ratings-based approach	-	-
		Securitization	-	37,186
	Operational risk	Basic indicator approach	15,633,843	17,361,014
		Standardized approach/alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standardized approach	5,666,525	5,790,138
		Internal model approach	-	-
	Risk-weighted assets		178,320,666	187,259,882
Capital adequacy ratio			11.65	11.75
Ratio of Tier 1 capital to risk-weighted assets			8.71	8.68
Ratio of Tier 2 capital to risk-weighted assets			2.94	3.07
Ratio of Tier 3 capital to risk-weighted assets			-	-
Ratio of common stock to total assets			4.14	4.10
Leverage ratio			4.12	4.26

Note 1: The above tables were prepared in accordance with the “Regulations Governing the Capital Adequacy Ratio of Banks” and related calculation tables.

Note 2: Formulas used were as follows:

1) Eligible capital = Tier 1 capital + Tier 2 capital + Tier 3 capital.

2) Risk-weighted assets = Risk-weighted asset for credit risk + Capital requirements for operational risk and market risk × 12.5.

3) Capital adequacy ratio = Eligible capital ÷ Risk-weighted assets

4) Ratio of Tier 1 capital to risk-weighted assets = Tier 1 capital ÷ Risk-weighted assets

5) Ratio of Tier 2 capital to risk-weighted assets = Tier 2 capital ÷ Risk-weighted assets

6) Ratio of Tier 3 capital to risk-weighted assets = Tier 3 capital ÷ Risk-weighted assets

7) Ratio of common stock to total assets = Common stock ÷ Total assets

8) Leverage ratio = Tier 1 capital ÷ Adjusted average total assets (the average total asset - goodwill, deferred losses on the sale of nonperforming loans and the amount of ineligible items [as defined in the “Methods for Calculating the Eligible Capital and Risk-weighted Assets of Banks”] deducted from the Tier 1 capital)

(In Thousands of New Taiwan Dollars, %)

Items			December 31, 2010 Union Bank	December 31, 2010 Consolidated
Eligible capital	Tier 1 capital		$ 13,539,665	$ 14,200,593
	Tier 2 capital		3,715,928	4,162,325
	Tier 3 capital		-	-
	Eligible capital		17,255,593	18,362,918
Risk-weighted Assets	Credit risk	Standardized approach	154,210,916	161,235,905
		Internal ratings-based approach	-	-
		Securitization	629	54,476
	Operational risk	Basic indicator approach	14,993,291	16,722,350
		Standardized approach/alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standardized approach	3,225,875	3,314,250
		Internal model approach	-	-
	Risk-weighted assets		172,430,711	181,326,981
Capital adequacy ratio			10.01	10.13
Ratio of Tier 1 capital to risk-weighted assets			7.85	7.83
Ratio of Tier 2 capital to risk-weighted assets			2.16	2.30
Ratio of Tier 3 capital to risk-weighted assets			-	-
Ratio of common stock to total assets			4.53	4.50
Leverage ratio			3.85	3.94

33. ASSET QUALITY, CONCENTRATION OF CREDIT EXTENSIONS, INTEREST RATE SENSITIVITY, PROFITABILITY AND MATURITY ANALYSIS OF ASSETS AND LIABILITIES

a. Credit risks

1) Asset quality: Table 3 (attached)

2) Concentration of credit extensions

(In Thousands of New Taiwan Dollars, %)

	Year Ended December 31, 2011				Year Ended December 31, 2010		
Rank	**Industry**	**Total Amount of Credit Endorsement or Other Transactions**	**Percentage of Equity (%)**	**Rank**	**Industry**	**Total Amount of Credit Endorsement or Other Transactions**	**Percentage of Equity (%)**
1	B Group - real estate	$2,602,304	11.85	1	A Group - real estate	$3,551,534	17.67
2	A Group - real estate	2,411,150	10.98	2	B Group - real estate	2,569,462	12.79
3	D Group - real estate	2,397,075	10.92	3	C Group - real estate	2,047,602	10.19
4	F Group - real estate	2,072,000	9.44	4	D Group - real estate	1,827,760	9.10
5	C Group - real estate	1,724,612	7.86	5	E Group - retail	1,222,234	6.08
6	X Group - retail	1,638,163	7.46	6	F Group - real estate	850,000	4.23
7	T Group - real estate	924,800	4.21	7	G Group - real estate	619,263	3.08
8	Z Group - real estate	820,000	3.74	8	H Group - retail	532,500	2.65
9	K Group - real estate	579,736	2.64	9	I Group - aviation	502,666	2.50
10	H Group - retail	553,800	2.52	10	J Group - real estate	490,000	2.44

