Union Bank of Taiwan

Financial Statements for the
Years Ended December 31, 2012 and 2011 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, 2012 and 2011, 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.

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

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 an increase of NT$965,261 thousand in 2011 in pretax income.

In our opinion, 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, 2012 and 2011, 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, 2012 and 2011, on which we have issued an unqualified opinion and a qualified opinion in our reports dated March 20, 2013, respectively.

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 20, 2013

Notice to Readers

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

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

UNION BANK OF TAIWAN

BALANCE SHEETS
DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2012 Amount	2011 Amount	% Increase (Decrease)
CASH AND CASH EQUIVALENTS (Note 4)	$ 9,570,257	$ 8,390,592	14
DUE FROM THE CENTRAL BANK AND OTHER BANKS (Notes 5 and 26)	75,378,914	101,781,769	(26)
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 2, 6 and 30)	8,094,894	8,167,543	(1)
SECURITIES PURCHASED UNDER RESELL AGREEMENTS (Notes 2 and 28)	21,764,953	251,626	8,550
RECEIVABLES, NET (Notes 2, 7, 8 and 26)	14,124,123	15,086,661	(6)
DISCOUNTS AND LOANS, NET (Notes 2, 8, 26 and 30)	201,833,438	190,679,993	6
AVAILABLE-FOR-SALE FINANCIAL ASSETS (Notes 2, 9, 26 and 30)	10,237,156	7,516,896	36
HELD-TO-MATURITY INVESTMENTS (Notes 2, 10 and 30)	811,872	1,313,015	(38)
INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD (Notes 2 and 11)	1,182,415	1,114,794	6
OTHER FINANCIAL ASSETS, NET (Notes 2, 12, 13, 26, 27 and 30)			
Financial assets carried at cost	448,378	450,451	-
No active market debt instruments	43,871,572	44,723,018	(2)
Others	7,071,901	4,457,747	59
Other financial assets, net	51,391,851	49,631,216	4
PROPERTY AND EQUIPMENT (Notes 2, 14, 26 and 28)			
Cost			
Land	3,436,297	3,530,860	(3)
Buildings	5,041,069	5,048,139	-
Machinery and equipment	1,337,753	1,368,261	(2)
Transportation equipment	264,359	262,815	1
Leasehold improvements	371,165	346,487	7
	10,450,643	10,556,562	(1)
Less: Accumulated depreciation	2,737,641	2,612,672	5
	7,713,002	7,943,890	(3)
Prepayments for equipment	-	12,811	(100)
Net property and equipment	7,713,002	7,956,701	(3)
GOODWILL (Notes 2 and 16)	1,985,307	2,119,709	(6)
OTHER ASSETS (Notes 2, 15 and 24)	3,188,106	3,714,937	(14)
TOTAL	$ 407,276,288	$ 397,725,452	2

LIABILITIES AND STOCKHOLDERS' EQUITY	2012 Amount	2011 Amount	% Increase (Decrease)
LIABILITIES			
Call loans and due to banks (Notes 17 and 26)	$ 5,115,437	$ 7,007,256	(27)
Financial liabilities at fair value through profit or loss (Notes 2, 6 and 30)	27,417	33,852	(19)
Securities sold under repurchase agreements (Notes 2 and 28)	28,289,349	34,522,173	(18)
Payables (Notes 18 and 26)	6,270,703	5,847,302	7
Deposits and remittances (Notes 19, 26 and 30)	337,399,136	322,756,910	5
Bank debentures (Notes 20 and 30)	5,200,000	4,890,000	6
Other financial liabilities (Notes 26 and 30)	398,965	337,852	18
Other liabilities (Note 2)	501,876	365,444	37
Total liabilities	383,202,883	375,760,789	2
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 - 2,006,020 thousand shares in 2012 and 1,645,991 thousand shares in 2011	20,060,202	16,459,908	22
Preferred stock	204,194	3,025,088	(93)
Total capital stock	20,264,396	19,484,996	4
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	900,963	352,978	155
Special reserve	608,209	874,473	(30)
Unappropriated earnings	2,621,624	1,826,615	44
Total retained earnings	4,130,796	3,054,066	35
Other equity			
Unrealized gain (loss) on financial instruments	413,490	(167,173)	347
Cumulative translation adjustments	(564,137)	(263,522)	114
Net loss not recognized as pension cost	(204,951)	(177,515)	15
Total other equity	(355,598)	(608,210)	(42)
Total stockholders' equity	24,073,405	21,964,663	10
CONTINGENCIES AND COMMITMENTS (Notes 2 and 28)			
TOTAL	$ 407,276,288	$ 397,725,452	2

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

(With Deloitte & Touche audit report dated March 20, 2013)

UNION BANK OF TAIWAN

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2012 Amount	2011 Amount	%
INTEREST REVENUE (Notes 2 and 26)	$ 9,117,046	$ 9,546,475	(4)
INTEREST EXPENSE (Note 26)	3,405,966	2,884,122	18
NET INTEREST	5,711,080	6,662,353	(14)
NET REVENUES OTHER THAN INTEREST			
Commissions and fee revenues (Notes 2 and 26)	1,776,883	1,796,137	(1)
Commissions and fee expenses (Note 2)	388,906	427,296	(9)
Net commissions and fees	1,387,977	1,368,841	1
Gain on financial assets and liabilities at fair value through profit or loss (Notes 2 and 6)	523,656	20,137	2,500
Realized gain on available-for-sale financial assets (Note 2)	(87,540)	60,147	(246)
Investment income recognized under the equity method, net (Notes 2 and 11)	162,717	90,714	79
Foreign exchange gain (loss), net (Note 2)	(267,240)	238,789	(212)
Impairment losses, net (Notes 2, 15 and 16)	(174,402)	(291,916)	(40)
Gain on unquoted equity investments (Note 2)	51,204	29,757	72
Gain on investments with no active market	-	18,858	(100)
Gain on disposal of collaterals assumed, net	28,849	712	3,952
Securities brokerage fee revenues, net (Note 26)	54,530	69,975	(22)
Amortization of loss on disposal of nonperforming loans (Note 15)	-	(965,261)	100
Other noninterest net revenues (expenses) (Note 26)	38,782	3,786	924
Total net revenues other than interest	1,718,533	644,539	167
Total net revenues	7,429,613	7,306,892	2
PROVISION (Note 8)			
Provision (reversal) of allowance for doubtful accounts	(647,490)	121,500	(633)
OPERATING EXPENSES			
Personnel expenses (Notes 2, 21 and 23)	2,425,680	2,346,886	3
Depreciation and amortization (Notes 2 and 23)	259,551	301,954	(14)
Others (Note 26)	2,351,676	2,315,172	2
Total operating expenses	5,036,907	4,964,012	1
INCOME BEFORE INCOME TAX	3,040,196	2,221,380	37
INCOME TAX EXPENSE (Notes 2 and 24)	426,615	394,765	8
NET INCOME	$ 2,613,581	$ 1,826,615	43

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UNION BANK OF TAIWAN

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2012		2011	
	Before Tax	**After Tax**	**Before Tax**	**After Tax**
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 25)				
Basic	$ 1.66	$ 1.41	$ 1.18	$ 0.95
Diluted	$ 1.50	$ 1.29	$ 1.10	$ 0.90

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

(With Deloitte & Touche audit report dated March 20, 2013) (Concluded)

