Stock Code：2886

Mega Financial Holding Co., Ltd.

Annual Report 2011

Website：http://www.megaholdings.com.tw

Mega Financial Holding Co., Ltd.　Annual Report 2011

Mega Holdings

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Credit Rating Agency

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Tel: +886-2-8722-5800

Moody's Investors Service Hong Kong Limited
Address: 24/F One Pacific Place, 88 Queensway, Admiralty, Hong Kong
Tel: +852-3758-1300

Auditors

PricewaterhouseCoopers Taiwan
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C O N T E N T S

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Letter to Shareholders

Letter to Shareholders


Yeou-Tsair Tsai, Chairman

During the past year, global economy had witnessed a treacherous and uncertain world, which was hit by the March 11 earthquake in northeastern Japan, the downgrade of the US sovereign credit rating, the lingering European sovereign debt crisis, and the floods in the Southeast Asia. As a consequence, the global economic outlook drastically changed to gloomy in the second half of the year from optimistic about seeing the end of the financial tsunami in the first half of the year. Some international leading economic institutions have made many downward revisions on global economic outlook and have predicted a slower economic growth in 2012. According to a forecast made by IMF in April 2012, the global economic growth will decline from 5.3% in 2010 to 3.9% in 2011 and then to 3.5% in 2012.

In the first half of 2011, the domestic economy grew steadily thanks to a global economic upturn. During the second half of the year, however, the industrial production for the fourth quarter turned into a negative growth owing to the continued decrease of external trade growth affected by the extending and lingering European sovereign debt crisis. Furthermore, the consumer prices rose modestly, the New Taiwan Dollar appreciated, and unemployment rate decreased. According to the statistics by Directorate-General of Budget, Accounting and Statistics, Executive Yuan, R.O.C. in April 2012, the 2011 annual economic growth rate of Taiwan was estimated at 4.04%. Looking into 2012, a year of global economic slowdown, the IMF has made a forecast in April that the growth rate of the global trade volume will reduce from 5.8% last year to 4.0% this year, which will inevitably affect export growth of Taiwan. To avoid a decline in domestic demand due to an unfavorable external environment, the Taiwanese government initiated an all-in-one economic stimulus package and made every effort to implement related policies, hoping to effectively boost domestic demand and stabilize economic growth. According to a forecast made by Directorate-General of Budget, Accounting and Statistics, Executive Yuan, R.O.C. in April 2012, the economic growth rate of Taiwan for the year 2012 is estimated at 3.38%, and per capita GDP at USD 20,859.

Despite the changeable and rigid external environments, Mega Financial Holding Company (the Company) and its subsidiaries as a whole were able to generate another record high profit seen in recent years with excellent asset quality, outperforming their peers in the sector. In 2011, the Company posted consolidated net profit after taxes of NTD 17,686 million, an increase of 16.74% from the previous year, and an EPS after taxes of NTD 1.57, attaining top industry ranking. The operation results of the Company in 2011 are shown below:

Letter to Shareholders

1.1 Review of Business Operations in 2011

1.1.1 Global and Domestic Financial Environment

During the first half of 2011, advanced economies such as the US, Japan and the Eurozone saw an slowdown in economic growth. And in the second half of the year, owing to the dispersing European sovereign debt crisis, the US sovereign debt ceiling disputes, and the absence of prompt decision-making by the governments, a drastic fluctuation in the global financial market was finally triggered in mid-July. As a result, the industry witnessed a stock market slump, a credit squeeze, and a volatile foreign exchang market. These are unfavorable to enterprises' capital expenditure and consumer spending. The global economy, therefore, saw a significant drop in its growth momentum.

Kuang-Si Shiu, President

As an effort to reduce inflation expectations, the Central Bank of Taiwan raised interest rates by 0.125 percentage points at the end of March and June 2011, respectively. These brought the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral to 1.875%, 2.25%, and 4.125% p.a., respectively. In view of global economic uncertainties, falling inflationary expectations, and low interest rates, the Central Bank of Taiwan announced at the end of September and December that the current policy interest rates would be maintained. This will help stabilize consumer prices and financial market.

1.1.2 Organization Integration

As of the end of 2011, the number of subsidiary companies, in which the Company has direct controlling interest, remains the same as it was in 2010. The subsidiary companies are Mega International Commercial Bank Co., Ltd., Mega Securities Co., Ltd., Mega Bills Finance Co., Ltd., Chung Kuo Insurance Co., Ltd., Mega International Investment Trust Co., Ltd., Mega Asset Management Co., Ltd., Mega Life Insurance Agency Co., Ltd. and Mega Venture Capital Co., Ltd.

1.1.3 Business Operations of the Subsidiaries

According to the Financial Holding Company Act, the business scope of a Financial Holding Company shall be limited to investment in, and management of, its investee enterprise(s). In 2011, the subsidiaries of the Company continued to strengthen their business operations upon the current achievement. The operation results of our subsidiaries are summarized as follows:

Mega International Commercial Bank

Corporate banking

Mega International Commercial Bank ranked 3rd in Taiwan's syndicated loan market with 8.44% of market share. By the end of 2011, the corporate loans business captured the fourth position among local banks, with a market share of 7.41%. Loans extended to small and medium sized enterprises had a market share of 6.58%, ranked 7th among local banks.

Consumer banking and wealth management

Mega International Commercial Bank had mortgage loans outstanding reaching NTD 153.8 billion by the end of 2011, down 18.95% from the previous year. The Group generated NT$2,118 million in wealth management fee income in 2011, up 7.87% from the previous year. Listed below is the average volume of its business:

Units: NT$ million, except foreign exchange in US$ million

Item \ Year	2011	2010	Change (%)
Deposits	1,520,738	1,507,253	0.89
Loans	1,398,950	1,267,281	10.39
Foreign exchange undertaken (US$)	761,823	675,766	12.73
Securities purchased	233,580	309,660	(24.57)
Long-term equity investments	28,281	28,202	0.28
Trust assets	256,508	266,709	(3.82)
Corporate financing	1,125,006	1,009,983	11.39
Consumers financing (Note 2)	273,944	257,298	6.47

Note : 1. The amounts in the table are average outstanding volume except foreign exchang.
2. Consumers financing excludes credit card loans.

Asset Quality

The non-performing loans outstanding at the end of 2011 amounted to NTD 3,563 million, representing a non-performing loan ratio of 0.24%, lower than the overall average for Taiwanese domestic banks of 0.43% as disclosed by the FSC. The bank's bad debt coverage ratio was 428.13%, higher than the overall average of 251.83%.

Mega Bills Finance Co., Ltd.

Mega Bills Finance Co., Ltd. topped the industry in the issuance, and guarantee, of commercial paper, with a market share of 31.25% and 36.85%, respectively. Bills trading in secondary markets also held the first position, with a market share of 36.24%. Bond trading had a market share of 33.19%, also topped the industry. As shown in the table below, the company's business volume in underwriting and purchase of bills rose 4.35%, while guaranteed issues of commercial paper grew 8.06% in 2011. The company's operating volume in 2011 is shown as follows:

Units: NT$ million

Item	2011	2010	Change (%)
Underwriting and purchase of bills	1,803,100	1,727,995	4.35
Guaranteed issues of commercial paper	1,606,140	1,486,351	8.06
Dealing in bills	9,740,259	8,983,444	8.42
Dealing in bonds	5,981,968	7,254,244	(17.54)
Average outstanding amount of guaranteed issues of commercial paper	124,587	114,724	8.60
Payments for overdue credits	0	101	(100.00)
Percentage of payments for overdue credits (%)	0	0.09	(100.00)

Mega Securities Co., Ltd. (MSC)

Mega Securities Co., Ltd. achieved a market share of 3.36% in securities brokerage, raking 10th in the local securities market. The company issued 995 warrants in total, ranked 9th in the market. The issue amount of warrants amounted to NTD 11.6 billion, ranked 10th in the market. The company's operating volume in 2011 is shown in the following table:

	Item	2011	2010	Change (%)
Securities brokerage	Market share	3.36%	3.53%	(4.82)
Equity underwriting	Number of initial public offering lead managed by MSC	4 issues	6 issues	(33.33)
	Number of subsequent public offering lead managed by MSC	6 issues	11 issues	(45.45)
Bonds underwriting	Number of issues	4 issues	3 issues	33.33
	Amount	NT$ 12.0 billion	NT$ 10.0 billion	20.00
New financial products	Number of warrants issued	995 issues	718 issues	38.58
	Amount of warrants issued	NT$ 11.6 billion	NT$ 12.0 billion	(3.33)

Chung Kuo Insurance Co., Ltd.

Chung Kuo Insurance Company's direct written premiums grew 3.57% to NTD 5,458 million, in 2011, with inward reinsurance premiums up 1.22%. The company's operating performance in 2011 is shown as follows:

Unit: NT$ million

Item	2011	2010	Change (%)
Direct written premiums	5,458	5,270	3.57
Inward reinsurance premiums	664	656	1.22
Total	6,122	5,926	3.31

Mega International Investment Trust Co., Ltd.

Unit: NT$ million

Item	2011	2010	Change (%)
Public funds under management	75,934	68,246	11.27
Private funds under management	69	79	(12.66)
Discretionary Account	105	100	5.00
Total	76,108	68,425	11.23

Mega Asset Management Co., Ltd.

Unit: NT$ million

Item	2011	2010	Change (%)
Gain from disposal of NPL and the underlying collateral	496	573	(13.44)
Other revenues	191	71	1,690.14
Total	687	644	6.68

Mega Venture Capital Co., Ltd.

Unit: NT$ million

Item	2011	2010	Change (%)
Drawdown of long term equity investment	305	306	(0.33)
Original cost of long term equity investment	927	909	1.98

Mega Life Insurance Agency Company Co., Ltd.

Unit: NT$ million

Item	2011	2010	Change (%)
Commission income	606	371	63.34

1.1.4 Budget Implementation

The Company

Unit: NT$1,000, except EPS in NT$

Item	Final accounting figure, 2011	Budget figure, 2011	Implemented (%)
Revenues	18,401,766	17,148,946	107.31
Expenses and losses	717,461	741,235	96.79
Net income before tax from continuing Operations	17,684,305	16,407,711	107.78
Net income	17,679,892	16,162,933	109.39
Earning per share	1.57	1.43	109.79

The Company's Subsidiary

Unit: NT$1,000

Name of subsidiary	Net income before tax - actual	Net income before tax - budget	Implemented (%)
Mega International Commercial Bank Co., Ltd.	17,469,821	14,579,892	119.82
Mega Securities Co., Ltd.	(150,593)	1,741,760	-
Mega Bills Finance Co., Ltd.	3,138,103	2,778,964	112.92
Chung Kuo Insurance Co., Ltd.	282,962	453,567	62.39
Mega Asset Management Co., Ltd.	529,001	481,963	109.76
Mega Life Insurance Agency Company Co., Ltd.	103,868	62,553	166.05
Mega Venture Capital Co., Ltd.	(87,908)	81,467	-
Mega International Investment Trust Co., Ltd.	145,027	131,982	109.88

Mega Securities posted a net loss before tax of NTD 150,593 thousand in 2011, primarily due to the poor stock market performance affected by the earthquake disaster in Japan, credit rating downgrade of the European and US bonds.

Chung Kuo Insurance attained only 62.39% of its budget in 2011 since its financial operations failed to generate a target profit.

Mega Venture Capital recorded a net loss before tax of NTD 87,908 thousand in 2011 owing to a drop in capital gain on disposal of investment, and recognition of impairment loss for investments.

1.1.5 Financial Results

The consolidated net income before tax for 2011, of the Company and its subsidiaries, amounted to NTD 21,116 million, an increase of NTD 2,476 million, or 13.28%, from the year before. In 2011, net interest income increased NT$3,215 million from the preceding year mainly due to growth in loan volume. The net non-interest income also rose NT$125 million compared to the previous year. Bad debts expenses on loans and operating expenses increased by NTD 864 million. The consolidated net income after tax for 2011 reached NTD 17,686 million, an increase of NTD 2,536 million, or 16.74%, compared to the figure posted in 2010. The return on total assets improved slightly, in 2011, to 0.69% on a consolidated basis, while the return on shareholders' equity reached 8.75% compared with 7.62% in 2010. A breakdown of the financial results of the Company and its subsidiaries in 2011 are shown in the table below:

Unit: NT$ thousand, except EPS in NT$

Company	Net Income Before Tax	Net Income After Tax	Earnings Per Share	Net Income Ratio (%)	Return on Total Assets (%)	Return on Shareholders' Equity (%)
Mega FHC & Its Subsidiaries	21,115,504	17,685,682	1.57	38.66*	0.69	8.75
Mega FHC (Unconsolidated)	17,684,305	17,679,892	1.57	96.08	7.72	8.76
Mega International Commercial Bank Co., Ltd.	17,469,821	15,007,858	2.21	40.55*	0.67	9.36
Mega Securities Co., Ltd.	(150,593)	(370,929)	(0.32)	(9.30)	(0.93)	(2.61)
Mega Bills Finance Co., Ltd.	3,138,103	2,682,302	2.05	66.93*	1.23	8.24
Chung Kuo Insurance Co., Ltd.	282,962	237,612	0.79	6.53	1.57	5.09
Mega Asset Management Co., Ltd.	529,001	433,223	2.17	63.56	3.81	16.58
Mega Life Insurance Agency Co., Ltd.	103,868	86,206	43.10	14.23	53.77	86.60
Mega Venture Capital Co., Ltd.	(87,908)	(89,356)	(0.89)	(37.98)	(10.73)	(10.90)
Mega International Investment Trust Co., Ltd.	145,027	120,706	2.29	34.78	12.47	14.25

Note: 1.*Net income ratio = Net income after tax / Net revenue
2. Return on assets = Net income after tax / Average total assets; Return on equity = Net income after tax / Average shareholders' equity

1.1.6 Research and Development

The Company and its subsidiaries' research and development progress in 2011 are summarized as follows:

A. The Company

- Assessing the feasibility of merger or acquisition of other financial institutions
- Carrying out the IFRS Project – Phase 1: differences analysis and Phase 2: design and installment

B. Bank subsidiary

- Publishing the Mega Bank Monthly, which includes monographs and articles covering the latest international and domestic economic and financial news and is made public periodically on the bank's website
- Submitting periodical and non-periodical research reports on the development of the global economic and financial situations

C. Securities subsidiary

- Installing a FortunEngine warrant trading platform to provide warrant trading information to the clients
- Developing a superb research and management team, and continue enhancing employees' training to upgrade professional expertise and the quality of market research reports
- Completing the Phase I project of the IFRS compliance plan: the revision of the accounting system, management accounting system and budgeting system

D. Bills subsidiary

- Promoting the municipal treasury bills business
- Developing a system program simulating the effects of changes in major business on capital adequacy ratio
- Planning to engage in option side of asset swap business

E. Non-life insurance subsidiary

- Developing a total of 276 new insurance products in 2011, including one "Prior Approval" product, 158 "Use and File" products, and 117 "Simple File" products
- Developing Insurance Broker Bond, which was approved by the competent authority and launched in October 2011, and officially launching Healthy Family Daily Hospitalization Indemnity of Health Insurance on November 1, 2011

F. Investment trust subsidiary

- Offering one overseas funds, namely, the Mega Global Consumer Fund
- Promoting the smart monthly investment plans to encourage investors to engage in long-term investment

1.2 Business Plan for 2012

1.2.1 Operating Guidelines

- Maintaining the existing customers' relations and upgrading the persistency rate of products and services
- Accelerating the internationalization process to raise the proportion of overseas profits
- Integrating various subsidiaries' risk management information platforms to enhance the Group risk management information system
- Continuing introducing IFRS and enhancing operation and management efficiency
- Strengthening information security management to comply with the newly enacted Personal Information Protection Act
- Enhancing human resource management to increase organizational effectiveness and create maximum value for shareholders
- Strengthening relations with institutional investors
- Fulfilling the energy-saving and carbon emission reduction policy and enhancing group purchase to save administrative expenses
- Engaging actively in social welfare activities to fulfill the corporate social responsibility and boost corporate image
- Integrating the Group's property to raise overall assets utilization efficiency

1.2.2 Business Objectives

We strive to maintain stable profitability and leadership in the market so as to consolidate the Group's position as a leading financial institution in Taiwan. Our business objectives for 2012 are as follows:

Unit: millions of NT dollars, except foreign exchange-in millions US dollars

Business	Item	Budget for 2012
Banking	Average outstanding deposits	1,554,005
	Average outstanding loans	1,456,217
	Undertaking of foreign exchange	813,600
Bills Finance	Underwriting and purchasing bills	1,783,287
	Trading volume of bills and bonds	14,556,137
	Average outstanding amount of guaranteed issues of commercial paper	122,812
Securities	Market share of brokerage	3.8%
Insurance	Combined Ratio	95.41%
	Retention Ratio	49.64%

1.2.3 Major Operational Policies

Based on its solid foundation, the Group will consolidate corporate banking business, strengthen risk management, reinforce cross selling, and further its international operations to upgrade the proportion of overseas profits. Also, the bank subsidiary will make every endeavor to play the leading role in the RMB business layout.

1.3 Future Development Strategies

- Envisioning the world with a focus on the Asia Pacific region
- Securing the competitive advantage of corporate banking and foreign exchange business
- Expanding consumer banking and wealth management business
- Reinforcing cross selling to enhance the Group's synergy
- Lowering cost to boost operating performance
- Optimizing capital allocation to lift capital efficiency
- Integrating information systems to share information services among the Company's subsidiaries
- Strengthening risk management practices and systems

1.4 Impact from External Competition, Rules and Regulations, and the Overall Operation Environment

(1) In 2011, domestic banks again posted another record high profit. As required by the competent authority to raise loan coverage ratio to 1% and increase provision for industries in financial difficulties, domestic banks' overall NPL coverage ratio and loan coverage ratio reached a historic record high of 251.83% and 1.09%, respectively. At the same time, domestic banks have seen another record low NPL ratio of 0.43%. We believe that a gradual increase in funding cost and the normalization of loan interest rate will facilitate a healthier competition among domestic banks.

(2) The enforcement of Financial Consumer Protection Act in December 2011 officially opened up a new era in the consumer financial protection in Taiwan. The official launch of the Financial Ombudsman Institution is expected to facilitate a fast, effective, and fair disputes management between the banks and consumers.

1.5 Credit Ratings

As of the end of 2011, the Company and its subsidiaries retained the same credit rating as granted in 2010. Set forth below are the summary of our credit ratings:

Company	Credit Rating Agency	Long-Term	Short-Term	Outlook	Date of Issuance
Mega Financial Holding Company	Taiwan Ratings Corp.	twAA-	twA-1+	Stable	Dec. 8, 2011
	Moody's	A3	-	Stable	Nov. 24, 2011
Mega International Commercial Bank	Taiwan Ratings Corp.	twAA+	twA-1+	Stable	Oct. 3, 2011
	Moody's	A1	P-1	Stable	Nov. 25, 2011
	S & P	A	A-1	Stable	Oct. 3, 2011
	Fitch	AA (twn)	F1+ (twn)	Stable	Oct. 21, 2011
		A-	F2	Stable	Oct. 21, 2011
Mega Bills Finance Co., Ltd.	Taiwan Ratings Corp.	twAA	twA-1+	Stable	Oct. 3, 2011
Mega Securities Co., Ltd.	Taiwan Ratings Corp.	twAA-	twA-1+	Stable	Oct. 3, 2011
Chung Kuo Insurance Co., Ltd.	Taiwan Ratings Corp.	twAA-	-	Stable	Oct. 3, 2011
	Moody's	A3	-	Stable	Nov. 18, 2011
	S & P	BBB+	-	Stable	Oct. 3, 2011

In the next couple of years, world economy is likely to lose its growth momentum as advanced countries continue to fight deteriorating double deficits and unemployment after undergoing the global financial tsunami in 2008. The European debt crisis, which is identified as a long-term structural problem, is not likely to end in the short-term and will surely continue to impact global economy and financial market. Looking into the future, the financial industry is likely to face a more rigid and unforeseeable environment. Adhering to the principle of stable growth, the Company will make every endeavor to control risk adequately, and pursue continuous business expansion, in the hope of creating maximum interests for all shareholders. Meanwhile, the Company looks forward to your continuous support and advice.

Chairman of the Board

President

Company Profile

Company Profile

2.1 Date of Incorporation: February 4, 2002

2.2 Company History

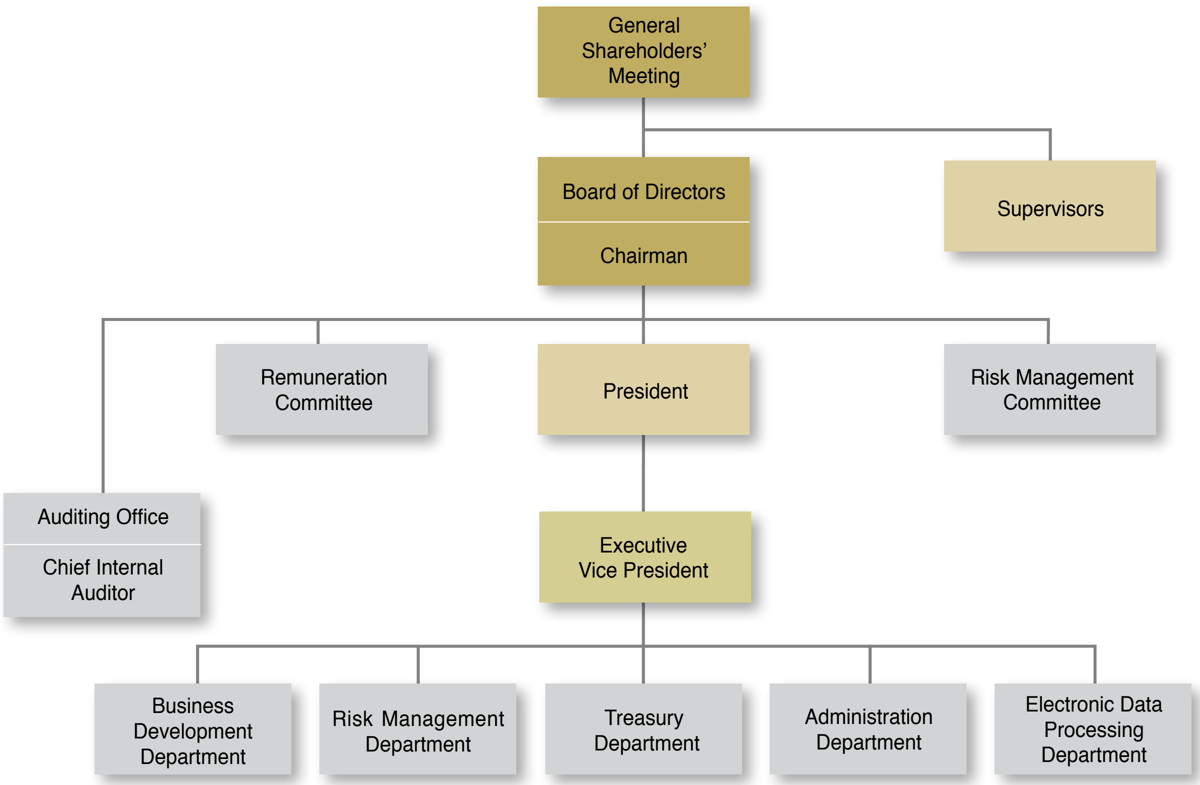
Date	Milestones
February 4, 2002	Founded by Chiao Tung Bank Co., Ltd. ("CTB") and International Securities Co., Ltd. ("IS") through the exchange of shares, and simultaneously listed on the Taiwan Stock Exchange with the name of CTB Financial Holding Company (Code 2886)
August 22, 2002	Acquired a 100% equity stake in Chung Hsing Bills Finance Corporation (now renamed as Mega Bills Finance Co., Ltd.) and Barits Securities Corp. ("BS") through a share swap
November 7, 2002	Acquired a 28.01% equity stake in the International Commercial Bank of China ("ICBC", now renamed as Mega International Commercial Bank Co., Ltd.)
December 31, 2002	Acquired a 100% equity stake in both ICBC and Chung Kuo Insurance Co., Ltd. ("CKI") through a share swap, and change the the Company's name from CTB Financial Holding Co., Ltd. to Mega Financial Holding Co., Ltd.
January 31, 2003	IS merged with BS and Chung Hsing Securities Corp., a subsidiary of Chung Hsing Bills Finance Corp., and renaming Barits International Securities Co., Ltd. (now known as Mega Securities Co., Ltd. (MSC))
May 29, 2003	Upgraded the Central Securities Investment Trust Corporation (CSITC), originally an investee of MSC, to become the Company's direct subsidiary through cash purchase of controlling shares, and changed CSITC's name into Mega Investment Trust Corp. ("MITC")
December 5, 2003	Set up a wholly owned subsidiary - Mega Asset Management Co., Ltd., with an issued capital of NTD 2,000 million
September 23, 2005	Upgraded Chung Yin Insurance Agency Company, originally a wholly-owned subsidiary of ICBC, to the Company's direct subsidiary by acquiring its 100% shares in cash and renamed it as Mega Life Insurance Agency Co., Ltd.
December 13, 2005	Established a wholly owned subsidiary - Mega CTB Venture Capital Co., Ltd., (now renamed as Mega Venture Capital Co., Ltd.,) with an issued capital of NTD 1,000 million
December 16, 2005	The Board of Directors resolved to acquire 5% to 26% of stake of the Taiwan Business Bank
May 23, 2006	Subscribed new shares of International Investment Trust Co., Ltd. (IIT) in which ICBC originally owned 59.13% equity interest, and achieved a combined equity interest of 97.76% with ICBC
July – August, 2006	All direct subsidiaries were renamed "Mega", except the English name of insurance subsidiary - Chung Kuo Insurance Co., Ltd.
August 21, 2006	The two banking units, the International Commercial Bank of China ("ICBC") and Chiao Tung Bank ("CTB"), were merged, with ICBC as the surviving company renamed Mega International Commercial Bank
September 17, 2007	The two security investment trust subsidiaries, IIT and MITC, were merged, with IIT as the surviving company renamed Mega International Investment Trust Co., Ltd.
December 30, 2008	Mega International Investment Trust Co., Ltd. (MIIT) becomes a wholly owned subsidiary of the Company, after the reduction and increase of capital by MIIT to offset loss
April 7, 2009	Mega CTB Venture Capital Co., Ltd. was renamed as Mega Venture Capital Co., Ltd
April 26, 2011	The Board of Directors resolved to issue exchangeable bonds to dispose the shareholding of Taiwan Business Bank

Corporate Governance Report

Corporate Governance Report

3.1 Organization

3.1.1 Organization Chart



Major Corporate Functions

Business Development Department
- Corporate planning, strategic investment
- Business strategy and development
- Institutional investor relations

Risk Management Department
- Risk management

Electronic Data Processing Department
- IT development and operation

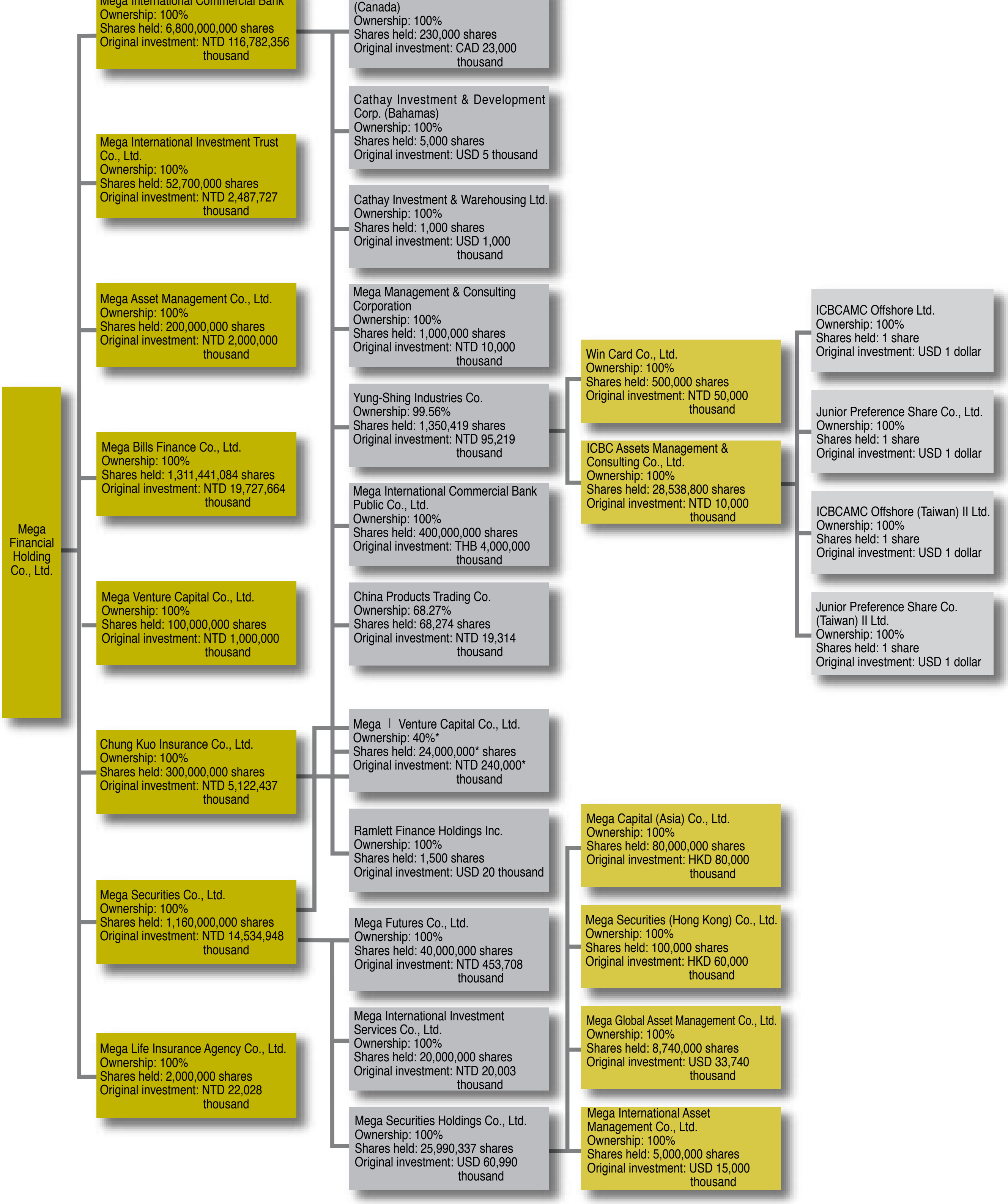
Administration Department
- Human resources management and staff training
- Corporate legal affairs, documentation, procurement and public relations

Treasury Department
- Finance and accounting services including treasury, tax, and financial and accounting management

Auditing Office
- Internal audit and process compliance

3.1.2 Affiliated Companies Chart

As of December 31, 2011



*Mega International Commercial Bank, Mega Securities Co., Ltd. and Chung Kuo Insurance Co., Ltd. held 25%, 10% and 5% stake, respectively in Mega I Venture Capital Co., Ltd.

3.2 Directors, Supervisors and Management Team

3.2.1 Directors and Supervisors

Title	Name	Date Elected	Term (Years)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement	
					Shares	%	Shares	%	Shares	%	Shares	%
Chairman	Yeou-Tsair Tsai (Representative of the Ministry of Finance, R.O.C.)	07/01/2010	2	07/01/2010	1,104,070,205	9.98	1,126,151,609	9.98	0	0	0	0
Director	Kuang-Si Shiu (Representative of the Ministry of Finance, R.O.C.)	06/23/2009	3	07/15/2008	1,104,070,205	9.98	1,126,151,609	9.98	279,661	0	0	0
Director	Ming-Chung Tsegn (Representative of the Ministry of Finance, R.O.C.)	06/23/2009	3	06/23/2009	1,104,070,205	9.98	1,126,151,609	9.98	0	0	0	0
Director	Sheng-Chung Lin (Representative of the Ministry of Finance, R.O.C.)	06/23/2009	3	06/23/2009	1,104,070,205	9.98	1,126,151,609	9.98	0	0	0	0
Director	Ching-Tsai Chen (Representative of the Ministry of Finance, R.O.C.)	06/23/2009	3	09/25/2008	1,104,070,205	9.98	1,126,151,609	9.98	0	0	0	0
Director	Dun-Jin Luh (Representative of the Ministry of Finance, R.O.C.)	06/23/2009	3	08/31/2006	1,104,070,205	9.98	1,126,151,609	9.98	0	0	0	0
Director	Tzung-Ta Yen (Representative of the Ministry of Finance, R.O.C.)	06/25/2009	3	06/25/2009	1,104,070,205	9.98	1,126,151,609	9.98	0	0	0	0
Director	Fang-Yu Kuo (Representative of the Ministry of Finance, R.O.C.)	03/17/2011	1.26	03/17/2011	1,104,070,205	9.98	1,126,151,609	9.98	0	0	0	0

December 31, 2011

Experience (Education)	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship		
		Title	Name	Relation
President of Taiwan Cooperative Bank, President / Chairman of the Mega Int'l Commercial Bank, President of Mega Financial Holding Co., Ltd., Chairman of Mega Int'l Investment Trust Co., Ltd., Chairman of Bank SinoPac, Chief Executive Officer of SinoPac Holdings M.A. in Public Finance, National Chengchi University	Chairman of Mega Int'l Commercial Bank Co., Ltd., Director of Taiwan Stock Exchange Corp, Director of Taiwan Futures Exchange Corp., Director of Taipei Financial Center Corporation, Director of Taiwan Asset Management Corporation, Director of National Credit Card Center of R.O.C., Managing Director of The Bankers Association of The Republic of China, Chairman of Mega Charity Foundation, Director of The Int'l Commercial Bank of China Cultural and Educational Foundation, Supervisor of Taiwan Academy of Banking and Finance, Chairman of Financial Planning Association of Taiwan	None	None	None
Executive Vice President of Chiao Tung Bank, Executive Vice President of Mega Financial Holding Co., Ltd. MBA, Indiana University, Indiana, U.S.A.	President of Mega Financial Holding Co., Ltd., Managing Director and President of Mega Int'l Commercial Bank Co., Ltd., Chairman of Mega Int'l Commercial Bank (Canada), Director of Mega Int'l Investment Trust Co., Ltd., Director of ICBC Assets Management & Consulting Co., Ltd., Director of Mega Int'l Commercial Bank Public Co., Ltd., Director of Taiwan Finance Corp., Director of Financial Information Service Co., Ltd., Director of Mega Charity Foundation, Director of the Int'l Commercial Bank of China Cultural and Educational Foundation, Supervisor of TRADE-VAN Information Services Co., Ltd.	None	None	None
President of Taiwan Cooperative Bank, Deputy Director General of Banking Bureau, Financial Supervisor Commission (FSC), Chief Secretary of FSC, Director General of Financial Examination Bureau, FSC M.A. in Public Policy Studies, National Chung Shin University Studying in Ph.D. Program, Graduate School of Business Administration, National Taipei University	Administrative Deputy Minister of Ministry of Finance, R.O.C. Managing Director of Mega Int'l Commercial Bank Co., Ltd. Director of Straits Exchange Foundation Director of China Aviation Development Foundation	None	None	None
Commissioner of Dept. of Economic Development, Taipei City Government Chief Executive Director of Taiwan WTO Center Chung-Hua Institution for Economic Research Vice Minister of the Ministry of Economic Affairs M.A. in Economics, National Taiwan University	Deputy Minister of the Ministry of Economic Affairs, R.O.C., Director of China Aviation Development Foundation, Director of Chung-Hua Institutions for Economic Research, Director of Taiwan-Hong Kong Economic and Cultural Co-operation Council, Director of Straits Exchange Foundation	None	None	None
Deputy Minister, Directorate General of Budget, Accounting and Statistics (DGBAS), Executive Yuan, R.O.C. M.A. in Accounting, National Chengchi University EMBA, National Taiwan University	Managing Director of Small and Medium Enterprise Credit Guarantee Fund of Taiwan Deputy Secretary-General, Executive Yuan, R.O.C.	None	None	None
Controller and Director, DGBAS, Executive Yuan, R.O.C. B.A. in Economics, Soochow University	Deputy Minister, DGBAS, Executive Yuan, R.O.C.	None	None	None
Deputy Director General, Dept. of Economic Research, Central Bank of the R.O.C. Ph. D. in Economics, Michigan State University, U.S.A.	Director General, Department of Economic Research, Central Bank of the R.O.C., Director of Taiwan Academy of Banking and Finance	None	None	None
Counselor / Chief Secretary, Council of Labor Affairs, Executive Yuan, R.O.C. President, Bureau of Labor Insurance Director General, Bureau of Employment & Vocational Training, Council of Labor Affairs, Executive Yuan, R.O.C. M.A. in Diplomacy, National Chenchi University	Deputy Minister, Council of Labor Affairs, Executive Yuan, R.O.C.	None	None	None

Title	Name	Date Elected	Term (Years)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement	
					Shares	%	Shares	%	Shares	%	Shares	%
Director	Hsi-Chin Huang (Representative of the Ministry of Finance, R.O.C.)	09/23/2009	2.75	09/23/2009	1,104,070,205	9.98	1,126,151,609	9.98	0	0	0	0
Director	Ming-Hui Tang (Representative of the Ministry of Finance, R.O.C.)	03/01/2011	1.31	03/01/2011	1,104,070,205	9.98	1,126,151,609	9.98	0	0	0	0
Director	Chung-Hsiang Lin (Representative of the Labor Union of Mega International Commercial Bank)	06/23/2009	3	06/23/2009	1,394,617	0.01	1,826,604	0.01	163,130	0	0	0
Independent Director	Chun-Tien Cheng	06/23/2009	3	06/23/2009	0	0	0	0	0	0	0	0
Independent Director	Chun Mei Ma	06/23/2009	3	06/23/2009	0	0	0	0	0	0	0	0
Independent Director	Song-Chin Su	06/23/2009	3	06/23/2009	0	0	0	0	0	0	0	0
Supervisor	Yaw-Chung Liao (Representative of National Development Fund, Executive Yuan, R.O.C.)	06/23/2009	3	08/01/2007	675,916,160	6.11	689,434,244	6.11	0	0	0	0
Supervisor	Kuo-Hui Hsiao (Representative of National Development Fund, Executive Yuan, R.O.C.)	06/23/2009	3	06/23/2009	675,916,160	6.11	689,434,244	6.11	0	0	0	0
Supervisor	Joanne Ling (Representative of Bank of Taiwan)	06/23/2009	3	06/23/2009	277,170,670	2.51	282,714,082	2.51	648	0	0	0
Supervisor	Justin Jan-Lin Wei (Representative of Bank of Taiwan)	06/23/2009	3	07/12/2007	277,170,670	2.51	282,714,082	2.51	0	0	0	0
Supervisor	Oliver Fang-Lai Yu (Representative of Chunghwa Post Co., Ltd.)	06/23/2009	3	06/23/2009	301,970,574	2.73	307,830,465	2.73	0	0	0	0

Note：1. Mr. Tzung-Ta Yen has been replaced by Mr. Tzong-Yau Lin as the director of the Company since February 20, 2012.
2. Ministry of Finance, R.O.C removed Mr. Ming-Chung Tseng and Hsi-Chin Huang from their position as directors of the Company effective from March 3, 2012 and March 16, 2012, respectively.
3. Director Ms. Shi-Kuan Chen resigned on December 31, 2011 and Mr. Yi-Ho Cheng takes her position as director on February 1, 2012.