b. Interest rate sensitivity

Interest Rate Sensitivity
December 31, 2011

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 275,141,613	$ 6,125,053	$ 10,107,582	$ 20,086,084	$ 311,460,332
Interest rate-sensitive liabilities	248,327,221	11,622,163	33,659,561	17,370,392	310,979,337
Interest rate sensitivity gap	26,814,392	(5,497,110)	(23,551,979)	2,715,692	480,995
Net worth					13,450,135
Ratio of interest rate-sensitive assets to liabilities					100.15%
Ratio of interest rate sensitivity gap to net worth					3.58%

Interest Rate Sensitivity
December 31, 2010

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 235,734,239	$ 7,038,372	$ 13,691,427	$ 19,590,572	$ 276,054,610
Interest rate-sensitive liabilities	128,821,835	128,391,152	14,888,860	12,053,024	284,154,871
Interest rate sensitivity gap	106,912,404	(121,352,780)	(1,197,433)	7,537,548	(8,100,261)
Net worth					13,834,570
Ratio of interest rate-sensitive assets to liabilities					97.15%
Ratio of interest rate sensitivity gap to net worth					(58.55%)

Note 1: The above amounts included only New Taiwan dollar amounts held by the onshore branches of the Bank (i.e., excluding foreign currency).

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

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

Note 4: Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets/Interest rate-sensitive liabilities.

Interest Rate Sensitivity
December 31, 2011

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

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 103,477	$ 22,434	$ 1,377	$ 1,568,448	$ 1,695,736
Interest rate-sensitive liabilities	1,272,769	350,168	149,773	446	1,773,156
Interest rate sensitivity gap	(1,169,292)	(327,734)	(148,396)	1,568,002	(77,420)
Net worth					318,843
Ratio of interest rate-sensitive assets to liabilities					95.63%
Ratio of interest rate sensitivity gap to net worth					(24.28%)

Interest Rate Sensitivity
December 31, 2010

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

Interest rate-sensitive assets	$ 226,652	$ 11,098	$ 15,695	$ 1,754,528	$ 2,007,973
Interest rate-sensitive liabilities	1,257,750	388,720	144,937	-	1,791,407
Interest rate sensitivity gap	(1,031,098)	(377,622)	(129,242)	1,754,528	216,566
Net worth					253,968
Ratio of interest rate-sensitive assets to liabilities					112.09%
Ratio of interest rate sensitivity gap to net worth					85.27%

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

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

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

Note 4: Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets/Interest rate-sensitive liabilities.

c. Liquidity risk

1) Profitability:

(%)

Items		2011	2010
Return on total assets	Before income tax	0.58	0.52
	After income tax	0.48	0.40
Return on net worth	Before income tax	10.56	9.74
	After income tax	8.69	7.50
Profit margin		25.00	20.44

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

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

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

Note 4: Income before (after) income tax represents income for the years ended December 31, 2011 and 2010.

2) Maturity analysis of assets and liabilities:

Maturity Analysis of Assets and Liabilities
December 31, 2011

(In Thousands of New Taiwan Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over 1 Year
Main capital inflow on maturity	$ 344,234,261	$ 101,950,941	$ 35,083,536	$ 19,263,322	$ 47,643,645	$ 140,292,817
Main capital outflow on maturity	390,799,219	45,524,553	36,244,152	44,824,337	99,245,067	164,961,110
Gap	(46,564,958)	56,426,388	(1,160,616)	(25,561,015)	(51,601,422)	(24,668,293)

Maturity Analysis of Assets and Liabilities
December 31, 2010

(In Thousands of New Taiwan Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over 1 Year
Main capital inflow on maturity	$ 300,562,620	$ 75,283,316	$ 14,685,296	$ 19,667,562	$ 41,660,523	$ 149,265,923
Main capital outflow on maturity	352,933,224	35,211,468	34,577,982	45,941,514	84,965,520	152,236,740
Gap	(52,370,604)	40,071,848	(19,892,686)	(26,273,952)	(43,304,997)	(2,970,817)

Note: The above amounts included only New Taiwan dollar amounts held in the onshore branches of the Bank (i.e., excluding foreign currency).