UNION BANK OF TAIWAN

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2012 AND 2011
(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 (Notes 2 and 21)	Total	Total Stockholders' Equity
BALANCE, JANUARY 1, 2011	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 the 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
Appropriation of the 2011 earnings																
Legal reserve	-	-	-	-	-	-	-	547,985	-	(547,985)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	(266,264)	266,264	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	-	(757,451)	(757,451)	-	-	-	-	(757,451)
Stock dividends	77,940	779,400	-	-	-	-	-	-	-	(779,400)	(779,400)	-	-	-	-	-
Net income in 2012	-	-	-	-	-	-	-	-	-	2,613,581	2,613,581	-	-	-	-	2,613,581
Conversion of preferred stock	282,089	2,820,894	(282,089)	(2,820,894)	-	-	-	-	-	-	-	-	-	-	-	-
Change in unrealized loss on available-for-sale finance assets	-	-	-	-	-	-	-	-	-	-	-	567,745	-	-	567,745	567,745
Change in recognition of equity-method investments	-	-	-	-	-	-	-	-	-	-	-	12,918	-	-	12,918	12,918
Change in net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	-	-	-	(27,436)	(27,436)	(27,436)
Change in translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(300,615)	-	(300,615)	(300,615)
BALANCE, DECEMBER 31, 2012	2,006,020	$ 20,060,202	20,420	$ 204,194	$ 1,398	$ 32,413	$ 33,811	$ 900,963	$ 608,209	$ 2,621,624	$ 4,130,796	$ 413,490	$ (564,137)	$ (204,951)	$ (355,598)	$ 24,073,405

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

(With Deloitte & Touche audit report dated March 20, 2013)

UNION BANK OF TAIWAN

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2,613,581	$ 1,826,615
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	259,551	301,954
Provision (reversal) of allowance for doubtful accounts	(647,490)	122,734
Amortization of premium on available-for-sale financial assets	21,791	38,575
Amortization of premium on held-to-maturity investments	6,092	18,815
Amortization of discount on no-active market debt instruments	(192,843)	(316,053)
Valuation loss (gain) on financial assets and liabilities at fair value through profit or loss	(20,623)	72,865
Realized loss (gain) on sale of available-for-sale financial assets	123,842	(19,847)
Investment income recognized under the equity method, net	(162,717)	(90,714)
Cash dividends received from equity-method investees	82,363	25,611
Gain on sale of financial assets carried at cost	(109)	-
Gain on sale of debt instruments with no active market	-	(18,858)
Impairment losses on assets, net	174,402	291,916
Amortization of loss from disposal of nonperforming loans	-	965,261
Gain on disposal of collaterals assumed, net	(28,849)	(712)
Loss (gain) on disposal of property and equipment, net	18,290	(674)
Loss on the obsolescence of property and equipment	849	810
Deferred income taxes	366,072	223,403
Changes in operating assets and liabilities		
Held-for-trading financial assets	129,476	(2,572,520)
Receivables	1,527,635	1,621,777
Held for trading financial liabilities	(3,968)	3,942
Payables	423,401	2,008,406
Accrued pension cost	(1)	(1,056)
Net cash provided by operating activities	4,690,745	4,502,250
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in due from the Central Bank and other banks	26,402,855	(40,457,492)
Increase in financial assets designated as at fair value through profit or loss	(38,671)	(2,671,739)
Increase in securities purchased under resell agreements	(21,513,327)	(212,126)
Increase in discounts and loans	(10,982,052)	(1,048,064)
Proceeds of the disposal of available-for-sale financial assets	16,615,128	3,496,832
Capital return on available-for-sale financial assets	740,000	983,000
Acquisition of available-for-sale financial assets	(19,653,276)	(6,085,181)
Capital return on held-to-maturity investments	544,917	2,005,929
Acquisition of held-to-maturity investments	(50,166)	(52,125)
Proceeds of the disposal of no active market debt instruments	-	4,309,903
Proceeds of the disposal of financial assets carried at cost	183	-
Proceeds of the capital reduction of investees	1,999	2,130

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UNION BANK OF TAIWAN

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars)

	2012	2011
Principal received on debt instruments with no active market	$ 31,712,618	$ 18,181,193
Acquisition of debt instruments with no active market	(30,668,329)	(16,000,380)
Decrease (increase) in other financial assets	(2,613,854)	1,334,936
Acquisition of property and equipment	(59,758)	(87,915)
Proceeds of the disposal of property and equipment	89,456	785
Proceeds of the disposal of collaterals assumed	186,192	215,683
Increase in other assets	(39,701)	(60,558)
Net cash used in investing activities	(9,325,786)	(36,145,189)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in call loans and due to banks	(1,891,819)	(3,280,090)
Increase (decrease) in securities sold under repurchase agreements	(6,232,824)	925,247
Increase in deposits and remittances	14,642,226	33,151,056
Increase in other financial liabilities	61,113	19,825
Increase (decrease) in other liabilities	19,997	(28,429)
Issuance of bank debentures	1,500,000	2,000,000
Decrease in bank debentures	(1,190,000)	(2,000,000)
Cash dividends	(757,451)	-
Net cash provided by financing activities	6,151,242	30,787,609
EFFECT OF EXCHANGE RATE CHANGES	(336,536)	301,644
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	1,179,665	(553,686)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,390,592	8,944,278
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 9,570,257	$ 8,390,592
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 3,463,568	$ 2,800,638
Income tax paid	$ 218,643	$ 191,962

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

(With Deloitte & Touche audit report dated March 20, 2013) (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.

As of December 31, 2012, 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 88 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, 2012 and 2011, the Bank had 3,207 and 3,111 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: Short-term bills - at prices quoted by Reuters; 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.

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 Doubtful Accounts and for Losses on Guarantees

In determining the allowances for doubtful accounts 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 doubtful accounts 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 doubtful accounts 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 doubtful accounts.

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 and Securities Trading 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.

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."

4. CASH AND CASH EQUIVALENTS

	December 31	
	2012	**2011**
Cash on hand	$ 4,492,417	$ 3,730,621
Checks for clearing	4,028,087	3,635,427
Due from banks	1,049,753	1,024,544
	$ 9,570,257	$ 8,390,592

5. DUE FROM THE CENTRAL BANK AND OTHER BANKS

	December 31	
	2012	**2011**
Due from the Central Bank		
Deposit reserve - checking account	$ 4,448,931	$ 7,343,378
Required deposit reserve	8,786,279	8,408,101
Deposit reserve - foreign-currency deposits	43,704	30,290
Deposit account in Central Bank	62,100,000	86,000,000
	$ 75,378,914	$ 101,781,769

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	
	2012	**2011**
Financial assets held for trading		
Commercial paper	$ 5,138,492	$ 3,575,646
Government bonds	51,190	51,983
Domestic quoted stocks	7,984	98,257
Corporate bonds	-	50,735

(Continued)

	December 31	
	2012	2011
Negotiable certificates of deposit	$ -	$ 1,512,400
Forward exchange contracts	67,305	110,757
Currency swap contracts	7,646	8,033
Option contracts	908	997
	5,273,525	5,408,808
Financial assets designated as at fair value through profit or loss		
Corporate bonds	2,821,369	2,758,735
	$ 8,094,894	$ 8,167,543
Financial liabilities held for trading		
Forward exchange contracts	$ 25,890	$ 32,292
Option contracts	908	997
Currency swap contracts	619	563
	$ 27,417	$ 33,852

(Concluded)

The Bank engaged in derivative transactions in 2012 and 2011 mainly to accommodate customers' needs and manage its exposure positions. The financial risk management objective 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, 2012 and 2011 were as follows:

	December 31	
	2012	2011
Currency swap contracts	$ 17,637,175	$ 15,762,905
Forward exchange contracts	4,844,779	9,271,383
Option contracts		
Buy	560,277	503,266
Sell	560,277	503,266

The gains or losses on financial assets and liabilities at fair value through profit or loss in 2012 and 2011 were as follows:

	2012	2011
Net gain on financial assets at fair value through profit or loss	$ 33,735	$ 123,034
Net gain (loss) on financial liabilities at fair value through profit or loss	489,921	(102,897)
Gain, net	$ 523,656	$ 20,137
Realized gain	$ 503,033	$ 93,002
Unrealized gain (loss)	20,623	(72,865)
Gain, net	$ 523,656	$ 20,137

The financial instruments at fair value through profit or loss amounting to $4,562,768 thousand and $3,677,469 thousand as of December 31, 2012 and 2011, respectively, had been sold under repurchase agreements.