December 31, 2011

Experience (Education)	Other Position	Executives, Directors or Supervisors who are spouses or within two degrees of kinship		
		Title	Name	Relation
Deputy Director, National Treasury Agency, Ministry of Finance, R.O.C. M.A. in Public Finance, National Chengchi University	Director, National Treasury Agency, Ministry of Finance, R.O.C.	None	None	None
Executive Secretary of Taxation and Tariff Committee, Ministry of Finance, R.O.C. M.A. in Economics, National Chengchi University MBA, Western Illinois University, U.S.A.	Deputy Director-General, National Treasury Agency, Ministry of Finance, R.O.C.	None	None	None
Chairman of The Labor Union of Mega Int'l Commercial Bank Co., Ltd. B.A. in Business Administration, Soochow University	Vice President & Deputy General Manager of Mega Int'l Commercial Bank Co., Ltd., Chung Ho Branch Chairman of The Employee Welfare Committee of Mega Int'l Commercial Bank Co., Ltd. Supervisor of The National Federation of Bank Employees Unions	None	None	None
Director General, Kaohsiung National Tax Administration, Ministry of Finance, R.O.C. Director General, National Tax Administration of Central Taiwan Province, Ministry of Finance. R.O.C. MBA, National Sun Yat-Sen University	Independent Director of Mega Bills Finance Co., Ltd. Director of Accounting Cultural and Educational Foundation of National Cheng Kung University	None	None	None
Dean of Business School, Soochow University MBA (Accounting), Graduate School of Business, Northrop University, U.S.A.	Professor of Soochow University	None	None	None
Senior Executive Vice President of GreTai Securities Market Senior Executive Vice President of Taiwan Depository & Clearing Corp. President of Taiwan Stock Exchange Corp. Bachelor of Laws, Chinese Culture University	Independent Director of Mega Securities Co., Ltd. Independent Director of Ever Growing Group, Inc.	None	None	None
Director-General, Dept. of Overall Planning, Council for Economic Planning and Development, Executive Yuan, R.O.C. Ph. D. in Agricultural Economics, National Taiwan University	Counselor, Executive Yuan, R.O.C. Director of CPC Corporation, Taiwan	None	None	None
Director of Sectoral Planning Dept., Council for Economic Planning and Development, Executive Yuan, R.O.C., Executive Secretary of National Development Fund, Executive Yuan, R.O.C. M.S. in Agricultural Economics, National Taiwan University	Counselor, Council for Economic Planning and Development, Executive Yuan, R.O.C. Director of Vanguard Int'l Semiconductor Corp.	None	None	None
Chief Secretary, Ministry of Finance, R.O.C. Director-General, National Tax Administration of Northern Taiwan Province, Ministry of Finance, R.O.C. Director-General, Taipei National Tax Administration, Ministry of Finance, R.O.C. M.A. in Public Finance, National Chengchi University	Director-General, National Treasury Agency, Ministry of Finance, R.O.C. Director of Financial Information Services Co., Ltd.	None	None	None
Senior Vice President and General Manager, Dept. of Treasury, Bank of Taiwan M.A. in Economics, Soochow University	Executive Vice President, Bank of Taiwan Supervisor of Taiwan Futures Exchange Corp.	None	None	None
Director General of Civil Aeronautics Administration, Ministry of Transportation and Communications Administrative / Political Deputy Minister of Ministry of Transportation And Communications, Executive Yuan, R.O.C. MBA, Institute of Management Science, National Chiao Tung University	Chairman of Chunghwa Post Co., Ltd.	None	None	None

Major shareholders of the institutional shareholders

December 31, 2011

Name of Institutional Shareholders	Major Shareholders of the Institutional Shareholders
Ministry of Finance, R.O.C.	N.A.
National Development Fund, Executive Yuan, R.O.C.	N.A.
Chunghwa Post Co., Ltd.	Ministry of Transportation and Communications, R.O.C. (100%)
Bank of Taiwan	Taiwan Financial Holding Company (100%)
Labor Union of Mega International Commercial Bank	N.A.

Major shareholders of the major shareholders that are juridical persons

December 31, 2011

Name of Juridical Persons	Major Shareholders of the Juridical Persons
Ministry of Transportation and Communications, R.O.C.	N.A.
Taiwan Financial Holding Company	Ministry of Finance, R.O.C. (100%)

Professional qualifications and independence analysis of directors and supervisors

December 31, 2011

Criteria / Name	Qualifications (Note 1)			Independence Criteria (Note 2)										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
	A	B	C	1	2	3	4	5	6	7	8	9	10	
Yeou-Tsair Tsai	√		√	√		√	√	√		√	√	√		0
Kuang-Si Shiu			√			√	√	√		√	√	√		0
Ming-Chung Tsegn			√	√		√	√			√	√	√		0
Sheng-Chung Lin			√	√	√	√	√		√	√	√	√		0
Ching-Tsai Chen	√	√	√	√	√	√	√		√	√	√	√		0
Dun-Jin Luh			√	√	√	√	√		√	√	√	√		0
Ming-Hui Tang	√		√	√	√	√	√		√	√	√	√		0
Hsi-Chin Huang			√	√	√	√	√		√	√	√	√		0
Fang-Yu Kuo			√	√		√	√			√	√	√		0
Tzung-Ta Yen	√		√	√	√	√	√		√	√	√	√		0
Chung-Hsiang Lin			√		√	√	√	√	√	√	√	√		0
Chun-Tien Cheng			√	√	√	√	√	√	√	√	√	√	√	1

Criteria / Name	Qualifications (Note 1)			Independence Criteria (Note 2)										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
	A	B	C	1	2	3	4	5	6	7	8	9	10	
Chun Mei Ma	√	√	√	√	√	√	√	√	√	√	√	√	√	0
Song-Chin Su			√	√	√	√	√	√	√	√	√	√	√	1
Yaw-Chung Liao	√		√	√		√	√			√	√	√		0
Kuo-Hui Hsiao			√	√	√	√	√		√	√	√	√		0
Joanne Ling			√	√	√	√	√		√	√	√	√		0
Justin Jan-Lin Wei	√		√	√	√	√	√		√	√	√	√		0
Oliver Fang-Lai Yu			√	√	√	√	√		√	√	√	√		0

Note 1: Please tick the corresponding boxes if directors or supervisors meet one of the following professional qualification requirements, together with at least five years work experience:

A. An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University

B. A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company

C. Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company

Note 2: Please tick the corresponding boxes if directors or supervisors have been any of the following during the two years prior to being elected or during the term of office:

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company.
7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
9. Not been a person of any conditions defined in Article 30 of the Company Law.
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

3.2.2 Remuneration of Directors, Supervisors, President, and Executive Vice Presidents

Remuneration of Directors

Title	Name	Remuneration								Ratio of total remuneration (A+B+C+D) to net income (%)	
		Base Compensation (A)		Severance Pay (B)		Bonus to Directors (C)		Allowances (D)			
		The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements
Chairman	Ministry of Finance										
	Yeou-Tsair Tsai										
Director (Representative of Ministry of Finance)	Kuang-Si Shiu										
	Ming-Chung Tsegn										
	Sheng-Chung Lin										
	Ching-Tsai Chen										
	Shi-Kuan Chen										
	Albert Kwang-Chin Ting										
	Fang-Yu Kuo										
	Dun-Jin Luh										
	Tzung-Ta Yen										
	Ming-Hui Tang										
	Hsi-Chin Huang										
Director	Labor Union of Mega ICBC										
	Chung-Hsiang Lin										
Independent Director	Chun-Tien Cheng										
	Chun Mei Ma										
	Song-Chin Su										
Total		1,620	7,915	0	856	58,409	58,409	2,833	6,608	0.36	0.42

Note: 1. Ms. Shi-Kuan Chen resigned from the Board on December 31, 2011. Mr. Ming-Chung Tsegn, Mr. Tzung-Ta Yen and Mr. Hsi-Chin Huang were removed from the Board on March 8, February 20 and March 16, 2012, respectively.

2. Mr. Albert Kwang-Chin Ting resigned from the Board on March 7, 2011. Mr. Fang-Yu Kuo has taken his position as director since March 17, 2011.

3. Allowances (D) include payment for house rent, company cars rent and gasoline reimbursement, but dose not include compensation paid to company drivers by all consolidated entities (totaled NT$1,242 thousand).

4. Salary, Bonuses, and Allowances (E) includes the expense for house rent, company cars rent and gasoline reimbursement. Compensation paid to company drivers totaled NT$898 thousand.

5. Both Severance Pay (B) and Severance Pay (F) are appropriated amounts.

6. Bonus to Directors (C) and Profit Sharing-Employee Bonus (G) will be subject to approval of the Annual General Shareholders' Meeting on June 15, 2012.

7. The Company does not issue any employee stock options.

Unit: NT$ thousands

Relevant remuneration received by directors who are also employees										Ratio of total compensation (A+B+C+D+E+F+G) to net income (%)		Compensation paid to directors from an invested company other than the company's subsidiary
Salary, Bonuses, and Allowances (E)		Severance Pay (F)		Profit Sharing- Employee Bonus (G)				Exercisable Employee Stock Options (H)				
The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company		Companies in the consolidated financial statements		The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	
				Cash	Stock	Cash	Stock					
0	8,023	0	967	0	0	219	0	0	0	0.36	0.47	976

Remuneration Paid to Directors

Bracket	Name of Directors			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	The company	All Investee Companies	The company	All Investee Companies
Under NT$ 2,000,000	Yeou-Tsair Tsai, Kuang-Si Shiu, Ching-Tsai Chen, Shi-Kuan Chen, Albert Kwang-Chin Ting, Fang-Yu Kuo, Ming-Chung Tsegn, Sheng-Chung Lin, Tzung-Ta Yen, Ming-Hui Tang, Dun-Jin Luh, Hsi-Chin Huang, Chung-Hsiang Lin, Chun-Tien Cheng, Chun Mei Ma, Song-Chin Su	Kuang-Si Shiu, Ching-Tsai Chen, Shi-Kuan Chen, Albert Kwang-Chin Ting, Fang-Yu Kuo, Ming-Chung Tsegn, Sheng-Chung Lin, Tzung-Ta Yen, Ming-Hui Tang, Dun-Jin Luh, Hsi-Chin Huang, Chung-Hsiang Lin, Chun-Tien Cheng, Chun Mei Ma, Song-Chin Su	Yeou-Tsair Tsai, Kuang-Si Shiu, Ching-Tsai Chen, Shi-Kuan Chen, Albert Kwang-Chin Ting, Fang-Yu Kuo, Ming-Chung Tsegn, Sheng-Chung Lin, Tzung-Ta Yen, Ming-Hui Tang, Dun-Jin Luh, Hsi-Chin Huang, Chung-Hsiang Lin, Chun-Tien Cheng, Chun Mei Ma, Song-Chin Su	Ching-Tsai Chen, Shi-Kuan Chen, Albert Kwang-Chin Ting, Fang-Yu Kuo, Ming-Chung Tsegn, Sheng-Chung Lin, Tzung-Ta Yen, Ming-Hui Tang, Dun-Jin Luh, Hsi-Chin Huang, Chun-Tien Cheng, Chun Mei Ma, Song-Chin Su
NT$2,000,000 ~ NT$5,000,000	Labor Union of Mega ICBC	Labor Union of Mega ICBC	Labor Union of Mega ICBC	Labor Union of Mega ICBC, Chung-Hsiang Lin
NT$5,000,000 ~ NT$10,000,000				Kuang-Si Shiu
NT$10,000,000 ~ NT$15,000,000		Yeou-Tsair Tsai		Yeou-Tsair Tsai
NT$15,000,000 ~ NT$30,000,000				
NT$30,000,000 ~ NT$50,000,000				
NT$50,000,000 ~ NT$100,000,000	Ministry of Finance	Ministry of Finance	Ministry of Finance	Ministry of Finance
Over NT$100,000,000				
Total	18	18	18	18

Note: The proposed compensation will be effective upon the approval of shareholders at the Annual Shareholders Meeting on June 15, 2012.

Remuneration of Supervisors

Unit: NT$ thousands

Title	Name	Remuneration								Ratio of total remuneration (A+B+C+D) to net income (%)		Compensation paid to supervisors from an invested company other than the company's subsidiary
		Base Compensation (A)		Severance Pay (B)		Bonus to Directors (C)		Allowances (D)				
		The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	
Supervisor	National Development Fund											
	Yaw-Chung Liao											
	Kuo-Hui Hsiao											
Supervisor	Chunghwa Post Co., Ltd.											
	Oliver Fang-Lai Yu											
Supervisor	Bank of Taiwan											
	Justin Jan-Lin Wei											
	Joanne Ling											
Total		0	0	0	0	21,150	21,150	1,200	1,200	0.13	0.13	0

Note: Remuneration to supervisors is subject to the approval of the Annual General Shareholders' Meeting on June 15, 2012.

Remuneration Paid to Supervisors

Bracket	Name of Supervisors	
	Total of (A+B+C+D)	
	The company	Companies in the consolidated financial statements
Under NT$ 2,000,000	Yaw-Chung Liao, Kuo-Hui Hsiao, Oliver Fang-Lai Yu, Justin Jan-Lin Wei, Joanne Ling	Yaw-Chung Liao, Kuo-Hui Hsiao, Oliver Fang-Lai Yu, Justin Jan-Lin Wei, Joanne Ling
NT$ 2,000,000 ~ NT$ 5,000,000	Chunghwa Post Co., Ltd.	Chunghwa Post Co., Ltd.
NT$ 5,000,000 ~ NT$ 10,000,000	National Development Fund, Bank of Taiwan	National Development Fund, Bank of Taiwan
NT$10,000,000 ~ NT$ 15,000,000		
NT$15,000,000 ~ NT$ 30,000,000		
NT$30,000,000 ~ NT$ 50,000,000		
NT$50,000,000 ~ NT$100,000,000		
Over NT$ 100,000,000		
Total	8	8

3.2.3 Management Team

Title	Name	Date Appointed	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement	
			Shares	%	Shares	%	Shares	%
President	Kuang-Si Shiu	07/15/2008	279,661	0	0	0	0	0
Executive Vice President	Jui-Yun Lin	09/08/2006	52,622	0	0	0	0	0
Executive Vice President	Chung-Hsing Chen	10/01/2010	0	0	0	0	0	0
Chief Internal Auditor	Yung-Ming Chen	09/08/2006	188	0	0	0	0	0

Compensation of President

Title	Name	Salary (A)		Severance Pay (B)		Bonuses and Allowances (C)	
		The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements
President	Kuang-Si Shiu						
Executive Vice President	Jui-Yun Lin						
Executive Vice President	Chung-Hsing Chen						
Executive Vice President (Note1)	Chii-Bang Wang						
	Dan-Hun Lu						
Chief Internal Auditor	Yung-Ming Chen						
		8,281	12,316	1,036	1,900	4,952	10,486

Note: 1. Mr. Chii-Bang Wang joined the Company on May 25, 2011 and transferred to Mega Bills Finance Co., Ltd. as president effective July 1, 2011. Ms. Dan-Hun Lu was removed from the position as EVP since May 12, 2011.
2. Bonuses and Allowances (C) include payment for house rent, company cars rent and gasoline reimbursement, but dose not include compensation paid to company drivers by all consolidated entities (totaled NT$3,548 thousand).
3. Severance Pay (F) is appropriated amounts.
4. Profit Sharing-Employee Bonus (D) is preliminary and subject to the approval by shareholders at the Annual Shareholders' Meeting on June 15, 2012.
5. The Company does not issue any employee stock options.

December 31, 2011

Experience (Education)	Other Position	Managers who are Spouses or Within Two Degrees of Kinship		
		Title	Name	Relation
Executive Vice President of Chiao Tung Bank, Executive Vice President of Mega Financial Holding Co., Ltd. MBA, Indiana University, Indiana, U.S.A.	Managing Director and President of Mega Int'l Commercial Bank Co., Ltd., Chairman of Mega Int'l Commercial Bank (Canada), Director of Mega Int'l Investment Trust Co., Ltd., Director of ICBC Assets Management & Consulting Co., Ltd., Director of Mega Int'l Commercial Bank Public Co., Ltd., Director of Taiwan Finance Corp., Director of Financial Information Service Co., Ltd., Director of Mega Charity Foundation, Director of the Int'l Commercial Bank of China Cultural and Educational Foundation, Supervisor of TRADE-VAN Information Services Co., Ltd.	None	None	None
Senior Vice President of Mega Financial Holding Co., Ltd. Senior Vice President & General Manager of Chiao Tung Bank M.A. in Public Finance, Nat'l Chengchi University	Supervisor of Mega Int'l Commercial Bank, Chairman and President of Mega Venture Capital Co., Ltd., Director of Mega Bills Finance Co., Ltd. Chairman of Chung Kuo Insurance Co., Ltd., Director of TaiwanPay Corp., Director of Taipei Financial Center Corp., Chief Secretary of Chung Hua Financial R&D Association	None	None	None
President & Chief Executive Officer, Taiwan Ratings Corporation President of Fuhwa Commercial Bank Company and Senior Executive Vice President of Fuhwa Financial Holding Company Vice Chairman of Shanghai Far East Credit Rating Agency Vice President of Xinhua Finance Ltd. President of Global Financial Services Co., Ltd. SJD., LL.M., Southern Methodist University	Supervisor of Chung Kuo Insurance Co., Ltd., Supervisor of Mega Int'l Investment Trust Co., Ltd.	None	None	None
Senior Vice President of Mega Financial Holding Co., Ltd., Senior Vice President & General Manager of Chiao Tung Bank B.A. in Int'l Trade, Nat'l Taichung Institute of Technology	Supervisor of Taiwan Business Bank, Director of Taipei Financial Center Corp.	None	None	None

and Executive Vice Presidents

Unit: NT$ thousands

Profit Sharing-Employee Bonus (D)				Ratio of Total Compensation (A+B+C+D) to Net Income (%)		Exercisable Employee Stock Options		Compensation paid to the president and vice president from an invested company other than the company's subsidiary
The company		Companies in the consolidated financial statements		The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	
Cash	Stock	Cash	Stock					
1,045	0	1,247	0	0.09	0.15	0	0	1,187

Compensation Paid to President and Executive Vice Presidents

Bracket	Name of President and Executive Vice Presidents	
	The company	All Investee Companies
Under NT$ 2,000,000	Kuang-Si Shiu, Chii-Bang Wang, Dan-Hun Lu	Chii-Bang Wang
NT$ 2,000,000 ~ NT$ 5,000,000	Chung-Hsing Chen, Yung-Ming Chen	Chung-Hsing Chen, Dan-Hun Lu
NT$ 5,000,000 ~ NT$ 10,000,000	Jui-Yun Lin	Kuang-Si Shiu, Jui-Yun Lin, Yung-Ming Chen
NT$10,000,000 ~ NT$ 15,000,000		
NT$15,000,000 ~ NT$ 30,000,000		
NT$30,000,000 ~ NT$ 50,000,000		
NT$50,000,000 ~ NT$100,000,000		
Over NT$ 100,000,000		
Total	6	6

Employee Bonus of 2011 to Executive Vice Presidents

Unit: NT$ thousands

	Title	Name	Employee Bonus - in Stock (Fair Market Value)	Employee Bonus - in Cash	Total	Ratio of Total Amount to Net Income(%)
Executive Officers	President	Kuang-Si Shiu				
	Executive Vice President	Jui-Yun Lin				
	Executive Vice President	Chung-Hsing Chen				
	Executive Vice President	Chii-Bang Wang				
	Executive Vice President	Dan-Hun Lu				
	Chief Internal Auditor	Yung-Ming Chen				
Total			0	1,045	1,045	0.01

Note: The amount of employee profit sharing is preliminary and subject to the approval by shareholders at the Annual Shareholder Meeting on June 15, 2012.

3.2.4 Remuneration for Directors, Supervisors, Presidents and Executive Vice Presidents

A. The ratio of total remuneration paid by the company and by all companies included in the consolidated financial statements for the most recent two fiscal years to directors, supervisors, presidents and executive vice presidents of the Company, to the net income

Year	Total remuneration paid to directors, supervisors, president and executive vice presidents		Ratio of total remuneration paid to directors, supervisors, president and executive vice presidents to net income (%)	
	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements
2010	87,518,773	125,658,238	0.58%	0.83%
2011	100,525,503	131,295,690	0.57%	0.74%

Total remuneration paid by the Company to its directors, supervisors and executives as a percentage of net income after tax was 0.57% in 2011, compared with 0.58% in 2010. Total remuneration paid to directors, supervisors and executives, by all consolidated entities, as a percentage of consolidated net income after tax also fell slightly to 0.74% from 0.83% in 2010.

B. Remuneration policies, the procedures for determining remuneration, and the correlation with business performance

Remuneration to directors, supervisors and executives is appropriated according to the Articles of Incorporation and the business performance of the company in the year, while the market average is taken into consideration. The annual earning distribution proposal shall be submitted to the board meeting for discussion before being sent to the shareholders' meeting for resolution.

The remuneration paid to directors, supervisors and executives as a percentage of net income grew 14.86% in 2011, while the net income grew 17.00% compared to 2010. Meanwhile, the remuneration paid to directors, supervisors and executives as a percentage of the consolidated net income grew 4.49% in 2011, with consolidated net income rising 16.74% from the previous year.

3.3 Implementation of Corporate Governance

3.3.1 Board of Directors

A total of 13 (A) meetings of the board of directors were held in the previous period. Director attendance was as follows:

Title	Name	Attendance in Person (B)	By Proxy	Attendance Rate (%) (B / A)	Remarks
Chairman	Yeou-Tsair Tsai (Representative of Ministry of Finance)	13	0	100.00	
Director	Kuang-Si Shiu (Representative of Ministry of Finance)	13	0	100.00	
Independent Director	Chun-Tien Cheng	13	0	100.00	
Independent Director	Chun Mei Ma	13	0	100.00	
Independent Director	Song-Chin Su	13	0	100.00	
Director	Ming-Chung Tsegn (Representative of Ministry of Finance)	11	2	84.62	
Director	Sheng-Chung Lin (Representative of Ministry of Finance)	5	7	38.46	
Director	Ching-Tsai Chen (Representative of Ministry of Finance)	11	2	84.62	
Director	Dun-Jin Luh (Representative of Ministry of Finance)	12	1	92.31	
Director	Shi-Kuan Chen (Representative of Ministry of Finance)	9	4	69.23	left office on Dec. 31, 2011
Director	Albert Kwang-Chin Ting (Representative of Ministry of Finance)	1	1	50.00	left office on Mar. 7, 2011
Director	Fang-Yu Kuo (Representative of Ministry of Finance)	10	1	90.90	takes office on Mar. 17, 2011
Director	Tzung-Ta Yen (Representative of Ministry of Finance)	11	0	84.62	
Director	Chung-Hsiang Lin (Representative of Labor Union of Mega ICBC)	13	0	100.00	
Director	Ming-Hui Tang (Representative of Ministry of Finance)	9	2	69.23	takes office on Mar. 1, 2011
Director	Hsi-Chin Huang (Representative of Ministry of Finance)	12	1	92.31	

Note: Percentages (%) for individual attendance are based on the number of board meetings held while each respective board member holds a seat and the number of meetings he or she attended in person.

Other items:

1. If there are the circumstances referred to in Article 14-3 of Securities and Exchange Act and resolutions of the directors' meetings objected to by Independent Directors or subject to qualified opinion and recorded or declared in writing, the dates of meetings, sessions, contents of motions, all independents' opinion and the Company's response to independent directors' opinion should be specified: None.
2. If there is Directors' avoidance of motions in conflict of interest, the Directors' names, contents of motions, causes for avoidance and voting should be specified:
   (1) At the 22th meeting of the fourth term Board of Directors on January 25, 2011, the Board discussed the proposal to issue non-guaranteed commercial paper of NTD 4 billion through Mega Bills Finance Co., Ltd. Mr. Chun-Tien Cheng, Independent Director of the Company, recused himself from the discussion and voting according to related rules, because he also serves as one of the independent directors to Mega Bills Finance Co., Ltd.
   (2) At the 29th meeting of the fourth term Board of Directors on July 26, 2011, the Board discussed the 2010 distribution of remuneration for each director and supervisor of the Board. Since the discussion involved the distribution amounts of remuneration for chairman of the Board, Mr. Yeou-Tsair Tsai, Chairman of the Board recused himself from the discussion and voting according to related rules.
   (3) At the 33th meeting of the fourth term Board of Directors on November 22, 2011, the board discussed the re-appointment of the third term of directors and supervisors of its subsidiary company, Mega Venture Capital Co., Ltd. Serving as Chairman of the Board of the subsidiary company, Ms. Jui-Yun Lin recused herself from the discussion and voting according to related rules.
   (4) At the 34th meeting of the fourth term Board of Directors on December 27, 2011, the Board discussed the re-appointment of directors and supervisors of the twelfth term of the board of its subsidiary, Mega International Investment Trust Co., Ltd. Serving as directors or supervisors of the Board of the subsidiary company, Mr. Kuang-Si Shiu, Mr. Chung-Hsing Chen, and Ms. Min-Tsen Chen recused themselves from the discussion and voting according to related rules.
3. Measures taken to strengthen the functionality of the Board:
   To enhance information transparency, the Company on its own initiative discloses matters concerning the rights of its shareholders besides statutory information disclosure. Also the Company will actively participate in institutional investor conferences. Presentations delivered at the conferences are posted on the Market Observation Post System of TSEC and the Company's website.

3.3.2 Supervisors

A total of 13 (A) Board meetings were held in the year 2011. Supervisor attendance was as follows:

Title	Name	Attendance in Person (B)	Attendance rate (%) (B / A)
Supervisor	Oliver Fang-Lai Yu (Representative of Chunghwa Post Co., Ltd.)	12	92.31
Supervisor	Joanne Ling (Representative of Bank of Taiwan)	13	100.00
Supervisor	Justin Jan-Lin Wei (Representative of Bank of Taiwan)	13	100.00
Supervisor	Yaw-Chung Liao (Representative of National Development Fund)	9	69.23
Supervisor	Kuo-Hui Hsiao (Representative of National Development Fund)	12	92.31

Other mentionable items:

1. Composition and responsibilities of supervisors:
   (1) Communications between supervisors and the Company's employees and shareholders:
   Communication between employees and shareholders can be made in writing or by telephone, fax, e-mail or other ways at any time.
   (2) Communications between supervisors and the Company's Chief Internal Auditor and CPA:
   The Company's Auditing Office submits internal audit reports to supervisors regularly and whenever necessary. Directors, Supervisors and the Auditing Office also meet to review the weakness of the internal control once half year. Supervisors may also attend Board of Directors meetings to monitor the Company's financial and operational status and implementation of internal control as well as to communicate with directors, Chief Internal Auditor and managements on proposals and operating strategies. The Company's CPA also attends Board of Directors meetings on a regular basis to report to directors and supervisors on the results of financial statements and implementation of internal control. The Company has accepted the request of directors and supervisors to enhance the disclosure of financial statements.
2. If a supervisor expresses an opinion during a meeting of the Board of Directors, the dates of meetings, sessions, contents of motions, resolutions of the directors' meetings and the Company's response to supervisor's opinion should be specified:
   (1) At the 25th meeting of the fourth term of Board of Directors on April 26, 2011, the Board discussed the 2010 business report of the Company. Considering the fact that the Company plans to dispose of Taiwan Business Bank stocks through issuance of exchangeable bonds, Mr. Yaw-Chung Liao suggested to add an item of Exchangeable Bonds in the Plan for the Disposal of Stake in Taiwan Business Bank . This item was unanimously approved upon inquiry by the Chairman.
   (2) At the 28th meeting of the fourth term of Board of Directors on June 21, 2011, the board discussed the upward adjustments in salary for the employees of the Group in 2011. Mr. Oliver Fang-Lai Yu suggested a salary increment for the subsidiary, Chung Kuo Insurance Co., Ltd., after a survey of salary levels in the industry. Upon inquiry by the Chairman, all attending directors agreed unanimously the upward adjustments in salary for Chung Kuo Insurance Co., Ltd.

(3) At the 30th meeting of the fourth term of Board of Directors on August 23, 2011, the auditing office reported on the securities subsidiary's weaknesses of internal control and relevant improvement. Ms. Joanne Ling expressed her concern over the weakness that certain directors of Mega Securities Company, having a personal interest in the matter under discussion at the board meeting, did not recuse themselves from the discussion. The Chairman instructed that name of director having a personal interest in a matter under discussion at the board meeting should be indicated in the agenda.
(4) At the 30th meeting of the fourth term of Board of Directors on August 23, 2011, the securities subsidiary reported on the reasons why it and its futures subsidiary suffered loss and the plans to improve the situation. Ms. Joanne Ling stated that the two subsidiary companies' loss was mainly due to poor judgment on the trends of the macro economy and the industry. Their failure to conduct an integrated analysis on spot and futures market also contributed to the loss. In view of the situation, she advised to focus on the development and recruitment of talents with expertise in economic analysis. Additionally, Mr. Oliver Fang-Lai Yu advised to: 1. outsource a small portion of the proprietary funds to foster good competition, 2. periodically review asset allocation, 3. take advantage of derivatives, although which can be risky at times, and 4. share both successful and unsuccessful experiences of equity trading with their peers. The Chairman instructed that the securities and futures subsidiary companies shall take into considerations of the advices from the directors and supervisors.
(5) At the 30th meeting of the fourth term of Board of Directors on August 23, 2011, the Board reported on the risk management profile of the Group as of the end of June 2011 and the meeting minutes for the 43rd Meeting of the Risk Management Committee held on August 3, 2011. Ms. Joanne Ling stated that the operational risk limit for brokerage of each security, raised by the securities subsidiary, seemed to be too high. The Chairman instructed to have the securities subsidiary company re-valuate the revision.
(6) At the 32th meeting of the fourth term of Board of Directors on October 25, 2011, the Board discussed the amendments to the Rules for Credit Risk Management. Mr. Yaw-Chung Liao advised that the proposed amendments should be made based on the perspective of the Group instead of the opinions of the subsidiaries. The Chairman instructed that the future amendments shall be dealt with according to the aforementioned suggestion made by the supervisor.

3.3.3 Corporate Governance Execution Status and Deviations from "Corporate Governance Best-Practice Principles for Financial Holding Companies"

As a financial holding company (FHC), the Company is increasing its commitment to Corporate Governance Best-Practice Principles for Financial Holding Companies. Set forth below are the implementation status of our corporate governance, compared with the Corporate Governance Best-Practice Principles for Financial Holding Companies, promulgated by the Bankers Association of The Republic of China, and reasons for non-implementation.

Item	Implementation Status	Deviations From "Corporate Governance Best-Practice Principles for Financial Holding Companies" and reasons
1. Shareholding Structure and Shareholders' Rights		
(1) Method of handling shareholder suggestions or complaints	The Company has designated appropriate personnel to handle shareholder suggestions, inquiries or complaints to protect shareholders' rights. The investor contact information is available on the Company's website.	None
(2) The Company's possession of a list of major shareholders and a list of ultimate owners of these major shareholders	The Company tracks the shareholdings of directors, officers, and shareholders holding more than 1% of the outstanding shares of the Company from time to time.	None
(3) Risk management mechanism and "firewall" between the Company and its affiliates	The Company clearly defines different areas of authority and responsibility between itself and the subsidiaries concerning the management of staff, assets, and financial affairs in the following rules and policies: Rules for Monitoring Operations of the Subsidiaries, Rules for Related Party Transactions, The Group Policy and Guidelines on Risk Management, and Group Firewall Policy Between The Company and Its Subsidiaries. Banking, insurance and securities subsidiaries also established an independent risk management unit in charge of risk control of the respective subsidiary.	None

2. Composition and Responsibilities of the Board of Directors (1) Independent Directors	The Company has elected three independent directors according to the Securities and Exchange Act and the Company's Articles of Incorporation.	None
(2) Regular evaluation of CPAs' independence	The Company assesses the independence of its external auditor every year before submitting to the Board for approval.	None
3. Communication channels with stakeholders	Communication between the Company and its stakeholders can be made through meeting, letter, telephone, facsimile and e-mail. The Company's subsidiaries also operate a service hotline to answer enquiries from their customers.	None
4. Information Disclosure (1) Establishment of a corporate website to disclose information regarding the Company's financial, business and corporate governance status	The Company has set up a website to disclose financial, business and corporate governance information. Dedicated personnel are designated to maintain and update the website.	None
(2) Other information disclosure channels	Other methods of disclosure include: setting up an English website, designation of dedicated personnel responsible for collection and disclosure of the Company's information, full implementation of the spokesperson system, and disclosing the information of investor conference on the Company's website.	None
5. Operations of the Company's Nomination Committee, Remuneration Committee, or other committees of the Board of Directors	The Company has set up a Risk Management Committee which meets every two months to discuss the Group's risk management policy and monitor its risk position. Effective from August 2011, a Remuneration Committee was established. It meets at least twice every year to set up and review the remuneration policy, standard, structure and compensation of Board of Directors and senior management.	The Company will set up the Audit Committee starting from June 15, 2012.

6. Explain the status of the Company's corporate governance, its deviations from the Corporate Governance Best-Practice Principles for Financial Holding Companies, and the reasons for the deviations.
The Company's primary deviation from the Corporate Governance Best-Practice Principles for Financial Holding Companies is that the Company has yet to introduce Audit Committee. The Company will therefore set up the Audit Committee starting from June 15, 2012.

7. Other information that would help understand the status of the Company's corporate governance:
(1) Employee rights, employee wellness, investor relations, rights of stakeholders
The Company's human resources guidelines follow the standards of the Labor Standards Law and other relevant regulations. An Employee Welfare Committee is in place to put into practice employee care and assistance. As for investor relations, the Company appoints a dedicated team to answer investor's questions and attend investor conference from time to time. The time, location and presentation of investor conferences are posted on the Company's website and the Market Observation Post System of Taiwan Stock Exchange. The Company maintains open channels of communications with stakeholders. Stakeholders' legal rights are fully respected. Should their legal rights be violated, the company will take responsibility and deal with the problem properly.
(2) Directors' and supervisors' training records
To enhance the competency of the Board of Directors, the Company provides directors and supervisors with education opportunities whenever there are relevant courses available. For detailed information on the continuing education for individual director and supervisor of the Company, please log on to the Market Observation Post System of Taiwan Stock Exchange. (http://newmops.twse.com.tw).

(3) Implementation of risk management policies and risk evaluation measures In addition to fully compliance of government regulations, the Company aims at establishing a risk management mechanism that conforms to international standards. Currently, the Company established the Policy and Guidelines on Risk Management for the Mega Financial Group, which clearly described the guidelines on management of credit risk, market risk, operational risk, liquidity risk, legal compliance risk, human resource risk, and emergency crisis. On credit risk, the Company set up Guidelines on Credit Risk Management for the Mega Financial Group to avoid over-concentration of risk. The Guidelines requires that the credit risk exposure of the Group be divided into different categories by industries, clients as well as country, and be reviewed and reported on a regular basis. In addition, the Company has completed the Internal Rating Model Buildup project which is now in the implementation process undertaken by the subsidiaries to conform to the New Basel Accord. On market risk, the Company collects and reviews the market risk position of the Group as a whole on a regular basis. Subsidiaries of the Company are required to set up an advanced risk management system. On operational risk, the Company periodically collects operational risk event data to build up an internal loss data mart. The Company's subsidiaries are required to establish an electronic reporting system, self-assessment system and key indicators for operational risk. (4) Implementation of Consumer-and customer-protection policy Processing of personal data is managed according to requirements of the Article 42 of the Financial Holding Company Act and the Article 18, 23 of the Computer Processed Personal Data Protection Law. The Company also set up Group Firewall Policy and measures for client data protection. No disclosure, referral, or exchange of client data by the Company would be carried out without an agreement signed by or written consent from the client, in accordance with relevant statutory requirements in force. In addition, the subsidiaries set up client hotlines to handle customer complaints in a timely manner.
8. If the Company has implemented a self corporate governance evaluation or has authorized any other professional organization to conduct such an evaluation, the evaluation results, major deficiencies or suggestions, and improvements are stated as follows: None.