Maturity Analysis of Assets and Liabilities
December 31, 2011

(In Thousands of U.S. Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over 1 Year
Capital inflow on maturity	$ 1,750,579	$ 112,250	$ 16,357	$ 22,487	$ 1,379	$ 1,598,106
Capital outflow on maturity	2,115,683	876,640	418,874	350,533	150,346	319,290
Gap	(365,104)	(764,390)	(402,517)	(328,046)	(148,967)	1,278,816

Maturity Analysis of Assets and Liabilities
December 31, 2010

(In Thousands of U.S. Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181-365 Days	Over 1 Year
Capital inflow on maturity	$ 2,029,836	$ 206,867	$ 21,802	$ 10,762	$ 15,699	$ 1,774,706
Capital outflow on maturity	2,046,088	914,486	343,517	388,781	145,343	253,961
Gap	(16,252)	(707,619)	(321,715)	(378,019)	(129,644)	1,520,745

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

34. ACQUISITIONS OF ANOTHER FINANCIAL INSTITUTION’S ASSETS, LIABILITIES AND OPERATIONS

To integrate its operating resources and promote Bank’s competitiveness in the financial market, the board of directors resolved on December 17, 2009 to merge the Bank with Union Bill Finance Corporation (UBF), with the Bank as the survivor equity. Under the merger contract, the Bank will acquire UBF’s assets and liabilities through a share swap at a 1:1.13 ratio, with each share of UBF to be exchanged for 1.13 shares of the Bank. The merger contract stated that this ratio could be adjusted. On June 23, 2010, the board of directors approved the change of the swap ratio to 1:1.15, with August 16, 2010 as the merger date. The merger was completed on August 16, 2010. The assets and liabilities recognized by UBF on the merger date and all rights and obligations as of the merger date were assumed by the Bank.

The issued capital of the Bank before the merger was $17,536,620 thousand, representing 1,753,662 thousand shares at a par value of NT$10.00, consisting of 1,451,153 thousand common shares and 302,509 thousand preferred shares. The Bank increased its capital by $1,948,376 thousand by issuing 194,838 thousand common shares for the merger. The issued capital of the Bank after merger amounted to $19,484,996 thousand. This issuance was approved by the Ministry of Economic Affairs.

UBF started preparations for its establishment in November 1994 and was established in July 1995. It began its main operating activities and generated major revenues on October 11, 1995. Under approval by authorities, UBF mainly brokers and trades short-term bills; underwrites, certifies, guarantees and endorses commercial paper; brokers government bonds, financial bonds and trading bonds; and does derivatives-related business.

The Bank applied Statement of Financial Accounting Standards (SFAS) No. 25 - "Business Combinations" to the merger with UBF. Under SFAS No. 25, since the Bank had control over UBF before the merger, the Bank recognized (a) UBF's assets and liabilities at book value at the Bank's percentage of ownership (42.76%) and (b) the remaining assets and liabilities attributed to the minority interest (57.24%) at fair value as of the merger date. Also in line with SFAS No. 25, since the Bank's accounting policies on assets and liabilities were more appropriate to use than those of UBF, the Bank adjusted the book value of UBF's assets and liabilities on the basis of the Bank's accounting policies.

Also under SFAS No. 25, the Bank recognized $1,714,571 thousand as the cost of acquiring minority-interest shares and issued 194,838 thousand common shares at NT$8.8 per share to the stockholders. The amount of $130,498, resulting from the deduction of the net asset fair value of $1,584,073 thousand from the acquisition cost of $1,714,571 thousand, was recorded as goodwill.

The amounts of the assets and liabilities recognized by the Bank after the merger are summarized as follows:

	Fair Value of Identifiable Net Assets	**Book Value**	**Total**
Cash and cash equivalents	$ 513,308	$ 383,457	$ 896,765
Due from the Central Bank and other banks	572,400	427,600	1,000,000
Financial assets at fair value through profit or loss	211,721	158,162	369,883
Receivables, net	245,999	183,769	429,768
Available-for-sale financial assets	2,055,740	1,535,700	3,591,440
Held-to-maturity financial assets	118,610	88,605	207,215
Financial assets carried at cost	5,310	3,967	9,277
Other financial assets	13,107	9,791	22,898
Land	4,330	3,234	7,564
Buildings	3,426	2,559	5,985
Machinery and equipment	1,831	1,368	3,199
Transportation equipment	653	488	1,141
Leasehold improvements	665	496	1,161
Other assets	79,658	52,179	131,837
Securities sold under repurchase agreements	(2,104,361)	(1,572,021)	(3,676,382)
Payables	(17,120)	(12,790)	(29,910)
Other financial liabilities	(753)	(562)	(1,315)
Other liabilities	(120,451)	(95,512)	(215,963)
Subtotal	1,584,073	$ 1,170,490	$ 2,754,563
Cost of combination	1,714,571		
Goodwill	$ 130,498		$ 130,498