7. RECEIVABLES, NET

	December 31	
	2012	2011
Accounts receivable	$ 12,113,187	$ 13,480,088
Asset-backed commercial paper	599,283	1,561,672
Interest receivable	581,758	605,686
Interbank clearing fund receivable	500,700	300,685
Acceptances receivable	142,674	106,760
Income tax refund receivable	100,493	145,259
Collection receivable	69,127	64,244
Receivable on disposal of property and equipment	-	138,783
Others	188,995	15,062
	14,296,217	16,418,239
Less: Allowance for doubtful accounts	172,094	1,331,578
	$ 14,124,123	$ 15,086,661

8. DISCOUNTS AND LOANS, NET

	December 31	
	2012	2011
Discounts and overdraft	$ 73,213	$ 87,178
Accounts receivable - financing	58,594	99,528
Loans		
Short-term - unsecured	16,717,632	15,163,198
- secured	38,572,309	35,873,027
Medium-term - unsecured	11,337,976	8,511,019
- secured	29,309,204	27,165,831
Long-term - unsecured	5,620,513	5,964,654
- secured	101,959,901	99,023,101
Import and export negotiations	38,132	117,814
Overdue loans	371,879	601,434
	204,059,353	192,606,784
Less: Allowance for doubtful accounts	2,225,915	1,926,791
	$ 201,833,438	$ 190,679,993

As of December 31, 2012 and 2011, the balances of nonaccrual loans were $371,879 thousand and $601,434 thousand, respectively. The unrecognized interest revenues on nonperforming loans were $5,661 thousand in 2012 and $13,334 thousand in 2011.

In 2012 and 2011, 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, 2012	**December 31, 2012**
With objective evidence of impairment	Assessed individual impairment	$ 2,634,534	$ 237,867
	Assessed collective impairment	493,839	119,960
With no objective evidence of impairment	Assessed collective impairment	201,396,518	1,868,088

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 $280,698 thousand and acceptances receivable amounting to $142,674 thousand, guarantee payments receivable of $39,947 thousand and bills of exchange negotiated of $2,219 thousand.

Receivables

Items		Gross Receivables	Allowance for Possible Losses
		December 31, 2012	**December 31, 2012**
With objective evidence of impairment	Assessed individual impairment	$ 1,563,932	$ 16,553
	Assessed collective impairment	2,283,054	131,326
With no objective evidence of impairment	Assessed collective impairment	9,611,146	24,215

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 $280,698 thousand, acceptances receivable amounting to $142,674 thousand, refundable income tax of $100,493 thousand, interest receivable of $215,752 thousand on financial assets and liabilities, non-delivery receivable of $49,944 thousand, guarantee payments receivable of $39,947 thousand, option payments receivable of $7,709 and others amounting to $868 thousand.

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	$ 141,133
	Assessed collective impairment	639,371	179,015
With no objective evidence of impairment	Assessed collective impairment	189,273,888	1,606,643

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

<table>
<tr><th colspan="2" rowspan="2">Items</th><th>Gross Receivables</th><th>Allowance for Possible Losses</th></tr>
<tr><th>December 31, 2011</th><th>December 31, 2011</th></tr>
<tr><td rowspan="2">With objective evidence of impairment</td><td>Assessed individual impairment</td><td>$ 2,132,606</td><td>$ 1,032,924</td></tr>
<tr><td>Assessed collective impairment</td><td>2,745,424</td><td>246,000</td></tr>
<tr><td>With no objective evidence of impairment</td><td>Assessed collective impairment</td><td>10,805,448</td><td>52,654</td></tr>
</table>

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.

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

	2012	2011
Balance, beginning of year	$ 3,258,369	$ 3,149,862
Provision (reversal)	(736,490)	121,500
Write-off	(1,174,681)	(1,013,709)
Recovery of written-off credits	1,040,524	1,009,770
Reclassifications	11,122	(9,857)
Effects of exchange rates changes	(835)	803
Balance, end of year	$ 2,398,009	$ 3,258,369

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2012	2011
Corporate bonds	$ 4,331,243	$ 2,393,246
Government bonds	2,151,382	2,707,520
Mutual funds	1,336,890	904,568
Overseas quoted stocks	1,032,966	742,383
Commercial paper	797,499	-
Domestic quoted stocks	587,176	769,179
	$ 10,237,156	$ 7,516,896

The available-for-sale financial assets amounting to $3,665,224 thousand and $4,254,626 thousand as of December 31, 2012 and 2011, respectively, had been sold under repurchase agreements.

10. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31 2012	December 31 2011
Government bonds	$ 556,316	$ 664,350
Corporate bonds	199,980	399,871
Asset-based securities	55,576	248,794
	$ 811,872	$ 1,313,015

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

11. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31			
	2012		2011	
	Amount	Holding Ratio (%)	Amount	Holding Ratio (%)
Union Finance and Leasing International Corporation	$ 875,475	100.00	$ 806,789	100.00
Union Security Investment Trust Corporation	127,382	35.00	121,178	35.00
Union Finance International (H.K.) Limited	77,952	99.99	80,941	99.99
Union Real-Estate Management Corporation	54,490	40.00	66,721	40.00
Union Insurance Broker Company	33,884	100.00	24,793	100.00
Union Information Technology Corporation	13,232	99.99	14,372	99.99
	$ 1,182,415		$ 1,114,794	

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

	Years Ended December 31 2012	Years Ended December 31 2011
Union Finance and Leasing International Corporation	$ 144,432	$ 62,941
Union Security Investment Trust Corporation	6,204	5,033
Union Finance International (H.K.) Limited	(8,873)	2,566
Union Real-Estate Management Corporation	(823)	12,676
Union Insurance Broker Company	22,917	15,969
Union Information Technology Corporation	(1,140)	(8,471)
	$ 162,717	$ 90,714

On the available-for-sale financial assets held by the Bank's subsidiaries, the unrealized gain of $12,918 thousand in 2012 and the unrealized loss of $22,523 thousand in 2011 were included in stockholders' equity.

12. FINANCIAL ASSETS CARRIED AT COST

	December 31	
	2012	2011
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	108,346	110,419
	$ 448,378	$ 450,451

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	
	2012	2011
Asset-based securities	$ 43,871,572	$ 44,723,018

The no-active market debt instruments amounting to $28,334,744 thousand and $37,547,378 thousand as of December 31, 2012 and 2011, respectively, had been sold under repurchase agreements.

14. PROPERTY AND EQUIPMENT

	December 31	
	2012	2011
Cost	$ 10,450,643	$ 10,556,562
Less: Accumulated depreciation		
Buildings	953,995	848,000
Machinery and equipment	1,236,472	1,247,404
Transportation equipment	235,678	229,498
Leasehold improvements	311,496	287,770
	2,737,641	2,612,672
Prepayments for equipment	-	12,811
Net property and equipment	$ 7,713,002	$ 7,956,701

15. OTHER ASSETS

	December 31	
	2012	2011
Deferred tax assets, net (Note 24)	$ 2,841,035	$ 3,145,535
Prepayments	147,790	132,119
Collaterals assumed, net	100,608	297,951
Deferred charges	97,431	138,523
Other	1,242	809
	$ 3,188,106	$ 3,714,937

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. As of December 31, 2011, the total deferred loss on nonperforming loans had been amortized. Had the losses not been deferred, the pretax income would have increased by $965,261 thousand in 2011.

As of December 31, 2011, the remaining payments of $138,783 thousand on the above transaction had not been received from MSUB. As of December 31, 2012, the remaining payments had been received.

After evaluating the net fair value of the collaterals assumed, the Bank recognized impairment losses of $40,000 thousand in 2012 and $37,140 thousand in 2011.

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 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 $134,402 thousand in 2012 and $254,776 thousand in 2011. As of December 31, 2012 and 2011, the balances of accumulated impairment were $902,691 thousand and $768,289 thousand, respectively.