3.3.4 Corporate Social Responsibility

Item	Implementation Status	Deviations from "Corporate Social Responsibility Best Practice Principles for TWSE / GTSM Listed Companies" and reasons
1. Exercising Corporate Governance (1) The company declares its corporate social responsibility policy and examines the results of the implementation.	The business entities of the Group have been actively participating in charity works even though the corporate social responsibility policy of the Company has not yet been established.	None
(2) The company establishes exclusively (or concurrently) dedicated units to be in charge of proposing and enforcing the corporate social responsibility policies.	The Administration Department is currently in charge of the evaluation, planning, and execution of the charity activities of the Company.	None
(3) The company organizes regular training on business ethics and promotion of matters prescribed in the preceding Article for directors, supervisors and employees, and should incorporate the foregoing into its employee performance appraisal system to establish a clear and effective reward and discipline system.	The Company holds social charity events on a regular basis to promote corporate ethics and social responsibility to the Directors and Supervisors of the Board and the employees. The Company has set up rules governing rewards and punishment to enhance employee performance. The appraisal factors are integrity, team spirit, moral behaviors, etc.	None

2. Fostering a Sustainable Environment (1) The company endeavors to utilize all resources more efficiently and uses renewable materials which have a low impact on the environment.	The Company sets two degree higher for the central air conditioner of the building (between 26 – 28 degree Celsius), and limits the total electricity output within 90%. The Company uses high performance green building materials for its construction projects to save energy and reduce carbon emissions.	None
(2) The company establishes proper environmental management systems based on the characteristics of their industries.	As a financial service provider, the Company ensures that its business operation is friendly to the environment, and promotes energy saving, carbon reduction and resource sorting.	Since the Company mainly delivers financial products and services, the operations of the Company will not produce environmental pollution or noises that impact the natural environment. Therefore, the Company has not set up an environmental management policy.
(3) The company establishes dedicated units or assigns dedicated personnel for environment management to maintain the environment.	The Company has dedicated the Administration Dept. to take care of environment management.	None
(4) The company monitors the impact of climate change on its operations and should establish company strategies for energy conservation and carbon and greenhouse gas reduction.	The Company reviews energy saving and carbon reduction performance for the use of water, electricity, and fuel of the subsidiaries of the Group on a quarterly basis.	None
3. Preserving Public Welfare (1) The company complies with relevant labor laws and regulations, protects the legal rights and interests of employees, and has in place appropriate management methods and procedures.	The Company's human resources guidelines follow the standards of the Labor Standards Law and other relevant regulations. An Employee Welfare Committee is in place to put into practice employee care and assistance. A pension plan is available to all employees.	None
(2) The company provides safe and healthy work environments for its employees, and organizes training on safety and health for its employees on a regular basis.	To provide safe and healthy work environments for its employees, the Company focuses on prevention of accident and keeping a sanitary environment. Labor safety training and fire prevention training are held on a regular basis.	None
(3) The company establishes and discloses policies on consumer rights and interests and provides a clear and effective procedure for accepting consumer complaints.	The Company's subsidiaries also operate a service hotline to answer enquiries from their customers. Customer contact information is published on the website of the website.	None
(4) The company cooperates with its suppliers to jointly foster a stronger sense of corporate social responsibility.	The company is doing its best to adopt environment friendly materials. Environmental protection is taken into account in its procurement of calendar every year.	None
(5) The company, through commercial activities, non-cash property endowments, volunteer service or other free professional services, participates in community development and charities events.	The Company has been actively participating in the following charity works: 1. holding international financial research forum 2. sponsoring for the training of the school baseball teams 3. sponsoring the government to develop tourist industry 4. participating in the community and social services and providing volunteer service one day per month	None

4. Enhancing Information Disclosure (1) The measures of disclosing relevant and reliable information relating to their corporate social responsibility.	The information relating to the Company's corporate social responsibility is disclosed in the annual report.	None
(2) The company produces corporate social responsibility reports disclosing the status of their implementation of the corporate social responsibility policy.	The Company has not prepared any corporate social responsibility reports as yet.	None

5. If the Company has established corporate social responsibility principles based on "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies", please describe any discrepancy between the principles and their implementation:
The Company has not established corporate social responsibility principles based on "Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies".

6. Other important information to facilitate better understanding of the Company's corporate social responsibility practices:
To fully assume its corporate social responsibility and make contribution to the society, the Group actively participated in charity works for the disadvantaged, and sponsored events such as international academic conferences and arts and cultural activities. During 2011, the Group had taken part in a wide range of activities listed below to fulfill its social responsibility.

Environmental Protection

In serving its duty as a member of the society, the Group implemented measures it established for environmental protection and energy conservation. Measures taken are saving energy and electricity, periodically recycling waste carbon cartridges, auctioning used PCs for recycling and re-treatment, and recycling and reusing packaging materials, etc.

Social Services

(1) International Academic Conferences
The Company co-hosted the Global Financial Market Outlook Forum in the Second Half of 2011 with Business Today in April 2011. In addition, the Company co-hosted the 2011 IEFA The 9th NTU International Conference on Economics, Finances, and Accounting with Banking Education Association of Taiwan and sponsored the Accounting Theory and Practice Conference held by the Shian-Gang Lee Accounting Culture & Education Foundation.

(2) Sports Events
To promote exercise, the Company sponsored the first international LPGA championship held in Taiwan, the Sunrise LPGA Taiwan Championship 2011. In support of the government's Baseball Promotion Master Plan, the Group sponsored for the training of the school baseball teams of both Hsinchu Municipal Middle School and Elementary School for four consecutive years from 2010 to 2013.

(3) Arts and Cultural Events
To promote international art exchange, Mega International Commercial Bank of the Group hosted a private charity viewing of the special exhibition "Celebration by Marc Chagall" in the National Palace Museum in Taipei. To support government to develop local cultural and creative industry, the bank also hosted a series of art and culture events, such as art and culture lecture, large outdoor concerts, and a private charity viewing of the Taiwanese Folk Opera.

Community Participation and Social Services

Since the Mega Charity Foundation set up in 2005, the foundation started a one-day-a-month volunteer program to help feeding and accompanying mentally and physically disabled children at Yo An Home for the Disabled Children in Miaoli and Bali-Ai Hsin Home for Person with Disabilities. In 2011, the foundation began serving the elderly at a Catholic Nursing Home in Bali, New Taipei City by accompanying them in doing leisure activities such as singing. Additionally, the Company also provided community service to sponsor renovation project for the Graduation Wall in Chung Hsiao Elementary School.

Social Charity Work

The social charity works of the Group were primarily carried out by the Mega Charity Foundation. In 2011, the social charity works carried out by the foundation are listed below:

- Sponsored fifteen disadvantaged children from Taiwan Fund for Children and Family
- Donated to Zhi-Shan Foundation Taiwan to sponsor programs that empower the youth and provide care for children
- Donated to Catholic Home for the Aged in Taipei county to help pay for its general expenses, spending on reconstruction, and four sets of personal computers
- Sponsored the 2011 charitable concert co-hosted by the Wingspread Chorus and the Taipei Rosy Clouds Educational Foundation
- Donated to the construction funds for Chinese Christian Elim Halfway House for Youth and Institute for the Blind of Taiwan
- Donated to the Student Social Service Society of the Medical College of National Taiwan University and the Club of China Traditional Medicine of Kaohsiung Medical University to host summer programs for medical and health education
- Donated rice to the disadvantaged families with mentally disabled persons from the Mental Rehabilitation Association of Taitung and the Morakot Typhoon survivors from the Self Help Association for the Post-Disaster Reconstruction of Taimali
- Sponsored a health promotion association in southern Taiwan to provide residential care to the elderly living alone
- Donated to the House of Hope in Tainan of the Galilee Mission Center of the Presbyterian Church in Taiwan
- Sponsored nine high schools and vocational high schools in remote areas to offer school lunch programs for students in poverty
- Sponsored Our Lady of China to host the Year of Dragon New Year Dinner event

Consumer Rights The Group ensures the confidentiality of customer data in accordance with the Computer-Processed Personal Data Protection Law. The protective measures are disclosed on company website. All client data disclosure, transfer, or exchange is conducted in accordance with the Financial Holding Company Act. At the same time, to protect client rights and enhance service quality, customer complaint hotlines were set up by the Group, its bank subsidiary, insurance subsidiary, and bills finance subsidiary. Customer service hotlines were also set up by the Group's securities subsidiary and securities investment trust subsidiaries. Human Rights The Group protects the human rights of our employees in accordance with Labor Standards Law and other related rules and regulations.The Company sponsored Lei Chen Democracy and Human Rights Public Trust for advocating constitutional and democratic values and raising standards of human rights. Safety and Health The Group has been making efforts to prevent accidents and pollution, ensure effective use of resources, and protect employee safety and health and company assets. Measures taken include conducting fire drills, labor safety seminars and employee health checkups on a regular basis.	
7. If the products or corporate social responsibility reports have received assurance from external institutions, they should state so below: The Company has not issued any corporate social responsibility reports.	

3.3.5 Corporate Governance Guidelines and Regulations

The Company has not established corporate governance principles based on "Corporate Governance Best-Practice Principles for Financial Holding Companies". For other guidelines in connection with corporate governance, please refer to the Company's website at http://www.megaholdings.com.tw and Market Observation Post System of Taiwan Stock Exchange at (http://newmops.twse.com.tw).

3.3.6 Major Resolutions of Shareholders' Meeting and Board Meetings

Item	Date	Major resolutions
Board meeting	Jan. 25, 2011	Appointment of CPA Li, Chang-Chou and Lee, Hsiu-Ling as independent auditors of the Company's 2011 financial reports
Board meeting	Feb. 22, 2011	Amendment to the Rules for Legal Compliance System
Board meeting	Mar. 22, 2011	• Approval of the 2010 financial statements • Approval of convening the general shareholders' meeting on June 28, 2011 and the agenda of meeting • Amendment to the Company's Investment Guidelines • Appointment of the president of the Chung Kuo Insurance Co., Ltd. • Appointment of directors and supervisors of the Company's subsidiaries
Board meeting	Apr. 26, 2011	• Approval of the 2010 business report • Approval of the distribution of 2010 retained earnings and employee profit sharing as well as remuneration to directors and supervisors • Approval of amendment to the Articles of Incorporation • Approval of the Internal Control System Statement
Board meeting	May 12, 2011	Approval of the issuance of NTD 6 billion exchangeable bonds
Board meeting	June 21, 2011	• Approval of the upward adjustment of salary for the Group's employee • Appointment of President of Mega Bills Finance Co., Ltd.
Shareholders' meeting	June 28, 2011	• Approval of the 2010 business report and financial statements • Approval of the distribution of 2010 retained earnings and employee profit sharing as well as remuneration to directors and supervisors • Approval of amendment to the Articles of Incorporation
Board meeting	July 26, 2011	• Setting August 29, 2011 as the ex-dividend and ex-right date • Reappointment of one director of Mega International Commercial Bank Co., Ltd.
Board meeting	Aug. 23, 2011	• Approval of the first half of 2011 financial statements • Approval of renewal of Director and Officer Insurance • Approval of the Charter of Remuneration Committee
Board meeting	Oct. 25, 2011	Amendment to the Company's Regulations Governing Credit Risk Management
Board meeting	Dec. 27, 2011	• Approval of the Company's budget for year 2012 • Appointment of six senior officers of subsidiaries as the Executive Vice President of the Company concurrently

3.3.7 Major Issues of Record or Written Statements Made by Any Director or Supervisor Dissenting to Important Resolutions Passed by the Board of Directors: None.

3.3.8 Resignation or Dismissal of Personnel Involved in Preparation of Financial Reports: None.

3.4 Changes in Shareholding of Directors, Supervisors, Executives and Major Shareholders

Unit: Share

Title	Name	2011		As of Mar. 31, 2012	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Chairman	Yeou-Tsair Tsai	0	0	0	0
Director	Ministry of Finance, R.O.C.	22,081,404	0	0	0
Director	Labor Union of Mega Int'l Commercial Bank	231,987	0	0	0
Supervisor	Bank of Taiwan	5,543,412	0	0	0
Supervisor	The National Development Fund, Executive Yuan, R.O.C.	13,518,323	0	0	0
Supervisor	Chunghwa Post Co., Ltd.	6,032,891	0	0	0
Independent Director	Chun-Tien Cheng	0	0	0	0
Independent Director	Chun Mei Ma	0	0	0	0
Independent Director	Song-Chin Su	0	0	0	0
President	Kuang-Si Shiu	5,483	0	0	0
Chief Internal Auditor	Yung-Ming Chen	3	0	0	0
Executive Vice President	Jui-Yun Lin	1,031	0	0	0
Executive Vice President	Chung-Hsing Chen	0	0	0	0
Executive Vice President	Meei-Yeh Wei	2,824	0	0	0
Executive Vice President	Dan-Hun Lu	156	0	0	0
Executive Vice President	Chao-Hsien Lai	(123,937)	0	0	0
Executive Vice President	Jin-Fu Ma	732	0	0	0
Executive Vice President	Chii-Bang Wang	26	0	0	0
Executive Vice President	Ming-Jye Chang	15,165	0	0	0

3.4.1 Shares Trading with Related Parties: N.A.

3.4.2 Shares Pledge with Related Parties: None.

3.5 Information Disclosing the Relationship between any of the Company's Top Ten Shareholders

As of December 31, 2011

Name	Shareholding		Spouse & Minor		Shareholding by Nominee Arrangement		The relationship between any of the Company's Top Ten Share holders		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relation	
Ministry of Finance, R.O.C. (Representative: Mr. Sush-Der Lee)	1,126,151,609	9.98	0	0	0	0	Bank of Taiwan, (a wholly-owned subsidiary of Taiwan Financial Holding Co., Ltd.)	Taiwan Financial Holding Co., Ltd. is wholly-owned by Ministry of Finance	-
National Development Fund, Executive Yuan, R.O.C. (Representative: Ms. Y Christina Liu)	689,434,483	6.11	0	0	0	0	-	-	-
Bank of Taiwan Trust Account (Representative: Ms. Susan S. Chang)	554,170,811	4.91	0	0	0	0	Bank of Taiwan	Trustee	-
Chunghwa Post Co., Ltd. (Representative: Mr. Oliver Fang-Lai Yu)	307,830,465	2.72	0	0	0	0	-	-	-
Bank of Taiwan (Representative: Ms. Susan S. Chang)	282,714,082	2.51	0	0	0	0	Ministry of Finance	Taiwan Financial Holding Co., Ltd. is wholly owned by the Ministry of Finance	-
Fubon Life Insurance Co., Ltd. (Representative: Mr. Pen-Yuan Cheng)	174,276,755	1.54	0	0	0	0	-	-	-
Pou Chen Corporation (Representative: Mr. C. C. Tsai)	161,829,185	1.43	0	0	0	0	-	-	-
Cathay Life Insurance Co., Ltd. (Representative: Mr. Hung-Tu Tsai)	130,874,378	1.16	0	0	0	0	-	-	-
Government of Singapore-Gos-EFM C	129,557,852	1.14	0	0	0	0	-	-	-
China Life Insurance Co., Ltd. (Representative: Mr. Alan Wang)	126,496,600	1.12	0	0	0	0	-	-	-

3.6 Information Regarding Independent Auditor

The Company's financial report for 2011 was audited by Mr. Li, Chang-Chou and Ms. Lee, Hsiu-Ling. The non-audit fee paid to the independent auditors represents 128.79% of the audit fee for 2011. Set forth below are the details of audit fee and non-audit fee:

Unit: NT$

Accounting Firm	Name of CPA		Audit Fee	Non-Audit Fee					Audit Period	Note
				System Design	Company Registration	Human Sources	Others	Subtotal		
Pricewaterhouse-Coopers	Li, Chang-Chou	Lee, Hsiu-Ling	2,240,000	0	0	0	2,884,620	2,884,620	Jan.1, 2011-Dec. 31, 2011	1. Consulting fee for introduction of IFRS 2. Fees for issuance of new shares and exchangeable bonds 3. Fees for filing application for recheck of income tax levied by the taxing authorities 4. Fees for preparation of transfer pricing report

The Company's chairman, chief executive officer, chief financial officer, and managers in charge of its finance and accounting operations did not hold any positions within the Company's independent audit firm or its affiliates during 2011.

3.7 Long-term Investment Ownership

As of December 31, 2011

Company	Ownership by Mega FHC (1)		Direct / Indirect Ownership by Directors, Supervisors and Management (2)		Total Ownership (1) + (2)	
	Shares	%	Shares	%	Shares	%
Mega International Commercial Bank Co., Ltd.	6,800,000,000	100.00	0	0	6,800,000,000	100.00
Mega Securities Co., Ltd.	1,160,000,000	100.00	0	0	1,160,000,000	100.00
Mega Bills Finance Co., Ltd.	1,311,441,084	100.00	0	0	1,311,441,084	100.00
Chung Kuo Insurance Co., Ltd.	300,000,000	100.00	0	0	300,000,000	100.00
Mega Int’l Investment Trust Co., Ltd.	52,700,000	100.00	0	0	52,700,000	100.00
Mega Asset Management Co., Ltd.	200,000,000	100.00	0	0	200,000,000	100.00
Mega Life Insurance Agency Co., Ltd.	2,000,000	100.00	0	0	2,000,000	100.00
Mega Venture Capital Co., Ltd.	100,000,000	100.00	0	0	100,000,000	100.00
Taiwanpay Corporation	394,823	6.69	197,412	3.35	592,235	10.04
Taiwan Depository & Clearing Corp.	1,298,987	0.41	3,764,391	1.20	5,063,378	1.62
Taipei Financial Center Corp.	73,500,000	5.00	39,999,999	2.72	113,499,999	7.72
Taiwan Business Bank	565,829,895	13.44	915,247,568	21.74	1,481,077,463	35.18
China Products Trading Company	0	0	68,274	68.27	68,274	68.27
Mega I Venture Capital Co., Ltd.	0	0	24,000,000	40.00	24,000,000	40.00
Yung-Shing Industries Company	0	0	1,350,419	99.56	1,350,419	99.56

<table>
<tr><th rowspan="2">Company</th><th colspan="2">Ownership by Mega FHC (1)</th><th colspan="2">Direct / Indirect Ownership by Directors, Supervisors and Management (2)</th><th colspan="2">Total Ownership (1) + (2)</th></tr>
<tr><th>Shares</th><th>%</th><th>Shares</th><th>%</th><th>Shares</th><th>%</th></tr>
<tr><td>Win Card Co., Ltd.</td><td>0</td><td>0</td><td>500,000</td><td>100.00</td><td>500,000</td><td>100.00</td></tr>
<tr><td>Mega Management & Consulting Co., Ltd.</td><td>0</td><td>0</td><td>1,000,000</td><td>100.00</td><td>1,000,000</td><td>100.00</td></tr>
<tr><td>Mega Futures Co., Ltd.</td><td>0</td><td>0</td><td>40,000,000</td><td>100.00</td><td>40,000,000</td><td>100.00</td></tr>
<tr><td>Mega Global Asset Management Co., Ltd.</td><td>0</td><td>0</td><td>8,740,000</td><td>100.00</td><td>8,740,000</td><td>100.00</td></tr>
<tr><td>Mega International Investment Services Co., Ltd.</td><td>0</td><td>0</td><td>2,000,000</td><td>100.00</td><td>2,000,000</td><td>100.00</td></tr>
<tr><td>Mega Securities Holdings Co., Ltd.</td><td>0</td><td>0</td><td>25,990,337</td><td>100.00</td><td>25,990,337</td><td>100.00</td></tr>
<tr><td>Mega Capital (Asia) Co., Ltd.</td><td>0</td><td>0</td><td>80,000,000</td><td>100.00</td><td>80,000,000</td><td>100.00</td></tr>
<tr><td>Mega Securities (Hong Kong) Co., Ltd.</td><td>0</td><td>0</td><td>100,000</td><td>100.00</td><td>100,000</td><td>100.00</td></tr>
<tr><td>Mega International Asset Management Co., Ltd.</td><td>0</td><td>0</td><td>5,000,000</td><td>100.00</td><td>5,000,000</td><td>100.00</td></tr>
<tr><td>Mega International Commercial Bank (Canada)</td><td>0</td><td>0</td><td>230,000</td><td>100.00</td><td>230,000</td><td>100.00</td></tr>
<tr><td>Mega International Commercial Bank Public Co., Ltd.</td><td>0</td><td>0</td><td>400,000,000</td><td>100.00</td><td>400,000,000</td><td>100.00</td></tr>
<tr><td>Cathay Investment & Development Corp. (Bahamas)</td><td>0</td><td>0</td><td>5,000</td><td>100.00</td><td>5,000</td><td>100.00</td></tr>
<tr><td>Cathay Investment & Warehousing Ltd.</td><td>0</td><td>0</td><td>1,000</td><td>100.00</td><td>1,000</td><td>100.00</td></tr>
<tr><td>Ramlett Finance Holdings Inc.</td><td>0</td><td>0</td><td>1,500</td><td>100.00</td><td>1,500</td><td>100.00</td></tr>
<tr><td>ICBC Assets Management & Consulting Co., Ltd.</td><td>0</td><td>0</td><td>28,538,800</td><td>100.00</td><td>28,538,800</td><td>100.00</td></tr>
<tr><td>ICBCAMC Offshore Ltd.</td><td>0</td><td>0</td><td>1</td><td>100.00</td><td>1</td><td>100.00</td></tr>
<tr><td>ICBCAMC Offshore (Taiwan) II Ltd.</td><td>0</td><td>0</td><td>1</td><td>100.00</td><td>1</td><td>100.00</td></tr>
<tr><td>Junior Preference Share Company (Taiwan) II Ltd.</td><td>0</td><td>0</td><td>1</td><td>100.00</td><td>1</td><td>100.00</td></tr>
<tr><td>Junior Preference Share Company Ltd.</td><td>0</td><td>0</td><td>1</td><td>100.00</td><td>1</td><td>100.00</td></tr>
<tr><td>IP Fund Seven Ltd.</td><td>0</td><td>0</td><td>25,000,000</td><td>25.00</td><td>25,000,000</td><td>25.00</td></tr>
<tr><td>An Fang Co., Ltd.</td><td>0</td><td>0</td><td>900,000</td><td>30.00</td><td>900,000</td><td>30.00</td></tr>
<tr><td>Taiwan Finance Corporation</td><td>0</td><td>0</td><td>126,713,700</td><td>24.55</td><td>126,713,700</td><td>24.55</td></tr>
<tr><td>United Venture Capital Corp.</td><td>0</td><td>0</td><td>8,064,000</td><td>25.31</td><td>8,064,000</td><td>25.31</td></tr>
<tr><td>Everstrong Iron & Steel Foundry & Mfg Corp.</td><td>0</td><td>0</td><td>1,760,000</td><td>22.22</td><td>1,760,000</td><td>22.22</td></tr>
<tr><td>China Real Estate Management Co., Ltd.</td><td>0</td><td>0</td><td>9,000,000</td><td>20.00</td><td>9,000,000</td><td>20.00</td></tr>
<tr><td>China Insurance Co. (SIAM), Ltd.</td><td>0</td><td>0</td><td>1,515,000</td><td>25.25</td><td>1,515,000</td><td>25.25</td></tr>
</table>

Note: TaiwanPay Corporation was dissolved on Feb.1, 2012.

Capital Overview

Capital Overview

4.1 Capital and Shares

4.1.1 Issued Shares

As of December 31, 2011

Month/ Year	Par value (NTD)	Authorized Capital		Paid-in Capital		Remark	
		Shares	Amount (NTD)	Shares	Amount (NTD)	Sources of Capital	Other
July 2007	10	12,000,000,000	120,000,000,000	11,059,426,238	110,594,262,380	Cancellation of 110,023,000 treasury shares with par value of NT$1,100,230,000	-
Sep. 2011	10	12,000,000,000	120,000,000,000	11,280,614,762	112,806,147,620	Capitalization of retained earnings for NT$ 2,211,885,240	Note

Note: The capitalization has been approved by Jin-Guan-Zheng-Fa-Zi Letter No. 1000035292 dated August 4, 2011 from the Financial Supervisory Committee.

4.1.2 Type of Stock

As of December 31, 2011

Type of Stock	Authorized Capital			Remark
	Issued Shares (Note)	Unissued Shares	Total	
Common Stock	11,280,614,762	719,385,238	12,000,000,000	Note

Note: All issued shares are listed on the Taiwan Stock Exchange.

4.1.3 Status of Shareholders

As of August 24, 2011

Type of Shareholders	Government Agencies	Financial Institutions	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	16	46	722	252,977	685	254,446
Shareholding (shares)	2,267,802,408	2,091,720,989	1,088,345,466	1,779,827,990	4,052,917,909	11,280,614,762
Holding Percentage (%)	20.10	18.54	9.65	15.78	35.93	100.00

4.1.4 Distribution Profile of Share Ownership

As of December 31, 2011

Shareholder Ownership (Unit: Share)	Number of Shareholders	Shareholding (Shares)	Percentage (%)
1 ~ 999	97,698	31,619,240	0.28
1,000 ~ 5,000	111,482	256,616,384	2.27
5,001 ~ 10,000	34,791	246,884,253	2.18
10,001 ~ 15,000	15,114	175,746,997	1.55
15,001 ~ 20,000	6,863	120,619,183	1.06
20,001 ~ 30,000	7,568	179,758,943	1.59
30,001 ~ 40,000	3,413	116,188,506	1.02
40,001 ~ 50,000	2,083	93,294,383	0.82
50,001 ~ 100,000	3,943	269,490,129	2.38
100,001 ~ 200,000	1,726	231,371,176	2.05
200,001 ~ 400,000	677	183,256,956	1.62
400,001 ~ 600,000	204	99,876,017	0.88
600,001 ~ 800,000	97	67,491,509	0.59
800,001 ~ 1,000,000	80	71,546,768	0.63
1,000,001 ~ 1,200,000	75	82,499,195	0.73
1,200,001 ~ 1,400,000	42	55,228,943	0.48
1,400,001 ~ 1,600,000	38	56,977,038	0.50
1,600,001 ~ 1,800,000	18	30,956,075	0.27
1,800,001 ~ 2,000,000	21	39,599,989	0.35
Over 2,000,001	310	8,871,593,078	78.64
Total	286,243	11,280,614,762	100.00

4.1.5 Major Shareholders

As of December 31, 2011

Name of Shareholder	Number of Common Shares	Percentage of Voting Shares (%)
Ministry of Finance, ROC	1,126,151,609	9.98
National Development Fund, Executive Yuan, ROC	689,434,483	6.11
Bank of Taiwan Trust Account	554,170,811	4.91
Chunghwa Post Co., Ltd.	307,830,465	2.72
Bank of Taiwan	282,714,082	2.51
Fubon Life Insurance Co., Ltd.	174,276,755	1.54
Pou Chen Corporation	161,829,185	1.43
Cathay Life Insurance Co., Ltd.	130,874,378	1.16
Government of Singapore-GOS-EFM C	129,557,852	1.14
China Life Insurance Company, Ltd.	126,496,600	1.12

4.1.6 Market Price, Net Worth, Earnings, and Dividends Per Share

Unit: NT$

Item			2011	2010	As of March 31, 2012
Market Price Per Share (Note 1)	High		29.55	22.80	23.10
	Low		17.60	16.00	18.95
	Average		23.07	19.17	21.23
Net Worth Per Share (Note 2)	Before Distribution		17.99	18.16	18.71
	After Distribution		(Note 6)	16.92	-
Earnings Per Share	The Weighted Average of Outstanding Shares (Unit: shares)		11,280,614,762	11,059,426,238	11,280,614,762
	Earnings Per Share	Before Adjustment	1.60	1.37	0.60
		After Adjustment	1.57	1.34	0.59
Dividends Per Share	Cash Dividends		0.85	0.90	(Note 6)
	Stock Dividends		0.15	0.20	-
	Cumulative Undistributed Dividends		-	-	-
Investment Return Analysis	PE Ratio (Note 3)		14.69	13.99	35.98
	Price-Dividend Ratio (Note 4)		27.14	21.30	-
	Cash Dividend Yield (%) (Note 5)		3.68%	4.69%	-

Note: 1. Average market price = trading value / trading volume
2. Net worth per share = net worth / total number of shares outstanding
3. PE ratio = average closing price / earnings per share
4. Price-dividend ratio = average closing price / cash dividends per share
5. Cash dividend yield = cash dividends per share / average closing price
6. The proposal for distribution of 2011 profits will be submitted at the annual shareholders meeting on June 15, 2012.

4.1.7 Buyback of Treasury Stock: N.A.

4.2 Dividend Policy and Implementation Status

4.2.1 Dividend Policy

According to its Articles of Incorporation, the Company's dividend policy is described as follows:

After paying all taxes and offsetting its accumulated losses of prior years in accordance with the laws, the Company shall set aside a legal reserve in accordance with the laws. Aside from the aforesaid legal reserve, the Company may set aside special reserve, in accordance with laws or its actual needs. The Company may also retain certain earnings.

The remainder (including a reversible special reserve according to laws) shall be distributed as follows: employee profit sharing between 0.02% and 0.16%, and remuneration of directors and supervisors not exceeding 0.5%. Any remaining balance of net earnings, including undistributed earnings from previous fiscal years, shall be distributed or retained in accordance with the Board of Directors' proposal, subject to resolutions of the Annual Shareholders' Meeting.

In principle, at least 50% of the shareholders' dividends in the above Paragraph shall be paid in cash, and the rest paid by stock dividend. The aforesaid employee profit sharing shall be distributed in cash or stock subject to the approval of shareholders' meeting. The employees of subsidiaries of the Company may also be entitled to the employee stock bonus, subject to the rules set forth by the Board of Directors.

4.2.2 Proposed Distribution of 2011 Profits

It is proposed to submit to the Company's Annual Shareholders' Meeting, to be held on June 15, 2012, for its approval of the distribution of NTD 9,588,522,548 cash dividends (NTD 0.85 per share), NTD 1,692,092,210 stock dividends (NTD 0.15 per share), NTD 10,185,989 cash as employee profit sharing, and NTD 79,559,000 remuneration for directors and supervisors. From January 1, 2008, the aforesaid profit sharing for directors, supervisors and employees has been accounted for as expenses. The earning per share for 2011 is NTD 1.57. Set forth below are details of the proposed profit distribution for 2011 and distributed profit for 2010:

Unit: NT$

Item	2011	2010
Cash Dividends to Common Shareholders	$ 9,588,522,548	$ 9,953,483,614
Stock Dividends to Common Shareholders	1,692,092,210	2,211,885,240
Remuneration for Directors and Supervisors	79,559,000	67,998,000
Employee' Profit Sharing in Cash	10,185,989	10,892,000
Total	$ 11,370,359,747	$ 12,244,258,854

4.2.3 Impact to 2012 Business Performance and EPS Resulting from Stock Dividend Distribution

Since the Company dose not announce its financial forecast for 2012, it is not necessary to analyze the impact of stock dividend distribution on the business performance and EPS of 2012.

4.2.4 Buyback of Common Stock

The Company did not execute any buyback of common stock in 2011. As of April 30, 2012, the Company did not hold any treasury shares.

4.3 Issuance of Corporate Bonds

<table>
<tr><th colspan="2">Issue</th><th>2011-1 Exchangeable Bond</th></tr>
<tr><td colspan="2">Issue Date</td><td>July 11, 2011</td></tr>
<tr><td colspan="2">Denomination</td><td>NTD 100,000</td></tr>
<tr><td colspan="2">Issue / Transaction Place</td><td>Taiwan</td></tr>
<tr><td colspan="2">Issue Price</td><td>102% of the nominal amount</td></tr>
<tr><td colspan="2">Issue Amount</td><td>NTD 6,000,000,000</td></tr>
<tr><td colspan="2">Coupon Rate</td><td>0%</td></tr>
<tr><td colspan="2">Maturity</td><td>2.5 years (due January 11, 2014)</td></tr>
<tr><td colspan="2">Repayment Priority</td><td>Senior, unsubordinated</td></tr>
<tr><td colspan="2">Guarantor</td><td>None</td></tr>
<tr><td colspan="2">Trustee</td><td>Taipei Fubon Commercial Bank</td></tr>
<tr><td colspan="2">Underwriter</td><td>KGI Securities Co., Ltd.</td></tr>
<tr><td colspan="2">Certifying Attorney</td><td>Chung-Chieh Wei Law Office</td></tr>
<tr><td colspan="2">Auditor</td><td>PricewaterhouseCoopers</td></tr>
<tr><td colspan="2">Repayment</td><td>Unless previously purchased and cancelled, redeemed or exchanged, the Bonds will be redeemed in cash at 100% of the principal amount at the Maturity Date.</td></tr>
<tr><td colspan="2">Outstanding Principal</td><td>NTD 6,000,000,000</td></tr>
<tr><td colspan="2">Redemption at the Option of the Issuer</td><td>a) From October 12, 2011 to December 2, 2013, if the closing price of TBB common stocks exceeds 30% of the exchange price in continuous 30 business days, the Company may redeem the bonds at principal amount in the terms of exchange by cash within 30 business days.
b) From October 12, 2011(the first day after bonds issued for 3 months) to December 2, 2013 (40 days before maturity), the Company may redeem the bonds at principal amount in the terms of exchange by cash if at least 90% in principal amount of the bonds has already been exchanged, redeemed or purchased and cancelled.</td></tr>
<tr><td colspan="2">Restriction Clause</td><td>None</td></tr>
<tr><td colspan="2">Whether Included in Eligible Capital</td><td>No</td></tr>
<tr><td colspan="2">Credit Rating</td><td>Rated twAA by Taiwan Ratings Corp. on May 17, 2011</td></tr>
<tr><td rowspan="2">Other Rights of Bondholders</td><td>Amount of Converted or Exchanged Common Shares, DRs or Other Securities</td><td>None</td></tr>
<tr><td>Terms of Issuance and Exchange (or Conversion)</td><td>Please refer to the notes of the Company’s financial statement.</td></tr>
<tr><td colspan="2">Dilution Effect and Other Adverse Effects on Existing Shareholders</td><td>None</td></tr>
<tr><td colspan="2">Custodian of the Underlying Securities</td><td>Taiwan Depository & Clearing Corporation</td></tr>
</table>

Issue	2008-1 Domestic Unsecured Bond	2008-2 Domestic Unsecured Subordinated Bond
Issue Date	May 13, 2008	December 26, 2008
Denomination	NTD 1,000,000	NTD 1,000,000
Issue / Transaction Place	Taiwan	Taiwan
Issue Price	Par	Par
Issue Amount	NTD 5,750,000,000 (including Tranche A for NTD 2,400,000,000, Tranche B for NTD 1,250,000,000, Tranche C for NTD 1,800,000,000 and Tranche D for NTD 300,000,000)	NTD 6,000,000,000
Coupon Rate	Tranche A: 2.58% p.a. Tranche B: 90-day TWD BACP + 0.20% p.a. Tranche C: 2.75% p.a. Tranche D: 90-day TWD BACP + 0.25% p.a.	3.26% p.a.
Maturity	Tranche A & B: 3 years (due 05/13/2011) Tranche C & D: 5 years (due 05/13/2013)	7 years (due 12/26/2015)
Repayment Priority	Senior, unsubordinated	Subordinated
Guarantor	None	None
Trustee	Bank SinoPac	Taipei Fubon Commercial Bank
Underwriter	None	None
Certifying Attorney	Shing Tai Law Office	Shing Tai Law Office
Auditor	PricewaterhouseCoopers	PricewaterhouseCoopers
Repayment	Principal to be repaid in lump sum at maturity based on the face value	Principal to be repaid in lump sum at maturity based on the face value
Outstanding Principal	NTD 2,100,000,000	NTD 6,000,000,000
Redemption or Early Repayment Clause	None	None
Restriction Clause	None	If the Company's capital adequacy ratio is lower than the minimum requirements stipulated by the competent authorities due to payment of interest and repayment of principal of corporate bonds, the Company will cease payment of interest and principal until the ratio meets the stipulated requirements. (Interest is added, and interest and rollover of principal is calculated at coupon rate.)
Whether Included in Eligible Capital	No	Yes
Credit Rating	Rated twAA by Taiwan Ratings Corp. on April 09, 2008	Rated twA+ by Taiwan Ratings Corp. on November 27, 2008
Other Rights of Bondholders: Amount of Converted or Exchanged Common Shares, DRs or Other Securities	None	None
Other Rights of Bondholders: Terms of Issuance and Exchange (or Conversion)	Not Applicable	Not Applicable
Dilution Effect and other Adverse Effects on Existing Shareholders	None	None
Custodian	None	None

<table>
<tr><th colspan="2">Issue</th><th>2007-1 Domestic Unsecured Bond</th><th>2007-2 Domestic Unsecured Bond</th></tr>
<tr><td colspan="2">Issue Date</td><td>October 25, 2007</td><td>February 4, 2008</td></tr>
<tr><td colspan="2">Denomination</td><td>NTD 1,000,000</td><td>NTD 1,000,000</td></tr>
<tr><td colspan="2">Issue / Transaction Place</td><td>Taiwan</td><td>Taiwan</td></tr>
<tr><td colspan="2">Issue Price</td><td>Par</td><td>Par</td></tr>
<tr><td colspan="2">Issue Amount</td><td>NTD 4,000,000,000 (including Tranche A for NTD 3,000,000,000, Tranche B for NTD 700,000,000 and Tranche C for NTD 300,000,000)</td><td>NTD 3,700,000,000 (including Tranche A for NTD 1,300,000,000, Tranche B for NTD 400,000,000 and Tranche C for NTD 2,000,000,000)</td></tr>
<tr><td colspan="2" rowspan="3">Coupon Rate</td><td>Tranche A: 2.70% p.a.</td><td>Tranche A : 2.68% p.a.</td></tr>
<tr><td>Tranche B: 90-day TWD BACP + 0.27% p.a.</td><td>Tranche B: 90-day TWD BACP + 0.22% p.a.</td></tr>
<tr><td>Tranche C: 2.80% p.a.</td><td>Tranche C: 2.78% p.a.</td></tr>
<tr><td colspan="2">Maturity</td><td>Tranche A & B: 3 years (due 10/25/2010)
Tranche C: 5 years (due 10/25/2012)</td><td>Tranche A & B: 3 years (due 02/04/2011)
Tranche C: 5 years (due 02/04/2013)</td></tr>
<tr><td colspan="2">Repayment Priority</td><td>Senior, unsubordinated</td><td>Senior, unsubordinated</td></tr>
<tr><td colspan="2">Guarantor</td><td>None</td><td>None</td></tr>
<tr><td colspan="2">Trustee</td><td>Bank SinoPac</td><td>Bank SinoPac</td></tr>
<tr><td colspan="2">Underwriter</td><td>None</td><td>None</td></tr>
<tr><td colspan="2">Certifying Attorney</td><td>Fang-Gui Guo Law Office</td><td>Shing Tai Law Office</td></tr>
<tr><td colspan="2">Auditor</td><td>PricewaterhouseCoopers</td><td>PricewaterhouseCoopers</td></tr>
<tr><td colspan="2">Repayment</td><td>Principal to be repaid in lump sum at maturity based on the face value</td><td>Principal to be repaid in lump sum at maturity based on the face value</td></tr>
<tr><td colspan="2">Outstanding Principal</td><td>NTD 300,000,000</td><td>NTD 2,000,000,000</td></tr>
<tr><td colspan="2">Redemption or Early Repayment Clause</td><td>None</td><td>None</td></tr>
<tr><td colspan="2">Restriction Clause</td><td>None</td><td>None</td></tr>
<tr><td colspan="2">Whether Included in Eligible Capital</td><td>No</td><td>No</td></tr>
<tr><td colspan="2">Credit Rating</td><td>Rated twAA by Taiwan Ratings Corp. on September 28, 2007</td><td>Rated twAA by Taiwan Ratings Corp. on December 21, 2007</td></tr>
<tr><td rowspan="2">Other Rights of Bondholders</td><td>Amount of Converted or Exchanged Common Shares, DRs or Other Securities</td><td>None</td><td>None</td></tr>
<tr><td>Terms of Issuance and Exchange (or Conversion)</td><td>Not Applicable</td><td>Not Applicable</td></tr>
<tr><td colspan="2">Dilution Effect and other Adverse Effects on Existing Shareholders</td><td>None</td><td>None</td></tr>
<tr><td colspan="2">Custodian</td><td>None</td><td>None</td></tr>
</table>

Information of the Exchangeable Bonds

Bond Category		2011-1 Exchangeable Bonds		
Item / Year		Issue date (July 11, 2011)	December 31, 2011	As of March 31, 2012
Shareholding of Underlying Common Shares		541,464,015 shares	565,829,895 shares	565,829,895 shares
Exchange Price		NTD 13.00	NTD 12.40	NTD 12.10
Market Price of the Exchangeable Bonds	Highest	102.00	102.00	100.80
	Lowest	101.00	97.00	97.40
	Average	101.20	99.86	99.31
Issue Date		July 11, 2011		
Underlying Securities		Common Shares of Taiwan Business Bank		

4.4 Preferred Stock: None.

4.5 Employee Stock Options: None.

4.6 Merger and Acquisition of Other Financial Institutions: None.

Operational Overview

Operational Overview

5.1 Business Overview

Mega Financial Holding Company

According to Taiwan's Financial Holding Company Act, the business of a financial holding company shall be limited to investment in, and management of, its invested enterprise(s). Business scope of the Company's subsidiaries includes banking, securities, bills finance, property and casualty insurance, asset management, venture capital, securities investment trust, insurance agency. Nearly all of the Company's revenues are derived from subsidiaries.