The foregoing fair values and book values of identifiable net assets were calculated at the share ratios of 57.24% and 42.76%, respectively, on the basis of the unaudited financial statements prepared by UBF. In calculating the amount corresponding to the share ratio of 42.76%, the Bank had already adjusted the book value of UBF's assets and liabilities in accordance with the Bank's accounting policy.

All of UBF's operating results after August 16, 2010 were included in the Bank's income statement, but any profit or loss before the merger date was not included. For comparison purposes, the combined pro forma income statements for 2010 are provided as follows (UBF's data for the period from January 1, 2010 to August 15, 2010 had been prepared by UBF and all of these data had been adjusted in accordance with the Bank's accounting policy).

Items	2010
Net interest	$ 6,585,622
Net revenues and gains other than interest	338,362
Net revenues	6,923,984
Bad-debt expenses for loans	(409,502)
Operating expenses	(4,716,837)
Income before income tax	1,797,645
Income tax expense	(423,038)
Net income	$ 1,374,607
Earnings per share (NT$)	$0.90

The pro forma combined statements of income are presented for illustrative purposes only. That is, this information merely shows the results of operations under the assumption that the Bank merged with UBF on January 1, 2010 and represents neither the future financial position nor the result of operations of the merged Bank and UBF.

35. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the Securities and Futures Bureau:

a. Significant transactions of the Bank and its investees:

1) Financing provided: The Bank - not applicable; investee company - none

2) Endorsement/guarantee provided: The Bank - not applicable; investee company - Table 1 (attached)

3) Marketable securities held: The Bank - not applicable; investee company: Table 2 (attached)

4) Acquired and disposed of investee investment at costs or prices of at least NT$300 million or 10% of the issued capital: None

5) Acquisition of individual real estates at costs of at least NT$300 million or 10% of the issued capital: None

6) Disposal of individual real estates at prices of at least NT$300 million or 10% of the issued capital: None

7) Allowance for service fee to related parties amounting to at least NT$5 million: None

8) Receivables from related parties amounting to at least NT$300 million or 10% of the issued capital: None

9) Sale of nonperforming loans: None

10) Financial asset securitization: None

11) Other significant transactions which may affect the decision of financial statements users: Table 3 (attached)

12) The information of investees: Table 4 (attached)

13) Derivative financial transactions: Please see Note 6.

b. Investment in Mainland China: None.

36. SEGMENT INFORMATION

The information reported to the Bank's chief operating decision makers for the assessment of segment performance focuses mainly on operating and profit or loss. The accounting policies of the reportable segments are the same as the Bank's significant accounting policies described in Note 2. The Bank's reportable segments under the Statement of Financial Accounting Standards No. 41 - "Operating Segments" are as follows:

a. Corporate banking unit: Corporate banking, foreign exchange business, debt management and public treasury business, etc.

b. Consumer banking unit: Consumer banking, financial management and loan business, credit card business and auto-loan business, etc.

c. Wealth management and trust unit: Wealth management and trust business, etc.

d. Investing unit: Investing business in financial market, etc.

The analysis of the Bank's revenue and results from continuing operations by reportable segment was as follows:

	2011					
	Corporate Banking	**Consumer Banking**	**Wealth Management**	**Investing**	**Others**	**Total**
Net interest revenues	$ 823,744	$ 2,307,535	$ (303)	$ 2,050,646	$ 1,480,731	$ 6,662,353
Net commissions and fees revenues	73,907	664,313	434,048	72,142	124,431	1,368,841
Net revenues other than interest	425,611	61,591	(28,517)	(256,338)	(926,649)	(724,302)
Total net revenues	1,323,262	3,033,439	405,228	1,866,450	678,513	7,306,892
Bad-debt expense for loans	458,291	1,010,336	-	61,407	(1,408,534)	121,500
Operating expenses	558,570	1,902,744	312,773	190,915	1,999,010	4,964,012
Income before income tax	$ 306,401	$ 120,359	$ 92,455	$ 1,614,128	$ 88,037	$ 2,221,380
Asset (Note)	$ -	$ -	$ -	$ -	$ -	$ -

Note: The Bank provides only the average amounts of deposits and loans for measuring the amount of assets and liabilities, and the measured amounts disclosed in the report would be zero based on the interpretation (2010) No. 151 issued by the Accounting Research and Development Foundation (ARDF).