17. CALL LOANS AND DUE TO OTHER BANKS

	December 31	
	2012	2011
Due to Chunghwa Post Co., Ltd.	$ 4,817,779	$ 6,972,990
Call loans from banks	262,224	-
Overdraft	24,272	10,774
Due to the Central Bank and other banks	11,162	23,492
	$ 5,115,437	$ 7,007,256

18. PAYABLES

	December 31 2012	December 31 2011
Notes and checks in clearing	$ 4,028,087	$ 3,635,427
Interest payable	712,664	813,803
Accrued expenses	401,203	477,025
Collection payable	176,140	154,184
Bank acceptances payable	142,876	108,719
Accounts payable on wire transfers received	117,878	67,440
Provision for payment to the Bank's check	100,685	67,929
Domestic fund payable	85,774	1,120
Accounts payable	49,941	-
Dishonored accounts payable	43,770	44,578
Tax payable	43,726	163,344
Others	367,959	313,733
	$ 6,270,703	$ 5,847,302

19. DEPOSITS AND REMITTANCES

	December 31 2012	December 31 2011
Savings deposits	$ 224,501,376	$ 213,217,552
Time deposits	60,572,834	61,012,350
Demand deposits	46,814,381	43,028,473
Checking deposits	4,591,171	4,356,838
Negotiable certificates of deposit	787,900	1,033,900
Inward and outward remittances	131,474	107,797
	$ 337,399,136	$ 322,756,910

20. BANK DEBENTURES

	December 31 2012	December 31 2011	Term
First subordinated bank debentures issued in 2006 - class A	$ -	$ 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	2,000,000	Fixed interest rate of 2.78%; maturity: June 2018
First subordinated bank debentures issued in 2012	1,500,000	-	Fixed interest rate of 2.32%; maturity: March 2019
	$ 5,200,000	$ 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 $90,991 thousand in 2012 and $88,298 thousand in 2011.

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 $53,709 thousand in 2012 and $43,628 thousand in 2011.

Information on the defined benefit plan is as follows:

a. Components of net periodic pension cost

	Year Ended December 31	
	2012	2011
Service cost	$ 19,153	$ 19,011
Interest cost	22,711	22,441
Projected return on plan assets	(11,748)	(10,697)
Amortization		
Prior service cost	(511)	(519)
Loss of pension cost	24,104	16,865
Curtailment or settlement gain	-	(3,473)
Net periodic pension cost	$ 53,709	$ 43,628

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

	December 31	
	2012	2011
Benefit obligation		
Vested benefit obligation	$ (161,020)	$ (126,789)
Non-vested benefit obligation	(673,033)	(623,080)
Accumulated benefit obligation	(834,053)	(749,869)
Additional benefits based on future salaries	(420,107)	(390,111)
Projected benefit obligation	(1,254,160)	(1,139,980)
Fair value of plan assets	623,900	567,150
Funded status	(630,260)	(572,830)
Unrealized net prior service cost	(3,833)	(4,344)
Unrecognized net loss	628,890	571,970
Additional liability	(204,951)	(177,515)
Accrued pension cost (included in other liabilities)	$ (210,154)	$ (182,719)
Vested benefits	$ (175,724)	$ (140,119)

c. Actuarial assumptions as of December 31, 2012 and 2011

	December 31	
	2012	**2011**
Discount rate used in determining present values	1.75%	2.00%
Future salary increase rate	3.00%	3.00%
Expected rate of return on plan assets	1.75%	2.00%

	Year Ended December 31	
	2012	**2011**
d. Contributions to the fund	$ 53,710	$ 44,038
e. Payments from the fund	$ (5,915)	$ (16,410)

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 stock after six years from the issuance date at the price of the issuance amount plus unpaid accumulated dividends.

On December 19, 2012, the board of directors approved the conversion of 282,089 thousand shares of preferred private-placement shares into private-placement common stock. The conversion amount was $2,820,894 thousand and the record date for conversion was December 31, 2012. After the conversion, the preferred stock decreased from $3,025,088 thousand to $204,194 thousand, and the amount of common shares increased from $17,239,308 thousand to $20,060,202 thousand.

b. Capital surplus

The capital surplus from shares issued in excess of par (additional paid-in capital from issuance of common shares and treasury stock transactions) and donations may be used to offset a deficit; in addition, when the Bank has no deficit, this capital surplus may be distributed in cash or capitalized within a certain percentage of the Bank's paid-in capital.

The capital surplus from long-term investments, employee stock options and conversion options 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) Together with prior year's unappropriated earnings: Dividends;

4) The remainder:

    a) Retained earnings, as deemed proper;

    b) Employees' bonus of at least 10% (excluding prior year's unappropriated earnings);

    c) The remainder: 0.5% as remuneration to directors and supervisors (excluding prior year's unappropriated earnings) and bonus to stockholders as approved by the stockholders.

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 principle, when the Bank of International Settlement ratio is lower than the ratio approved by the authorities plus 1%, primarily stock dividends will be declared. If the legal reserve has not reached the Bank's paid-in capital, cash dividends are limited to 15% of the Bank's paid-in capital. The plan on employees' bonus and remuneration to directors and supervisors is proposed by the board of directors.

For 2012, the bonus to employees was estimated at $44,485 thousand and the remuneration to directors and supervisors was estimated at $2,224 thousand. The bonus to employees and remuneration to directors and supervisors represented 10% and 0.5%, respectively, of net income (net of the bonus and remuneration). Material differences between these estimates and the amounts proposed by the Board of Directors in the following year are adjusted for in the current year. 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. If a share bonus is resolved to be distributed to employees, the number of shares is determined by dividing the amount of the share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting.

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 of earnings for 2011 and 2010 that were approved in the stockholders' meetings on June 22, 2012 and June 9, 2011, respectively, were as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	For Year 2011	**For Year 2010**	**For Year 2011**	**For Year 2010**
Legal reserve	$ 547,985	$ 352,978		
Special reserve	(266,264)	823,616		
Cash dividends on preferred shares	757,451	-	$ 0.6	$ -
Stock dividends on common shares	658,396	-	0.4	-
Stock dividends on preferred shares	121,004	-	0.4	-

The appropriations of the 2012 earnings were proposed by the board of directors on March 20, 2013. The appropriations, including the dividends per share, were as follows:

	Appropriation of Earnings	**Dividends Per Share (NT$)**
Legal reserve	$ 784,074	
Special reserve	(201,754)	
Cash dividends on preferred shares	181,042	$ 0.60
Stock dividends on common shares	1,839,520	0.917
Stock dividends on preferred shares	18,725	0.917

The 2012 appropriations of earnings, bonus to employees and remuneration to directors and supervisors will be presented to the stockholders in their meeting on June 14, 2013.

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

Appropriation of earnings to legal reserve should be made until the legal reserve equals the Bank's paid-in capital. This reserve may be used to offset a deficit. If the Bank has no deficit and 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 2010, 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

	2012	2011
Personnel expenses		
Salaries and wages	$ 1,661,448	$ 1,568,821
Bonus and rewards	414,765	453,740
Labor insurance and national health insurance	185,477	175,387
Pension	144,700	131,926
Other	19,290	17,012
	$ 2,425,680	$ 2,346,886
Depreciation	$ 192,156	$ 219,776
Amortization	$ 67,395	$ 82,178

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	
	2012	2011
Income tax expense at the statutory rate	$ 516,833	$ 377,635
Tax effect of adjusting items:		
Permanent differences		
Tax-exempt income	(89,125)	(340,028)
Others	(33,988)	(8,774)
Temporary differences	42,145	65,296
Loss carryforwards used	(435,865)	(94,129)
Additional income tax under the Alternative Minimum Tax Act	58,822	191,030
Current income tax expense	58,822	191,030
Deferred income tax expense		
Temporary differences	(50,128)	(44,520)
Investment tax credits	-	6,424
Loss carryforwards produced	436,298	142,124
Other adjustment in valuation allowance	(20,098)	119,375
Adjustments for prior years' tax	1,721	(19,668)
	$ 426,615	$ 394,765

Deferred income tax assets (liabilities) were as follows:

	December 31	
	2012	2011
Loss carryforwards	$ 2,867,403	$ 3,303,701
Investment tax credit	1,200	3,082
Reserve for default	-	452
Unrealized loss on collaterals assumed	22,717	15,917
Impairment loss on financial assets	164,105	164,105
Allowance for doubtful accounts	201,417	201,575

(Continued)

	December 31	
	2012	2011
Unrealized valuation gain on derivative instruments	$ (7,264)	$ (13,285)
Investment loss under the equity method	2,238	729
Amortization of goodwill	(325,855)	(344,266)
Unrealized exchange gains or losses	8,078	(6,771)
Accrued pension cost	(1,261)	(1,261)
Allowance for losses on guarantees	3,148	-
Cumulative translation adjustments	115,546	53,974
	3,051,472	3,377,952
Less: Allowance for valuation of deferred income tax assets	210,437	232,417
Net deferred income tax assets (included in other assets)	$ 2,841,035	$ 3,145,535

(Concluded)

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

As of December 31, 2012, 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	$ 1,200	$ 1,200	2013

Loss carryforwards as of December 31, 2012 comprised the following:

Unused Amount	Expiry Year
$ 2,054,611	2016
7,360,995	2017
3,598,322	2018
3,654,973	2019
198,174	2020
$ 16,867,075	

The Bank's income tax returns through 2008 had been examined and cleared by the tax authorities.