Revenue Breakdown

Unit: NT$1,000

Item \ Year	2011		2010	
	Amount	%	Amount	%
Investment income from equity investments accounted for by the equity method	18,111,631	98.42	16,099,414	99.80
Other operating revenue	290,135	1.58	32,523	0.20
Total	18,401,766	100.00	16,131,937	100.00

Mega International Commercial Bank Co., Ltd.

The bank's business scope includes commercial banking, consumer banking, wealth management, investment banking and other services as approved by the competent authority. In 2011, its net operating income amounted to NTD 37,011,250 thousand, an upsurge of 18.52% from the year before. Net interest income and non-interest income grew 16.70% and 22.33%, respectively.

Breakdown of Net Operating Income

Unit: NT$1,000

Item \ Year	2011		2010	
	Amount	%	Amount	%
Net interest income	24,662,404	66.63	21,132,556	67.67
Non-interest income	12,348,846	33.37	10,094,765	32.33
Fee income – net	6,105,673	16.50	6,516,092	20.87
Gains on financial assets and liabilities at fair value through profit or loss	(179,329)	(0.48)	910,421	2.92
Realized gain on available-for-sale financial assets	895,664	2.42	658,709	2.11
Realized gains / losses on held-to-maturity financial assets	8,980	0.02	21,990	0.07
Investment income recognized by the equity method	213,606	0.58	353,463	1.13
Foreign exchange gain – net	1,509,094	4.08	2,076,669	6.65
Loss on asset impairment	(88,829)	(0.24)	(835,720)	(2.68)
Gains / losses on disposal of properties	1,006,072	2.72	(3,281)	(0.01)
Other losses	0	0.00	(3,007,951)	(9.63)
Other provisions	0	0.00	2,193,593	7.02
Gain on financial assets carried at cost	733,582	1.98	579,670	1.86
Gain on sale of non-performing loans	1,404,085	3.79	0	0.00
Other non-interest income – net	740,248	2.00	631,110	2.02
Net operating income	37,011,250	100.00	31,227,321	100.00

Mega Securities Co., Ltd. (MSC)

MSC is engaged in securities brokerage, underwriting, and proprietary trading. In 2011, the company's brokerage fee income amounted to NTD 1,631,605 thousand, declining by 18.50% compared to the year before, mainly due to reduction in stock market trading volume. The company recorded a capital loss on equity trading as the TAIEX dropped by 1,900 points, or 21.17% in the year 2011.

Revenue Breakdown

Unit: NT$1,000

Item \ Year	2011		2010	
	Amount	%	Amount	%
Brokerage fee income	1,631,605	40.90	2,001,957	41.73
Commission income from securities financing	20	0.00	245	0.00
Underwriting income	219,023	5.49	118,142	2.46
Gain on disposal of securities	-	-	581,285	12.12
Income from providing stock management services	34,172	0.86	32,110	0.67
Interest income	1,094,771	27.45	1,163,415	24.25
Dividend income	133,452	3.35	151,022	3.15
Gain on valuation for securities borrowings and bond purchased under resell agreement	115	-	-	-
Gain on issuance of stock warrants	600,289	15.05	173,995	3.63
Futures commission income	62,165	1.56	61,002	1.27
Gain on derivative financial instruments - Futures	151,417	3.80	351,398	7.33
Gain on derivative financial instruments - OTC	41,090	1.03	33,175	0.68
Other operating income	20,388	0.51	129,947	2.71
Total	3,988,507	100.00	4,797,693	100.00

Mega Bills Finance Co., Ltd.

The company is engaged in brokerage, dealing, underwriting and guaranteeing of short-term debt instruments. In 2011, the company's net interest income amounted to NTD 2,407,627 thousand, down NTD 430,534 thousand or 15.17% from the previous year, due to a dramatic decline in interest rate spread. Its non-interest income reached NTD 1,599,847 thousand, increasing NTD 173,660 thousand from 2010.

Breakdown of Net Operating Income

Unit: NT$1,000

Item \ Year	2011		2010	
	Amount	%	Amount	%
Net interest income	2,407,627	60.08	2,838,161	66.56
Non-interest income	1,599,847	39.92	1,426,187	33.44
Fee income – net	712,572	17.78	795,646	18.66
Gains on financial assets and liabilities at fair value through profit or loss	85,780	2.14	221,564	5.19
Realized gain on available-for-sale financial assets	267,225	6.67	335,050	7.86
Loss on asset impairment	0	0.00	(169,957)	(3.99)
Bad debts and overdue accounts recovered, net	414,100	10.33	104,713	2.46
Other non-interest income – net	120,170	3.00	139,171	3.26
Net operating income	4,007,474	100.00	4,264,348	100.00

Chung Kuo Insurance Co., Ltd.

The company is a property and casualty insurer. Total direct written premium income for 2011 amounted to NTD 5,457,747 thousand, up NTD 187,733 thousand compared to the NTD 5,270,014 thousand of 2010. Reinsurance premium income for 2011 reached NTD 664,227 thousand, increasing NTD 8,702 thousand from NTD 655,525 thousand in 2010.

Revenue Breakdown

Unit: NT$1,000

Item \ Year	2011		2010	
	Amount	%	Amount	%
Fire insurance premium	1,405,906	25.76	1,263,431	23.97
Marine cargo insurance premium	266,639	4.89	348,672	6.62
Marine hull insurance premium	446,273	8.18	523,557	9.94
Automobile insurance premium	1,932,813	35.41	1,743,545	33.08
Aviation insurance premium	166,002	3.04	193,968	3.68
Engineering insurance premium	395,510	7.25	357,184	6.78
Accident insurance premium	240,576	4.41	229,552	4.36
Health insurance premium	1,330	0.02	200	-
Other insurance premium	602,698	11.04	609,905	11.57
Total direct written premium income	5,457,747	100.00	5,270,014	100.00
Inward reinsurance premium income	664,227	-	655,525	-
Total	6,121,974	-	5,925,539	-

Mega International Investment Trust Co., Ltd.

The company provides investment management services to institutions and individuals through the various Mega mutual funds. As of the end of 2011, the company's assets under management amounted to NTD 76.11 billion, ranking 10th in the domestic mutual fund market. Its management fee income reached NTD 347,019 thousand in 2011, increasing NTD 52,719 thousand from 2010.

Revenue Breakdown

Unit: NT$1,000

Item \ Year	2011		2010	
	Amount	%	Amount	%
Management fee income from public issued funds	345,780	99.64	293,293	99.89
Management fee income from private equity funds	156	0.05	126	0.08
Management fee income from discretionary account	1,083	0.31	881	0.03
Total	347,019	100.00	294,300	100.00

Mega Asset Management Co., Ltd.

The company is a NPL asset management company. In 2011, the net proceeds from disposal of the NPL and collaterals amounted to NTD 495,748 thousand, an decrease of 13.62% from the previous year, while other operating revenue, which is mainly commission income, increased NTD120,308 thousand from 2010.

Revenue Breakdown

Unit: NT$1,000

Item \ Year	2011		2010	
	Amount	%	Amount	%
Gain on disposal of NPL	539,676	78.54	572,793	88.81
Gain on sale of collaterals	(43,928)	(6.39)	1,134	0.18
Rental income	64	0.01	42	0.01
Other operating revenue	191,269	27.84	70,961	11.00
Operating revenues	687,081	100.00	644,930	100.00

Mega Life Insurance Agency Co., Ltd.

The company provides life insurance agency services to the network of Mega International Commercial Bank and Mega Securities Company. In 2011, the insurance commission income generated by the company amounted to NTD 605,975 thousand, an increase of 63.17% from NTD 371,386 thousand recorded in 2010.

Revenue Breakdown

Unit: NT$1,000

Item \ Year	2011		2010	
	Amount	%	Amount	%
Commission income - traditional policy	595,232	98.23	353,472	95.18
Commission income - investment policy	10,743	1.77	17,914	4.82
Total	605,975	100.00	371,386	100.00

Mega Venture Capital Co., Ltd.

The company is engaged in venture capital investment. In 2011, the company's revenue from disposal of long-term securities investment amounted to NTD 218,500 thousand, down 36.00% from 2010, due to poor stock performance. Its operating income totaled NTD 234,228 thousand, reducing 35.29% from 2010.

Revenue Breakdown

Unit: NT$1,000

Item \ Year	2011		2010	
	Amount	%	Amount	%
Revenue from disposal of long-term securities investment	218,500	93.29	341,427	94.32
Dividend income	15,728	6.71	19,872	5.49
Other operating income	0	-	682	0.19
Total	234,228	100.00	361,981	100.00

5.2 Operating Policies in 2012

1. Fostering cross selling culture to create synergy within the Group

(1) To maintain the existing client's relations and enhance persistency rate of products and services

(2) To enhance resource integration and broaden client penetration for the Group

2. Focusing on core value to maximize shareholder value

(1) Accelerating internationalization process to raise the proportion of overseas profits

(2) To continue our strategic plan for offering services in mainland China and Southeast Asia

3. Strengthening risk management systems

(1) To improve the compilation, analysis, and monitoring of the risk profile of the Group and to issue early warnings of risk in due time

(2) To integrate various subsidiaries' risk management information platforms and enhance the Group risk management information system

(3) To supervise the establishment of risk management mechanisms for subsidiaries

4. Effectively managing capital and enhancing operational performance

(1) To Continue introducing IFRS and enhancing operation and management efficiency

(2) To increase core capital and to plan for an optimal capital scale

(3) To enhance disclosure of financial information to increase transparency in financial information

5. Reinforcing information security and enhancing system operational capability

(1) To strengthen information security management in compliance with the Personal Information Protection Act

(2) To phase out information systems and enhance system operational capability

(3) To strengthen dynamic performance management by using business smart tools

6. Strengthening human resource management and improving organizational effectiveness

(1) To streamline human resource and to implement performance-oriented compensation system

(2) To enhance professional training for employees to develop professional and talents

(3) To continue evaluating and adjusting the organizational structure and enhance operational effectiveness

7. Strengthening relations with institutional investors

(1) To strengthen ties with investors and respond to investors' suggestions in a timely manner

(2) To participate in institutional investment conferences to enhance transparency and investor recognition

8. Others

(1) To implement policies to conserve energy and reduce carbon emissions through carrying out group purchase that reduce office expenses

(2) To actively participate in social charitable works in fulfilling social responsibility and boosting corporate image

(3) To Integrate the Group's property in order to raise overall assets utilization efficiency

5.3 Industry Overview

Financial Holding Company

Since the enactment of the Financial Holding Company Act in July 2001, there have been fourteen financial holding corporations listed on the Taiwan Stock Exchange Corporation (TSEC) or the Gre Tai Securities Market (GTSM) and one wholly state-owned financial holding company. With the launching of the Taiwan Cooperative Financial Holdings in 2011, the total number of the financial holding corporations in Taiwan reached sixteen. However, the fact that the market shares of each bank under its financial holding company account for less than 10% shows that each bank is still relatively small in size, which indicates the lack of economies of scale. As a consequence, overbanking is likely to hinder the development of the industry.

After the signing of the cross-Strait financial MOU and ECFA, the domestic financial service providers will be facing a different environment, and therefore have to employ different strategies. The financial industry in Taiwan not only has to ponder over more concrete and deeper strategies for its "westward expansion" but also has to face competition with the financial institutions from mainland China seeking to enter the Taiwanese market. Looking into future, the Taiwanese financial industry has to develop cross-Strait financial services that are built upon cross-Strait economic and trade ties, such as developing offshore RMB businesses to take advantage of the cross-border RMB settlement mechanism and the recent changes to related policies and regulations.

In view of the global presence of the Taiwanese businesses and their international business operations, financial firms based in Taiwan strive to become regional financial institutions, and seek actively to set up offices not only in mainland China but also in Southeast Asian countries where more Taiwanese businesses operate, such as Thailand, Vietnam, Cambodia, and Indonesia.

Banking Industry

1. Domestic banks continue to post record high profits, significantly raise bad debt provision, and continue to improve asset quality.

In 2011, domestic banks posted another historic high of a profit before taxes of NTD 200 billion with the ROE and the ROA reaching 9.33% and 0.59%, respectively. To meet the requirements by the competent authority to raise loan coverage ratio and increase provision for industries in difficulties, domestic banks raised their bad debt provision to a total of NTD 233.7 billion as of the end of 2011, an increase of NTD 41.4 billion from the end of 2010. The overall NPL coverage ratio and loan coverage ratio in the industry rose to historic record high of 251.83% and 1.09%, respectively, reaching the threshold of 1% set by the Financial Supervisory Commission. At the same time, domestic banks also have seen another record low NPL ratio of 0.43%. These were strong evidences that, while posting record high profits, the banks were also improving their asset quality at the same time.

2. Domestic banks opened up branch offices in mainland China, and will be launching the RMB-related businesses for Taiwanese businesses.

Currently, six Taiwanese banks had set up their branches in mainland China and begun operations for one year. The China Banking Regulatory Commission approved the applications of two Taiwanese banks to open branches in the mainland, but has yet to approve their business operations. Additionally, many banks filed applications for opening up a second branch and a mini-branch. The six banks that had started the operations in their mainland branches for one year now are expected to gain approval this year to conduct RMB-related businesses for Taiwanese businesses. This will help banks raise profits and offer clients comprehensive financial services.

3. Banks began to see both a rising credit cost and the normalization of interest rates of loans, which are expected to facilitate a healthier competition among domestic banks.

To help banks build up sufficient capacity to withstand in the economic downturn, the Financial Supervisory Commission announced that starting from 2012, banks must reach 1% of loan coverage ratio to be eligible for conducting businesses in the eight categories. Consequently, domestic banks significantly increased the provision for bad debt, which affected loan-able funds and raised funding cost. Besides, the competent authority also requires that bank's interest rates of loans should adequately reflect risks to avoid inappropriate competition. Therefore, with the increasing credit cost and raising awareness in credit extension risks, the banking industry is likely to witness a lessened price competition. This will help foster a sound operating environment for the banking industry.

5.4 Market Condition

As of the end of 2011, the outstanding loan of the domestic financial institutions grew 5.58% from 2010. By sectors, the annual growth rate of lending to government enterprises stood at 6.89%. And lending to private enterprises also grew 6.25% from last year due to high demand for capital by Taiwanese businesses entering the Chinese market and active syndicated loan market. Looking into 2012, the growth of financing businesses is likely to be hindered by global economic uncertainties and a growing conservative attitude of manufacturers to invest in capital equipment. Furthermore, with banks' more stringent control on risks, the loan growth in the market is also likely to slowdown.

Among consumer loans, as of the end of 2011, the outstanding mortgage loans increased only by 3.32% from the end of last year due to government efforts to regulate and control prices in the real estate market in 2011. Because of the implementation of the selective credit control policy to regulate and control housing prices in the greater Taipei area, it is expected that the mortgage loans will only see a limited growth in 2012. Since mortgage loans accounted for 80% of the total consumer loans, the overall consumer loans for the year is expected to witness a low growth.

5.5 Human Resources

Item	Year	2011	2010
Number of Employees	Mega FHC	52	52
	Mega Int'l Commercial Bank	5,264	5,032
	Mega Bills Finance	224	222
	Mega Securities	1,579	1,558
	Chung Kuo Insurance	718	709
	Mega Int'l Investment Trust	92	88
	Mega Asset Management	29	29
	Mega Life Insurance Agency	17	18
	Total	7,975	7,708
Average Age	Mega FHC	46.05	45.20
	Mega Int'l Commercial Bank	42.18	42.23
	Mega Bills Finance	41.17	41.04
	Mega Securities	39.00	38.00
	Chung Kuo Insurance	40.40	40.23
	Mega Int'l Investment Trust	40.55	40.05
	Mega Asset Management	40.00	39.00
	Mega Life Insurance Agency	39.02	38.65
Average Years of Services	Mega FHC	7.93	6.93
	Mega Int'l Commercial Bank	16.35	16.41
	Mega Bills Finance	13.44	13.26
	Mega Securities	7.47	6.88
	Chung Kuo Insurance	10.35	10.35
	Mega Int'l Investment Trust	7.82	7.69
	Mega Asset Management	6.00	5.00
	Mega Life Insurance Agency	4.19	3.70

Financial Information

6.1 Five-Year Financial Summary

6.1.1 Condensed Consolidated Balance Sheet

Unit: NT$1,000

Item \ Year	Five-Year Financial Summary					Financial data of 03/31/2012 (Note 1)
	2011	2010	2009	2008	2007	
Cash and cash equivalents, due from the Central Bank and call loans to banks	503,392,393	398,186,065	404,879,166	374,952,541	349,726,523	519,221,396
Financial assets at fair value through profit or loss	188,869,552	162,320,183	127,525,330	198,444,433	210,393,327	185,142,836
Bills and bonds purchased under resell agreements	1,460,685	1,783,691	796,095	1,729,297	4,765,687	3,654,860
Available-for-sale financial assets	161,432,963	185,898,407	233,016,512	232,069,590	255,517,877	165,788,904
Receivables	107,160,487	145,135,808	121,305,198	120,773,646	125,215,337	97,720,714
Bills discounted and Loans	1,462,054,154	1,336,834,541	1,281,835,254	1,321,437,849	1,210,579,613	1,491,065,617
Held-to-maturity financial assets	131,290,215	217,839,872	263,152,861	96,097,583	90,448,402	150,890,243
Equity investments accounted for by the equity method	2,548,394	2,574,762	2,727,944	2,545,633	2,582,607	2,564,526
Property and equipment	21,416,577	21,139,449	23,176,304	24,786,243	23,749,051	22,804,183
Intangible assets	297,150	236,768	323,719	94,703	384,682	278,904
Other financial assets	23,289,566	23,460,086	24,870,737	26,611,797	29,113,851	23,454,517
Other assets	15,189,799	14,438,363	13,922,463	10,069,505	11,283,780	13,897,207
Total assets	2,618,401,935	2,509,847,995	2,497,531,583	2,409,612,820	2,313,760,737	2,676,483,907
Due to the Central Bank and financial institutions	367,548,678	322,704,165	410,577,424	396,503,184	369,971,867	413,313,878
Deposits and remittances	1,588,560,967	1,558,573,139	1,484,004,073	1,316,769,564	1,232,608,275	1,609,521,555
Financial liabilities at fair value through profit or loss	21,312,632	30,019,921	35,384,545	51,434,065	53,104,691	22,359,747
Bills and bonds sold under repurchase agreements	199,581,332	181,816,680	171,365,526	248,491,993	246,995,517	184,906,660
Funds borrowed from the Central Bank and other banks	71,873,400	38,568,640	43,320,303	53,185,187	42,997,399	59,474,224
Bonds payable	61,401,059	53,050,000	50,153,000	54,349,347	33,215,871	61,413,174
Reserve for operations and liabilities	13,610,468	14,250,677	14,024,884	13,322,952	11,714,177	14,580,821
Other financial liabilities	19,798,841	27,388,095	23,032,634	12,117,937	51,360,441	24,518,157
Other liabilities	71,535,832	82,235,952	69,373,699	85,404,208	77,141,077	75,004,215
Total liabilities	2,415,223,209	2,308,607,269	2,301,236,088	2,231,578,437	2,119,109,315	2,465,092,431
Equity attributable to stockholders of the Company – Capital stock	112,806,148	110,594,262	110,594,262	110,594,262	110,594,262	112,806,148
Equity attributable to stockholders of the Company – Capital surplus	43,426,403	43,426,403	43,426,403	43,426,403	45,182,901	43,426,403
Equity attributable to stockholders of the Company – Retained earnings – Before distribution	41,960,123	35,967,476	31,916,182	20,349,144	34,039,308	48,622,794
Equity attributable to stockholders of the Company – Retained earnings – After distribution	Note 2	23,802,107	20,856,756	17,584,288	17,850,859	Note 2
Equity attributable to stockholders of the Company – Equity adjustments	4,688,712	10,882,979	9,717,733	3,108,674	4,151,275	6,217,500
Minority interest	297,340	369,606	640,915	555,900	683,676	318,631
Total stockholders' equity – Before distribution	203,178,726	201,240,726	196,295,495	178,034,383	194,651,422	211,391,476
Total stockholders' equity – After distribution	Note 2	191,287,243	185,236,069	175,269,527	180,666,739	Note 2

Note 1: The financial statements as of March 31, 2012 have been reviewed by Mr. LI, Chang-Chou, Ms. Lee, Hsiu-Ling of PricewaterhouseCoopers with a modified unqualified review report.

Note 2: The earnings distribution for 2011 has not been resolved by the shareholders' meeting.

6.1.2 Condensed Consolidated Income Statement

Unit: NT$1,000 (except EPS in NT$)

Item \ Year		Five-Year Financial Summary 2011	2010	2009	2008	2007	First Quarter of 2012 (Note)
Interest income, net		28,279,104	25,063,829	26,475,701	30,523,536	26,295,736	7,623,727
Revenues other than interest, net		17,472,046	17,347,296	19,956,601	813,598	20,853,288	5,722,024
Bad debts expense on loans		3,714,335	2,233,788	7,305,574	8,361,560	6,671,664	418,255
Provisions for insurance reserve		(67,136)	544,604	22,302	287,055	67,383	161,850
Operating expenses		20,988,447	20,993,041	20,048,239	19,603,411	20,377,788	4,985,751
Income from continuing operations-before tax		21,115,504	18,639,692	19,056,187	3,085,108	20,032,189	7,779,895
Consolidated net income from continuing operations-after tax		17,685,682	15,149,618	14,344,870	262,022	17,114,558	6,664,377
Income from discontinued departments		0	0	0	0	0	0
Extraordinary gain or loss		0	0	0	0	0	0
Cumulative effect of changes in accounting principles (after tax)		0	0	0	0	0	0
Consolidated net income	Attributable to stockholders of the Company	17,679,892	15,110,720	14,331,894	294,519	17,070,391	6,662,672
	Attributable to minority interest	5,790	38,898	12,976	(32,497)	44,167	1,705
Earnings per share	Stockholders of the Company	1.57	1.34	1.30	0.02	1.54	0.59
	Minority interest	0	0	0	0	0.01	0

Note : The financial statements as of March 31, 2012 have been reviewed by Mr. LI, Chang-Chou, Ms. Lee, Hsiu-Ling of PricewaterhouseCoopers with a modified unqualified review report.

6.1.3 Independent Auditors' Name and Opinion

Year	CPA Firm	CPA's Name	Audit Opinion
2011	PricewaterhouseCoopers, Taiwan	Li, Chang-Chou, Lee, Hsiu-Ling	Unqualified Opinion
2010	PricewaterhouseCoopers, Taiwan	Li, Chang-Chou, Lee, Hsiu-Ling	Unqualified Opinion
2009	PricewaterhouseCoopers, Taiwan	Li, Chang-Chou, Lee, Hsiu-Ling	Modified Unqualified Opinion
2008	PricewaterhouseCoopers, Taiwan	Li, Chang-Chou, Lee, Hsiu-Ling	Modified Unqualified Opinion
2007	PricewaterhouseCoopers, Taiwan	Lee, Hsiu-Ling, Li, Chang-Chou	Modified Unqualified Opinion

6.1.4 Condensed Balance Sheet

Unconsolidated

Unit: NT$1,000

Item \ Year		Five-Year Financial Summary 2011	2010	2009	2008	2007	Financial data of 03/31/2012 (Note 1)
Cash and cash equivalents		4,276,849	2,689,068	3,973,949	1,276,998	146,510	4,163,398
Available-for-sale financial assets		5,279,193	7,147,325	4,326,506	3,654,882	5,195,972	5,228,268
Receivables		715,141	2,182,939	2,109,325	4,368,517	4,976,822	839,464
Equity investments accounted for by the equity method		218,167,682	214,061,392	212,270,268	196,065,435	207,202,317	226,592,978
Property and equipment		784,065	702,490	727,187	759,660	806,047	779,368
Other financial assets		762,046	762,046	762,046	762,046	762,046	760,072
Other assets		19,173	200,888	264,016	152,512	168,629	15,219
Total assets		230,004,149	227,746,148	224,433,297	207,040,050	219,258,343	238,378,767
Financial liabilities at fair value through profit or loss		0	0	0	0	0	8,400
Payables		10,778,190	11,083,061	9,289,859	10,071,386	9,259,187	10,936,580
Bonds payable		16,301,059	15,750,000	19,450,000	19,450,000	4,000,000	16,313,174
Other financial liabilities		0	0	0	0	11,996,220	0
Other liabilities		43,514	41,967	38,858	40,181	35,190	47,768
Total liabilities	Before distribution	27,122,763	26,875,028	28,778,717	29,561,567	25,290,597	27,305,922
	After distribution	Note 2	36,828,511	39,838,143	32,326,423	39,275,280	Note 2
Capital stock		112,806,148	110,594,262	110,594,262	110,594,262	110,594,262	112,806,148
Capital surplus		43,426,403	43,426,403	43,426,403	43,426,403	45,182,901	43,426,403
Retained earnings	Before distribution	41,960,123	35,967,476	31,916,182	20,349,144	34,039,308	48,622,794
	After distribution	Note 2	23,802,107	20,856,756	17,584,288	20,054,625	Note 2
Equity Adjustments		4,688,712	10,882,979	9,717,733	3,108,674	4,151,275	6,217,500
Total stockholders' Equity	Before distribution	202,881,386	200,871,120	195,654,580	177,478,483	193,967,746	211,072,845
	After distribution	Note 2	190,917,637	184,595,154	174,713,627	179,983,063	Note 2

Note 1: The financial statements as of March 31, 2012 have been reviewed by Mr. LI, Chang-Chou, Ms. Lee, Hsiu-Ling of PricewaterhouseCoopers with a modified unqualified review report.

Note 2: The earnings distribution for 2011 has not been resolved by the shareholders' meeting.

6.1.5 Condensed Income Statement

Unconsolidated

Unit: NT$1,000 (except EPS in NT$)

Item \ Year	Five-Year Financial Summary					First Quarter of 2012 (Note)
	2011	2010	2009	2008	2007	
Investment income from equity investments accounted for by the equity method	18,111,631	16,099,414	15,190,437	858,051	17,395,529	6,845,584
Other income	290,135	32,523	21,403	49,816	124,532	11,116
Operating expenses	352,549	339,879	328,786	325,766	323,057	91,078
Other expenses and losses	364,912	490,865	514,215	411,000	438,223	98,195
Income before income tax	17,684,305	15,301,193	14,368,839	171,101	16,758,781	6,667,427
Net income	17,679,892	15,110,720	14,331,894	294,519	17,070,391	6,662,672
Earnings per share (before tax)	1.57	1.36	1.30	0.02	1.52	0.59
Earnings per share (after tax)	1.57	1.34	1.30	0.03	1.54	0.59

Note: The financial statements as of March 31, 2012 have been reviewed by Mr. LI, Chang-Chou, Ms. Lee, Hsiu-Ling of PricewaterhouseCoopers with a modified unqualified review report.

6.2 Five-Year Financial Analysis

Unit: NT$1,000; %

Item	Year	Five-year Financial Analysis 2011	2010	2009	2008	2007	First Quarter of 2012
Operating Ability	Total Assets Turnover	0.08	0.07	0.07	0.004	0.08	0.03
	Loans to Deposits Ratio of Bank Subsidiary (%)	93.03	86.70	87.31	100.95	99.27	93.47
	NPL Ratio of Bank Subsidiary (%)	0.24	0.34	0.95	1.16	1.00	0.20
	NPL Ratio of Bills Finance Subsidiary (%)	0.00	0.09	0.38	0.51	0.61	0.00
	Average Operating Revenue Per Employee of the Group	5,399	5,003	5,443	3,563	5,374	1,579
	Average Profit Per Employee of the Group	2,087	1,805	1,681	30	1,955	788
Profitability	Return on Assets (%)	7.86	6.86	6.82	0.28	7.82	2.88
	Return on Equity (%)	8.76	7.62	7.68	0.16	8.67	3.22
	Net Income Margin (%)	96.08	93.67	94.22	32.44	97.43	97.17
	Earnings Per Share (NT$)	1.57	1.34	1.30	0.03	1.54	0.59
Financial Structure (%)	Ratio of Liabilities to Assets	11.79	11.80	12.82	14.28	11.53	11.45
	Ratio of Liabilities to Net Worth	13.37	13.38	14.71	16.66	13.04	12.94
	FHC's Double Leverage Ratio	110.51	110.50	111.09	112.96	109.89	110.19
Leverage Ratio (%)	Operating Leverage Ratio	0.99	1.00	1.00	1.07	1.00	1.00
	FHC's Financial Leverage Ratio	1.02	1.03	1.04	3.39	1.03	1.01
Growth Rates (%)	Growth Rate of Assets	0.99	1.48	8.40	(5.57)	(2.89)	3.75
	Growth Rate of Profit	15.57	6.49	8,297.87	(98.98)	5.73	34.11
Cash Flow (%)	Cash Flow Ratio	1,007.27	581.84	215.68	492.77	90.01	-
	Cash Flow Adequacy Ratio	100.60	91.62	79.92	78.22	84.74	-
	Cash Flow For Operating to Cash Flow From Investing	NA	NA	173.42	NA	270.80	-
Operating Scale (%)	Market Share of Assets	10.21	10.48	10.72	11.57	12.81	-
	Market Share of Net Worth	10.26	10.61	10.79	11.50	12.62	-
	Market Share of Deposits of Bank Subsidiary	5.22	5.33	5.36	5.09	5.08	-
	Market Share of Loans of Bank Subsidiary	6.21	6.16	6.32	6.49	6.20	-
Capital of Adequacy Ratio (%)	Mega International Commercial Bank	11.56	11.26	11.73	11.20	10.54	-
	Mega Securities Co., Ltd.	550.96	364.29	314.34	292.77	285.20	-
	Mega Bills Finance Co., Ltd.	14.48	16.22	16.88	14.09	11.72	-
	Chung Kuo Insurance Co., Ltd.	560.29	570.01	661.61	584.88	927.56	-
	Group Capital Adequacy Ratio	125.55	122.94	126.13	117.96	108.99	-

Analysis of financial ratio change in the last two years:

1. The decrease in NPL ratio of Mega International Commercial Bank and Mega Bills Finance Co., Ltd. is primarily resulting from write-off of bad debts.
2. The growth rate of assets declined by 33.11% mainly due to reduction in receivables, available-for-sale financial assets. The growth rate of profit increased by 139.91% owing to increase of investment income and valuation profits on financial liability.
3. The 51.24% increase in BIS ratio of Mega Securities Company mainly comes from decrease of equivalent amount for operational risk.
4. The cash flow ratio rose by 73.12% in 2011 due to decrease in payables.

Formulas of the above financial analysis are as follows:

1. Operating Ability

(1) Total Assets Turnover = Net Revenue / Total Assets

(2) Loans to Deposits Ratio of Bank Subsidiary = Total Loans Outstanding of Bank Subsidiary / Total Deposits Outstanding of Bank Subsidiary

(3) NPL Ratio of Bank Subsidiary = Non-Performing Loans of Bank Subsidiary / Total Loans Outstanding of Bank Subsidiary

(4) Average Operating Revenue Per Employee of the Group = Net Revenue (Revenue) / Total Number of Group's Employee

(5) Average Profit per Employee of the Group = Net Income / Total Number of the Group's Employee

2. Profitability

(1) Return on Assets = [Net Income + Interest Expense × (1- Tax Rate)] / Average Total Assets

(2) Return on Equity = Net Income / Average Shareholders' Equity

(3) Net Income Margin = Net Income / Net Revenue

(4) Earnings Per Share = (Net Income - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding

3. Financial Structure

(1) Ratio of Liabilities to Assets = Total Liabilities / Total Assets

(2) Ratio of Liabilities to Net Worth = Total Liabilities / Total Shareholders' Equity

(3) Financial Holding Company's Double Leverage Ratio = Equity Investment Made Under Paragraph 2 of Article 36 and Article 37 of Financial Holding Company Act / New Worth

4. Leverage

(1) Operating Leverage Ratio = (Net Sales - Variable Cost) / Net Income Before Tax

(2) Financial Leverage Ratio = (Income before Tax + Interest Expense) / Net Income Before Tax

5. Growth Rates

(1) Growth Rate of Assets = (Total Assets - Total Assets of Previous Year) / Total Assets of Previous Year

(2) Growth Rate of Profit = (Net Income Before Tax - Net Income Before Tax of Previous Year) / Net Income Before Tax of Previous Year

6. Cash Flow

(1) Cash Flow Ratio = Net Cash Provided by Operating Activities / (Due to Other Banks and Overdrafts + Commercial Paper Payable + Financial Liabilities at Fair Value Through Profit or Loss + Bills and Bonds Sold Under Repurchase Agreements + Payables with Maturity within One Year)

(2) Cash Flow Adequacy Ratio = Five-Year Sum of Cash from Operations / Five-Year Sum of Capital Expenditures and Cash Dividend

(3) Cash Flow for Operating to Cash Flow from Investing = Net Cash Provided by Operating Activities / Net Cash Provided by Investing Activities

7. Operating Scale

(1) Market Share of Assets = Total Assets / Total Assets of All Financial Holding Companies

(2) Market Share of New Worth = New Worth / Total Net Worth of All Financial Holding Companies

(3) Market Share of Deposits of Bank Subsidiary = Total Deposits Outstanding / Total Deposits of All Financial Institutions

(4) Market Share of Loans of Bank Subsidiary = Total Loans Outstanding / Total Loans of All Financial Institutions

8. BIS Ratio

(1) Subsidiary's Capital Adequacy Ratio = Capital Base / Risk Weighted Assets

(2) Group Capital Adequacy Ratio = Group's Net Eligible Capital / Group's Statutory Capital Requirement

6.3 Consolidated Financial Statements

Report of Independent Accountants

The Board of Directors and Stockholders
Mega Financial Holding Co., Ltd.

We have audited the accompanying consolidated balance sheets of Mega Financial Holding Co., Ltd. and its subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mega Financial Holding Co., Ltd. and its subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with the "Regulations Governing the Preparation of Financial Reports by Financial Holding Companies", "Regulations Governing the Preparation of Financial Reports by Public Banks", "Regulations Governing the Preparation of Financial Reports by Public Held Bills Finance Companies", "Regulations Governing the Preparation of Financial Reports by Securities Firms", "Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants", "Regulations Governing the Preparation of Financial Reports by Enterprises Engaging in Insurance", "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and accounting principles generally accepted in the Republic of China.