	2010					
	Corporate Banking	Consumer Banking	Wealth Management	Investing	Others	Total
Net interest revenues	$ 925,599	$ 2,701,759	$ (291)	$ 2,001,902	$ 1,021,319	$ 6,650,288
Net commissions and fees revenues	77,158	833,300	433,111	30,725	111,910	1,486,204
Net revenues other than interest	371,966	40,802	(21,669)	171,315	(1,798,340)	(1,235,926)
Total net revenues	1,374,723	3,575,861	411,151	2,203,942	(665,111)	6,900,566
Bad-debt expense for loans	256,591	1,272,395	-	16,664	(1,136,148)	409,502
Operating expenses	540,910	1,866,046	295,209	156,366	1,800,021	4,658,552
Income before income tax	$ 577,222	$ 437,420	$ 115,942	$ 2,030,912	$ (1,328,984)	$ 1,832,512
Asset (Note)	$ -	$ -	$ -	$ -	$ -	$ -

Note: The Bank provides only the average amounts of deposits and loans for measuring the amount of assets and liabilities, and the measured amounts disclosed in the report would be zero based on the interpretation (2010) No. 151 issued by the ARDF.

37. SIGNIFICANT FOREIGN-CURRENCY FINANCIAL ASSETS AND LIABILITIES

The significant foreign-currency financial assets and liabilities were as follows:

	2011			2010		
	Foreign Currencies (Thousands)	Exchange Rate	New Taiwan Dollars (Thousands)	Foreign Currencies (Thousands)	Exchange Rate	New Taiwan Dollars (Thousands)
Financial assets						
Monetary items						
USD	$ 1,940,326	30.29	$ 58,772,475	1,972,999	29.152	$ 57,516,867
JPY	5,363,695	0.3903	2,093,450	5,362,449	0.3581	1,920,293
GBP	5,857	46.7678	273,919	6,628	45.2001	299,586
AUD	40,754	30.7746	1,254,188	33,526	29.6913	995,431
HKD	96,228	3.8983	375,126	119,607	3.7499	448,514
CAD	7,916	29.6815	234,959	8,366	29.1665	244,007
SGD	1,122	23.3179	26,163	836	22.7217	18,995
ZAR	398,710	3.7211	1,483,640	167,728	4.4036	738,607
CHF	805	32.2063	25,926	382	31.1120	11,885
THB	41	0.9595	39	115	0.9697	112
NZD	40,887	23.4142	957,336	75,024	22.5636	1,692,812
EUR	19,690	39.2104	772,053	26,644	38.9325	1,037,318
Financial liabilities						
Monetary items						
USD	1,604,490	30.29	8,600,002	1,710,777	29.152	49,872,571
JPY	5,910,282	0.3903	2,306,783	5,569,011	0.3581	1,994,263
GBP	5,846	46.7678	273,405	6,638	45.2001	300,038
AUD	40,802	30.7746	1,255,665	33,501	29.6913	994,688
HKD	96,229	3.8983	375,130	119,547	3.7499	448,289
CAD	8,113	29.6815	240,806	8,348	29.1665	243,482
SGD	1,077	23.3179	25,113	837	22.7217	19,018
ZAR	398,817	3.7211	1,484,038	168,140	4.4036	740,421
CHF	780	32.2063	25,121	371	31.1120	11,543
NZD	40,892	23.4142	957,453	75,087	22.5636	1,694,233
EUR	19,646	39.2104	770,328	27,971	38.9325	1,088,981

UNION BANK OF TAIWAN

ENDORSEMENTS/GUARANTEES PROVIDED
YEAR ENDED DECEMBER 31, 2011
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorsement/Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party	Maximum Balance for the Year	Ending Balance	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Equity per the Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowable
		Name	Nature of Relationship						
1	Union Capital (Cayman) Corp.	Union Finance and Leasing International Corporation	Subsidiary	US$ 16,207	$ 400,000	$ 400,000	$ 400,000	81.48	US$ 16,207