As of December 31, 2012 and 2011, the balances of the imputation credits allocable to the stockholders were $300,853 thousand and $386,199 thousand, respectively.

The creditable ratios for the distribution of earnings of 2012 and 2011 were 11.47% (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 2012 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
2012					
Basic EPS	$ 3,040,196	$ 2,613,581			
Less: Preferred dividends	(181,043)	(181,043)			
Basic EPS					
Income for the year attributable to common stockholders	2,859,153	2,432,538	1,724,702	$ 1.66	$ 1.41
Effect of potential dilutive convertible preferred stock	181,043	181,043	301,738		
Bonus to employees	-	-	4,422		
Diluted EPS	$ 3,040,196	$ 2,613,581	2,030,862	$ 1.50	$ 1.29
2011					
Basic EPS	$ 2,221,380	$ 1,826,615	1,723,931		
Less: Preferred dividends	(181,505)	(181,505)			
Basic EPS					
Income for the year attributable to common stockholders	2,039,875	1,645,110		$ 1.18	$ 0.95
Effect of potential dilutive convertible preferred stock	181,505	181,505	302,509		
Diluted EPS	$ 2,221,380	$ 1,826,615	2,026,440	$ 1.10	$ 0.90

The ARDF issued Interpretation 2007-052, which requires companies to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If the Bank may settle the bonus to employees by cash or shares, the Bank should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. The dilutive effect of the potential shares should be included in the calculation of diluted EPS until the stockholders resolve the number of shares to be distributed to employees at their meeting in the following year.

The weighted average number of shares outstanding for EPS calculation has been retroactively adjusted for the issuance of employee stock bonuses distributed out of earnings for the year ended December 31, 2011 and stock dividends. This adjustment caused the basic and diluted after income tax EPS for the year ended December 31, 2011 to decrease from NT$1.00 to NT$0.94 and from NT$0.96 to NT$0.90, respectively.

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 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
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
Others	Directors, supervisors, managers, and their relatives and affiliates.

b. Significant transactions with related parties:

1) Loans

December 31, 2012

Type	Account Volume or Name	Highest Balance in the Year Ended December 31, 2012	Ending Balance	Loan Classification: Normal Loans	Loan Classification: Nonperforming Loans	Collaterals	Differences in Terms of Transaction with Those for Unrelated Parties
Consumer loans	1	$ 450	$ 450	$ 450	$ -	-	None
Self-used housing mortgage loans	11	63,607	62,315	62,315	-	Real estate	None
Other loans	Union Finance and Leasing International Corporation	2,062,486	2,044,926	2,044,926	-	Land, building and time deposit	None

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		Interest Revenue		
	Amount	%	Rate	Amount	%
2012	$ 2,107,691	1.04	1.20%-3.23%	$ 40,455	0.44
2011	1,620,784	0.85	1.02%-3.82%	34,181	0.36

2) Deposits

	December 31		Interest Expense		
	Amount	%	Rate	Amount	%
2012	$ 2,422,662	0.72	0%-4.85%	$ 12,411	0.36
2011	3,899,528	1.21	0%-4.76%	28,561	0.99

3) Guarantees and letters of credit

December 31, 2012

Name	Highest Balance in the Year Ended December 31, 2012	Ending Balance	Balance of Guarantees and Letters of Credit (Note)	Rate	Collateral
Union Recreation Enterprise Corporation	$ 122,199	$ 54,899	$ -	0.3%-0.5%	Time deposits
The Liberty Times Co., Ltd.	18,723	10,923	-	0.05%	Land and buildings
Long Shan Lin Corporation	71,040	71,040	-	0.3%	Time deposits

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

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

4) Securities brokerage fees

	Year Ended December 31	
	Amount	**%**
2012	$ 4,013	7.36
2011	2,821	4.03

5) 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 (included in other operating expenses).

6) 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**	**%**
2012				
Yu-Pang	$ 454,290	6.42	$ 14,821	0.63
Hung-Kuo	218,760	3.09	100,675	4.28
Yong-Xuan	13,649	0.19	57,514	2.45
UECC	4,384	0.06	9,266	0.39
UFLIC	-	-	3,447	0.15

(Continued)

	Lease Deposit (Included in Other Financial Assets)		Rental Expense (Included in Other Operating Expense)	
	Amount	%	Amount	%
2011				
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

(Concluded)

The Bank rented cars for business use from UFLIC; the rental expenses were $9,094 thousand in 2012 and $7,495 thousand in 2011. Rentals payable as of December 31, 2012 and 2011 were $107 thousand and $64 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 $912 thousand in 2012 and $1,131 thousand in 2011. The lease deposits received (included in other financial liabilities) were both $227 thousand in 2012 and 2011.

7) 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. As of December 31, 2012, the total proceeds of the sale had been received (refer to Note 15).

8) Available-for-sale financial assets

As of December 31, 2012 and 2011, the Bank had purchased 97,878 thousand and 48,344 thousand units, respectively, of beneficial certificates issued by USITC, which amounted to $1,213,996 thousand and $554,130 thousand, respectively.

9) UIT sold computers, related material and software and provided network service to the Bank. The related purchase and service fee in 2012 and 2011 were $82,682 thousand and $90,638 thousand, respectively.

10) The Bank provided insurance consulting service and sales assistance to UIB. The commission and fee revenues were $161,213 thousand in 2012 and $145,951 thousand in 2011. The commission revenues on insurance premium (included in commissions and fee revenue) were $310,225 thousand in 2012 and $173,825 thousand in 2011.

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	
	2012	2011
Salaries	$ 18,153	$ 17,499
Incentives	4,994	3,877
Traveling fare	1,626	1,732
Special compensation	480	480
Car rental and oil subsidy	2,745	2,486
Remuneration to directors and supervisors	2,224	-
	$ 30,222	$ 26,074

27. PLEDGED ASSETS

As of December 31, 2012 and 2011, government bonds and bank debentures, which amounted to $158,200 thousand and $179,800 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, 2012 and 2011, negotiable certificates of deposit, which amounted to $5,000,000 thousand and $2,500,000 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 1.37% in 2012 and 1.08% in 2011. Future minimum lease payments are as follows:

Year	Amount
2013	$ 408,437
2014	340,230
2015	239,435
2016	125,151
2017	79,256

The present value of total rentals of $356,122 thousand for beyond 2018 is about $332,863 thousand, discounted at the Bank's one-year time deposit interest rate of 1.36% on December 31, 2012.

b. Computer equipment purchase contracts

The Bank had contracts to buy computer equipment and software for $45,676 thousand, of which $29,217 thousand had been paid as of December 31, 2012.

c. Securities sold under repurchase agreements

As of December 31, 2012, securities with a total cost of $28,289,349 thousand were sold under agreements for repurchase between January 2013 and April 2013. 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, 2012, securities with a total cost of $21,764,953 thousand were purchased under agreements to resell for $21,774,630 thousand in January 2012.