The consolidated financial statements of Mega Financial Holding Co., Ltd. and its subsidiaries as of and for the year ended December 31, 2011 expressed in US dollars were translated from the New Taiwan dollar consolidated financial statements using the exchange rate of US$1:NT$30.272 as of December 31, 2011 solely for the convenience of the readers. This basis of translation is not in accordance with generally accepted accounting principles in the Republic of China.

March 27, 2012 PricewaterhouseCoopers, Taiwan

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the review of such consolidated financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and review report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

MEGA FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2011 AND 2010

(Expressed in Thousands of Dollars)

ASSETS	December 31, 2011 NT$	December 31, 2011 US$	December 31, 2010 NT$
Cash and cash equivalents (Notes 4 (1) and 5)	$ 322,992,872	$ 10,669,691	$ 271,737,992
Due from the Central Bank and call loans to banks (Notes 4 (2) and 5)	180,399,521	5,959,287	126,448,073
Financial assets at fair value through profit or loss (Notes 4 (3) and 6)	188,869,552	6,239,084	162,320,183
Bills and bonds purchased under resale agreements	1,460,685	48,252	1,783,691
Receivables, net (Notes 4 (4), (6) and 6)	107,160,487	3,539,921	145,135,808
Bills discounted and loans, net (Notes 4 (5), (6) and 5)	1,462,054,154	48,297,243	1,336,834,541
Available-for-sale financial assets, net (Notes 4 (7), (32) and 6)	161,432,963	5,332,749	185,898,407
Held-to-maturity financial assets, net (Notes 4 (8), (32) and 6)	131,290,215	4,337,018	217,839,872
Equity investments accounted for by the equity method, net (Note 4 (9))	2,548,394	84,183	2,574,762
Other financial assets, net (Notes 4 (10), (32) and 6)	23,289,566	769,343	23,460,086
Real estate investments, net (Note 6)	480,452	15,871	468,997
Property and equipment, net (Notes 4 (11), (32) and 6)	21,416,577	707,472	21,139,449
Intangible assets, net	297,150	9,816	236,768
Other assets, net (Notes 4 (12), (30), (32), 5 and 6)	14,709,347	485,906	13,969,366
TOTAL ASSETS	$ 2,618,401,935	$ 86,495,836	$ 2,509,847,995

The accompanying notes are an integral part of these consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2011 NT$	December 31, 2011 US$	December 31, 2010 NT$
Due to the Central Bank and financial institutions (Notes 4 (13) and 5)	$ 367,548,678	$ 12,141,539	$ 322,704,165
Funds borrowed from the Central Bank and other banks (Note 4 (14))	71,873,400	2,374,253	38,568,640
Commercial paper payable, net (Notes 4 (15) and 5)	1,749,387	57,789	8,862,396
Financial liabilities at fair value through profit or loss (Note 4 (16))	21,312,632	704,038	30,019,921
Bills and bonds sold under repurchase agreements (Notes 4 (3), (7) and (17))	199,581,332	6,592,935	181,816,680
Payables (Notes 4 (18), (30) and 5)	58,514,085	1,932,944	71,479,379
Deposits and remittances (Notes 4 (19) and 5)	1,588,560,967	52,476,248	1,558,573,139
Bonds payable (Note 4 (20))	61,401,059	2,028,312	53,050,000
Other loans (Notes 4 (21) and 6)	5,429,400	179,354	11,168,000
Accrued pension liability (Note 4 (22))	2,069,310	68,357	1,805,559
Reserve for operations and liabilities (Note 4 (23))			
Reserve for insurance	8,532,270	281,854	9,283,446
Other reserves	5,078,198	167,752	4,967,231
Other financial liabilities (Note 4 (24))	12,620,054	416,889	7,357,699
Other liabilities (Notes 4 (11) and (25))	10,952,437	361,801	8,951,014
Total Liabilities	2,415,223,209	79,784,065	2,308,607,269
Stockholders' Equity			
Capital stock			
Common stock (Note 4 (26))	112,806,148	3,726,419	110,594,262
Capital surplus (Note 4 (27))	43,426,403	1,434,540	43,426,403
Retained earnings (Note 4 (28))			
Legal reserve	18,298,900	604,483	16,787,828
Special reserve	833,091	27,520	354,967
Unappropriated retained earnings	22,828,132	754,101	18,824,681
Equity adjustments			
Unrealized revaluation increment	2,206,808	72,899	2,319,945
Cumulative translation adjustments	1,505,518	49,733	829,397
Unrealized gains or losses on financial instruments	1,033,669	34,146	7,733,637
Net loss on unrecognized pension cost	(57,283)	(1,892)	-
Minority interest	297,340	9,822	369,606
Total Stockholders' Equity	203,178,726	6,711,771	201,240,726
Commitments and Contingent Liabilities (Note 7)			
Significant Subsequent Events (Note 9)			
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,618,401,935	$ 86,495,836	$ 2,509,847,995

MEGA FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(Expressed in Thousands of Dollars, Except Earnings Per Share Amounts)

	For the Years Ended December 31,		
	2011		2010
	NT$	US$	NT$
Interest income (Note 5)	$ 41,474,318	$ 1,370,055	$ 36,120,844
Less: Interest expense (Note 5)	(13,195,214)	(435,888)	(11,057,015)
Interest income, net	28,279,104	934,167	25,063,829
Revenues other than interest, net			
Service fee revenue and commissions, net (Note (4) 29 and (5))	8,796,841	290,593	9,543,624
Insurance revenue, net	1,312,671	43,362	1,571,582
Gain from financial assets and liabilities at fair value through profit or loss (Note 5)	(652,778)	(21,564)	1,997,917
Realized gain on available-for-sale financial assets, net	1,328,018	43,870	1,247,843
Realized gain on held-to-maturity financial assets, net	8,980	297	21,990
Investment income from equity investments accounted for by the equity method	152,248	5,029	183,496
Gain on real estate investments	1,835	61	1,953
Foreign exchange gain	1,514,526	50,031	1,928,606
Gain on disposal of assets (Note 11)	1,002,108	33,103	(3,137)
Loss on asset impairment (Note 4 (33))	(195,758)	(6,467)	(1,081,420)
Gain on financial assets carried at cost, net	734,243	24,255	579,677
Gain on sale of non-performing loans (Note 11)	2,046,138	67,592	643,212
Bad debts and overdue accounts recovered, net	439,536	14,520	200,801
Other losses (Note 4 (7))	-	-	(3,007,951)
Other reserves (Note 4 (7))	(1,509)	(50)	2,193,593
Other revenue other than interest income	984,947	32,537	1,325,510
Net revenue	45,751,150	1,511,336	42,411,125
Bad debts expense (Notes 4(6),(10) and (23))	(3,714,335)	(122,699)	(2,233,788)
Provisions for insurance reserves	67,136	2,218	(544,604)
Operating Expenses			
Personnel expenses (Note 4 (30))	(13,898,515)	(459,121)	(14,468,002)
Depreciation and amortization (Note 4 (30))	(824,501)	(27,237)	(885,980)
Other business and administrative expenses (Note 5)	(6,265,431)	(206,971)	(5,639,059)
Income before Income Tax	21,115,504	697,526	18,639,692
Income Tax Expense (Note 4 (31))	(3,429,822)	(113,300)	(3,490,074)
Consolidated Net Income	$ 17,685,682	$ 584,226	$ 15,149,618
Consolidated Net Income Attributable to:			
Stockholders of the Company	$ 17,679,892	$ 584,035	$ 15,110,720
Minority interest	5,790	191	38,898
	$ 17,685,682	$ 584,,226	$ 15,149,618

	Before Taxes	After Taxes	Before Taxes	After Taxes	Before Taxes	After Taxes
Earnings per share (in dollars) (Note 4 (32))						
Consolidated net income	$ 1.87	$ 1.57	$ 0.06	$ 0.05	$ 1.65	$ 1.34
Diluted earnings per share (in dollars) (Note 4 (32))						
Consolidated net income	$ 1.87	$ 1.57	$ 0.06	$ 0.05	$ 1.65	$ 1.34

The accompanying notes are an integral part of these consolidated financial statements.

MEGA FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(Expressed in Thousands of Dollars)

	For the Years Ended December 31,		
	2011		2010
	NT$	US$	NT$
Cash Flows from Operating Activities			
Consolidated net income attributable to stockholders of the company	$ 17,679,892	$ 584,035	$ 15,110,720
Consolidated net income attributable to minority interest	5,790	191	38,898
Adjustments to reconcile consolidated net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	824,501	27,237	885,980
Valuation gain from financial assets and liabilities	(911,730)	(30,118)	(1,100,922)
Investment income from equity investments accounted for by the equity method	(152,248)	(5,029)	(183,496)
Cash dividends distributed by equity investments accounted for by the equity method	136,306	4,503	129,034
Bad debts expense	3,714,335	122,699	2,233,788
Loss on asset impairment	195,758	6,467	1,081,420
(Reversal of) provisions for insurance reserves	(67,136)	(2,218)	544,604
Gain from disposal of assets, net	(1,002,108)	(33,103)	3,137
Loss on scrapped assets	(509)	(17)	304
(Reversal of) provisions for other reserves	1,509	50	(2,193,593)
Changes in assets and liabilities:			
Increase in financial assets at fair value through profit or loss	(25,637,639)	(846,909)	(33,693,931)
Decrease (increase) in bills and bonds purchased under resale agreements	323,006	10,670	(987,596)
Decrease (increase) in receivables	39,702,243	1,311,517	(27,696,254)
Increase in other financial assets	(100,073)	(3,306)	(675,996)
Net change in deferred income tax assets/liabilities	201,029	6,641	774,095
(Increase) decrease in other assets	(3,230,655)	(106,721)	1,778,714
Decrease in financial liabilities at fair value through profit or loss	(8,707,289)	(287,635)	(5,364,624)
(Decrease) increase in payables	(12,898,788)	(426,097)	13,913,915
Increase (decrease) in accrued pension liability	263,751	8,712	(150,281)
Increase (decrease) in other financial liabilities	5,262,355	173,835	(2,108,100)
Increase (decrease) in other liabilities	2,132,674	70,450	(1,402,172)
Net cash provided by (used in) operating activities	17,734,974	585,854	(39,062,356)
Cash Flows from Investing Activities			
Increase in due from the Central Bank and call loans to banks	(53,951,507)	(1,782,225)	(35,773,419)
Increase in bills discounted and loans	(128,325,506)	(4,239,082)	(52,661,996)
Decrease in available-for-sale financial assets	16,856,533	2,472	49,985,619
Decrease in held-to-maturity financial assets	86,549,657	556,836	45,337,820
Decrease in financial instruments carried at cost	74,835	2,859,066	329,260
Proceeds from capital reduction of equity investments accounted for by the equity method	26,880	888	206,880
Proceeds from sale of property and equipment	1,107,197	36,575	15,744
Acquisition of property and equipment	(728,928)	(24,079)	(675,612)
Acquisition of intangible assets	(88,966)	(2,939)	(4,121)
Net cash (used in) provided by investing activities	(78,479,805)	(2,592,488)	6,760,175
Cash Flows from Financing Activities			
Increase in bills and bonds sold under repurchase agreements	17,764,652	586,834	10,451,154
Increase (decrease) in due to the Central Bank and financial institutions	44,844,513	1,481,386	(87,873,259)
Increase (decrease) in funds borrowed from the Central Bank and financial institutions	33,304,760	1,100,184	(4,751,663)
(Decrease) increase in commercial papers payable	(7,113,009)	(234,970)	1,756,730
Increase in deposits and remittances	29,987,828	990,613	79,374,497
Increase in bonds payable	8,351,059	275,867	2,897,000
Decrease in other loans	(5,738,600)	(189,568)	(98,600)
Decrease in minority interest	(72,266)	(2,387)	(271,309)
Payments of cash dividends	(9,953,483)	(328,802)	(11,059,426)
Net cash provided by (used in) financing activities	111,375,454	3,679,157	(9,574,876)
Effect of changes in foreign exchange rate	624,257	20,622	(589,391)
Net increase (decrease) in cash and cash equivalents	51,254,880	1,693,145	(42,466,448)
Cash and cash equivalents, beginning of year	271,737,992	8,976,546	314,204,440
Cash and cash equivalents, end of year	$ 322,992,872	$ 10,669,691	$ 271,737,992
Supplemental cash flow information:			
Interest paid	$ 12,690,535	$ 419,217	$ 12,055,945
Income tax paid	$ 5,843,278	$ 193,026	$ 4,384,807
Non-cash Investing And Financing Activities			
Payables - corporate bonds within 1 year of maturity	$ 300,000	$ 9,910	$ 12,125,261

The accompanying notes are an integral part of these consolidated financial statements.

MEGA FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	Common Stock	Capital Surplus
For the year ended December 31, 2010 (Expressed in Thousands of New Taiwan Dollars)		
Balance, January 1, 2010	$ 110,594,262	$ 43,426,403
Earnings distribution for 2009 (Note)		
Legal reserve	-	-
Cash dividends	-	-
Adjustments in other stockholders' equity arising from long-term equity investments		
Changes in unrealized gains or losses on available-for-sale financial assets	-	-
Changes in cumulative translation adjustments	-	-
Consolidated net income for the year ended December 31, 2010	-	-
Changes in unrealized gains or losses on available-for-sale financial assets	-	-
Changes in minority interest	-	-
Balance, December 31, 2010	$ 110,594,262	$ 43,426,403
For the year ended December 31, 2011 (Expressed in Thousands of New Taiwan Dollars)		
Balance, January 1, 2011	$ 110,594,262	$ 43,426,403
Earnings distribution for 2010 (Note)		
Legal reserve	-	-
Cash dividends	-	-
Stock dividends	2,211,886	-
Adjustments in other stockholders' equity arising from long-term equity investments		
Changes in unrealized gains or losses on available-for-sale financial assets	-	-
Changes in cumulative translation adjustments	-	-
Default loss reserve transferred as special reserve	-	-
Trading loss reserve transferred as special reserve	-	-
Changes in asset revaluation increments	-	-
Net loss on unrecognized pension cost	-	-
Consolidated net income for the year ended December 31, 2011	-	-
Changes in unrealized gains or losses on available-for-sale financial assets	-	-
Changes in minority interest	-	-
Balance, December 31, 2011	$ 112,806,148	$ 43,426,403
For the year ended December 31, 2011 (Expressed in Thousands of US Dollars)		
Balance, January 1, 2011	$ 3,653,352	$ 1,434,540
Earnings distribution for 2010 (Note)		
Legal reserve	-	-
Cash dividends	-	-
Stock dividends	73,067	-
Adjustments in other stockholders' equity arising from long-term equity investments		
Changes in unrealized gains or losses on available-for-sale financial assets	-	-
Changes in cumulative translation adjustments	-	-
Default loss reserve transferred as special reserve	-	-
Trading loss reserve transferred as special reserve	-	-
Changes in asset revaluation increments	-	-
Net loss on unrecognized pension cost	-	-
Consolidated net income for the year ended December 31, 2011	-	-
Changes in unrealized gains or losses on available-for-sale financial assets	-	-
Changes in minority interest	-	-
Balance, December 31, 2011	$ 3,726,419	$ 1,434,540

Note：Remunerations to directors and supervisors amounting to NT$64,493 and NT $67,998 thousand and employee bonuses amounting to NT $20,637 and NT $10,892 thousand for 2009 and 2010, respectively, had been deducted from the statement of income.

The accompanying notes are an integral part of these consolidated financial statements.

Retained Earnings			Unrealized Revaluation Increments	Cumulative Translation Adjustments	Unrealized Gains or Losses on Financial Instruments	Net Loss on Unrecognized Pension Cost	Minority Interest	Total
Legal Reserve	Special Reserve	Unappropriated Retained Earnings						
$ 15,354,639	$ 354,967	$ 16,206,576	$ 2,319,945	$ 1,598,513	$ 5,799,275	$ -	$ 640,915	$ 196,295,495
1,433,189	-	(1,433,189)	-	-	-	-	-	-
-	-	(11,059,426)	-	-	-	-	-	(11,059,426)
-	-	-	-	-	(886,457)	-	-	(886,457)
-	-	-	-	(769,116)	-	-	-	(769,116)
-	-	15,110,720	-	-	-	-	38,898	15,149,618
-	-	-	-	-	2,820,819	-	-	2,820,819
-	-	-	-	-	-	-	(310,207)	(310,207)
$ 16,787,828	$ 354,967	$ 18,824,681	$ 2,319,945	$ 829,397	$ 7,733,637	$ -	$ 369,606	201,240,726
$ 16,787,828	$ 354,967	$ 18,824,681	$ 2,319,945	$ 829,397	$ 7,733,637	$ -	$ 369,606	$ 201,240,726
1,511,072	-	(1,511,072)	-	-	-	-	-	-
-	-	(9,953,483)	-	-	-	-	-	(9,953,483)
-	-	(2,211,886)	-	-	-	-	-	-
-	-	-	-	-	(4,831,835)	-	-	(4,831,835)
-	-	-	-	676,121	-	-	-	676,121
-	195,344	-	-	-	-	-	-	195,344
-	282,780	-	-	-	-	-	-	282,780
-	-	-	(113,137)	-	-	-	-	(113,137)
-	-	-	-	-	-	(57,283)	-	(57,283)
-	-	17,679,892	-	-	-	-	5,790	17,685,682
-	-	-	-	-	(1,868,133)	-	-	(1,868,133)
-	-	-	-	-	-	-	(78,056)	(78,056)
$ 18,298,900	$ 833,091	$ 22,828,132	$ 2,206,808	$ 1,505,518	$ 1,033,669	($ 57,283)	$ 297,340	203,178,726
$ 554,567	$ 11,726	$ 621,851	$ 76,636	$ 27,398	$ 255,472	$ -	$ 12,209	$ 6,647,751
49,916	-	(49,916)	-	-	-	-	-	-
-	-	(328,802)	-	-	-	-	-	(328,802)
-	-	(73,067)	-	-	-	-	-	-
-	-	-	-	-	(159,614)	-	-	(159,614)
-	-	-	-	22,335	-	-	-	22,335
-	6,453	-	-	-	-	-	-	6,453
-	9,341	-	-	-	-	-	-	9,341
-	-	-	(3,737)	-	-	-	-	(3,737)
-	-	-	-	-	-	(1,892)	-	(1,892)
-	-	584,035	-	-	-	-	191	584,226
-	-	-	-	-	(61,712)	-	-	(61,712)
-	-	-	-	-	-	-	(2,578)	(2,578)
$ 604,483	$ 27,520	$ 754,101	$ 72,899	$ 49,733	$ 34,146	($ 1,892)	$ 9,822	$ 6,711,771

MEGA FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Indicated)

1. ORGANIZATION AND OPERATIONS

CTB Financial Holding Co., Ltd. was formed by Chiao Tung Bank Co., Ltd. ("CTB") and International Securities Co., Ltd. ("IS") through a share swap on February 4, 2002 pursuant to the Financial Holding Company Act and other related laws. The Company's shares have been publicly traded on the Taiwan Stock Exchange since February 4, 2002. On August 22, 2002, the Company further acquired Chung Hsing Bills Finance Corporation and Barits Securities Co., Ltd. ("BS") (which later merged with IS on January 31, 2003, with IS being the surviving entity and was later renamed Barits International Securities Co., Ltd. ("BIS") as one of the subsidiaries of the Company through a second share swap. On December 31, 2002, the Company also acquired 100% equity stock in both The International Commercial Bank of China ("ICBC"), an investee of the Company originally accounted for by the equity method with a 28% equity interest, and Chung Kuo Insurance Co., Ltd. ("CKI") through a further share swap and changed its name from CTB Financial Holding Co., Ltd. to Mega Financial Holding Co., Ltd. (the "Company"). During the period from 2003 to 2005, the Company had made investments in Mega Asset Management Co., Ltd. ("MAM"), Mega Investment Trust Co., Ltd. ("MITC"), Mega Life Insurance Agency Co., Ltd. ("MLIAC") and Mega CTB Venture Capital Co., Ltd. ("Mega CTB Venture Capital"). On May 23, 2006, International Investment Trust Co., Ltd. ("IIT") was acquired by the Company and ICBC through cash injection of capital.

In order to expand the economic scale of its business operations, two of the Company's subsidiaries, CTB and ICBC, entered into a merger agreement, effective from August 21, 2006, which is to be implemented by way of "absorption", with CTB being the dissolving bank and ICBC, later renamed Mega International Commercial Bank Co., Ltd. being the surviving bank. In addition, IIT and MITC entered into a merger agreement, with MITC as the dissolving company and IIT simultaneously renamed Mega International Investment Trust Co., Ltd., being the surviving company, effective from September 17, 2007.

In coordination with the Mega Financial Holding's group image as well as business development, all subsidiaries have been renamed as "Mega" in 2006. A comparison of the former company names and the new company names is as follows:

Former Company Names	New Company Names
Barits International Securities Co., Ltd.	Mega Securities Co., Ltd.
Chung Hsing Bills Finance Corporation	Mega Bills Finance Co., Ltd.
International Commercial Bank of China	Mega International Commercial Bank Co., Ltd.
Barits International Futures Co., Ltd.	Mega Futures Co., Ltd.
Barits International Investment Services Corporation	Mega International Investment Services Co., Ltd.
International Commercial Bank of Cathay (Canada)	Mega International Commercial Bank Co., Ltd. (Canada)
International Commercial Bank Of China Public Co. Ltd.(Thailand)	Mega International Commercial Bank Public Co., Ltd.
Barits Holdings Limited	Mega Securities Holdings Co., Ltd.
Barits Ho Chong Securities Company Ltd.	Mega Securities (Hong Kong) Co., Ltd.
Barits International Asset Management Corporation	Mega International Asset Management Co., Ltd.
Barits Securities (Hong Kong) Ltd.	Mega Capital (Asia) Co., Ltd.
Barits Global Asset Management Ltd.	Mega Global Asset Management Co., Ltd.
CTB I Venture Capital Co., Ltd.	Mega I Venture Capital Co., Ltd.
Mega CTB Venture Capital Co., Ltd.	Mega Venture Capital Co., Ltd.
CTB Financial Management & Consulting Co., Ltd.	Mega Management Consulting Corporation

The Company is mainly engaged in investment activities approved by the governing authorities and management of the investee companies. Background of the Company's subsidiaries is summarized below :

(1) CTB was established in Mainland China in 1907, five years before the founding of the Republic of China (ROC), and moved to ROC along with the central government of ROC in 1949. CTB resumed its operation in 1960 to continue its role of assisting the ROC government in implementing economic development programs. CTB's shares were publicly traded on the Taiwan Stock Exchange since September 1996 and the bank completed its privatization process in September 1999. On February 4, 2002, CTB became a wholly-owned subsidiary of the Company through share swap pursuant to the Financial Holding Company Act and was therefore delisted from the Taiwan Stock Exchange. As an industrial development bank, CTB is mainly engaged in extending medium- and long-term loans, equity and venture capital investments, international banking and trust related business. In line with the government's economic policy and economic development programs, CTB also assists major industries in developing strategies for improving the industrial infrastructure and promotes industrial development of ROC. As of August 21, 2006, CTB merged with ICBC and was dissolved after the merger.

(2) Mega Securities Co., Ltd. ("MS"; formerly International Securities Co., Ltd.) was incorporated on October 19, 1989, and became a wholly-owned subsidiary of the Company on February 4, 2002 through a share swap agreement. On October 31, 2002, MS' Board of Directors passed a resolution to merge with BS. On November 28, 2002, the merger was formally approved by the Securities and Futures Commission ("SFC") with the effective merger date set on January 31, 2003. International Securities Co., Ltd. is the surviving company after the merger and is subsequently renamed as Barits International Securities Co., Ltd. ("BIS"). On January 30, 2003, BIS further acquired all operations and properties of Chung Hsing Securities Corporation. Principal activities of MS include underwriting, brokerage and proprietary trading of securities, margin trading of securities and bills, issuance of stock warrants, brokerage of overseas securities, and futures dealing business.

On March 2, 2009, the Board of Directors (acting on behalf of the stockholders) resolved to decrease its capital by $1,600,000 thousand to reduce its accumulated deficit, effective March 27, 2009. The reduction in capital had been approved by the competent authority on March 24, 2009. The related registration of the capital reduction has been completed.

(3) Mega Securities Holdings Co., Ltd. ("MHL"), registered in the British Virgin Islands, is 100% owned by MS with an investment amount of US$25,845 thousand. MHL is mainly involved in asset management and venture capital activities.

(4) Mega Futures Co., Ltd. ("MF") is 100% owned by MS with an investment amount of $400,000 thousand. MF is mainly engaged in brokerage of domestic and foreign futures trading, proprietary trading of domestic futures contracts, and settlement and consulting services for domestic futures trading.

(5) Mega Securities (Hong Kong) Co., Ltd., registered in Hong Kong, is 100% owned by MHL with an investment amount of HK$60,000 thousand. Mega Securities (Hong Kong) Co., Ltd. is mainly engaged in brokerage of marketable securities.

(6) Mega International Asset Management Co., Ltd., registered in British Virgin Islands, is 100% owned by MHL with an investment amount of US$15,000 thousand. Mega International Asset Management is mainly engaged in investment consulting services. Starting from August 25, 2011, it has been dissolved by the approval of Mega Securities's Board of Directors to simplify the investment structure and decrease operating cost.

(7) Mega Capital (Asia) Co., Ltd., registered in Hong Kong, is 100% owned by MHL with an investment amount of HK$80,000 thousand. Mega Capital (Asia) Co., Ltd. is mainly engaged in investment consulting services.

(8) Mega Global Asset Management Co., Ltd. registered in British Cayman Islands, is 100% owned by MHL with an investment amount of US$33,740 thousand. Mega Global Asset Management Ltd. is mainly engaged in asset management services.

(9) Mega Bills Finance Co., Ltd. (MBF), established on May 3, 1976, became a wholly-owned subsidiary of the Company through a share swap agreement on August 22, 2002 and was delisted from the Taiwan Stock Exchange. MBF is mainly engaged in proprietary trading, brokerage and underwriting of short-term notes and bills and financial bonds, provision of guarantees for short-term notes and bills, arrangement of inter-bank call loans, corporate financial consulting and proprietary trading of government bonds and corporate bonds.

(10) Mega International Commercial Bank Co., Ltd. ("MICB") (formerly Bank of China), was restructured on December 17, 1971 in accordance with the Chinese commercial banking regulations. Shares were originally traded on the Taiwan Stock Exchange. On December 31, 2002, ICBC became a wholly-owned subsidiary of the Company through share swap and was delisted from the Taiwan Stock Exchange accordingly. On August 21, 2006, ICBC merged with CTB. MICB's major activities include foreign exchange and related operations, trade finance and guarantees, trust related business and other commercial banking business related to international trade. In order to expand business and adjust capital structure, the Board of Directors of MICB resolved on behalf of stockholders on May 11, 2011 to capitalize unappropriated retained earnings amounting to $3,890,122 thousand, by issuing 389,012 thousand shares of common stocks with a par value of 10 dollars per share; the capital increase was applied for with competent authorities and was effective in August, 2011. The total amount of issued stocks after the capital increase is $68,000,000 thousand, divided into 6,800,000 thousand shares with a par value of 10 dollars per share.

(11) Mega International Commercial Bank (Canada) ("MICB Canada"), a wholly-owned subsidiary of MICB, was established in Canada with a capital base of CAD$23,000 thousand. MICB Canada is mainly engaged in accepting deposits, extension of credits, negotiation of import/export bills, collections and foreign exchange related businesses.

(12) Yung Shing Industries Co. ("Yung Shing") is 99.56% owned by MICB with an investment amount of $95,644 thousand. The principal activities of Yung Shing include agency services for industrial and mining related businesses, import and export related businesses, services requested by customers (e.g. data processing, packaging and printing), editing, binding and copying of documents, and credit card agency services.

(13) Cathay Investment & Development Corporation (Bahamas) ("CIDC Bahamas"), registered in the Commonwealth of the Bahamas, is 100% owned by MICB with an investment amount of US$5 thousand. CIDC Bahamas is mainly engaged in international investment and development activities.

(14) Mega International Commercial Bank Public Co., Ltd. ("MICBPC"), a wholly-owned subsidiary of MICB, was established in Thailand in March 2005 with a capital base of 4 billion Thai baht. MICBCPC is mainly engaged in accepting deposits, negotiation of import/export bills, collections and exchange of foreign currencies and extension of credits.

(15) Mega International Investment Trust Co., Ltd. ("MITC") is a subsidiary of MICB, in which MICB's equity interest increased to 59.13% for the six-month period ended June 30, 2005. On May 23, 2006 and September 20, 2006, the Company and MICB participated in cash injection of capital for IIT and in turn achieved an equity interest of 97.76% together. IIT is primarily engaged in investment trust related businesses. Former Mega Investment Trust Co., Ltd. ("MITC") and International Investment Trust Co., Ltd. ("IIT") entered into a merger agreement, with MITC as the dissolving company and IIT, simultaneously renamed "Mega International Investment Trust Co., Ltd.", being the surviving company, effective from September 17, 2007. The equity interest then totaled to 96.31%. On November 26, 2008, MITC's stockholders resolved to reduce its capital by $591,415 thousand to offset loss and increased its capital by issuing new shares amounting to $1,400,000 thousand to improve its financial structure which was resolved by the Board of Directors on December 17, 2008, and effective from December 23, 2008 and December 30, 2008, respectively. The Company purchased the residual fragmentary shares after the capital reduction. The Company's total equity interest then totaled to 100%.

On February 20, 2009, the Board of Directors (acting on behalf of the stockholders) resolved to decrease its capital by $873,000 thousand to reduce its accumulated deficit, effective February 27, 2009. The ratio of capital reduction was 62.36%.

(16) Initially established by the Bank of China (predecessor of MICB) in November 1931, Chung Kuo Insurance Co., Ltd. (CKI) merged with the Insurance Department of the Central Trust of China, in February 1972 and became a direct investee company of the Ministry of Finance (MOF). CKI completed its privatization process on May 5, 1994 and became a wholly-owned subsidiary of the Company through share swap on December 31, 2002. CKI is primarily engaged in general insurance business.

(17) Mega Asset Management Co., Ltd. ("MAM") was established by the Company on December 5, 2003 with a capital base of $2 billion. MAM is primarily engaged in purchases, evaluations, auctions, and management of financial institutions' loan assets.

(18) Mega I Venture Capital Co., Ltd. ("Mega I Venture Capital") (formerly CTB I Venture Capital Co., Ltd.) is 40% owned jointly by MICB, MS and CKI with a total investment amount of $240 million. Mega I Venture Capital is primarily engaged in venture capital activities. Although the Company's equity interest in Mega I Venture Capital is less than 50%, Mega I Venture Capital is regarded as a subsidiary in which the Company has control due to the Company's significant influence over its financial, operational and personnel policies.

(19) Mega Venture Capital Co., Ltd. ("Mega Venture Capital") (formerly Mega CTB Venture Capital Co., Ltd.) was established by the Company on December 13, 2005 with an initial investment of $1 billion. Mega CTB Venture Capital is primarily engaged in venture capital investments as well as providing operational, managerial and consulting services.

(20) The number of employees of the Company and its subsidiaries was 8,474 and 8,391 as of December 31, 2011 and 2010, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements of the Company and its subsidiaries (collectively referred herein as the Group) are prepared in conformity with the "Regulations Governing the Preparation of Financial Reports by Financial Holding Companies", "Regulations Governing the Preparation of Financial Reports by Public Banks", "Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies", "Regulations Governing the Preparation of Financial Reports by Securities Firms", "Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants", "Regulations Governing the Preparation of Financial Reports by Enterprises Engaging in Insurance", "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and accounting principles generally accepted in the Republic of China. The accounts on the accompanying consolidated financial statements are not categorized into current and non-current items. Nevertheless, accounts are properly categorized according to the nature of each accounts, and sequenced by their liquidity. The significant accounting policies of the Group are summarized below:

(1) Basis for preparation of consolidated financial statements

A. Beginning January 1, 2005, pursuant to the revised Statement of Financial Accounting Standards (SFAS) No. 7, "Consolidated Financial Statements", the Company is required to consolidate accounts of the investee companies of which the Company directly or indirectly holds more than 50% of the common stocks, unless the Company considers that the individual total assets or total operating revenue of investees are immaterial. Under the revised SFAS No.7, the prior year financial statements are not required to be restated retroactively.

For investee companies of which the Company holds more than 50% of voting shares (including the Company and its subsidiaries' potential voting rights readily obtainable through execution and conversion) or which meet the requirements stipulated below, the Company is determined to have controlling interest over them and thus, a parent-subsidiary relationship is established. In this case, not only the equity method should be applied for the valuation of subsidiaries, but also the consolidated financial statements should be prepared.

(a) Under the agreements entered into by the Company with other investors, the equivalent voting shares of the investee held by the Company exceed 50%.

(b) Under the applicable regulations or agreements, the Company can control the investee's financial, operational and personnel policies.

(c) The Company has the right to employ or dismiss more than 50% of the members of the Board (or equivalent organization) in which the controlling power over the investee lies.

(d) The Company controls more than 50% of the voting rights in the investee's Board (or equivalent organization) in which the controlling power over the investee lies.

(e) The Company has controlling power in other matters.

B. All significant inter-company transactions and the respective balances have been eliminated from the consolidated financial statements. Please refer to Note 11 (4) for details.

C. The names of the subsidiaries that are included in the consolidated financial statements and the percentage of Company's ownership in each subsidiary are set forth below:

Investor	Subsidiary	Ownership (%)	
		December 31, 2011	December 31, 2010
The Company	MS	100.00	100.00
MS	MHL	100.00	100.00
MS	MF	100.00	100.00
MHL	Mega Securities (Hong Kong) Co., Ltd.	100.00	100.00
MHL	Mega International Asset Management Co., Ltd.	100.00	100.00
MHL	Mega Capital (Asia) Co., Ltd.	100.00	100.00
MHL	Mega Global Asset Management Co., Ltd.	100.00	100.00
The Company	MBF	100.00	100.00
The Company	MICB	100.00	100.00
MICB	MICB Canada	100.00	100.00
MICB	Yung Shing	99.56	99.56
MICB	CIDC Bahamas	100.00	100.00
MICB	MICBPC	100.00	100.00
The Company	MITC	100.00	100.00
The Company	CKI	100.00	100.00
The Company	MAM	100.00	100.00
MICB, MS and CKI	Mega I Venture Capital	40.00	40.00
The Company	Mega Venture Capital	100.00	100.00

D. Changes in the subsidiaries that are included in the consolidated financial statements as of December 31, 2011 and 2010: None.

E. Details of the Company's subsidiaries that are not included in the consolidated financial statements are set forth below:

Subsidiary	Ownership (%) December 31, 2011	Ownership (%) December 31, 2010	Business Scope
Mega Life Insurance Agency Co., Ltd.	100.00	100.00	Insurance brokerage
Mega Management Consulting Corporation	100.00	100.00	Management consulting
Mega International Investment Services Co., Ltd.	100.00	100.00	Securities investment consulting
Cathay Investment & Warehousing Ltd.	100.00	100.00	Storage and warehousing of imported commodities
China Products Trading Company	68.27	68.27	Transportation and storage of farming products and by-products, and investments in the related businesses
Ramlett Finance Holdings, Inc.	100.00	100.00	Real estate investments
Cathay Insurance Company Inc. (Philippines)	86.46	86.46	General insurance
Win Card Co., Ltd.	100.00	100.00	Business management
ICBC Assets Management & Consulting Co., Ltd.	100.00	100.00	Investment consulting

As the individual total assets or operating revenue amounts of the above subsidiaries are immaterial, the accounts of these subsidiaries are not included in the Company's consolidated financial statements although the Company holds more than 50% equity interest in these subsidiaries.

F. The shares of CTB and IS held by the Company are accounted for in accordance with the rules stipulated by the Letter (90) Chi-Mi-Tze No. 182 of the Accounting Research and Development Foundation of the Republic of China (ARDF), which is summarized below:

Capital expenditure incurred by the Company to acquire equity interest in a financial institution through share swap is stated at the book value of the respective financial institution's assets less the book value of its liabilities. The par value of the new shares issued is recorded as common stock, and the amount in excess of the par value is recorded as capital surplus.

As ICBC was the Company's affiliate before joining the Company through share swap, its shares held by the Company are accounted for in accordance with the ARDF's Letter (91) Chi-Mi-Tze No. 202, which is summarized below:

The Company's equity investment in a financial institution is stated at the book value of the respective financial institution's net assets. When the book value of the financial institution's net assets exceeds the par value of the Company's issued shares, the excess is recorded as capital surplus. Conversely, when the net assets' book value is less than the par value of the Company's issued shares, the difference is accounted for by issuing new shares at a discount.

G. CHBF, BS and CKI were acquired by the Company through a share swap agreement. The business combination of the three subsidiaries was accounted for by the pooling-of-interests method in accordance with the rule stipulated in the ARDF's Letter (90) Chi-Mi-Tze No.079.

H. The merger of BIS and BS, in which BIS was the surviving entity, was accounted for in accordance with the rule stipulated in the ARDF's Letter (91) Chi-Mi-Tze No.244. Under the rule, the book value of BIS' long-term investments in BS was treated as the cost of the new shares issued for acquisition of BS.

I. Two of the 100% wholly-owned subsidiaries of the Company, ICBC and CTB, conducted a merger with ICBC being the acquiring firm and CTB being the targeted firm. ICBC was later renamed Mega International Commercial Bank. The merger of the two subsidiaries was in fact, an organizational restructuring implemented under mutual control of the group; therefore, neither the purchase method nor the pooling-of-interest method is appropriate. In pursuant to the rules stipulated in the ARDF's Letter (91) Chi-Mi-Tze No. 243, the Company's carrying value of long-term investments in CTB is recognized as the cost of issuing shares for acquiring ICBC. An assessment for impairment on the carrying value of long-term investment must be conducted and the impairment amount assessed should be recognized immediately as loss, if any.