TABLE 2

UNION BANK OF TAIWAN

MARKETABLE SECURITIES HELD
DECEMBER 31, 2011
(In Thousands of New Taiwan Dollars and Foreign Currency, Unless Stated Otherwise)

Holding Company	Type and Issuer/Name of Marketable Securities	Issuer's Relationship with Holding Company	Financial Statement Account	December 31, 2011				Note
				Shares/Piece/Units (In Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Union Finance and Leasing International Corporation	Stock							
	Masterlink Securities Corporation.	-	Available-for-sale financial assets	872	$ 8,149	0.06%	$ 8,149	Note 4
	Photronics Semiconductor Mask Corp.	-	Available-for-sale financial assets	536	5,655	0.18%	5,655	Note 4
	China Chemical Corporation	-	Available-for-sale financial assets	356	6,077	0.11%	6,077	Note 4
	Union Capital (Cayman) Corp.	Subsidiary	Equity investment - equity method	50	US$ 16,207	100.00%	US$ 16,207	Note 1
	New Asian Ventures Ltd.	Subsidiary	Equity investment - equity method	-	US$ 2,486	100.00%	US$ 2,486	Note 1
	WI Harper Group	-	Unquoted equity instruments	667	2,533	3.33%	3,492	Note 1
	ERA Communications Co., Ltd.	-	Unquoted equity instruments	425	1,415	0.33%	6,132	Note 1
	Yung Li Securities Co., Ltd.	-	Unquoted equity instruments	1	487	0.99%	389	Note 1
	Schmidt Technology Co., Ltd.	-	Unquoted equity instruments	63	-	0.29%	441	Note 1
	Bond							
	Taiwan Life Insurance Co., Ltd.	-	Financial assets designated at fair value through profit or loss	500	46,215	-	46,215	-
Union Information Technology Corporation	Stock							
	Jin Shang Chang Development Co., Ltd.	-	Available-for-sale financial assets	-	-	-	-	Note 4
	ELTA Technology Co., Ltd.	-	Unquoted equity instruments	2,000	17,132	16.33%	25,999	Note 3
	eBizServe, Inc.	-	Unquoted equity instruments	236	654	1.17%	825	Note 3
	Xiehe E-commerce Co., Ltd.	-	Unquoted equity instruments	169	-	7.99%	-	Note 3
Union Finance International (HK) Limited	Bond							
	HBOS Capital Funding LP	-	Available-for-sale financial assets	900	US$ 533	-	US$ 533	-
	Penn West Energy	-	Available-for-sale financial assets	29	US$ 574	-	US$ 574	-
	Stock							
	ING Group N.V.	-	Available-for-sale financial assets	33	US$ 617	-	US$ 617	Note 4
	Applied Materials Inc.	-	Financial assets at fair value through profit or loss	3	US$ 1,181	-	US$ 1,181	Note 4
	Merck & Co., Inc.	-	Financial assets at fair value through profit or loss	12	US$ 441	-	US$ 441	Note 4
	EBAY Inc.	-	Financial assets at fair value through profit or loss	14	US$ 415	-	US$ 415	Note 4
	Beneficial certificates							
	Global Emerging Markets Debt Fund	-	Financial assets at fair value through profit or loss	4	US$ 447	-	US$ 447	Note 4

(Continued)

Holding Company	Type and Issuer/Name of Marketable Securities	Issuer's Relationship with Holding Company	Financial Statement Account	December 31, 2011				Note
				Shares/Piece/Units (In Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Union Insurance Broker Company	Stock							
	Asus Computer Corp.	-	Available-for-sale financial assets	4	$ 820	-	$ 820	Note 4
	Pegatron Corporation	-	Available-for-sale financial assets	8	277	-	277	Note 4
New Asian Ventures Ltd.	Stock							
	Grace Thw Holding Limited	-	Unquoted equity instruments	1,667	US$ 2,000	0.81%	US$ 1,993	Note 2

The Bank's investees had investments in companies with shares having no quoted market prices. The net asset values of these companies were based on the following:

Note 1: Union Finance and Leasing International Corporation:

a. WI Haper Group, ERA Communications Co., Ltd., Yung Li Securities Co., Ltd. and Schmidt Technology Co., Ltd. - audited stockholders' equity as of December 31, 2011.
b. New Asian Ventures Ltd. and Union Capital (Cayman) Corp. - the audited stockholders' equity as of December 31, 2011.