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

Balance Sheet of Trust Accounts
December 31, 2012

Trust Assets	Amount	Trust Liabilities and Capital	Amount
Bank deposits	$ 4,051,339	Income tax payable	$ 86
Investments		Marketable securities payable	7,955,499
Mutual funds	35,157,618	Trust capital	49,256,059
Common stock	147,580	Reserve and deficit	(82,301)
Short-term bills and securities purchased under resell agreements	91,839		
Accounts receivable	2,645		
Stock in custody	7,955,499		
Real estate - land and building	9,722,823		
Total	$ 57,129,343	Total	$ 57,129,343

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

Trust Income Statement
Year Ended December 31, 2012

	Amount
Trust income	
Interest revenue - demand accounts	$ 1,566
Interest revenue - time deposits	6,500
Interest revenue - short-term bills and securities purchased under resell agreements	368
Cash dividend	9,102
Realized capital gain - fund	44
Income from beneficial certificates	371
Total trust income	17,951
Trust expense	
Management expense	3,754
Custodian fee	8
Taxation	100,988
Realized capital loss - fund	278
Other	26,768
Total trust expense	131,796
Loss before tax	(113,845)
Income tax expense	(1,880)
Loss after tax	(115,725)
Unrealized capital gain - GTSM stock	40,586
Unrealized capital gain - fund	1,107
Unrealized capital loss - GTSM stock	(867)
Unrealized capital loss - fund	(477)
Net loss	$ (75,376)

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

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 dividends	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

(Continued)

	Amount
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)

(Concluded)

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

Trust Property and Equipment Accounts
December 31, 2012

Investment Portfolio	Amount
Bank deposits	$ 4,051,339
Investments	
Mutual funds	35,157,618
Common stock	147,580
Short-term bills and securities purchased under resell agreements	91,839
Accounts receivable	2,645
Stock in custody	7,955,499
Real estate - land and buildings	9,722,823
	$ 57,129,343

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

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.

	2012	
	Average Balance	**Average Rate (%)**
Interest-earning assets		
Cash and cash equivalents	$ 880,436	0.81
Due from the Central Bank and other banks	93,239,726	0.82
Financial assets at fair value through profit or loss	13,746,317	0.68
Securities purchased under resell agreements	6,848,497	0.76
Discounts and loans	197,865,711	2.61
Accounts receivable - credit card	9,738,705	10.22
Available-for-sale financial assets	9,910,148	0.91
Held-to-maturity investments	1,162,516	1.82
No-active market debt instruments	41,879,763	4.60
Interest-bearing liabilities		
Call loans and due to other banks	475,277	0.10
Due to Chunghwa Post Co., Ltd.	5,733,631	1.39
Securities sold under repurchase agreements	34,652,859	0.69
Demand deposits	42,960,345	0.16
Savings - demand deposits	87,001,222	0.29
Time deposits	59,691,231	1.26
Time-savings deposits	132,276,231	1.41
Negotiable certificates of deposit	925,177	0.74
Bank debentures	5,367,022	2.52

	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

(Continued)

	2011	
	Average Balance	Average Rate (%)
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

(Concluded)

30. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments

	December 31			
	2012		2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Financial assets at fair value through profit or loss	$ 8,094,894	$ 8,094,894	$ 8,167,543	$ 8,167,543
Available-for-sale financial assets	10,237,156	10,237,156	7,516,896	7,516,896
Other short-term financial assets	120,737,754	120,737,754	125,365,389	125,365,389
Discounts and loans, net	201,833,438	201,833,438	190,679,993	190,679,993
Held-to-maturity financial assets	811,872	822,838	1,313,015	1,328,865
Financial assets carried at cost	448,378	-	450,451	-
No-active market debt instruments	43,871,572	44,238,804	44,723,018	44,569,296
Other financial assets	7,071,901	7,071,901	4,457,747	4,457,747
Liabilities				
Financial liabilities at fair value through profit or loss	27,417	27,417	33,852	33,852
Other short-term financial liabilities	39,763,237	39,763,237	47,321,184	47,321,184
Deposits	337,267,662	337,267,662	322,649,113	322,649,113
Bank debentures	5,200,000	5,360,295	4,890,000	5,023,408
Other financial liabilities	398,965	398,965	337,852	337,852

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 doubtful accounts.

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			
	2012		2011	
	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	$ 7,984	$ 8,086,910	$ 98,257	$ 8,069,286
Available-for-sale financial assets	2,957,032	7,280,124	2,416,130	5,100,766
Held-to-maturity investments	-	822,838	-	1,328,865
No-active market debt instruments	-	44,238,804	-	44,569,296
Financial liabilities				
Financial liabilities at fair value through profit or loss	-	27,417	-	33,852

The fair value hierarchy of the Bank's financial instruments as of December 31, 2012 was as follows:

	December 31, 2012			
	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	$ 7,984	$ 7,984	$ -	$ -
Debt instruments	51,190	-	51,190	-
Commercial paper	5,138,492	-	5,138,492	-
Financial assets designated as at FVTPL on initial recognition	2,821,369	-	2,821,369	-
Available-for-sale financial assets				
Stock	1,620,142	1,620,142	-	-
Debt instruments	6,482,625	-	6,482,625	-
Beneficial certificates	1,336,890	1,336,890	-	-
Commercial paper	797,499	-	797,499	-
Held-to-maturity financial assets	822,838	-	822,838	-
No-active market debt instruments	44,238,804	-	44,238,804	-
Derivative financial instruments				
Assets				
Financial assets at FVTPL	75,859	-	74,951	908
Liabilities				
Financial liabilities at FVTPL	27,417	-	26,509	908

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 2012 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	$ 35,079	$ (79)	$ -	$ -	$ (35,000)	$ -	$ -
Derivative financial assets	997	3,751	14,423	-	(18,263)	-	908

Other information on financial liabilities in level 3 in 2012 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	$ 997	$ 3,987	$ 16,790	$ -	$ (20,866)	$ -	$ 908

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 $12,622 thousand in 2012 and $39,842 thousand in 2011.

As of December 31, 2012 and 2011, the interest income (expense) associated with financial assets (liabilities) other than those at FVTPL was as follows:

	Years Ended December 31	
	2012	**2011**
Total interest income	$ 9,022,020	$ 9,496,704
Total interest expense	3,405,966	2,884,122

For the changes in fair value of available-for-sale financial assets, the Bank recognized in stockholders' equity the unrealized gains of $443,903 thousand in 2012 and the unrealized losses of $279,927 thousand in 2011, of which $123,842 thousand losses and $19,847 thousand gains, 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, 2012 and 2011, the ratios of secured loans to total loans were 83.43% and 84.49%, respectively, and the ratio of secured financial guarantees and standby letters of credits to the totals of these two financial instruments were 30.19% and 37.53%, 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 1.2% to 6.25% in 2012 and from 1.40% to 7.25% in 2011, 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, 2012 and 2011 were as follows:

	December 31	
	2012	**2011**
Credit commitments for credit cards	$ 173,760,513	$ 172,680,945
Guarantees and standby letters of credit	10,430,665	10,223,821
Irrevocable loan commitments	68,082	900,303

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, 2012 and 2011. The Bank's most significant concentrations of credit risk as of December 31, 2012 and 2011 are summarized as follows:

	Carrying Amount	
Credit Risk Profile	**December 31**	
by Counter-party	**2012**	**2011**
Consumer	$ 145,359,545	$ 140,643,383
Private sector	45,556,201	39,922,216
Government	2,390,000	-
	$ 193,305,746	$ 180,565,599

Credit Risk Profile by Industry Sector	December 31, 2012	Credit Risk Profile by Industry Sector	December 31, 2011
Real estate activities	$ 15,985,398	Real estate activities	$ 14,658,821
Manufacturing	8,089,026	Manufacturing	6,022,603
Commercial	7,964,168	Commercial	7,450,261
	$ 32,038,592		$ 28,131,685