J. Regarding MITC and IIT merger, wherein IIT became the surviving entity and renamed "Mega Investment Trust Co., Ltd.", the related accounting treatments for the Company's carrying value of long-term investments in MITC is recognized as the cost of issuing shares for acquiring IIT pursuant to the Explanatory Letter (91) Chi-Mi-Tze No. 244 of the ARDF.

K. If any financial institution which is originally one of the Company's affiliated companies subsequently becomes the Company's subsidiary through swap of all their outstanding shares, the new shares are issued at a discount when the book value of the respective financial institutions' net assets is less than the par value of the Company's issued shares. The cost of the swapped shares recorded by the respective financial institutions is based on the original book value of the swapped shares. The affiliated companies referred to above are defined as the financial institutions of which the Company holds more than 25% of the total voting shares or total capital, or in which the Company holds more than half of their directors' seats, either appointed or elected directly or indirectly. For the accounting of financial institutions and financial holding corporations which were non-affiliated companies under the original condition, the accounting principle stipulated in the SFAS No. 25 "Business Combination-Accounting Treatment under Purchase Method" should be applied accordingly.

L. In accordance with Explanatory Note (96) No. 344, capital surplus originally included in subsidiaries' stockholders' equity and in which related to assets and liabilities were reclassified to an adjustment account in the stockholders' equity when parent company recognized the capital surplus due to share swap. In subsequent periods, when subsidiaries derecognize the asset and liability accounts, the Company also should derecognize the corresponding adjustment account in the stockholders' equity.

(2) Foreign-currency transactions and translations

Foreign currency income and expenses are converted into functional currency at the prevailing exchange rates at the end of each month. Foreign-currency denominated monetary financial assets or liabilities and other foreign-currency denominated assets or liabilities covered by SFAS No. 34 "Financial Instruments: Recognition and Measurement" and No. 36 "Financial Instruments: Disclosure and Presentation" are translated into functional currency at the prevailing exchange rates at the end of each month. The resulting translation differences are recognized as gain or loss in the current period. However, for translation gains or losses associated with cash flow hedges, foreign net investment hedges and equity investments accounted for by the equity method, cumulative translation adjustments under stockholders' equity is recognized.

Non-monetary financial assets or liabilities regulated by SFAS No. 34 and No. 36 measured at fair value in foreign currency are translated using the prevailing rates at the end of each month. When a gain or loss on a non-monetary item is recognized directly in equity, any exchange component of that gain or loss shall be recognized directly in equity. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in profit or loss. However, non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the transaction.

(3) Use of estimates

In preparing the consolidated financial statements in conformity with generally accepted accounting principles in the R.O.C., the management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements, and the reported amounts of revenues, costs of revenues, and expenses during the reporting period. Therefore, actual results could differ from those estimates.

(4) The principle of cash flow statement

The cash flow statement is made on the basis of cash and cash equivalents.

(5) Cash and cash equivalents

Cash and cash equivalents include cash, unrestricted bank deposits, and short-term investments in highly liquid instruments, which can be readily converted into cash without significant penalty and of which the values will not be significantly affected by fluctuations in the interest rates. The abovementioned short-term investments include treasury bills, negotiable certificates of deposit and bankers acceptances with maturity of three months or less.

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

A. Trade date accounting is applied for equity convertibles, beneficial certificate, derivative instruments and trades occurring before government bond being issued. Settlement date accounting is applied for bonds (excluding trades occurring before government bond being issued). On the initial recognition, financial product is evaluated at fair value.

B. For financial assets or liabilities at fair value through profit or loss, its variable value is recognized in current profit or loss. Stocks of publicly listed entity are assessed by closing market price of balance sheet date in public market as fair value. Open-ended funds are assessed by net asset value of balance sheet date as fair value. Beneficiary certificate securities are assessed by future cash flow discounted value of balance sheet date or by the quoted price system of Bloomberg, Reuters or quoted market price from competitors as fair value. Fair value of bond investments are assessed by the most recent strike prices of Gre Tai Securities' Bond bond trading system or the securities trading market, or published prices announced by Gre Tai Securities Market of each period. Other investments are assessed at fair value through current value of discounted cash flow technique on balance sheet date, or through Bloomberg, Reuters and the quoted prices from competitors. Financial derivatives instruments of a trading purpose are assessed at fair value quoted market price of balance sheet date if quoted market prices in the public market is available. If not, fair values are assessed according to the nature and classification of financial derivatives on the balance sheet date through proper evaluation methods, such as discounted cash flow technique, option pricing model, etc.

C. The Company and it subsidiaries engage in long-term foreign exchange contracts, currency exchange, interest rate swap, option, warranty liability and futures trade deposit-financial derivatives transaction of self-owned capital. All these products are initially recognized and evaluated subsequently at fair value. When the criteria of hedge accounting have not been met, the change in fair value of financial derivatives products is recognized as profit and loss. If the fair value is positive, it is recognized as a financial asset; if not, then it is recognized as a financial liability.

D. Financial assets or liabilities designated as at fair value through profit or loss of the Company should satisfy one of the following criteria:

(a) Hybrid instruments;

(b) Designated to eliminate or decrease inconsistency on accounting valuation or recognition;

(c) Designated based on the Company's risk management policy or investment strategy evaluated on the fair value basis.

E. The original classification of certain financial assets with a purpose of trading (excluding financial derivatives instruments) is reclassified as available-for-sale financial assets after July 1, 2008. Its main purpose is no longer for sale in the short-term in subsequent periods and is classified as available-for-sale financial assets under Paragraph 104 of SFAS No. 34.

(7) Available-for-sale financial assets

A. Equity investments adopt trade date accounting while the debt investments adopt settlement date accounting. On initial recognition, financial assets and liabilities are assessed at fair value. Transaction costs which are attributable to the acquisition should be capitalized.

B. Available-for-sale financial assets are evaluated at fair value with value changes recognized as equity adjustments. When the financial asset is derecognized, the cumulative gain or loss that was previously recognized in equity is recognized in profit or loss in the statement of income. The fair value of listed stocks, OTC stocks and closed-end mutual funds is based on the latest quoted fair prices of the accounting period. The fair value of open-end funds is based on the net asset value at the balance sheet date.

C. An impairment loss is recognized when there is an objective evidence of impairment. If the impairment loss of equity investments decreases in the following period, then the change is recognized as equity adjustment. If the impairment loss of bond investments decreases with objective evidence indicating that an impairment loss has been incurred after the impairment is recognized, the impairment amount is reversed and recognized in current profit and loss.

(8) Held-to-maturity financial assets

A. With settlement date accounting adopted, financial assets are measured at fair value on initial recognition. A transaction cost which is attributable to the acquisition should be capitalized.

B. Financial assets held to maturity is measured at amortized cost.

C. An impairment loss is recognized when there is an objective evidence of impairment. If the amount of the impairment loss decreases due to an event occurring after the impairment was originally recognized, the previously recognized impairment loss is reversed through profit and loss to the extent that the carrying amounts at book value do not exceed the amortized cost.

(9) Hedge accounting

If all the conditions of applying hedge accounting are satisfied, for the effects through profit and loss between mutually offsetting hedging instruments and hedged items at fair value. The related accounting treatments are as follows:

A. Fair value hedges: When a derivative financial instrument is used as the underlying hedging instrument, fair value is applied for valuation. When a non-derivative financial instrument is used for hedging, any gain or loss arising from change in exchange rates is charged to current income. The carrying amount of the hedged item is adjusted for gains or losses attributable to the risk being hedged.

B. Cash flow hedges: The effective portion of the gain or loss on the hedging instrument is recognized directly in equity. When it is determined that the expected hedged transaction will result in financial assets or financial liabilities, amounts initially recorded in equity are transferred to income in the period in which profit or loss is affected by the related assets or liabilities.

C. Net investment hedge in foreign operations: Gains or losses generated from hedge instruments are recognized as adjustments in equity which are then transferred to profit or loss for the period upon disposal of foreign operations.

(10) Financial assets carried at cost

A. With trade date accounting adopted, financial assets are measured at fair value on initial recognition; transaction costs which are attributable to the acquisition should be capitalized.

B. The impairment loss is accounted for when there is objective evidence that a financial asset carried at cost is impaired. Such impairment losses cannot be reversed.

(11) Debt investments with no active market

A. With settlement date accounting adopted, on initial recognition, financial assets are measured at fair value; transaction costs which are attributable to the acquisition should be capitalized.

B. Bond investment with no active market is measured at amortized costs.

C. An impairment loss is recognized when there is an objective evidence of impairment. If the amount of the impairment loss decreases due to an event occurring after the impairment was originally recognized, the previously recognized impairment loss is reversed through profit and loss to the extent that the carrying amounts at book value do not exceed the amortized cost.

(12) Derecognition of financial assets and liabilities

A. Financial assets

All or part of a financial asset is derecognized when the contractual rights of the asset expire. When all or part of a financial asset is transferred and contractual rights of the asset is given up, the cash flow received from the clearing house within a certain limit is treated as a sale.

When the transfer of a financial asset does not qualify as a loss of contractual rights, then such transfer of asset is recognized as a guaranteed loan. Reacquiring rights of such assets will no longer be accounted for as derivative financial assets.

B. Financial liabilities

All or part of a financial liability is derecognized when the obligation specified in the contract binding the financial liability is either discharged, cancelled or expired.

Where there has been an exchange between an existing borrower of debt instruments and the Company with substantially different terms, or there has been a substantial modification of the terms of an existing financial liability, then the transaction is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Any gain or loss from extinguishment of the original financial liability is recognized in the statement of income.

(13) Financial asset securitization

A. Under the "Financial Assets Securitization Act", MICB securitized part of its enterprise loans and transferred those loans to the special purpose trustee in return for the issuance of the related beneficiary certificates. Having surrendered the control of contractual rights on the loans and transferred to a special purpose trustee, MICB derecognized all the enterprise loans and recorded gain or loss accordingly, except for subordinated beneficiary certificates retained for credit enhancement which were reclassified as other financial assets instead. In accordance with the Explanatory Note (96) No. 0000000304 of the Accounting Research and Development Foundation of the R.O.C., subordinated beneficiary securities retained by the originator represent the originator retains rights and has not lost control. Given that almost all original investments become uncollectible due to factors other than credit deterioration of obligor (e.g. effects for undertaking risks of overall securitization beneficiary securities), the subordinated beneficiary securities should be classified as "available-for-sale financial assets" or "financial assets at fair value through profit or loss".

B. The gain or loss on the sale of the loans is the difference between the proceeds and carrying amount of the loans. The abovementioned carrying amount of the loans should be allocated in proportion to the fair values of the part retained and the part sold on the date of sale. Since quotes are not available for loans and retained interests, MICB estimates fair value at the present value of expected cash flows, using management's key assumptions on credit losses and discount rates commensurate to the risks involved.

C. The interest income on the subordinated beneficial securities held by MICB is recognized upon its receipt from the trustees.

(14) Notes, accounts and other receivables

A. Notes and accounts receivable are mainly derived from service sales activities. Other receivables are those receivables other than notes or accounts receivable.

B. Starting from January 1, 2011, the revised SFAS No. 34 "Financial Instruments: Recognition and Measurement" has been adopted, which indicates that impairment losses (bad debts) of receivables are recognisezed when there is objective evidence of impairment. For detailed policy of changes in allowance for credit losses of accounts receivable, please refer to Note 2 (15).

(15) Bills discounted and loans

A. Bills discounted and loans are recorded at the basis of outstanding principal amounts. Any unsettled loans upon maturity are to be reclassified to non-accrual loans along with the associated amount of accrued interest previously recorded within six months from the date of the maturity. In addition, interest receivable should no longer be accrued.

B. Non-accrual loans transferred from loans should be recorded under bills discounted and loans. For other non-accrual loans transferred from accounts other than loans, such as guarantees, acceptances and receivables on factoring should be recorded under "other financial assets".

C. Allowances for probable losses are provided for due from call loans to bank, receivables, bills discounted and loans based on a review of its collectability on the balance sheet date. In accordance with "The Rules for Bank Asset Evaluation, Loss Reserve Provision, and Disposal of Overdue Loans, Non-accrual Loans, and Bad Debts", reserves set aside for probable loan losses are based on the estimation of potential unrecoverable exposures, net of collateral. A significant degree of management discretion is used in the estimation process, which includes the assessment of the borrower's ability to pay and of the value of the underlying collateral.

D. In accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans" of the Financial Supervisory Commission of the Executive Yuan (FSC) and the subsidiary's "Guidelines to Evaluate Assets and Deal with Non-performing/Non-accrual Loans", credit assets are classified into various types. Normal credit assets shall be classified as "Category One" and the minimum loan loss provision shall be the sum of 0.5% of the outstanding balance of Category One credit asset's claim; the remaining unsound credit assets shall be evaluated based on the status of the loan collaterals and the length of time overdue. Assets that require special mention shall be classified as "Category Two," (2% shall be provided) assets that are substandard shall be classified as "Category Three," (10% shall be provided) assets that are doubtful shall be classified as "Category Four," (50% shall be provided) and assets for which there is loss shall be classified as "Category Five" (100% shall be provided). Unrecoverable debts shall be written off after the Board of Directors' approval and the supervisors have been notified.

E. Starting from January 1, 2011, in accordance with the revised SFAS No. 34, whether objective evidence exists in the Group's assessment on the balance of loans and receivables (including overdue receivables and interest receivables) on balance sheet date indicates impairment losses on material individual financial assets, and impairment losses generated individually or as a group from non-material individual financial assets. An impairment loss is recognized when there is an objective evidence of impairment. The impairment amount is the difference between the financial assets' book value and the estimated future cash flow discounted using the original effective interest rate. In the subsequent period, if the amount of the impairment loss decreases due to an event occurring after the impairment was originally recognized, the previously recognized impairment loss is reversed through profit and loss to the extent that the carrying amounts do not exceed the amortized cost that would have been determined had no impairment loss been recognized in prior years.

(16) Margin trading of securities

A. Margin loans extended to stock investors are recorded as "marginal receivables" and the stocks purchased by the borrowers are held by MS as collateral. The collateral is recorded in the memorandum account and is returned to the borrowers when the loans are repaid.

B. Guarantee deposits received from stock investors on short sales are recorded as "margin deposits on short sales". The proceeds from short sales (less the securities transaction tax and service charges) are held by MS as guarantee deposits which are recorded as "payables on proceeds from short sales". The stocks lent to the customers are recorded in the memorandum account. When the stocks are returned to MS, the margin deposits and proceeds from the short sales are returned to the customers accordingly.

C. Loans borrowed by MS from other securities lenders when MS has insufficient fund to conduct margin trading are recorded as "margin loans from other securities lenders". When MS has insufficient stocks to conduct short selling, the guarantee deposits paid for the stocks borrowed from other securities lenders are recorded as "deposits paid to other securities lenders". The proceeds from short sales are then paid to the securities lenders as additional guarantees and are recorded as "refinancing guarantees receivable".

(17) Bills and bonds purchased/ sold under resale/ repurchase agreemens

Bonds and bills purchased under resale agreements refer to the actual payment made to the counterparty in transactions involving the purchase of securities, subject to an agreement by the purchaser to resell the securities. Such transaction is treated as margin trading. Bonds and bills sold under repurchase agreements refer to the actual receipts from the counterparty in transactions involving the sale of bonds and bills by one party, subject to an agreement by the seller to repurchase the securities. All related interest income or expenses are recognized on an accrual basis.

(18) Margin deposits from clients and futures traders' equity

Engagement of futures business should separate the account of "margin deposit from client" and "futures traders' equity" to charge traders margin deposits, premium, and the variation of balance at market price. According to daily variation of balance at market price and relevant commission, changes of "margin deposit from client account" and "futures traders' equity" need to be adjusted. Should there be any balance remaining from the futures transaction, it should be recognized as futures margin deposit receivables.

(19) Asset impairment

Pursuant to SFAS No. 35, the Group assesses indicators for impairment for all its assets within the scope of SFAS No. 35 on each balance sheet date. If impairment indicators exist, the Group shall then compare the carrying amount with the recoverable amount of the assets or the cash-generating unit ("CGU") and write down the carrying amount to the recoverable amount where applicable. Recoverable amount is defined as the higher of fair values less costs to sell and the values in use. For previously recognized losses, the Group shall assess, on each balance sheet date, whether there is any indication that the impairment loss may no longer exist or may have decreased. If there is any such indication, the Group is required to recalculate the recoverable amount of the asset. If the recoverable amount increases as a result of the increase in the estimated service potential of the assets, the Group shall reverse the impairment loss to the extent that the carrying amount after the reversal would not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the assets in prior years.

(20) Equity investments accounted for by the equity method

A. Investments in companies, of which the Company holds more than 20% of the voting shares or over which the Company can exercise significant influence, are accounted for by the equity method. However, effective from January 1, 2006, the principles stated in SFAS No. 1 "Conceptual Framework for Financial Accounting and Preparation of Financial Statements", No. 5 "Accounting for Long-Term Equity Investments", No. 25 "Business Combination – Purchase-Price Accounting" is applied for the accounting for difference between the initial investments and the net worth of the respective investee companies. Pursuant to the procedures for the allocation of acquisition cost as stated in SFAS No. 25, an analysis is performed on such differences and such differences attributable to goodwill are no longer amortized.

B. Unrealized gains (losses) resulting from the downstream transactions with the investees accounted for under the equity method are eliminated based on the Company's percentage of shareholding. Where the Company has controlling power over the investees, the unrealized gains (losses) are fully eliminated and are recognized only upon realization.

C. Unrealized gains (losses) resulting from the upstream transactions with the investees accounted for by the equity method are eliminated based on the Company's percentage of shareholding.

D. The impairment in the long-term equity investments accounted for by the equity method is accounted for in accordance with SFAS No. 35, "Impairment of Assets".

E. The cost on disposal of equity investments is calculated using the weighted-average method.

(21) Reinsurance

A. Revenues and expenses of inward and outward reinsurance business are recognised on the date the bills are received. Appropriate methods should be adopted in estimating payments and income arising from unrecognized reinsurance expense, such as revenues and expenses of reinsurance commission, revenues or expenses of reinsurance surcharge fee, and amortized claim and payment of reinsurance, etc, should all be recognized. Other relevant profit and loss of reinsurance are not deferrable.

B. Starting from January 1, 2011, with the classification of reinsurance contract, the Company assesses the agreements under the deposit accounting given that the objective insurance risks of reinsurance agreements are not transferred to the reinsured.

C. The Company evaluates whether privilege of reinsured is impaired or non-collectable on a regular basis and offers specifically the alternatives such as reinsurance reserve assets, reinsurance claims and payment receivables, reinsurance transaction receivables and outward insurance responsibility reserve fund.

D. When objective evidence indicates that such option being exercised after the initial recognition will possibly lead to the Company being unable to collect all receivables on the contract, and the impact of the receivables from reinsured can be reliably measured with regard to the aforementioned event. The provision for accumulated loss will be recognized if the receivables do not exceed reinsurance reserve asset at book value (starting from January 1, 2011). Recognition should be appropriately made according to the amount for amortizable claim, payment of reinsurance, reinsurance transaction receivables and non-collectable outward reinsurance reserve fund.

(22) Valuation and depreciation of properties and equipment

A. Except for land, all properties and equipment are depreciated on a straight-line basis according to their value after revaluation increment. Major improvements and renewals are capitalized as cost, and repairs and maintenance are expensed as incurred. Relevant promulgated principles should be applied if impairment exists. Upon sale or disposal of properties and equipment, the related cost, revaluation increment, accumulated depreciation and accumulated impairment loss are written-off, and any gain or loss is credited or charged to non-interest income.

B. When an impairment loss on a specified asset is identified, the related depreciation is recalculated based on the adjusted value over the estimated useful lives. The residual value of a property or equipment that is still in use at the end of the original estimated useful life is depreciated using the straight-line method over its revised estimated useful life. The estimated economic service life of properties and equipment are set forth below:

Buildings	35 ~ 60 years
Machinery and equipment	3 ~ 15 years
Office equipment	3 ~ 15 years
Computer equipment	3 ~ 6 years
Transportation equipment	1 ~ 12 years
Other equipment	1 ~ 11 years
Leasehold improvements	1 ~ 15 years

(23) Intangible assets

Computer software expenditures are stated at cost and amortized over the estimated life of 3 to 5 years using the straight-line method.

(24) Goodwill

Pursuant to the procedures for the allocation of acquisition cost as stated in SFAS No. 25 "Business Combination-Accounting Treatment under Purchase Method", an analysis is performed on differences between the initial investments and the net worth of the respective investee companies, and such differences attributable to goodwill are no longer amortized. Impairment loss of goodwill recognized in prior years is not recoverable. In subsequent periods, the impairment test on goodwill is performed on a yearly basis in accordance with SFAS No. 35.

(25) Foreclosed properties

Foreclosed properties are stated at the lower of cost or net realizable value on the balance sheet date.

(26) Commercial papers payable and bonds payable

When issuing bonds, issuing prices are recognized based on issuing terms. Premiums and discounts on bonds payable are valuation accounts and shall be classified as additions to or reductions of bonds payable. Bonds shall be amortized during the period of bond circulation and recorded as an adjustment in interest expense.

When exchangeable bondholders exercise their right to exchange their bonds for reference shares at a fixed price and a fixed amount, the exchangeable bonds shall be assessed by all issuance prices less embedded derivatives at fair value. For the liability components of non-financial derivative instruments, the measurement is accounted for at amortized cost using the effective interest method. Relevant interest or profit and loss on redemption shall be recognized as current profit and loss. If the convertible bondholders exercise their conversion right before maturity, the Company shall adjust the carrying amount of the liability component. The adjusted carrying amount of the liability component shall be the basis of determining profit and loss of the swap items.

(27) Liability on issuance of stock warrants/repurchase of stock warrants issued

Issuance of stock warrants and its subsequent valuation are accounted for by the fair value method and are recorded as "liability on issuance of stock warrants". For the warrants that are issued under repurchase agreements, the repurchase amount is recorded under "repurchase of stock warrants issued" which is a contra account of "liability on issuance of stock warrants". At expiration of the stock warrants, the amount of the unexercised warrants is reversed after being revalued by the fair value method. A gain on the unexercised expired stock warrants is recognized accordingly.

(28) Reserves for liabilities and losses

Reserves for liabilities and losses are mainly provided for guarantee liabilities, trading losses, default losses, unearned premium reserve, claims reserve, special reserve, deficiency reserve, liability adequacy reserve and unqualified reinsurance reserve.

A. Reserve for guarantees

Reserves for guarantees are determined based on the estimated losses arising from default possibility of the ending balances of tariff duties, commodity tax and performance status.

B. Reserve for securities trading losses

As required by the "Rules Governing the Administration of Securities Firms" and "Regulations Governing Futures Commission Merchants", a securities firm should set aside 10% of the excess of monthly gains over losses from trading securities as the reserves for securities trading losses while engaging in proprietary trading business. Such reserves can only be used to offset losses over gains arising from the aforesaid securities trading. The reserves must be provided until the accumulated reserve balances reach NT$200 million pursuant to the "Rules Governing the Administration of Securities Firms" and "Regulations Governing Futures Commission Merchants".

In accordance with Jin-Guan-Zheng-Zi No.09900738571 and Jin-Guan-Zheng-Qi-Zi No. 10000002891 of the Financial Supervisory Commission, trading loss reserve as of December 31, 2010 that have been set aside by securities firms and futures firms shall be transferred as special reserve starting from January 13, 2011. The special reserve shall not be used other than for covering the losses of the company, or when the special reserve reaches 50% of the amount of paid-in capital, half of it may be used for capitalization.

C. Reserve for default

As required by Article 12 of the "Rules Governing Securities Firms", a securities firm should allocate 0.0028% of the amounts of monthly securities consignment trading as the reserves for losses from default, and such reserves are recorded as other liabilities. The reserves should only be used for recovering the losses caused by default on such consignment trading or for other purposes as approved by the SFB. When the accumulated reserve balances reach NT$200 million, no further reserve provision is required.

In accordance with Jin-Guan-Zheng-Zi No.09900738571 and Jin-Guan-Zheng-Qi-Zi No. 10000002891 of the Financial Supervisory Commission, default loss reserve as of December 31, 2010 that have been set aside by securities firms and futures firms shall be transferred as special reserve starting from January 13, 2011. The special reserve shall not be used other than for covering the losses of the company, or when the special reserve reaches 50% of the amount of paid-in capital, half of it may be used for capitalization.

D. Unearned premium reserve

Unearned premium reserve is provided based on various risk calculation for effective contracts yet to mature or covered risks yet to terminate in the coverage period.

E. Claims reserve

Claims reserves are provided based on claim experience and expenses of various insurance types and are calculated with methods based on actuarial principles. Reserves are provided for Claims Reported But Not Paid and Claims Incurred But Not Reported. For Reported But Not Paid Claims, a reserve has been provided on a per-policy-claim-report basis for each type of insurance.

F. Special reserve

Special reserves include "Significant Peril Special Reserve" and "Risk Variation Special Reserve", which are provided in accordance with the "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises". The above amount to be written off or recovered shall be made under liability reserves starting from January 1, 2011. If such liability reserves are insufficient for write-offs or recoveries, the deficiency less income tax shall be written off or recovered using special reserves under stockholders' equity.

G. Deficiency reserve

Potential claims and expenses are estimated for effective contracts yet to mature or covered risks yet to terminate in the coverage period. The estimated amount, including the premium deficiency reserve based on the difference between claim reserves/expenses, and unearned premium reserve and the expected premium income shall be recognized.

H. Liability adequacy reserve

Liability adequacy test is performed in accordance with the testing provisions of SFAS No. 40 "Insurance Contracts". If the test result shows that the insurance liability is inadequate, the deficiency shall be provided as liability adequacy reserve.

I. Unqualified reinsurance reserve

Unqualified reinsurance reserves of received and ceded reinsurance business under ceded reinsurance and other risk assumption mechanism on the ceded date or balance sheet date shall be reserved and disclosed in the notes to the financial statements.

(29) Pensions

A. Pensions are accounted for in accordance with SFAS No. 18, "Accounting for Pensions". Minimum accrued pension liability and net pension cost are recognized based on actuarial calculations. Prior service costs and pension gain (loss) are amortized on a straight-line basis over the average remaining service years of the employees.

B. The ROC Labor Pension Act (the "Act"), which adopts a defined contribution scheme, takes effect from July 1, 2005. In accordance with the Act, employees of the Company may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. For employees subject to the Act, the Company shall make monthly contributions to the employees' individual pension accounts based on 6% of the employees' monthly wages. If the retirement plan is a defined contribution pension plan, the contributions are based on an accrual basis and are recognized as pension costs in the current period.

(30) Capital surplus

A. Pursuant to the Company Law, capital surplus arising from share issue premium and donations can be capitalized based on a stockholders' resolution. However, according to the SFC regulations, capital surplus arising from share issue premium generated by cash injection is allowed to be capitalized only once a year and is subject to a specified limit. In addition, capitalization is prohibited in the year when the cash is injected.

B. As per the rule stipulated by the SFC, capital surplus arising from share swap between financial institutions can be appropriated as cash dividends and capitalized in the year of the share swap according to Section 4 of Article 47 of the Financial Holding Company Act, if the capital surplus arises from the unappropriated earnings generated prior to share swap. In addition, the capitalization amount is not subject to the limit stipulated in Article 8 of the Securities and Exchange Law.

(31) Legal reserve

Pursuant to the Company Law, 10% of the Company's after-tax net income in the current year must be appropriated as legal reserve until the total amount of the legal reserve equals the issued share capital. This legal reserve can be only used to offset deficits and used for the purpose of dividend distributions. For the legal reserve to be used for issuing new shares or distributing cash dividends, only the portion of the legal reserve exceeding 25% of paid-in capital may be capitalized or released.

(32) Special reserve

If there are any negative stockholders' equity items recorded by the Company, such as unrealized losses on declines in market value of long-term equity investments and cumulative translation adjustments, the Company is required to set aside a special reserve with an amount equal to the total amount of the negative items but not exceeding the limits listed below before the earnings are appropriated.

A. The special reserve set aside for the negative stockholders' items which occur in the current year should not exceed the sum of after-tax net income generated in that year plus the unappropriated retained earnings accumulated for previous years.

B. The special reserve set aside for the negative stockholders' items which occur in previous years should not exceed the amount of the unappropriated retained earnings accumulated for previous years less the amount of special reserve set aside in (A).

In accordance with the Explanatory Note (90) Tai-Cai-Zheng (1) Zhi No. 170010 promulgated by the SFC, the Company is required to set aside a special reserve with an amount equal to the excess of the book value of the Company's shares held by its subsidiaries over their market value, and the reserve cannot be appropriated. If the market value recovers in the future, the special reserve can be reversed by the recovered amount in proportion to the percentage of shareholding.

(33) Income taxes

A. Inter-period and intra-period income taxes are allocated in accordance with SFAS No. 22, "Income Taxes". Income tax effects arising from taxable temporary differences are recognized as deferred income tax liabilities. Income tax effects arising from deductible temporary differences, loss carryforwards and income tax credits are recognized as deferred income tax assets, and a valuation allowance is provided based on the expected reliability of the deferred income tax assets. Adjustment of deferred tax liability or asset for enacted change in tax rate measured by the balance sheet date is recognized as tax benefit or expense in the statement of income for the period.

B. In accordance with the "Basic Income Tax Regulation" effective from January 1, 2006, the current income tax recognized is the higher of the basic tax calculated according to such regulation and the income tax assessed by standards of the National Tax Administration.

C. An additional income tax is levied on unappropriated retained earnings, which shall be recognized as income tax expense of the period.

D. Pursuant to Article 49 of the Financial Holding Company Act and the relevant provisions of the Income Tax Law, the tax returns of the Company's domestic subsidiaries can be filed jointly with the Company if the Company holds more than 90% of the outstanding shares of these subsidiaries and the holding period exceeds twelve months. Under the joint tax return scheme, only the subsidiaries' returns on corporate income tax and the 10% tax surcharge on surplus retained earnings can be filed jointly with the Company. Other tax matters shall be handled separately by the Company and its domestic subsidiaries.

(34) Earnings per share

A. Earnings per share are computed in accordance with the SFAS No. 24, "Earnings Per Share". Basic earnings per share are computed for simple capital structures, and basic and diluted earnings per share are computed for complex capital structures. Basic earnings per share are computed by dividing the net income (loss) attributed to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share are computed by dividing the net income (loss) attributed to common stockholders, taking into account the dilutive effects of dividends and interest expense on potential common shares and other income and expenses arising from conversion of the convertible bonds, by the weighted-average number of common shares outstanding plus the weighted-average number of potential common shares to be converted from the convertible bonds.

B. Any capital increase through cash injection is incorporated in the calculation on a weighted-average basis according to the circulation period. Where there is capitalization of retained earnings or capital surplus, basic earnings per share for prior and current years are adjusted retroactively.

(35) Employees' bonuses and directors' and supervisors' remuneration

Pursuant to EITF 96-052 of the Accounting Research and Development Foundation, R.O.C., dated March 16, 2007, "Accounting for Employees' Bonuses and Directors' and Supervisors' Remuneration", the costs of employees' bonuses and directors' and supervisors' remuneration are accounted for as expenses and liabilities, provided that such a recognition is required under legal or constructive obligation and those amounts can be estimated reasonably. However, if the accrued amounts for employees' bonuses and directors' and supervisors' remuneration are significantly different from the actual distributed amounts resolved by the stockholders at their annual stockholders' meeting subsequently, the differences shall be recognized as gain or loss in the following year.

(36) Recognition of revenue and expense

A. The recognition of company revenue is in compliance with SFAS No. 32, "Consolidated Financial Statements".

B. Bank subsidiaries and its indirect subsidiaries

Interest income for loans is recognized on an accrual basis except for loans classified as non-accrual loans. The accrual of income from non-accrual loans is discontinued and subsequent interest receipts are credited to income upon collection. In accordance to the regulations established by the Ministry of Finance, interest income arising from emergency loans and renewal of agreements is recorded as deferred revenue and subsequently recognized as income upon interest receipts. Service fee income is recognized when the services are rendered.

C. Securities subsidiaries

Interest income and expenses arising from margin trading of securities, bonds sold under repurchase agreements and those purchased under resale agreements, and interest-bearing securities are recorded under the respective accounts in the statement of income. Financial income or expenses derived from activities other than those mentioned above are recorded as non-operating income or expenses.

D. Insurance subsidiaries

The premiums income derived from underwriting business is recognized in the year when the respective policies are issued. The associated expenses such as commissions, agency cost and service charges are recognized accordingly. Claims of direct coverage are recognized based on claims (including claim expenses) applied and paid during the period. Please refer to Note 2 (28) for related details.

E. Expenses are recognized as incurred.

(37) Capital expenditure

When the economic benefit generated from the expenditure is limited to the current period or when no economic benefit is expected, the expenditures shall be expensed in the current period. When the economic benefit generated from the expenditure is related to future years, the expenditures shall be capitalized unless the amount of expenditure is immaterial, in which case, the expenditure shall be recognized as current expense regardless of the length of the economic benefit.

(38) Contingent losses

At the balance sheet date, if an asset is considered to be impaired or liability has been incurred, such loss is recorded as contingent losses for the current year where the amount of loss can be reasonably estimated. When the amount of the loss cannot be reasonably estimated or when it is probable that loss has been incurred, the obligation is disclosed as a contingent liability in the notes to the financial statements.

(39) Operating segments

Information of operating segments of the Company is reported in the same method as the internal management report provided to the Chief Operating Decision-Maker (CODM). The CODM is in charge of allocating resources to operating segments and evaluating their performance.

In accordance with SFAS No. 41 "Operating Segments", the Company discloses segment information in the consolidated financial statements.

(40) Convenience translation into US dollars

The Company and its subsidiaries maintain their accounting records and prepare their financial statements in New Taiwan dollars. The United States dollar amounts disclosed in the 2011 consolidated financial statements are presented solely for the convenience of the readers and were translated into US dollars using the exchange rate prevailing at December 31, 2011 of US$1:NT$30.272. Such translation amounts are not in compliance with generally accepted accounting principles in the Republic of China and should not be construed as representation that the New Taiwan dollar amounts represent, or have been or could be converted into United States dollars at that or any other rate.

3. CHANGES IN ACCOUNTING PRINCIPLES

(1) Starting from January 1, 2011, the Group adopted the revised SFAS No. 34 “Financial Instruments: Recognition and Measurement”, which indicates that impairment losses (bad debts) of various creditors’ rights, i.e. loans, receivables, notes receivable and other receivables shall be recognized when objective evidence of impairment exists. This change in accounting treatment had no significant impact on the net income and earnings per share for the year ended December 31, 2011.

(2) Starting from January 1, 2011, the Group adopted the newly issued SFAS No. 41 “Operating Segments” to replace SFAS No. 20 “Segment Reporting”. At initial adoption, the Group restated the segment information of the previous period pursuant to the accounting standard. This change in accounting principle had no significant impact on the net income and earnings per share for the years ended December 31, 2011 and 2010.

(3) Starting from January 1, 2011, CKI adopted the newly issued SFAS No. 40 “Insurance Contracts”. The adoption of this standard had no affect on the cumulative change in accounting principles.

(4) Starting from January 1, 2011, the additional special reserve provision calculated less income tax is listed as special reserve under stockholders’ equity after annual closing in accordance with the “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises”. This change in accounting principle resulted in an increase of net income before tax amounting to NT $254,879 thousand (US$8,420 thousand) for the year ended December 31, 2011.

4. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2011		December 31, 2010
	NT$	US$	NT$
Due from banks	$ 298,382,713	$ 9,856,723	$ 250,188,431
Checks for clearance	1,007,914	33,295	1,172,410
Cash on hand	14,636,207	483,490	11,933,013
Bank deposits	6,683,311	220,775	7,179,441
Cash equivalents (Note)	2,254,838	74,486	1,234,640
Petty cash	27,889	922	30,057
Total	$ 322,992,872	$ 10,669,691	$ 271,737,992

Note: Includes short-term bills and bond investments with maturities less then three months held by subsidiaries other than MICB, MS and MBF.

(2) Due from the Central Bank and call loans to banks

	December 31, 2011		December 31, 2010
	NT$	US$	NT$
Import loans from banks	$ 80,243,433	$ 2,650,748	$ -
Call loans to banks	43,699,304	1,443,555	68,989,089
Reserve for deposits-category A	19,326,520	638,429	20,465,959
Reserve for deposits-category B	31,243,615	1,032,096	29,389,539
Reserve for deposits-general	5,552,885	183,433	7,322,073
Reserve for deposits-foreign currency	330,950	10,933	281,903
Bank overdrafts	2,873	95	-
Less: Allowance for bad debts	(59)	(2)	(490)
Total	$ 180,399,521	$ 5,959,287	$ 126,448,073

As required by relevant laws, the reserves for deposits are calculated at prescribed rates on the average balances of various deposit accounts. The reserve for deposits - category A and foreign currency deposits accounts are non-interest bearing and call on demand. Reserve for deposits - category B earns interest but its use is restricted under relevant regulations.