Note 2: New Asian Ventures Ltd.:

Grace Thw Holding Limited - unaudited stockholders equity as of December 31, 2011.

Note 3: Union Information Technology Corporation - the basis of the calculation of the market values of its investments is shown as follows:

a. ELTA Technology Co., Ltd. - audited stockholders' equity as of December 31, 2011.
b. eBizServe, Inc. - the audited stockholders' equity as of December 31, 2011.
c. Xiehe E-commerce Co., Ltd. - unaudited stockholders' equity as of December 31, 2011.

Note 4: The market values of the listed and OTC stocks included in financial assets at fair value through profit or loss and available-for-sale financial assets were based on the daily closing prices as of balance sheet date. The market values of beneficial certificates were based on net asset values as of the balance sheet date.

(Concluded)

TABLE 3

UNION BANK OF TAIWAN

ASSET QUALITY
DECEMBER 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars, %)

Period			December 31, 2011					December 31, 2010				
Items			Nonperforming Loans (Note 1)	Loans	Ratio of Nonperforming Loans (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)	Nonperforming Loans (Note 1)	Loans	Ratio of Nonperforming Loans (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)
Corporate Banking	Secured		$ 400,865	$ 55,975,921	0.72%	$ 772,445	176.69%	$ 651,295	$ 47,862,791	1.36%	$ 769,586	85.92%
	Unsecured		36,301	23,550,123	0.15%			244,446	24,884,802	0.98%		
Consumer Banking	Housing mortgage (Note 4)		171,979	99,904,119	0.17%	970,379	564.24%	258,371	107,260,319	0.24%	109,801	42.50%
	Cash card		29,672	352,450	8.42%	53,017	178.68%	150,215	635,823	23.63%	359,715	239.47%
	Small scale credit loans (Note 5)		41,041	3,136,699	1.31%	47,569	115.91%	89,766	2,047,095	4.39%	189,460	211.06%
	Other (Note 6)	Secured	9,894	7,333,885	0.13%	83,381	701.09%	9,814	5,220,717	0.19%	7,131	46.27%
		Unsecured	1,999	1,250,498	0.16%			5,598	2,288,868	0.24%		
Deposits and Remittances	Certificates of deposit		-	1,103,089	-	-	-	-	892,377	-	-	-
Loan			691,751	192,606,784	0.36%	1,926,791	278.54%	1,409,505	191,092,792	0.74%	1,435,693	101.86%
			Nonperforming Receivables (Note 1)	Receivables	Ratio of Nonperforming Receivables (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)	Nonperforming Receivables (Note 1)	Receivables	Ratio of Nonperforming Receivables (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)
Credit cards			36,116	13,374,834	0.27%	298,653	826.93%	97,189	14,858,556	0.65%	500,784	515.27%
Accounts receivable factored without recourse (Note 7)			-	-	-	-	-	-	-	-	-	-

Note 1: Nonperforming loans are reported to the authorities and disclosed to the public, as required by the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Non-accrued Loans.” Nonperforming credit card receivables are reported to the authorities and disclosed to the public, as required by the Banking Bureau’s letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: Ratio of nonperforming loans: Nonperforming loans ÷ Outstanding loan balance.
Ratio of nonperforming credit card receivables: Nonperforming credit card receivables ÷ Outstanding credit card receivables balance.

Note 3: Coverage ratio of loans: Allowance for possible losses for loans ÷ Nonperforming loans.
Coverage ratio of credit card receivables: Allowance for possible losses for credit card receivables ÷ Nonperforming credit card receivables.

Note 4: The mortgage loan is for house purchase or renovation and is fully secured by housing that is purchased (owned) by the borrower, the spouse or the minor children of the borrowers.

Note 5: Based on the Banking Bureau’s letter dated December 19, 2005 (Ref. No. 09440010950), small-scale credit loans are unsecured, involve small amounts and exclude credit cards and cash cards.

Note 6: Other consumers banking loans refer to secured or unsecured loans that exclude housing mortgage, cash cards, credit cards and small-scale credit loans.

Note 7: As required by the Banking Bureau in its letter dated July 19, 2005 (Ref. No. 094000494), factoring accounts receivable without recourse are reported as nonperforming receivables within three months after the factors or insurance companies refuse to indemnify banks for any liabilities on these accounts.