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

3) Liquidity risk

As of December 31, 2012 and 2011, the liquidity reserve ratios were 29.02% and 29.97%, 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, 2012					
	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	$ 9,067,257	$ 105,000	$ 192,000	$ 206,000	$ -	$ 9,570,257
Due from the Central Bank and other banks	67,432,762	990,351	1,062,282	2,310,065	3,583,454	75,378,914
Financial assets at fair value through profit or loss	5,239,486	15,745	674	1,995	2,836,994	8,094,894
Securities purchased under resell agreements	21,468,366	296,587	-	-	-	21,764,953
Receivables	5,520,507	2,342,462	2,118,221	3,473,428	841,599	14,296,217
Discounts and loans	9,034,493	19,028,321	17,617,586	32,479,304	125,899,649	204,059,353
Available-for-sale financial assets	199,999	1,224,295	383,261	899,621	7,529,980	10,237,156
Held-to-maturity investments	5,399	-	199,980	302,410	304,083	811,872
No active market debt instruments	-	-	-	-	43,871,572	43,871,572
	117,968,269	24,002,761	21,574,004	39,672,823	184,867,331	388,085,188
Liabilities						
Call loans and due to banks	297,658	-	2,000,000	2,817,779	-	5,115,437
Financial liabilities at fair value through profit or loss	22,952	1,492	1,066	1,907	-	27,417
Securities sold under repurchase agreements	16,221,773	12,057,475	10,101	-	-	28,289,349
Payables	4,857,018	878,223	397,704	117,207	20,551	6,270,703
Deposits and remittance	35,819,872	40,497,492	50,791,156	86,248,816	124,041,800	337,399,136
Bank debentures	-	-	-	-	5,200,000	5,200,000
	57,219,273	53,434,682	53,200,027	89,185,709	129,262,351	382,302,042
Net liquidity gap	$ 60,748,996	$ (29,431,921)	$ (31,626,023)	$ (49,512,886)	$ 55,604,980	$ 5,783,146

	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

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		Year	December 31, 2012	
			Union Bank	**Consolidated**
Eligible capital	Tier 1 capital		$ 20,240,171	$ 20,997,525
	Tier 2 capital		4,391,214	4,915,689
	Tier 3 capital		-	-
	Eligible capital		24,631,385	25,913,214
Risk-weighted assets	Credit risk	Standardized approach	172,264,571	179,355,942
		Internal ratings-based approach	-	-
		Securitization	2,173,343	2,210,034
	Operational risk	Basic indicator approach	15,472,424	17,483,587
		Standardized approach/alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standardized approach	6,945,775	7,214,938
		Internal model approach	-	-
	Risk-weighted assets		196,856,113	206,264,501
Capital adequacy ratio			12.51	12.56
Ratio of Tier 1 capital to risk-weighted assets			10.28	10.18
Ratio of Tier 2 capital to risk-weighted assets			2.23	2.38
Ratio of Tier 3 capital to risk-weighted assets			-	-
Ratio of common stock to total assets			4.93	4.88
Leverage ratio			5.06	5.20

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			Union Bank (December 31, 2011)	Consolidated (December 31, 2011)
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

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, 2012				Year Ended December 31, 2011			
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	U Group - real estate	$ 2,408,700	10.01	1	A Group - real estate	$ 2,602,304	11.85
2	A Group - real estate	2,306,916	9.58	2	D Group - real estate	2,411,150	10.98
3	N Group - real estate	2,119,000	8.80	3	U Group - real estate	2,397,075	10.92
4	B Group - other financial intermediary	2,044,926	8.49	4	N Group - real estate	2,072,000	9.44
5	F Group - chemical materials	1,960,864	8.15	5	C Group - real estate	1,724,612	7.86
6	X Group - retail	1,501,908	6.24	6	X Group - retail	1,638,163	7.46
7	D Group - real estate	1,181,000	4.91	7	T Group - real estate	924,800	4.21
8	E Group - real estate	1,152,420	4.79	8	Z Group - real estate	820,000	3.74
9	Z Group - real estate	820,000	3.41	9	K Group - real estate	579,736	2.64
10	O Group - financial intermediary	688,000	2.86	10	H Group - retail	553,800	2.52

b. Interest rate sensitivity

Interest Rate Sensitivity
December 31, 2012

(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	$ 285,236,204	$ 4,243,624	$ 11,034,045	$ 21,536,626	$ 322,050,499
Interest rate-sensitive liabilities	168,682,395	104,566,385	45,123,288	9,436,810	327,808,878
Interest rate sensitivity gap	116,553,809	(100,322,761)	(34,089,243)	12,099,816	(5,758,379)
Net worth					15,289,353
Ratio of interest rate-sensitive assets to liabilities					98.24%
Ratio of interest rate sensitivity gap to net worth					(37.66%)

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%

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, 2012

(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	$ 600,787	$ 225,589	$ 702,778	$ 571,266	$ 2,100,420
Interest rate-sensitive liabilities	1,225,443	384,610	215,731	-	1,825,784
Interest rate sensitivity gap	(624,656)	(159,021)	487,047	571,266	274,636
Net worth					339,675
Ratio of interest rate-sensitive assets to liabilities					115.04%
Ratio of interest rate sensitivity gap to net worth					80.85%

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%)

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		2012	2011
Return on total assets	Before income tax	0.76	0.58
	After income tax	0.65	0.48
Return on net worth	Before income tax	13.21	10.56
	After income tax	11.35	8.69
Profit margin		35.18	25.00

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, 2012 and 2011.

2) Maturity analysis of assets and liabilities:

Maturity Analysis of Assets and Liabilities
December 31, 2012

(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	$ 351,438,091	$ 121,287,411	$ 15,978,962	$ 21,982,257	$ 48,479,282	$ 143,710,179
Main capital outflow on maturity	418,077,679	52,926,430	37,072,989	41,111,671	87,531,111	199,435,478
Gap	(66,639,588)	68,360,981	(21,094,027)	(19,129,414)	(39,051,829)	(55,725,299)

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)

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, 2012

(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	$ 2,685,330	$ 888,349	$ 165,742	$ 227,493	$ 719,749	$ 683,997
Capital outflow on maturity	2,685,243	979,123	261,768	487,250	617,426	339,676
Gap	87	(90,774)	(96,026)	(259,757)	102,323	344,321

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

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. 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.

35. SEGMENT INFORMATION

The Bank has disclosed the segment information in the consolidated financial statements. Therefore, the Bank's financial statements herewith do not disclose this information.

36. SIGNIFICANT FOREIGN-CURRENCY FINANCIAL ASSETS AND LIABILITIES

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

	2012			2011		
	Foreign Currencies (Thousands)	**Exchange Rate**	**New Taiwan Dollars (Thousands)**	**Foreign Currencies (Thousands)**	**Exchange Rate**	**New Taiwan Dollars (Thousands)**
Financial assets						
Monetary items						
USD	$ 1,961,256	29.136	$ 57,143,155	$ 1,940,326	30.29	$ 58,772,475
JPY	4,797,220	0.3375	1,619,062	5,363,695	0.3903	2,093,450
GBP	4,685	46.9818	220,110	5,857	46.7678	273,919
AUD	55,611	30.2665	1,683,150	40,754	30.7746	1,254,188
HKD	121,956	3.7586	458,384	96,228	3.8983	375,126
CAD	8,785	29.2971	257,375	7,916	29.6815	234,959
CNY	19,557	4.6797	91,521	-	-	-
SGD	595	23.8292	14,178	1,122	23.3179	26,163
ZAR	688,714	3.4289	2,361,531	398,710	3.7211	1,483,640
CHF	638	31.9334	20,373	805	32.2063	25,926
THB	149	0.9517	142	41	0.9595	39
NZD	31,906	23.9323	763,584	40,887	23.4142	957,336
EUR	15,093	38.6081	582,712	19,690	39.2104	772,053

(Continued)

	2012			2011		
	Foreign Currencies (Thousands)	**Exchange Rate**	**New Taiwan Dollars (Thousands)**	**Foreign Currencies (Thousands)**	**Exchange Rate**	**New Taiwan Dollars (Thousands)**
<u>Financial liabilities</u>						
Monetary items						
USD	$ 1,612,062	29.136	$ 46,969,038	$ 1,604,490	30.29	$ 48,600,002
JPY	4,888,821	0.3375	1,649,977	5,910,282	0.3903	2,306,783
GBP	4,672	46.9818	219,499	5,846	46.7678	273,405
AUD	55,511	30.2665	1,680,124	40,802	30.7746	1,255,665
HKD	121,668	3.7586	457,301	96,229	3.8983	375,130
CAD	8,774	29.2971	257,053	8,113	29.6815	240,806
CNY	17,473	4.6797	81,768	-	-	-
SGD	565	23.8292	13,463	1,077	23.3179	25,113
ZAR	689,108	3.4289	2,362,882	398,817	3.7211	1,484,038
CHF	614	31.9334	19,607	780	32.2063	25,121
NZD	31,968	23.9323	765,068	40,892	23.4142	957,453
EUR	18,129	38.6081	699,926	19,646	39.2104	770,328