(3) Financial assets at fair value through profit or loss

	December 31, 2011		December 31, 2010
	NT$	US$	NT$
Financial assets held for trading, net	$ 153,655,585	$ 5,075,832	$ 130,525,111
Financial assets designated as at fair value through profit or loss, net	35,213,967	1,163,252	31,795,072
Total	$ 188,869,552	$ 6,239,084	$ 162,320,183

A. Financial assets held for trading are listed as follows:

	December 31, 2011		December 31, 2010
	NT$	US$	NT$
Stocks	$ 5,144,175	$ 169,932	$ 4,795,252
Commercial papers	96,933,023	3,202,069	87,458,516
Treasury bills	16,092,460	531,595	497,923
Bankers' acceptances	-	-	64,092
Foreign currency bills	11,723	387	86,505
Open-end beneficiary certificates	65,192	2,153	590,299
Negotiable certificates of time deposit	17,853,217	589,760	20,001,299
Corporate bonds	11,461,186	378,607	9,666,545
Government bonds	2,460,859	81,292	1,774,295
Financial bonds	200,856	6,635	864,891
Other bonds	613,189	20,256	1,471,400
Derivative financial instruments	2,819,705	93,146	3,254,094
Total	$ 153,655,585	$ 5,075,832	$ 130,525,111

B. Financial assets designated as at fair value through profit or loss are listed as follows:

	December 31, 2011		December 31, 2010
	NT$	US$	NT$
Corporate bonds	$ 23,396,815	$ 772,886	$ 18,014,143
Government bonds	790,899	26,127	2,031,839
Financial bonds	7,513,845	248,211	8,492,706
Derivative financial instruments	3,512,408	116,028	3,256,384
Total	$ 35,213,967	$ 1,163,252	$ 31,795,072

C. Please refer to Note 6 for details of the aforementioned financial assets at fair value through profit or loss provided as collaterals as of December 31, 2011 and 2010.

D. Please refer to Note 10 for the details of the derivatives contracts information.

E. As of December 31, 2011 and 2010, the above financial assets used as underlying assets for repurchase agreements held by MBF were NT$111,832,450 thousand (US$3,694,254 thousand) and NT$87,629,203 thousand, respectively.

F. As of December 31, 2011 and 2010, the above financial assets used as underlying assets for repurchase agreements held by MS were NT$9,527,979 thousand (US$314,746 thousand) and NT$9,521,055 thousand, respectively.

G. As of December 31, 2011 and 2010, the above financial assets used as underlying assets for repurchase agreements held by MICB were NT$2,339,038 thousand (US$77,267 thousand) and NT$700,185 thousand, respectively.

(4) Receivables, net

	December 31, 2011		December 31, 2010
	NT$	US$	NT$
Accounts receivable	$ 70,257,634	$ 2,320,878	$ 97,639,229
Notes receivable	118,748	3,923	114,564
Tax refundable	630,337	20,822	893,626
Accrued income	561,279	18,541	551,426
Interest receivable	5,340,520	176,418	5,129,498
Acceptances receivable	10,714,251	353,933	11,499,099
Insurance receivable	766,548	25,322	645,741
Indemnity refundable on reinsurance	470,920	15,556	438,355
Due from reinsurers and ceding companies	151,559	5,007	144,752
Margin loans receivable	10,956,697	361,942	18,913,763
Recovery of accounts receivable	2,127,124	70,267	2,325,475
Purchase of obligor receivable	5,080,677	167,834	6,808,293
Purchase of obligor receivable for acting as assignee	1,079,364	35,656	994,414
Purchase of assets for acting as assignee	1,000,000	33,034	1,377,602
Other receivables	283,989	9,381	447,738
Total	109,539,647	3,618,514	147,923,575
Less: Allowance for bad debts	(2,379,160)	(78,593)	(2,787,767)
Receivables, net	$ 107,160,487	$ 3,539,921	$ 145,135,808

Please refer to Note 6 for details of the aforementioned receivables provided as collateral as of December 31, 2011 and 2010.

(5) Bills discounted and loans, net

	December 31, 2011		December 31, 2010
	NT$	US$	NT$
Import / export bills negotiated	$ 16,935,835	$ 559,455	$ 16,320,760
Bills and notes discounted	88,048	2,909	70,608
Short-term loans	270,362,879	8,931,120	261,750,728
Short-term secured loans	148,259,275	4,897,571	143,805,025
Overdrafts	260,820	8,616	286,422
Secured overdrafts	1,308,886	43,237	1,092,124
Medium-term loans	320,334,261	10,581,866	261,768,955
Medium-term secured loans	293,117,260	9,682,785	254,958,068
Long-term loans	54,718,903	1,807,575	46,932,124
Long-term secured loans	369,546,819	12,207,546	356,264,215
Loans transferred to non-accrual loans	2,890,659	95,490	4,196,148
Total	1,477,823,645	48,818,170	1,347,445,177
Less: Allowance for bad debts – bills discounted and loans, overdrafts	(14,225,616)	(469,927)	(10,610,636)
Allowance for bad debts – loans transferred to non-accrual loans	(1,543,875)	(51,000)	-
Loans, net	$ 1,462,054,154	$ 48,297,243	$ 1,336,834,,541

A. For the years ended December 31, 2011 and 2010, the subsidiary, MICB, had not written-off bills discounted and loans without initiating any legal proceedings to collect such bills discounted and loans.

B. As of December 31, 2011 and 2010, the subsidiary, MICB's balances of bills and loans for which interest revenue was no longer accrued amounted to NT$2,890,659 thousand (US$95,490 thousand) and NT$4,196,148 thousand, respectively. The unrecognized interest revenue on the above bills and loans amounted to NT$74,036 thousand (US$2,446 thousand) and NT$170,492 thousand for the years ended December 31, 2011 and 2010, respectively.

(6) Movements in allowance for credit losses

Starting from January 1, 2011, the Group adopted the revised SFAS No. 34 "Financial Instruments: Recognition and Measurement", which indicates that impairment losses (bad debts) of various creditors' rights, i.e. loans, receivables, notes receivable and other receivables shall be recognized when objective evidence of impairment exists. Movements in allowance for credit losses for the year ended December 31, 2011 were as follows:

Loans:

Item		December 31, 2011			
		Loans (NT$)	Loans (US$)	Allowance for credit losses (NT$)	Allowance for credit losses (US$)
With existing objective evidence of individual impairment	Individual assessment	$ 35,868,205	$ 1,184,864	($ 8,203,751)	($ 271,002)
	Group assessment	325	11	(3)	-
Without existing objective evidence of individual impairment	Group assessment	1,441,955,115	47,633,295	(7,565,737)	(249,925)
Total		$ 1,477,823,645	$ 48,818,170	($ 15,769,491)	($ 520,927)

Receivables:

Item		December 31, 2011			
		Loans (NT$)	Loans (US$)	Allowance for credit losses (NT$)	Allowance for credit losses (US$)
With existing objective evidence of individual impairment	Individual assessment	$ 2,348,855	$ 77,592	($ 1,882,925)	($ 62,200)
	Group assessment	487,945	16,119	(44,496)	(1,470)
Without existing objective evidence of individual impairment	Group assessment	106,702,847	3,524,803	(451,739)	(14,923)
Total		$ 109,539,647	$ 3,618,514	($ 2,379,160)	($ 78,593)

Movements in allowance for credit losses- Loans:

	For the year ended December 31, 2011	
	(NT$)	(US$)
Balance, January 1, 2011	$ 10,610,636	$ 350,510
Provisions	3,434,905	113,468
Write-off-net	(1,307,064)	(43,177)
Recovery of written-off credits	3,317,926	109,604
Effects of exchange rate changes and others	(286,912)	(9,478)
Balance, December 31, 2011	$ 15,769,491	$ 520,927

Movements in allowance for credit losses- Receivables:

	For the year ended December 31, 2011	
	(NT$)	(US$)
Balance, January 1, 2011	$ 2,787,767	$ 92,091
Reversals	(386,908)	(12,781)
Write-off-net	(159,929)	(5,283)
Recovery of written-off credits	171,000	5,649
Effects of exchange rate changes and others	(32,770)	(1,083)
Balance, December 31, 2011	$ 2,379,160	$ 78,593

MICB, MBF and indirect subsidiaries have revalued the allowance for bills discounted and loans, non-accrual loans, call loans to banks, receivables and bills purchased by considering unrecoverable risks for the specific loans and inherent risks for the overall loan portfolio. Movements in allowance for credit losses for the year ended December 31, 2010 were as follows:

	NT$		
	Specific Risk	General Risk	Total
Balance, January 1, 2010	$ 8,449,020	$ 12,672,794	$ 21,121,814
Provisions	155,444	2,078,344	2,233,788
Write-off-net	(7,172,818)	(896,136)	(8,068,954)
Recovery of written-off credits	3,611,479	151,768	3,763,247
Effects of exchange rate changes and others	182,480	(1,153,324)	(970,844)
Balance, December 31, 2010	$ 5,225,605	$ 12,853,446	$ 18,079,051

MICB, MBF and subsidiaries' financial statements included provisions for probable credit losses and guarantee losses based on information available to the above subsidiaries, including defaults to the extent they can be determined or estimated.

(7) Available-for-sale financial assets, net

	December 31, 2011		December 31, 2010
	NT$	US$	NT$
Government bonds	$ 77,571,383	$ 2,562,480	$ 87,513,788
Financial bonds	30,230,329	998,623	30,815,549
Foreign financial bonds	30,127	995	-
Corporate bonds	25,109,064	829,448	29,023,949
Foreign corporate bonds	151,015	4,989	250,000
Certificates of time deposit	617,701	20,405	605,842
Stocks	16,148,222	533,438	23,502,975
Beneficiary securities	4,763,902	157,370	5,179,917
Beneficiary certificates	634,461	20,959	2,444,237
Commercial papers	6,176,759	204,042	6,333,138
Treasury bills	-	-	229,012
Total	$ 161,432,963	$ 5,332,749	$ 185,898,407

A. PMICB has available-for-sale financial assets which consists of bonds and bills sold under repurchase agreements amounting to NT$4,203,879 thousand (US$138,870 thousand) and NT$3,585,420 thousand as of December 31, 2011 and 2010, respectively (recorded as bills and bonds sold under repurchase agreements).

B. MBF has available-for-sale financial assets which consists of bonds and bills sold under repurchase agreements amounting to NT$65,942,440 thousand (US$2,178,331 thousand) and NT$73,786,257 thousand as of December 31, 2011 and 2010, respectively.

C. In 2010, MICB purchased the credit impaired assets in the amount of US$99,617 thousand, in accordance with the "Trust Agreement" and "Credit Impaired Asset Put and Clean Up Put Agreement" of "Calyon, Taipei Branch Collateralized Bond Obligation Special Purpose Trust 2005-1"; and recognized losses amounting to US$95,628 thousand for the year ended December 31, 2010 that were listed under "other losses".

"Calyon, Taipei Branch Collateralized Bond Obligation Special Purpose Trust 2005-1" has expired and was fully settled on June 21, 2010; therefore, all loss reserves amounting to NT$2,515,127 thousand was reversed.

D. MICB reclassified stocks listed on TSE or OTC, beneficiary certificates and bonds originally classified as at fair value through profit or loss to available-for-sale financial assets amounting to NT$6,540,913 thousand (US$216,071 thousand) for the period from July 1 to December 31, 2008 in accordance with the amended Paragraph 104 of SFAS No. 34. Relevant information was as follows:

(1) Fair value information regarding the reclassified assets that have not been derecognized from the balance sheet as of December 31, 2011 and 2010 were as follows:

	December 31, 2011		December 31, 2010
	Carrying value / fair value		Carrying value / fair value
	NT$	US$	NT$
Bonds	$ 368,253	$ 12,165	$ 420,360

(2) Movements on fair value of the reclassified assets for the years ended December 31, 2011 and 2010 were as follows:

	For the year ended December 31, 2011	
	Recognized in profit and loss	Recognized as adjustments in equity
	NT$	
Bonds	$ -	$ 7,060

	For the year ended December 31, 2011	
	Recognized in profit and loss	Recognized as adjustments in equity
	US$	
Bonds	$ -	$ 233

	For the year ended December 31, 2010	
	Recognized in profit and loss	Recognized as adjustments in equity
	NT$	
Bonds	$ -	$ 13,019

(3) If the above reclassified assets were not reclassified as available-for-sale financial assets for the period from July 1, 2008 to December 31, 2008, fair value of the reclassified assets would have been as follows:

	NT$	US$
July 1 ~December 31, 2008	($ 240,751)	($ 7,953)
January 1 ~ December 31, 2009	(33,631)	(1,111)
January 1 ~ December 31, 2010	13,019	430
January 1 ~ December 31, 2011	7,060	233
Total	($ 254,303)	($ 8,401)

E. Please refer to Note 6 for details of the aforementioned available-for-sale financial assets provided as collateral as of December 31, 2011 and 2010.

F. Please refer to Note 4(33) for details of the recognized impairment loss for the years ended December 31, 2011 and 2010.

G. On May 12, 2011, the Board of Directors have approved the issuance of the initial unsecured exchangeable corporate bonds at the first time. To be in compliance with relevant regulations regarding issuance and exchange, other than the below mentioned period, the bondholders have the right to exchange their bonds for Taiwan Business Bank (TBB) common stock at any time from Octorber 12, 2011 to January 1, 2014, 15 business days prior to the date of stop transferring date of stock dividends, stop transferring date of cash dividends or cash capital increase dividend to the rights distribution date. Starting from date of capital decrease proceedings to one day prior to trade date. Other periods cease TBB transferring pursuant to regulations. As a result, the Company has placed the available-for-sale financial asset, 483,871 ordinary shares of TBB with the Taiwan Depository & Cleaning Corporation as the underlying exchanges in support of the exchangeable corporate bonds when needed.

(8) Held-to-maturity financial assets, net

	December 31, 2011		December 31, 2010
	NT$	US$	NT$
Certificate of time deposit by Central Bank	$ 118,200,000	$ 3,904,598	$ 203,000,000
Financial bonds	10,892,492	359,821	12,279,110
Government bonds	1,800,027	59,462	2,191,666
Corporate bonds	397,696	13,137	369,096
Total	$ 131,290,215	$ 4,337,018	$ 217,839,872

A. Please refer to Note 6 for details of the aforementioned held-to-maturity financial assets pledged as collateral as of December 31, 2011 and 2010.

B. MICB has held-to-maturity financial assets which consists of bonds and bills sold under repurchase agreements amounting to NT$796,564 thousand (US$26,314 thousand) and NT$0 thousand as of December 31, 2011 and 2010, respectively.

(9) Equity investments accounted for by the equity method, net

	December 31, 2011			December 31, 2010	
Investee Company	NT$	US$	Percentage of Shareholding	NT$	Percentage of Shareholding
Mega Management Consulting Corporation	$ 55,578	$ 1,836	100.00	$ 79,711	100.00
Mega International Investment Services Co., Ltd.	35,355	1,168	100.00	31,423	100.00
Mega Life Insurance Agency Co., Ltd.	121,989	4,030	100.00	77,104	100.00
Win Card Co., Ltd.	68,891	2,276	100.00	70,061	100.00
Cathay Investment & Warehousing Ltd.	96,414	3,185	100.00	95,970	100.00
ICBC Assets management & consulting Co., Ltd.	281,260	9,291	100.00	286,670	100.00
Ramlett Finance Holdings Inc.	-	-	100.00	-	100.00
Cathay Insurance Co., Inc, (Philippines) (Note)	3,735	123	86.46	8,063	86.46
China Products Trading Company	37,046	1,224	25.25	41,164	68.27
United Venture Corporation	26,081	861	25.31	44,507	25.31
China Products Trading Company (Thailand)	31,942	1,055	25.25	38,019	25.25
IP Fundseven Limited	226,248	7,474	25.00	223,975	25.00
An Feng Enterprise Co., Ltd.	11,803	390	25.00	12,091	25.00
Taiwan Bills Finance Corporation	1,390,834	45,945	24.55	1,400,552	24.55
Everstrong Iron & Foundry & Mfg. Corporation	39,509	1,305	22.22	38,809	22.22
China Real Estate Management Co., Ltd.	121,709	4,020	20.00	126,643	20.00
Total	$ 2,548,394	$ 84,183		$ 2,574,762	

Note: Cathay Insurance Company, Inc. has completed the liquidation procedure overseas and is pending for approval of the subsidiary's Board of Directors.

A. The capital surplus arising from changes in capital surplus of investees accounted for by the equity method were both NT$379,097 thousand (US$12,523 thousand) as of December 31, 2011 and 2010, respectively.

B. As of December 31, 2011 and 2010, equity investments accounted for by the equity method were not pledged as collateral.

C. Part of equity investments accounted for under equity method and investment income and losses as of December 31, 2011 and 2010, are recognized based on unaudited financial statements of the same period. Income and losses recognized as of December 31, 2011 and 2010, amounted to NT$43,252 thousand (US$1,429 thousand) and NT$75,504 thousand, respectively; the amounts were not significant.

(10) Other financial assets, net

	December 31, 2011				December 31, 2010	
	NT$		US$		NT$	
Financial assets carried at cost	$	17,829,974	$	588,992	$	18,944,406
Debt investments with no active market		4,000,000		132,135		4,000,000
Restricted assets-certificate of deposit		416,200		13,749		246,200
Margin deposits from client		1,953,113		64,519		1,712,435
Futures margin deposits		-		-		10,455
Remittance purchased		83,953		2,773		25,391
Non-accrual loans transferred from accounts other than loans		709,393		23,434		807,075
Others		25,884		855		49,301
Subtotal		25,018,517		826,457		25,795,263
Less: Accumulated impairment－Financial assets carried at cost	(	1,281,452)	(	42,331)	(	1,839,450)
Allowance for bad debts－Remittance purchased	(	449)	(	15)		-
Allowance for bad debts－Non-accrual loans transferred from accounts other than loans	(	447,050)	(	14,768)	(	495,727)
Subtotal	(	1,728,951)	(	57,114)	(	2,335,177)
Net	$	23,289,566	$	769,343	$	23,460,086

A. Please refer to Note 4(33) for the amounts of impairment loss recognized by the Group due to investees operating at a loss over an extended period of time for the years ended December 31, 2011 and 2010.

B. The bad debt expenses of (reversal) and recognition due to remittance acquired and non-loan transferred to overdue accounts for years 2011 and 2010 amounted to (NT$68,159) thousand (US$2,252 thousand) and NT$161,156 thousand, respectively.

C. Please refer to Note 6 for details of the above other financial assets provided as collateral.

(11) Property and equipment, net

	December 31, 2011									
	Cost		Revaluation Increment		Accumulated Depreciation		Accumulated Impairment		Net Book Value	
	(In Thousands of NT Dollars)									
Land	$	10,891,896	$	3,134,896	$	-	($	626,292)	$	13,400,500
Buildings and structures		12,513,836		37,015	(	5,742,163)	(	45,583)		6,763,105
Machinery and computers		4,281,518		-	(	3,476,180)		-		805,338
Office equipment		24,459		-	(	20,022)		-		4,437
Transportation equipment		215,213		-	(	175,931)		-		39,282
Miscellaneous equipment		1,631,680		-	(	1,337,463)		-		294,217
Leasehold improvements		244,997		-	(	177,432)		-		67,565
Subtotal		29,803,599		3,171,911	(	10,929,191)	(	671,875)		21,374,444
Prepayments for equipment		42,133		-		-		-		42,133
Total	$	29,845,732	$	3,171,911	($	10,929,191)	($	671,875)	$	21,416,577

	December 31, 2011				
	Cost	Revaluation Increment	Accumulated Depreciation	Accumulated Impairment	Net Book Value
	(In Thousands of US Dollars)				
Land	$ 359,801	$ 103,558	$ -	($ 20,689)	$ 442,670
Buildings and structures	413,380	1,223	(189,686)	(1,506)	223,411
Machinery and computers	141,435	-	(114,832)	-	26,603
Office equipment	808	-	(661)	-	147
Transportation equipment	7,110	-	(5,812)	-	1,298
Miscellaneous equipment	53,901	-	(44,182)	-	9,719
Leasehold improvements	8,093	-	(5,861)	-	2,232
Subtotal	984,528	104,781	(361,034)	(22,195)	706,080
Prepayments for equipment	1,392	-	-	-	1,392
Total	$ 985,920	$ 104,781	($ 361,034)	($ 22,195)	$ 707,472

	December 31, 2010				
	Cost	Revaluation Increment	Accumulated Depreciation	Accumulated Impairment	Net Book Value
	(In Thousands of NT Dollars)				
Land	$ 10,692,475	$ 3,140,048	$ -	($ 825,867)	$ 13,006,656
Buildings and structures	12,404,012	37,015	(5,535,325)	(47,540)	6,858,162
Machinery and computers	4,331,217	-	(3,470,566)	-	860,651
Office equipment	26,577	-	(22,841)	-	3,736
Transportation equipment	220,765	-	(181,597)	-	39,168
Miscellaneous equipment	1,604,223	-	(1,303,893)	-	300,330
Leasehold improvements	233,422	-	(170,835)	-	62,587
Subtotal	29,512,691	3,177,063	(10,685,057)	(873,407)	21,131,290
Prepayments for equipment	8,159	-	-	-	8,159
Total	$ 29,520,850	$ 3,177,063	($ 10,685,057)	($ 873,407)	$ 21,139,449

A. MICB and its indirect subsidiaries revalued the land and other property and equipment based on related government regulations. As of December 31, 2011 and 2010, the revaluation increment for land and other property and equipment amounted to NT$3,171,911 thousand (US$104,780 thousand) and NT$3,117,063 thousand, respectively, and were recorded under "property and equipment". Reserve for land revaluation increment tax amounted to NT$846,416 thousand (US$27,960 thousand) and NT$901,355 thousand, and was recorded under "other liabilities".

B. Please refer to Note 6 for details of the property and equipment pledged as collateral as of December 31, 2011 and 2010.

C. Please refer to Note 4(33) for the details of the recognized impairment loss for the years ended December 31, 2011 and 2010.

(12) Other assets

	December 31, 2011		December 31, 2010
	NT$	US$	NT$
Prepayments	$ 3,004,939	$ 99,265	$ 1,445,108
Reinsurance reserve assets	2,996,956	99,001	3,688,848
Refundable deposits	2,347,561	77,549	2,638,419
Restricted assets	20,371	673	20,696
Guarantee deposits held for operation and funds for security settlements	2,071,544	68,431	1,419,441
Deferred income tax assets	1,257,127	41,528	1,458,156
Other deferred assets	24,766	818	187,678
Idle assets, net	1,149,763	37,981	1,055,097
Securities brokerage debit accounts, net	173,695	5,738	111,316
Foreclosed properties	116,642	3,853	265,013
Rental assets, net	620,824	20,508	705,371
Temporary payments	775,024	25,602	946,151
Others	150,135	4,959	28,072
Total	$ 14,709,347	$ 485,906	$ 13,969,366

A. As of December 31, 2011 and 2010, MITC has set aside impairment loss from cash reserves for securitization amounting to NT$400,620 thousand (US$13,234 thousand) and NT$435,620 thousand, respectively.

B. Please refer to Note 6 for details of the above other assets provided as collateral as of December 31, 2011 and 2010.

(13) Due to the Central Bank and financial institutions

	December 31, 2011		December 31, 2010
	NT$	US$	NT$
Due to the Central Bank	$ 291,175,916	$ 9,618,655	$ 270,365,588
Due to Chunghwa Post	3,824,875	126,350	6,849,088
Overdrafts on banks	246,887	8,156	2,784,377
Call loans from banks	63,832,329	2,108,626	31,985,932
Borrowing	8,468,671	279,752	10,719,180
Total	$ 367,548,678	$ 12,141,539	$ 322,704,165

(14) Funds borrowed from the Central Bank and other banks

	December 31, 2011		December 31, 2010
	NT$	US$	NT$
Funds borrowed from the Central Bank	$ 8,988,504	$ 296,924	$ 9,800,940
Other funds borrowed from the Central Bank	62,884,896	2,077,329	28,767,700
Total	$ 71,873,400	$ 2,374,253	$ 38,568,640

(15) Commercial papers payable, net

	Guarantee organization	December 31, 2011 NT$	December 31, 2011 US$	December 31, 2010 NT$
Domestic Commercial	International Bills Finance Corp.	$ -	$ -	$ 1,100.000
"	Grand Bills Finance Corp.	300,000	9,910	1,370,000
"	Hwanan Bills Finance Co., Ltd	600,000	19,820	400,000
"	China Bills Finance Co., Ltd.	-	-	1,800,000
"	Taiwan Cooperative Bills Finance Co., Ltd..	100,000	3,303	100,000
"	Mega Bills Finance Co., Ltd.	-	-	280,000
"	Taching Bill Finance Co., Ltd	140,000	4,625	700,000
"	Tachung Bills Finance Corp.	-	-	250,000
"	Taishin Bills Finance Co., Ltd.	-	-	1,310,000
"	Taiwan Bills Finance Corp.	-	-	360,000
"	Yuanta Commercial Bank	500,000	16,517	500,000
"	TC Bank Co., Ltd	-	-	435,000
"	Shin Kong Commercial Bank Co., Ltd.	110,000	3,634	260,000
Total		1,750,000	57,809	8,865,000
Less: Unamortized discount		(613)	(87)	(2,604)
Net		$ 1,749,387	$ 57,789	$ 8,862,396

As of December 31, 2011 and 2010, none of the aforementioned commercial papers payable was provided for guarantees, and the interest rate ranged from 0.77% to 0.90% and 0.30% to 0.65% for the years ended December 31, 2011 and 2010, respectively.

(16) Financial liabilities at fair value through profit or loss

	December 31, 2011 NT$	December 31, 2011 US$	December 31, 2010 NT$
Financial liabilities held for trading	$ 2,831,139	$ 93,523	$ 2,874,431
Financial liabilities designated as at fair value through profit or loss	18,481,493	610,515	27,145,490
Total	$ 21,312,632	$ 704,038	$ 30,019,921

Please refer to Note 10 for details of the contract information of derivatives.

(17) Bills and bonds sold under repurchase agreements

	December 31, 2011 NT$	December 31, 2011 US$	December 31, 2010 NT$
Commercial paper	$ 87,530,596	$ 2,891,470	$ 84,435,083
Government bonds	65,239,572	2,155,112	75,703,546
Financial bonds	8,129,784	268,558	2,424,500
Corporate bonds	17,050,055	563,229	18,552,722
Foreign corporate bonds	174,213	5,755	-
Foreign financial bonds	4,849	160	-
Foreign bills	11,732	388	-
Negotiable certificates of deposits	6,486,702	214,281	-
Treasury bills	14,484,256	478,470	-
Others	469,573	15,512	700,829
Total	$ 199,581,332	$ 6,592,935	$ 181,816,680

(18) Payables

	December 31, 2011		December 31, 2010
	NT$	US$	NT$
Accounts payable	$ 10,010,836	$ 330,696	$ 22,365,788
Accrued expenses	4,354,990	143,862	4,387,278
Interest payable	2,448,225	80,874	2,114,811
Taxes payable	3,610,255	119,261	4,364,073
Dividends payable	15,367,660	507,653	14,519,915
Acceptances	10,934,044	361,193	11,650,286
Collections for others	1,098,846	36,299	1,735,206
Commissions payable	132,356	4,372	142,987
Due from other insurers	951,221	31,422	738,477
Payables on proceeds from short sales	1,917,298	63,336	1,622,731
Margin loans from other securities lenders	2,224,071	73,470	1,875,140
Customers' purchase payable	396,421	13,095	491,886
Futures traders' equity	1,906,168	62,968	1,691,939
Other payables	3,161,694	104,443	3,778,862
Total	$ 58,514,085	$ 1,932,944	$ 71,479,379

(19) Deposits and remittances

	December 31, 2011		December 31, 2010
	NT$	US$	NT$
Checking account deposits	$ 32,086,542	$ 1,059,941	$ 28,337,364
Demand deposits	455,070,843	15,032,731	481,338,660
Time deposits	568,690,295	18,786,017	537,644,059
Savings deposits	523,506,939	17,293,438	498,057,281
Remittances	9,206,348	304,121	13,195,775
Total	$ 1,588,560,967	$ 52,476,248	$ 1,558,573,139

(20) Bonds payable

	December 31, 2011		December 31, 2010
	NT$	US$	NT$
Domestic unsecured corporate bonds	$ 12,900,000	$ 426,136	$ 18,250,000
Unsecured exchangeable corporate bonds	6,000,000	198,203	-
Less: exchangeable corporate bond discount	(98,941)	(3,268)	-
Subtotal	18,801,059	621,071	18,250,000
Financial bonds, net	42,600,000	1,407,241	34,800,000
Total	$ 61,401,059	$ 2,028,312	$ 53,050,000

A. Domestic unsecured corporate bonds were as follows:

The Company

Name of bond	Issuing period	Interest rate	Total issued amount (NT$)	December 31, 2011 (NT$)	December 31, 2011 (US$)	December 31, 2010 (NT$)	Remark
First domestic unsecured corporate bonds-Bond C	2007.10.25-2012.10.25	2.80%	$ 300,000	$ 300,000	$ 9,910	$ 300,000	Interest is paid yearly. The principal is repaid at maturity.
Second domestic unsecured corporate bonds-Bond A	2008.02.04-2011.02.04	2.68%	1,300,000	-	-	1,300,000	Interest is paid yearly. The principal is repaid at maturity.
Second domestic unsecured corporate bonds-Bond B	2008.02.04-2011.02.04	Floating rate Note 1	400,000	-	-	400,000	Interest is paid quarterly. The principal is repaid at maturity.
Second domestic unsecured corporate bonds-Bond C	2008.02.04-2013.02.04	2.78%	2,000,000	2,000,000	66,067	2,000,000	Interest is paid yearly. The principal is repaid at maturity.
First domestic unsecured corporate bonds-Bond A	2008.05.13-2011.05.13	2.58%	2,400,000	-	-	2,400,000	Interest is paid yearly. The principal is repaid at maturity.
First domestic unsecured corporate bonds-Bond B	2008.05.13-2011.05.13	Floating rate Note 2	1,250,000	-	-	1,250,000	Interest is paid quarterly. The principal is repaid at maturity.
First domestic unsecured corporate bonds-Bond C	2008.05.13-2013.05.13	2.75%	1,800,000	1,800,000	59,461	1,800,000	Interest is paid yearly. The principal is repaid at maturity.
First domestic unsecured corporate bonds-Bond D	2008.05.13-2013.05.13	Floating rate Note 3	300,000	300,000	9,910	300,000	Interest is paid quarterly. The principal is repaid at maturity.
Second domestic unsecured corporate bonds-Subordinate	2008.12.26-2015.12.26	3.26%	6,000,000	6,000,000	198,203	6,000,000	Interest is paid yearly. The principal is repaid at maturity.
Total				$ 10,400,000	$ 343,551	$ 15,750,000	

Note 1: Floating rate.+ 0.22% (Note)

Note 2: Floating rate + 0.20%. (Note)

Note 3: Floating rate + 0.25%. (Note)

Note:Floating rate is based on the fixing rate of 90 day TWD BACP based on page 6165 screenshot of Thomson Reuters at 11 a.m.

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Name of bond	Issuing period	Interest rate	Total issued amount (NT$)	December 31, 2011 (NT$)	December 31, 2011 (US$)	December 31, 2010 (NT$)	Remark
First domestic unsecured corporate bonds	2010.02.24-2013.02.14	1.45%	$ 2,500,000	$ 2,500,000	$ 82,585	$ 2,500,000	Interest is paid yearly. The principal is repaid at maturity.

B. Unsecured exchangeable corporate bonds were as follows:

The Company

Name of bond	Issuing period	Interest rate	Total issued amount (NT$)	December 31, 2011 (NT$)	December 31, 2011 (US$)	December 31, 2010 (NT$)	Remark
First domestic unsecured exchangeable corporate bonds	2011.07.11-2014.01.11	0%	$ 6,000,000	$ 5,901,059	$ 194,935	$ -	Note

Note:the main issue policy and exchange procedure of the swap bonds are as follows:

i.Collateral:

The exchangeable bonds are unsecured bonds. In the event that issue of secured exchangeable corporation bond or private equity over the same underlying securities, common stocks of Taiwan Business Bank (hereinafter referred to as TBB), collateral rights of the same degree or foreclosed asset under same priority should be clarified in accordance with the classification of secured exchangeable corporate bond.

ii.Term and date of repayment:

The Company shall repay 100% of principal amount of the bonds by cash at maturity. Except for those being redeemed, exchanged, purchased and cancelled.

iii.Underlying securities :

Please refer to Note 4(7) for TBB common stocks held by the Company.

iv.Exchange period:

Other than the below mentioned periods, the bondholders may exercise the right to exchange their bond for TBB common shares at any time on and after October 12, 2011 (the first day after bonds being issued for 3 months) to January 1, 2014 (10 days before maturity): 15 business days prior to the date of stock dividends stop transferring date, cash dividends or cash capital increase dividend stop transferring date to the right distributed date. Effective date of capital decrease proceedings to one day prior to preference share transaction date. And other periods temporarily cease TBB common stocks from transferring pursuant to regulations.

v.Exchange price and adjustment

With the effective date of exchange price set on July 1, 2011, choose any average amount of the closing market prices on one business day, three business days or five business days prior to the effective date. Based on the benchmark price and multiply by 118.72% (rounded to one decimal place). If there is any ex-right or ex-dividend being executed before effective date, the closing market price of exchangeable prices adopted should be accounted as price after ex-right or ex-dividend at inception. In the event of ex-right or ex-dividend being executed before the actual issue date or after price being determined, the exchange price should be adjusted by the formula. Pursuant to the above method, the effective price, $10.95 dollars per share was determined at the average closing market price of TTB common stocks on one business day prior to effective date. As of December 31, 2011, the exchange price of the bond was $12.4 dollars per share.

vi.Redemption of the exchangeable bond

a) From October 12, 2011 to December 2, 2013, if the closing price of TBB common stocks exceeds 30% of the exchange price in continuous 30 business days, the Company may redeem the bonds at principal amount in the terms of exchange by cash within 30 business days.

b) From October 12, 2011(the first day after bonds issued for 3 months) to December 2, 2013 (40 days before maturity), the the Company may redeem the bonds at principal amount in the terms of exchange by cash if at least 90% in principal amount of the bonds has already been exchanged, redeemed or purchased and cancelled.

vii.As of December 31, 2011, the Company did not repurchase any exchangeable corporation bonds from Gre Tai Securities, nor did any bondholders exercise the option.

C. Financial bonds issued by MICB were as follows:

Name of bond	Issuing period	Interest rate	Total issued amount (NT$)	December 31, 2011 (NT$)	December 31, 2011 (US$)	December 31, 2010 (NT$)	Remark
93-207 Development Financial bond	2004.10.12-2011.04.12	3.00%	$ 4,500,000	$ -	$ -	$ 4,500,000	Interest is paid yearly. The principal is repaid at maturity.
96-1 Development Financial bond	2007.09.27-2014.09.27	Floating rate Note 1	5,000,000	5,000,000	165,169	5,000,000	Interest is paid yearly. The principal is repaid at maturity.
96-3 Development Financial bond	2007.12.28-2014.12.28	2.99%	300,000	300,000	9,910	300,000	Interest is paid yearly. The principal is repaid at maturity.
96-4 Development Financial bond	2007.12.28-2014.12.28	Floating rate Note 2	400,000	400,000	13,214	400,000	Interest is paid yearly. The principal is repaid at maturity.

(continued)

(continued)

97-4 Development Financial bond	2008.06.26-2015.06.26	Floating rate Note 3	6.000,000	6,000,000	198,203	6,000,000	Interest is paid yearly. The principal is repaid at maturity.
97-6 Development Financial bond	2008.06.26-2011.06.26	Floating rate Note 4	300,000	-	-	300,000	Interest is paid yearly. The principal is repaid at maturity
97-8 Development Financial bond	2008.09.29-2015.09.29	3.00%	1,600,000	1,600,000	52,854	1,600,000	Interest is paid yearly. The principal is repaid at maturity.
97-9 Development Financial bond	2008.12.23-2015.12.23	3.00%	6,400,000	6,400,000	211,417	6,400,000	Interest is paid yearly. The principal is repaid at maturity
99-1 Development Financial bond	2010.12.24-2017.12.24	1.53%	10,300,000	10,300,000	340,248	10,300,000	Interest is paid yearly. The principal is repaid at maturity
100-1 Development Financial bond	2011.04.15-2018.04.15	1.65%	4,700,000	4,700,000	155,259	-	Interest is paid yearly. The principal is repaid at maturity
100-2 Development Financial bond	2011.11.24-2018.11.24	1.65%	7,900,000	7,900,000	260,967	-	Interest is paid yearly. The principal is repaid at maturity.
Total				$ 42,600,000	$ 1,407,241	$ 34,800,000	

Note 1: Floating rate + 0.34%. (Note)
Note 2: Floating rate.+ 0.40% (Note)
Note 3: Floating rate + 0.43%. (Note)
Note 4: Floating rate + 0.20%. (Note)
Note: Floating rate is based on the fixing rate of 90 day TWD BACP based on page 6165 screenshot of Thomson Reuters at 11 a.m.

(21) Other loans

Nature of Loans	December 31, 2011 NT$	December 31, 2011 US$	December 31, 2010 NT$
Credit loans	$ 5,405,000	$ 178,548	$ 8,010,000
Secured loans	24,400	806	3,158,000
Total	$ 5,429,400	$ 179,354	$ 11,168,000

A. For the years ended December 31, 2011 and 2010, the interest rates ranged from 0.69% to 1.82% and 0.60% to 1.59%, respectively.