(Continued)

Not reported as nonperforming loans or nonperforming receivables

Types \ Items	December 31, 2011		December 31, 2010	
	Not Reported as Nonperforming Loans	**Not Reported as Nonperforming Receivables**	**Not Reported as Nonperforming Loans**	**Not Reported as Nonperforming Receivables**
Amounts of executed contracts on negotiated debts not reported as nonperforming loans and receivables (Note 1)	$ 261,682	$ 1,103,340	$ 347,757	$ 1,595,038
Amounts of discharged and executed contracts on clearance of consumer debts not reported as nonperforming loans and receivables (Note 2)	62,089	1,085,042	77,085	1,100,915
Total	323,771	2,188,382	424,842	2,695,953

Note 1: Amounts of executed contracts on negotiated debts that are not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau’s letter dated April 25, 2006 (Ref. No. 09510001270).

Note 2: Amounts of discharged and executed contracts on clearance of consumer debts that are not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau’s letter dated September 15, 2008 (Ref. No. 09700318940).

(Concluded)

TABLE 4

UNION BANK OF TAIWAN

INFORMATION OF AND PROPORTIONATE SHARE IN INVESTEES
YEAR ENDED DECEMBER 31, 2011
(In Thousands of New Taiwan Dollars)

Investee Company	Location	Main Businesses and Products	Percentage of Ownership	Carrying Value	Investment Gain (Loss)	Proportionate Share of the Bank and its Affiliates in Investees				Note
						Shares (Thousands)	Pro Forma Shares (Note 2)	Total		
								Shares (Thousands)	Percentage of Ownership	
Financial-related										
Union Finance and Leasing International Corporation	Taipei	Installment, leasing and accounts receivable factoring	100.00%	$ 806,789	$ 62,941	70,000		70,000	100.00%	Note
Union Finance International (HK) Limited	Hong Kong	Import and export accommodation	99.99%	80,941	2,566	30,002		30,002	100.00%	Note
Union Securities Investment Trust Corporation	Taipei	Securities investment trust	35.00%	121,178	5,033	13,096		13,096	43.65%	Note
Union Insurance Broker Company	Taipei	Personal insurance agency	100.00%	24,793	15,969	500		500	100.00%	Note
Taiwan Asset Management Corporation	Taipei	Purchase, sell and manage nonperforming loans from financial institution	0.57%	100,000	7,072	10,000		10,000	0.57%	
Taiwan Financial Asset Service Corporation	Taipei	Property auction	2.94%	50,000	500	5,000		5,000	2.94%	
Huan Hua Securities Finance Co.	Taipei	Securities finance	0.53%	38,454	-	3,942		3,942	0.53%	
Sunny Asset Management Co.	Taipei	Purchase, sell and manage nonperforming loans from financial institution	6.44%	3,864	507	386		386	6.44%	
Taipei Forex Inc.	Taipei	Foreign exchange brokering	0.81%	2,113	511	160		160	0.81%	
Fu Hua Venture Corporation	Taipei	Investments	5.00%	23,926	-	3,000		3,000	5.00%	
Jiao Da Venture Corporation	Taipei	Investment	5.00%	3,316	-	1,193		1,193	5.00%	
Li Yu Venture Corporation	Taipei	Investment	4.76%	7,946	-	1,008		1,008	4.76%	
Taiwan Futures Exchange Co., Ltd.	Taipei	Futures clearing	2.04%	71,250	8,168	5,538		5,538	2.04%	
Nonfinancial-related										
Union Information Technology Corporation	Taipei	Software and hardware product retail and distribution services	99.99%	14,372	(8,471)	1,000		1,000	99.99%	Note
Union Real-Estate Management Corporation	Taipei	Construction plan review and consulting	40.00%	66,721	12,676	4,000		4,000	80.00%	Note
Financial Information Service Co., Ltd.	Taipei	Information service	2.39%	118,782	11,971	10,774		10,774	2.39%	
Taiwan Depository & Clearing Corporation	Taipei	Financial service	0.25%	13,916	928	779		779	0.25%	
Lian An Service Corporation	Taipei	Security service	5.00%	1,501	100	125		125	5.00%	
Save Com International Inc.	Taipei	Telecommunication and network integration	0.07%	75	-	63		63	0.07%	
Taiwan Power Corporation	Taipei	Electricity-related business	0.0012%	6,123	-	395		395	0.0012%	
Global Communication Semiconductor, Inc.	U.S.A.	Semiconductor business	0.85%	9,185	-	278		278	0.85%	

Note: The investees' information shown above is based on audited financial reports as of December 31, 2011.