(Concluded)

UNION BANK OF TAIWAN

ENDORSEMENTS/GUARANTEES PROVIDED
YEAR ENDED DECEMBER 31, 2012
(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$ 16,431	$ 400,000	$ 400,000	$ 400,000	1.99	US$ 16,431

UNION BANK OF TAIWAN

MARKETABLE SECURITIES HELD
DECEMBER 31, 2012
(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, 2012				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	$ 8,035	0.06%	$ 8,035	Note 4
	Photronics Semiconductor Mask Corp.	-	Available-for-sale financial assets	536	7,048	0.18%	7,048	Note 4
	China Chemical Corporation	-	Available-for-sale financial assets	356	7,377	0.11%	7,377	Note 4
	Union Capital (Cayman) Corp.	Subsidiary	Equity investment - equity method	50	US$ 16,431	100.00%	US$ 16,431	Note 1
	New Asian Ventures Ltd.	Subsidiary	Equity investment - equity method	-	US$ 2,488	100.00%	US$ 2,488	Note 1
	WI Harper Group	-	Unquoted equity instruments	283	1,867	3.33%	2,340	Note 1
	ERA Communications Co., Ltd.	-	Unquoted equity instruments	425	1,415	0.33%	6,675	Note 1
	Yung Li Securities Co., Ltd.	-	Unquoted equity instruments	1	166	0.99%	166	Note 1
	Schmidt Technology Co., Ltd.	-	Unquoted equity instruments	63	-	0.29%	581	Note 1
	Bond							
	Taiwan Life Insurance Co., Ltd.	-	Financial assets designated as at fair value through profit or loss	500	53,760	-	53,760	-
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	2,382	23,240	15.88%	33,859	Note 3
	eBizServe, Inc.	-	Unquoted equity instruments	236	654	0.78%	68	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$ 820	-	US$ 820	-
	Penn West Energy	-	Available-for-sale financial assets	29	US$ 315	-	US$ 315	-
	Stock							
	ING Group N.V.	-	Available-for-sale financial assets	33	US$ 828	-	US$ 828	Note 4
	WMI Holdings	-	Available-for-sale financial assets	18	US$ 15	-	US$ 15	Note 4
	Apple Computer Inc.	-	Financial assets at fair value through profit or loss	3	US$ 1,551	-	US$ 1,551	Note 4
	Merck & Co., Inc.	-	Financial assets at fair value through profit or loss	12	US$ 479	-	US$ 479	Note 4
	EBAY Inc.	-	Financial assets at fair value through profit or loss	14	US$ 697	-	US$ 697	Note 4
	Penn West Energy	-	Financial assets at fair value through profit or loss	110	US$ 1,195	-	US$ 1,195	Note 4

(Continued)

Holding Company	Type and Issuer/Name of Marketable Securities	Issuer's Relationship with Holding Company	Financial Statement Account	December 31, 2012				Note
				Shares/Piece/Units (In Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Beneficial certificates							
	Global Emerging Markets Debt Fund	-	Financial assets at fair value through profit or loss	4	US$ 447	-	US$ 447	Note 4
New Asian Ventures Ltd.	Stock							
	Grace Thw Holding Limited	-	Unquoted equity instruments	1,667	US$ 2,000	0.81%	US$ 1,986	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, 2012.

Note 2: New Asian Ventures Ltd.:

Grace Thw Holding Limited - unaudited stockholders equity as of December 31, 2012.

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

ELTA Technology Co., Ltd. and eBizServe, Inc. - unaudited stockholders' equity as of December 31, 2012.

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)

UNION BANK OF TAIWAN

ASSET QUALITY
DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars, %)

Period			December 31, 2012					December 31, 2011				
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		$ 323,397	$ 58,108,625	0.56%	$ 925,882	269.84%	$ 400,865	$ 55,975,921	0.72%	$ 772,445	176.69%
	Unsecured		19,728	27,054,953	0.07%			36,301	23,550,123	0.15%		
Consumer banking	Housing mortgage (Note 4)		81,984	103,226,414	0.08%	1,122,258	1,368.87%	171,979	99,904,119	0.17%	970,379	564.24%
	Cash card		10,207	231,347	4.41%	19,912	195.08%	29,672	352,450	8.42%	53,017	178.68%
	Small scale credit loans (Note 5)		27,511	5,273,628	0.52%	57,334	208.40%	41,041	3,136,699	1.31%	47,569	115.91%
	Other (Note 6)	Secured	13,461	8,062,332	0.17%	100,529	700.60%	9,894	7,333,885	0.13%	83,381	701.09%
		Unsecured	888	1,184,432	0.07%			1,999	1,250,498	0.16%		
Deposits and remittances	Certificates of deposit		-	917,622	-	-	-	-	1,103,089	-	-	-
Loan			477,176	204,059,353	0.23%	2,225,915	466.48%	691,751	192,606,784	0.36%	1,926,791	278.54%
			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			42,387	11,716,689	0.36%	155,540	366.95%	36,116	13,374,834	0.27%	298,653	826.93%
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

Items / Types	December 31, 2012		December 31, 2011	
	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)	$ 191,300	$ 810,621	$ 261,682	$ 1,103,340
Amounts of discharged and executed contracts on clearance of consumer debts not reported as nonperforming loans and receivables (Note 2)	74,289	1,037,923	62,089	1,085,042
Total	265,589	1,848,544	323,771	2,188,382

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, 2012
(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	Total		
								Shares (Thousands)	Percentage of Ownership	
Financial-related										
Union Finance and Leasing International Corporation	Taipei	Installment, leasing and accounts receivable factoring	100.00%	$ 875,475	$ 144,432	70,000		70,000	100.00%	Note
Union Finance International (HK) Limited	Hong Kong	Import and export accommodation	99.99%	77,952	(8,873)	30,000		30,000	100.00%	Note
Union Securities Investment Trust Corporation	Taipei	Securities investment trust	35.00%	127,382	6,204	13,096		13,096	43.65%	Note
Union Insurance Broker Company	Taipei	Personal insurance agency	100.00%	33,884	22,917	500		500	100.00%	Note
Taiwan Asset Management Corporation	Taipei	Purchase, sell and manage nonperforming loans from financial institution	0.57%	100,000	7,594	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	696	386		386	6.44%	
Taipei Forex Inc.	Taipei	Foreign exchange brokering	0.81%	2,113	512	160		160	0.81%	
Union Information Technology Corporation	Taipei	Software and hardware product retail and distribution services	99.99%	13,232	(1,140)	1,000		1,000	99.99%	Note
Financial Information Service Co., Ltd.	Taipei	Information service	2.39%	118,782	28,013	10,774		10,774	2.39%	
Taiwan Depository & Clearing Corporation	Taipei	Financial service	0.25%	13,916	1,169	799		799	0.25%	
Taiwan Futures Exchange Co., Ltd.	Taipei	Futures clearing	2.04%	71,250	12,460	5,676		5,676	2.04%	
Nonfinancial-related										
Union Real-Estate Management Corporation	Taipei	Construction plan review and consulting	40.00%	54,490	(823)	4,000		4,000	80.00%	Note
Fu Hua Venture Corporation	Taipei	Investments	5.00%	23,926	-	3,000		3,000	5.00%	
Jiao Da Venture Corporation	Taipei	Investment	5.00%	2,826	-	594		594	5.00%	
Li Yu Venture Corporation	Taipei	Investment	4.76%	6,437	-	855		855	4.76%	
Lian An Service Corporation	Taipei	Security service	5.00%	1,501	112	125		125	5.00%	
Taiwan Power Corporation	Taipei	Electricity-related business	0.0012%	6,124	-	395		395	0.0012%	
Global Communication Semiconductor, Inc.	U.S.A.	Semiconductor business	0.76%	9,185	39	278		278	0.76%	

Note: The investees' information shown above is based on audited financial reports as of December 31, 2012.