B. Please refer to Note 6 for details of some assets provided as collaterals for the aforementioned loans.

(22) Accrued pension liabilities

A. Net pension cost comprises of the following:

	For the years ended December 31, 2011 NT$	2011 US$	2010 NT$
Service cost	$ 648,155	$ 21,411	$ 672,582
Interest cost	295,773	9,770	348,874
Expected return on plan assets	(187,936)	(6,208)	(216,582)
Amortization on unrealized net transition obligation	248,282	8,202	182,800
Unrecognized service cost in prior period	2,715	90	2,228
Unrecognized pension gain or loss	33	1	-
Net pension cost	$ 1,007,022	$ 33,266	$ 989,902

	For the years ended December 31,		
	2011		2010
	NT$	US$	NT$
Expected return on plan assets:	($ 184,330)	($ 6,089)	($ 140,861)
Actual return on plan assets	(3,606)	(119)	(75,721)
(Loss) gain on plan assets	($ 187,936)	($ 6,208)	($ 216,582)

B. Funded status of the pension plan and reconciliation of accrual pension liabilities are as follows:

	December 31, 2011		December 31, 2010
	NT$	US$	NT$
Benefit obligation:			
Vested benefit obligation	$ 9,378,820	$ 309,818	$ 8,181,134
Non-vested benefit obligation	2,670,459	88,216	2,784,214
Accumulated benefit obligation	12,,049,279	398,034	10,965,348
Effect of future salary increments	1,652,875	54,601	3,902,509
Projected benefit obligation	13,702,154	452,635	14,867,857
Fair value of plan assets	(10,042,362)	(331,738)	(9,273,063)
Funded status	3,659,792	120,897	5,594,794
Unrealized net transaction obligation	(152,018)	(5,022)	(164,004)
Unamortized service cost in prior year	(456,495)	(15,080)	(77,072)
Unamortized gain or loss on pension	(1,219,802)	(40,295)	(3,609,620)
Unrecognized gain or loss on pension	(234,795)	(7,756)	(124,615)
Prepaid pension	76,643	2,532	1,237
Unfunded accrued pension liabilities	395,985	13,081	184,839
Accrued pension liabilities	$ 2,069,310	$ 68,357	$ 1,805,559

C. Actuarial assumptions

	December 31, 2011	December 31, 2010
Discount rate	1.50% ~ 2.25%	2.00% ~ 2.50%
Expected rate of return on plan assets	2.25% ~ 3.00%	2.00% ~ 3.00%
Rate of compensation increase	1.50% ~ 2.25%	2.00% ~ 2.50%

D. Effective July 1, 2005, the Company has established a funded defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"). Employees have the option to be covered under the New Plan. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The payment of pension benefits is based on the employees' individual pension fund accounts and the cumulative profit in such accounts, and the employees can choose to receive such pension benefits monthly or in lump sum. The pension costs under the defined contribution pension plan for the years ended December 31, 2011 and 2010 were NT$148,761 thousand (US$4,914 thousand) and NT$162,012 thousand, respectively.

(23) Reserves for operations and liabilities

	December 31, 2011		December 31, 2010
	NT$	US$	NT$
Reserves for insurance business	$ 8,532,370	$ 281,854	$ 9,283,446
Reserves for guarantee liabilities	5,032,725	166,250	4,382,855
Reserves for default losses	-	-	235,353
Reserves for securities trading losses	-	-	300,902
Other reserves	45,473	1,502	48,121
Total	$ 13,610,468	$ 449,606	$ 14,250,677

Bad debts expense resulting from reserves for guarantee liabilities provided by MICB and MBF for the years ended December 31, 2011 and 2010 amounted to NT$781,914 thousand (US$25,830 thousand) and NT$878,267 thousand, respectively.

(24) Other financial liabilities

	December 31, 2011				December 31, 2010	
	NT$		US$		NT$	
Structured deposits	$	9,976,851	$	329,574	$	4,064,309
Appropriated loan fund		2,636,999		87,110		3,291,093
Appropriations for loans		6		-		18
Others		6,198		205		2,279
Total	$	12,620,054	$	416,889	$	7,357,699

(25) Other liabilities

	December 31, 2011				December 31, 2010	
	NT$		US$		NT$	
Advance receipt	$	1,893,667	$	62,555	$	1,539,872
Receipts under custody		158,631		5,240		183,738
Temporary receipts and suspense accounts		4,361,280		144,070		2,642,236
Land increment duty reserves		846,416		27,960		901,355
Refundable deposits		3,003,535		99,218		2,983,394
Other liabilities to be settled		395,183		13,055		383,525
Accounts under custody		147,625		4,877		121,434
Deferred revenue		117,556		3,883		162,093
Others		28,544		943		33,367
Total	$	10,952,437	$	361,801	$	8,951,014

(26) Capital stock

A. As of December 31, 2011 and 2010, the Company's authorized capital was NT$120 billion for both years and the Company's issued capital was NT$112,806,148 thousand and NT$110,594,262 consisting of 11,280,615 thousand shares and 11,059,426 thousand shares, respectively, with a par value of NT$10 per share.

B. The stockholders at the stockholders' meeting on June 28, 2011 resolved that the Company transfer earnings to increase capital by issuing new stocks amounting to NT$2,211,885 thousand (recognized as "stock dividends distributable") and divided into 221,189 thousand shares. The capital increase has been approved by Jin-Guan-Zheng-Fa-Zi Letter No. 1000035292 dated August 4, 2011. After the capital increase, the paid-in capital amounted to NT$112,806,148 thousand, divided into 11,280,615 thousand shares.

(27) Capital surplus

A. The capital surplus of the Company consisted of consolidation premium from share exchange and accumulated adjustments on paid-in capital from investments under equity method.

	December 31, 2011				December 31, 2010	
	NT$		US$		NT$	
Consolidation surplus arising from share conversion	$	43,047,306	$	1,422,017	$	43,047,306
Changes in additional paid-in capital of investees accounted for by the equity method		379,097		12,523		379,097
	$	43,426,403	$	1,,434,540	$	43,426,403

B. As per the rule stipulated by the Explanatory Letter Tai-Tsai-Jen Ruling (6) No.0910003413 of the SFC, capital surplus arising from share exchange which comes from the original financial institution's undistributed earnings can either be distributed as cash dividends or capitalized in the year of the share exchange in accordance with Section 4 of Article 47 of the Financial Holding Company Act. However, the amount to be capitalized should not exceed the specific percentage of capital surplus stated in Article 8 of the Securities and Exchange Law.

C. In accordance with Explanatory Note (96) No. 344, capital surplus originally included in subsidiaries' stockholders' equity and in which related to assets and liabilities were reclassified to an adjustment account in the stockholders' equity when parent company recognized the capital surplus due to share swap. In subsequent periods, when subsidiaries derecognize the asset and liability accounts, the Company also should derecognize the corresponding adjustment account in the stockholders' equity.

(28) Appropriation of earnings and dividend policy

A. According to the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior year's operating loss, and the remaining amount should then be set aside as legal reserve and special reserve in accordance with provisions under the applicable laws and regulations. The remaining earnings (including reversible special reserve) are then distributed as follows: (1) 0.02% to 0.16% as bonuses to employees (2) not more than 0.5% as remuneration to Directors and Supervisors, and (3) the remaining earnings plus prior year's accumulated unappropriated earnings are subject to the Board of Directors' decision to propose a distribution plan and to be submitted for approval of the stockholders at the stockholders' meeting.

Cash dividends should exceed 50% of the total distributed amount, and the remainder will be in the form of stock dividends.

Bonus to employees range from 0.02% to 0.16% of the total distributed amount and can be distributed in the form of cash or stocks based on the stockholders' resolution. Employees of the affiliated companies may be entitled to the Company's stock bonus at the Board's discretion.

B. The legal reserve is to be used exclusively to offset any deficit or to increase capital by issuing new shares or to distribute cash dividends according to original shareholders in proportion to the number of shares being held by each of them and is not to be used for any other purposes. For the legal reserve to be used for issuing new shares or distributing cash dividends, only the portion of the legal reserve exceeding 25% of paid-in capital may be capitalized or released.

C. Under Article 41-1 of the Securities and Exchange Act, special reserve can be used to recover accumulated deficits and under Article 239 of Company Law of the R.O.C., a company shall not use the capital reserve to recover its capital loss, unless the surplus reserve is insufficient to recover such loss. However, the annual net income after income taxes should first be used to recover accumulated deficits, and the remaining amount should then be set aside as special reserve. The remaining earnings are then distributed to stockholders.

D. Appropriation of the 2010 earnings was resolved by the Board of Directors and approved by the stockholders on April 26, 2011 and June 28, 2011, respectively. Appropriation of the 2009 earnings was resolved by the Board of Directors and approved by the stockholders on April 28, 2009 and June 23, 2010, respectively. Details of the earnings appropriation are set forth below:

	Appropriated Amount			Dividend Per Share (in dollars)		
	2010		2009	2010		2009
	NT$	US$	NT$	NT$	US$	NT$
Dividends – cash	$ 9,953,484	$ 328,802	$ 11,059,426	$ 0.90	$ 0.03	$ 1.00
Dividends – stock	2,211,885	73,067	-	0.20	0.01	-
Remuneration to directors and supervisors	67,998	2,246	64,493			
Cash bonus to employees	10,892	360	20,637			

E. Information on the appropriation of the Company's 2010 earnings as approved by the Board of Directors and during the stockholders' meeting is posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange. The actual appropriation of the Company's 2010 earnings is the same as described above. Due to changes in ratio of bonus to employees and remuneration to directors and supervisors, the difference of NT$13,422 thousand (US$443 thousand) between the Company's 2010 cash bonus to employees and remuneration to directors and supervisors as resolved by the stockholders and the amounts recognized in the 2010 financial statements was recognized in the financial statements for the year ended December 31, 2011.

F. The Group recognized the estimated costs of NT$393,107 thousand (US$12,986 thousand) and NT$381,083 thousand for employees' bonuses and remuneration to directors and supervisors for the years ended December 31, 2011 and 2010, respectively, which after taking net earnings after tax and legal reserve into account, is based on the ratio stipulated in the Company's Articles of Incorporation and past experience, and were recognized as operating expense for the years ended December 31, 2011 and 2010.

(29) Service fee and commission income

	For the year ended December 31, 2011		For the year ended December 31, 2010
	NT$	US$	NT$
Service fee and commission income	$ 10,552,573	$ 348,592	$ 11,263,900
Service fee and commission expense	(1,755,732)	(57,999)	(1,720,276)
Total	$ 8,796,841	$ 290,593	$ 9,543,624

(30) Personnel expenses, depreciation and amortization

Expenses relating to personnel, depreciation and amortization summarized by function for the years ended December 31, 2011 and 2010 were as follows:

	For the year ended December 31, 2011				For the year ended December 31, 2010		
	Operating Costs	Operating Expenses	Total	Total	Operating Costs	Operating Expenses	Total
	NT$	NT$	NT$	US$	NT$	NT$	NT$
Personnel expenses							
Salaries and wages	$ -	$ 11,386,651	$ 11,386,651	$ 376,145	$ -	$ 12,091,153	$ 12,091,153
Labor and health insurance	-	686,708	686,708	22,684	-	649,943	649,943
Pension	-	1,203,408	1,203,408	39,753	-	1,294,792	1,294,792
Others	-	621,748	621,748	20,539	-	432,114	432,114
Total	$ -	$ 13,898,515	$ 13,898,515	$ 459,121	$ -	$ 14,468,002	$ 14,468,002
Depreciation	$ 4,061	$ 785,111	$ 789,172	$ 26,069	$ 4,086	$ 832,321	$ 836,407
Amortization	$ -	$ 39,390	$ 39,390	$ 1,302	$ -	$ 53,659	$ 53,659

(31) Income taxes

The income taxes of the Group is computed in accordance with SFAS No. 22, “Accounting for Income Taxes” on an individual basis. However, their annual returns on corporate income tax and the 10% tax surcharge on surplus retained earnings are filed jointly under Article 49 of the Financial Holding Company Act and the relevant provisions of the Income Tax Law. The receipts (disbursements) arising from the joint tax return scheme are recorded as “other receivables (payables)”, and adjustments are made on a reasonable, systematic, and consistent basis to the current year’s deferred income tax assets (liabilities) or income tax refundable (payable) based on the above amount of receipts (disbursements). The amount recorded under “other receivables (payables)” is eliminated from the consolidated financial statements.

A. The income taxes comprise the following:

	For the year ended December 31, 2011		For the year ended December 31, 2010
Item	NT$	US$	NT$
Income tax at the statutory tax rate	$ 3,589,636	$ 118,579	$ 3,168,748
Tax effect of permanent differences	(620,421)	(20,495)	(645,969)
Effect of loss reserves transferred as special reserves	36,219	1,197	-
10% tax on undistributed earnings	144,887	4,786	249,724
Effects on change in tax rates	-	-	269,962
Income tax expenses – foreign branch	443,557	14,652	466,576
Net change in deferred income tax assets	(201,029)	(6,641)	(774,095)
Prepaid and withholding taxes	(1,503,537)	(49,668)	(1,211,462)
Income tax payable	1,889,312	62,410	1,523,484
Separate income tax	133	4	70,547
Net change in deferred income tax assets	201,029	6,641	774,095
Prepaid and withholding taxes	1,503,537	49,668	1,211,462
Effect of consolidated income tax return system and over provision of prior year’s income tax	(164,189)	(5,423)	(89,514)
Income tax expense	$ 3,429,822	$ 113,300	$ 3,490,074

B. Deferred income taxes as of December 31 2011 and 2010 consisted of deferred income tax assets - net (shown as other assets), as follows:

	December 31, 2011		December 31, 2010
	NT$	US$	NT$
(A) Total deferred income tax assets	$ 2,097,912	$ 69,302	$ 4,861,669
(B) Total deferred income tax liabilities	($ 773,065)	($ 25,537)	($ 2,911,802)
(C) Valuation allowance for deferred income tax assets	($ 67,720)	($ 2,237)	($ 491,711)
(D) Temporary differences resulting in deferred income tax assets and liabilities :			
Pension expenses	$ 1,326,856	$ 43,831	$ 1,690,068
Unrealized foregin exchange gains	(1,061,056)	(35,051)	(864,736)
Miscellaneous reserves	8,444	279	247,885
Allowance for doubtful accounts	3,174,765	104,875	2,547,970
Provision for impairment losses	219,460	7,249	463,315
Provision for investments losses	3,988,264	131,748	4,143,352
Foreign investees recognized under equity method	(2,135,701)	(70,550)	(2,018,166)
Net changes in deferred income tax assets incurred by foreign branches	1,590,482	52,540	2,117,729
Unrealized gains on financial instruments	(1,105,095)	(36,506)	(14,039,062)
Unrealized expense and loss from structured notes securitization	1,017,277	33,604	1,346,084
Others	769,510	25,420	1,735,854
	$ 7,793,206	$ 257,439	$ 10,283,135

C. Imputation tax credit

	December 31, 2011		December 31, 2010
	NT$	US$	NT$
Balance of imputation tax credit	$ 1,273,599	$ 42,072	$ 681,197

	2010	2009
Estimated (actual) tax credit rate for individual stockholders (Note)	19.59%	13.68%

Note: The tax credit rate for individual stockholders is computed as follows:

$$\frac{\text{Stockholders' account balance of imputation tax credit as of the dividend distribution date}}{\text{Cumulative unappropriated retained earnings recorded in the books (including capital surplus arising from the subsidiaries' unappropriated earnings for 1998 and the years between 1998 and the share swap)}}$$

The abovementioned balance of imputation on tax credit and tax credit rate for individual stockholders are from the Company's information.

D. Unappropriated retained earnings

	December 31, 2011		December 31, 2010
	NT$	US$	NT$
1998 and onwards	$ 22,828,132	$ 754,101	$ 18,824,681

E. Assessment of income tax returns

(a) The Company's profit-seeking enterprise income tax return through 2006 has been assessed by the Tax Authority. According to the 2002 assessment, NT$5,129 thousand of additional tax assessed should be made by the Company. As the consolidated tax return system was adopted starting from 2003, the decreased tax refundable for the Company and the consolidated entity during the 2003 to 2006 were NT$201,174 and NT$220,588 thousand, respectively with the additional tax payable and increased tax refundable being NT$856,968 and NT$103,536 thousand, respectively. The Company disagreed with the 2003 to 2005 results and has filed for administrative remedy. The re-examination for 2002 has been rejected by the Tax Authority and is in the process of administrative litigation. Regarding the re-examination for 2003, some have been rejected by the Tax Authority and is the in process of administrative petition. Re-examination for 2004 and 2005 have been filed.

(b) As of December 31, 2011, MICB's income tax returns through 2006 have been examined by the NTA. Mega Bank did not agree with the assessment of 2004 to 2005 and the Company filed an appeal for reinvestigation of 2004 and 2005 income tax returns on behalf of MICB.

(c) As of December 31, 2011, MS's income tax returns through 2006 have been examined by the NTA. MS did not agree with the NTA's assessment for 2003 to 2005 income tax returns and the Company has filed for a tax appeal for re-investigation of 2004 and 2005 income tax returns. Reinvestigation case of 2003 income tax return was partially rejected and petition has been filed.

An additional income tax of NT$137,118 thousand (US$4,530 thousand) was levied by the NTA for 2000, 2001 and 2002 income tax returns. MS did not agree with the assessments and filed for administrative remedy.

(d) As of December 31, 2011, MBF's income tax returns through 2006 have been examined by the NTA.

(e) As of December 31, 2011, CKI's income tax returns through 2006 have been examined by the NTA. CKI did not agree with the NTA's assessment for 2004 to 2005 income tax returns and the Company has filed for a tax appeal for re-investigation of 2004 to 2005 income tax returns on behalf of CKI.

(f) As of December 31, 2011, MAM's income tax returns through 2006 have been assessed by the NTA.

(g) As of December 31, 2011, MITC's income tax returns through 2008 have been assessed by the NTA.

(h) As of December 31, 2011, Mega Venture Capital's income tax returns through 2006 have been assessed by the NTA.

(32) Earnings per share (EPS)

Effective January 1, 2008, as employees' bonus could be distributed in the form of stock, the diluted EPS computation shall include those estimated shares that would be increased from employees' stock bonus issuance in the weighted-average number of common shares outstanding during the reporting year, which take into account the dilutive effects of stock bonus on potential common shares; whereas, basic EPS shall be calculated based on the weighted-average number of common shares outstanding during the reporting year that include the shares of employees' stock bonus for the appropriation of prior year earnings, which have already been resolved at the stockholders' meeting held in the reporting year.

A. Basic earnings per share

(In thousands of shares)	For the year ended December 31, 2011	For the year ended December 31, 2010
Weighted-average number of shares outstanding	11,280,615	11,280,615

	For the year ended December 31, 2011				For the year ended December 31, 2010	
	Pre-tax		After-tax		Pre-tax	After-tax
(In thousands of dollars)	NT$	US$	NT$	US$	NT$	NT$
Consolidated net income	$ 21,115,504	$ 697,526	$ 17,685,682	$ 584,226	$ 18,639,692	$ 15,149,618
Consolidated net income attributed to:						
Stockholders of the Company	$ 17,679,892	$ 584,035				$ 15,110,720
Minority interest	5,790	191				38,898
	$ 17,685,682	$ 584,226				$ 15,149,618

	For the year ended December 31, 2011				For the year ended December 31, 2010	
	Pre-tax		After-tax		Pre-tax	After-tax
(In dollars)	NT$	US$	NT$	US$	NT$	NT$
Basic earnings per share						
Consolidated net income	$ 1.87	$ 0.06	$ 1.57	$ 0.05	$ 1.65	$ 1.34

(In dollars)	For the year ended December 31, 2011		For the year ended December 31, 2010
	NT$	US$	NT$
Consolidated after-tax basic earnings per share attributed to:			
Stockholders of the Company	$ 1.57	$ 0.05	$ 1.34
Minority interest	-	-	-
	$ 1.57	$ 0.05	$ 1.34

B. Diluted earnings per share

(In thousands of shares)	For the year ended December 31, 2011	For the year ended December 31, 2010
Weighted-average number of shares outstanding	11,281,879	11,281,612

	For the year ended December 31, 2011				For the year ended December 31, 2010	
	Pre-tax		After-tax		Pre-tax	After-tax
(In thousands of dollars)	NT$	US$	NT$	US$	NT$	NT$
Consolidated net income	$ 21,115,504	$ 697,526	$ 17,685,682	$ 584,226	$ 18,639,692	$ 15,149,618
Consolidated net income attributed to:						
Stockholders of the Company	$ 17,679,892	$ 584,035				$ 15,110,720
Minority interest	5,790	191				38,898
	$ 17,685,682	$ 584,226				$ 15,149,618

	For the year ended December 31, 2011				For the year ended December 31, 2010	
	Pre-tax		After-tax		Pre-tax	After-tax
(In dollars)	NT$	US$	NT$	US$	NT$	NT$
Basic earnings per share						
Consolidated net income	$ 1.87	$ 0.06	$ 1.57	$ 0.05	$ 1.65	$ 1.34

(In dollars)	For the year ended December 31, 2011		For the year ended December 31, 2010
	NT$	US$	NT$
Consolidated after-tax basic earnings per share attributed to:			
Stockholders of the Company	$ 1.57	$ 0.05	$ 1.34
Minority interest	-	-	-
	$ 1.57	$ 0.05	$ 1.34

(33) Asset impairment loss

	For the year ended December 31, 2011		For the year ended December 31, 2010
	NT$	US$	NT$
Financial assets carried at cost	$ 378,004	$ 12,487	$ 723,947
(Recovered gain) impairment loss from property and equipment	(286,345)	(9,459)	439,404
Impairment loss on idle asset	17,268	570	550
mpairment loss (recovered gain) from available-for-sale financial assets	86,831	2,869	(57,650)
Recovered gain from held-to-maturity financial assets	-	-	(24,831)
	$ 195,758	$ 6,467	$ 1,081,420

Note: Certain financial assets with the impairment losses recognized were disposed of this year, and the accumulated impairment were reversed.

(a) An impairment loss amounting to NT$378,004 thousand (US$12,487 thousand) and NT$723,947 thousand has been recognized by MICB and MBF due to a financial asset carried at cost, investees operating at a loss continually for the years ended December 31, 2011 and 2010.

(b) Impairment reversal gains of fixed assets for the year ended December 31, 2011 were recognized in the amounts of NT$286,345 thousand (US$9,459 thousand), by MICB and MS because the assessed recoverable amount of land and buildings was higher than the book value. The recoverable amount is based on an external appraisal report adopted by MS.

(c) Impairment loss of idle assets for the year ended December 31, 2011 were recognized in the amounts of NT$17,268 thousand (US$570 thousand), by MICB because the assessed recoverable amount of land and buildings was lower than the book value. The recoverable amount is based on an external appraisal report adopted by MICB.

(d) Available-for-sale financial assets refers to impairment loss of NT$86,831 thousand (US$2,868 thousand) that was recognized by MICB For the year ended December 31, 2011, due to continued operating losses of the investees.

(e) Owing to the fact that the estimated recoverable amount is lower than the carrying amount of the land and buildings, the subsidiary, MS, recognized impairment loss amounting to NT$550 thousand for the idle assets in 2010.

(f) Impairment reversal gains of NT$57,650 thousand were recognized for the year ended December 31, 2010 by MICB due to the sale of available-for-sale financial asset bonds.

(g) The gain from price recovery of NT$24,831 thousand of MICB for the year ended December 31, 2010 was from the sale of bonds classified as held-to-maturity financial assets.

(h) Impairment losses amounting to NT$439,404 thousand for the year ended December 31, 2010 was recognized by MICB and MS because the assessed recoverable amount of land and buildings was lower than the book value. The recoverable amount is based on an external appraisal report adopted by MICB and MS.

5. RELATED PARTY TRANSACTIONS

(1) Names of the related parties and their relationship with the Company

Names of the related parties	Relationship with the Company
Chunghwa Post Co., Ltd. (Chunghwa Post)	Supervisor of the Company
Bank of Taiwan (BOT)	Supervisor of the Company
Mega Life Insurance Agency Co., Ltd. (MLIAC)	Subsidiary of the Company
Mega International Securities Investment Consulting Co., Ltd. (MISIC)	Indirect subsidiary of the Company
Win Card Co., Ltd. (Win Card)	Indirect subsidiary of the Company
Taiwan Bills Finance Corporation (TFC)	MICB is the director of TFC
Taiwan Business Bank(TBB)	The Company is TBB's corporate supervisor
Taiwan Integrated Shareholder Service Company (Taiwan Integrated Shareholder)	Taiwan Integrated Shareholder's chairman is also the chairman of MS
Alexander Leed Risk Services, Inc. (Alexander Leed Risk Services)(Note)	Alexander Leed's chairman is also one of the directors of the Company's subsidiary (Note)
International Bills Finance Corporation(IBF)	The Company's subsidiary is the supervisor of IBF's parent (Waterland Financial Holdings)
Other related parties	The Company's and subsidiary's directors, supervisors, managers, their relatives, associated companies and substantial related parties

Note:Alexander Leed's chairman was also one of the directors of the Company, but resigned on March 7, 2011; therefore, Alexander Leed is no longer the Company's related party starting from March 7, 2011.

(2) Significant transactions and balances with related parties

Related party transactions with an amount exceeding $100 million (US$3.10 million) are set forth below.

A. Deposits

Details of the related parties' deposits placed with MICB and recorded under "deposits and remittances" are as follows:

	December 31, 2011		December 31, 2010
	NT$	US$	NT$
Others (individual amounts accounting for less than 10% of the total amount)	$ 56,490,913	$ 1,866,111	$ 49,911,559

B. Credits extended

Details of the credits extended to the related parties by MICB and recorded under "bills, discounts and loans" are as follows:

	December 31, 2011		December 31, 2010
	NT$	US$	NT$
Others (individual amounts accounting for less than 10% of the total amount)	$ 129,873,081	$ 4,290,205	$ 109,533,570

C. Bank deposits

	December 31, 2011		December 31, 2010
	NT$	US$	NT$
TBB	$ 65,503	$ 2,164	$ 46,477
BOT	545,511	18,020	559,831
Total	$ 611,014	$ 20,184	$ 606,308

D. Refundable deposits

		December 31, 2011		December 31, 2010
	Collaterals	NT$	US$	NT$
BOT	Available-for-sale financial assets-government bonds	$ 104,593	$ 3,455	$ 108,455

E. Purchase of securities and bonds

	For the year ended December 31, 2011		For the year ended December 31, 2010
	NT$	US$	NT$
Chunghwa Post	$ 52,473	$ 1,733	$ 4,490,836
BOT	-	-	650,405
Total	$ 52,473	$ 1,733	$ 5,141,241

Terms and conditions on the above transactions are not materially different from those with non-related parties.

F. Sales of securities and bonds

	For the year ended December 31, 2011		For the year ended December 31, 2010
	NT$	US$	NT$
BOT	$ 61,293,781	$ 2,024,768	$ 23,768,209
Chunghwa Post	68,235,045	2,254,065	52,241,356
Total	$ 129,528,826	$ 4,278,833	$ 76,009,565

Terms and conditions on the above transactions are not materially different from those with non-related parties.

G. Securities and bonds with repurchase/ resale agreement

	December 31, 2011		December 31, 2010
	NT$	US$	NT$
BOT	$ 574,597	$ 18,981	$ -
Others	5,006	166	-
Total	$ 579,603	$ 19,146	$ -

Terms and conditions on the above transactions are not materially different from those with non-related parties.

H. Transactions with other financial institutions

(a) Due from banks/call loans to banks

	December 31, 2011			December 31, 2010	
	NT$	% of the Account	US$	NT$	% of the Account
BOT	$ 21,063	0.01	$ 696	$ 38,005	0.03

(b) Overdraft on banks

	December 31, 2011			December 31, 2010	
	NT$	% of the Account	US$	NT$	% of the Account
Chunghwa Post	$ 3,984,533	1.08	$ 131,624	$ 7,102,539	2.20
BOT	426,310	0.12	14,083	197,000	0.06
Total	$ 4,410,843	1.20	$ 145,707	$ 7,299,539	2.26

I. Commercial paper payable

	December 31, 2011		December 31, 2010
Institutions of guarantee or acceptance	NT$	US$	NT$
TFC	$ -	$ -	$ 360,000

J. Other payables

	December 31, 2011		December 31, 2010
	NT$	US$	NT$
MISIC	$ 3,000	$ 99	$ 3,947

K. Collaterals

		December 31, 2011		December 31, 2010
	Collaterals	NT$	US$	NT$
BOT	Available-for-sale financial assets – government bonds	$ 4,129,971	$ 136,429	$ 4,173,409

L. Loans

December 31, 2011

(Expressed in thousands of NT dollars)

Types	Number of accounts or names of related party	Highest balance	Ending balance	Default status: Normal loans	Default status: Overdue accounts	Collateral	Whether terms and conditions of the related party transactions are different from those of transactions with third parties.
Consumer loans for employees	14	$ 9,492	$ 6,467	V	-	None	None
Home mortgage loans	49	$ 407,656	$ 302,191	V	-	Real estate	None
Other loans	1	$ 339,810	$ 287,000	V	-	Real estate	None

December 31, 2011

(Expressed in thousands of US dollars)

Types	Number of accounts or names of related party	Highest balance	Ending balance	Default status: Normal loans	Default status: Overdue accounts	Collateral	Whether terms and conditions of the related party transactions are different from those of transactions with third parties.
Consumer loans for employees	14	$ 314	$ 214	V	-	None	None
Home mortgage loans	49	$ 13,466	$ 9,983	V	-	Real estate	None
Other loans	1	$ 11,225	$ 9,481	V	-	Real estate	None

December 31, 2010

(Expressed in thousands of NT dollars)

Types	Number of accounts or names of related party	Highest balance	Ending balance	Default status: Normal loans	Default status: Overdue accounts	Collateral	Whether terms and conditions of the related party transactions are different from those of transactions with third parties.
Consumer loans for employees	17	$ 12,446	$ 10,271	V	-	None	None
Home mortgage loans	55	$ 381,466	$ 338,095	V	-	Real estate	None
Other loans	2	$ 349,990	$ 326,810	V	-	Real estate	None

M. Service fee revenues

	For the years ended December 31,				
	2011			2010	
	NT$	% of the Account	US$	NT$	% of the Account
MISIC	$ 407,010	4.63	$ 13,445	$ 250,352	2.62

The amount is the service fee revenue from policies sold by MICB on behalf of MLIAC.

N. Interest revenue

	For the years ended December 31,				
	2011			2010	
	NT$	% of the Account	US$	NT$	% of the Account
BOT	$ 4,321	0.01	$ 143	$ 3,858	0.01
IBF	971	-	32	-	-
TBB	175	-	6	230	-
Total	$ 5,467	0.01	$ 181	$ 4,088	0.01

O. Interest expense

	For the years ended December 31,				
	2011			2010	
	NT$	% of the Account	US$	NT$	% of the Account
BOT	$ 39,265	0.30	$ 1,297	$ 9,260	0.08
Chunghwa Post	62,530	0.47	2,066	353,201	3.20
Total	$ 101,795	0.77	$ 3,363	$ 362,461	3.28

P. Income and losses of financial assets and liabilities measured at fair value through profit or loss

	For the years ended December 31,				
	2011			2010	
	NT$	% of the Account	US$	NT$	% of the Account
BOT	$ 4,314	0.66	$ 143	$ 1,430	0.07
Chunghwa Post	4,161	0.64	137	2,914	0.15
Total	$ 8,475	1.30	$ 280	$ 4,344	0.22

Q. Information on remunerations to the Company's management:

	For the years ended December 31,		
	2011		2010
	NT$	US$	NT$
Salaries	$ 163,997	$ 5,418	$ 164,600
Bonus	53,340	1,762	48,000
Business expenses	25,188	832	24,386
Earnings distribution	80,839	2,670	73,917
Total	$ 323,364	$ 10,682	$ 310,903

(a) Salaries represent salary, extra pay for duty, pension and severance pay.

(b) Bonus represents bonuses and rewards. The amounts listed for 2011 are estimated amounts and the amounts listed for 2010 are actual amounts distributed.

(c) Business expenses represent transportation expense, extraneous charges, subsidies and housing benefits and vehicles provided.

(d) Earnings distribution represents estimated remunerations to be paid to supervisors and directors and bonuses to be paid to employees. The amounts listed for 2011 are estimated amounts and the amounts listed for 2010 are actual amounts distributed.

(e) Please refer to the Company's annual report for relevant information. The management includes Director, Supervisors, President and Vice President.

R. Guarantees: None.

S. Disposal of non-performing loans for related party: None.

T. Others

(a) MICB has been outsourcing its credit card operations to Win Card since 2001. The operational costs incurred for the years ended December 31, 2011 and 2010, were NT$160,543 thousand (US$5,303 thousand) and NT$165,918 thousand, respectively.

(b) Related details of CKI's premium income brokered by related parties:

	For the years ended December 31,		
	2011		2010
Commission and brokerage fee expenses	NT$	US$	NT$
BOT	$ 2,213	$ 73	$ 2,129
Alexander Leed Risk Services	1,334	44	3,023
Others	1,336	44	968
	$ 4,883	$ 161	$ 6,120

	December 31, 2011		December 31, 2010
Commissions payable	NT$	US$	NT$
BOT	$ 340	$ 11	$ 304
Alexander Leed Risk Services	-	-	2,290
Others	283	10	243
	$ 623	$ 21	$ 2,837

(c) MISIC provides consultation on investing domestic and foreign securities to MS; the service fee incurred for the years ended December 31, 2011 and 2010 was NT$32,287 thousand (US$1,067 thousand) and NT$9,660 thousand, respectively.

6. PLEDGED ASSETS

	Carrying amount		
	December 31, 2011		December 31, 2010
Asset	NT$	US$	NT$
Financial assets at fair value through profit or loss	$ 12,953,713	$ 427,911	$ 18,509,507
Available-for-sale financial assets	27,616,320	912,273	19,266,144
Held-to-maturity financial assets	17,108,396	565,156	16,026,615
Loans receivable purchased	425,982	14,072	4,413,126
Other financial assets	415,000	13,709	245,000
Property and equipment, net	2,467,964	81,526	2,684,563
Real estate investment	129,000	4,261	129,900
Other assets	640,882	21,171	689,969
Total	$ 61,757,257	$ 2,040,079	$ 61,964,824

7. COMMITMENTS AND CONTINGENT LIABILITIES

(1) The Subsidiaries-MICB

(a) As of December 31, 2011 and 2010, MICB's commitments and contingent liabilities were as follows:

	December 31, 2011		December 31, 2010
	NT$	US$	NT$
Irrevocable arranged financing limit	$ 118,177,482	$ 3,903,854	$ 130,700,514
Securities sold under repurchase agreement	7,344,251	242,609	4,286,445
Securities purchased under resale agreement	349,810	11,556	895,239
Credit card line commitments	48,633,007	1,606,534	45,913,631
Guarantees issued	253,425,720	8,371,621	238,333,222
Accrued guarantees issued	20,500	677	700
Letters of credit	84,783,914	2,800,737	92,018,744
Customers' securities under custody	168,590,517	5,569,190	174,679,118
Properties under custody	2,583,822	85,354	577,824
Guarantee received	78,859,468	2,605,030	91,718,434
Collections for customers	129,974,708	4,293,562	137,555,482
Agency loans payable	3,295,483	108,862	3,905,242
Travelers' checks consigned-in	1,910,638	63,116	2,076,070
Payables on gold consigned-in	-	-	21,326
Gold coins consigned-in	468	15	510
Payables on consignments-in	3,122	103	3,407
Agent for government bonds	124,991,200	4,128,938	108,888,000
Short-dated securities under custody	53,279,185	1,760,015	52,121,266
Investments for customers	265,016	8,754	265,016
Trust liability	438,442,953	14,483,449	413,875,764
Certified notes paid	9,018,776	297,925	9,800,941
Total	$ 1,523,950,040	$ 50,341,901	$ 1,507,636,895

(b) MICB has entered into several operating lease agreements for its branch offices. As of December 31, 2011, the annual minimum rents payable (excluding the adjustments for the consumer price index) for the next five years were as follows:

	Amount	
Year	NT$	US$
2012	$ 456,120	$ 15,067
2013	261,201	8,629
2014	174,299	5,758
2015	115,026	3,800
2016 and onwards	70,842	2,340
Total	$ 1,077,488	$ 35,594

(2) The subsidiaries-MS

(a) MS has entered into proxy delivery agreements with several securities firms. If MS is unable to fulfill its obligations to the Taiwan Stock Exchange, the proxies must act upon the said obligations. MS has reciprocated by agreeing to act as the proxy for the securities firms.

(b) MS has entered into several operating lease agreements for its branch offices. As of December 31, 2011, the annual minimum rents payable (excluding the adjustments for the consumer price index) for the next five years were as follows:

	Amount	
Year	NT$	US$
2012	$ 76,363	$ 2,523
2013	41,757	1,379
2014	16,363	541
2015	8,599	284
2016 and onwards	5,007	165
Total	$ 148,089	$ 4,892

(c) Hontex International Holdings Company Limited, guaranteed and endorsed by the subsidiary, Mega Capital (Asia) Co. Ltd. (MCA) of the Company's indirect subsidiary, Mega Securities Holding Co. Ltd, obtained an interim court order to freeze assets on March 31, 2010, as the Securities and Futures Commission (SFC) commenced proceedings against Hontex. Amongst other things, Hontex allegedly contained materially false or misleading information in breach of the "Securities and Futures Ordinance". Up till the audit report date, MCA was not officially appealed or accused over the aforementioned action. No relevant contingent liability has been estimated nor has the result of the case or possible compensation to the damage or loss of the subscribers been determined.

MCA did not consider itself having acted inappropriately in this matter and sought to negotiate through the delegated attorney. Up till the audit report date, the final result is difficult to assess. Yet the subsidiary, MS, has adequately evaluated the impact on MS's financial statements.

(3) The subsidiaries-MBF

As of December 31, 2011 and 2010, MBF's commitments and contingent liabilities arising from its normal course of business were as follows:

	December 31, 2011		December 31, 2010
	NT$	US$	NT$
Bills and bonds sold under repurchase agreements	$ 184,993,275	$ 6,111,036	$ 170,163,470
Guarantees for commercial papers	134,979,200	4,458,879	114,477,300

(4) The subsidiaries-Mega Venture Capital

Mega Management Consulting Corporation acts as an agent to deal with management, investment, assignment and re-investment of all assets on behalf of Mega I Venture and conduct enterprise operation, management and consultation service for Mega I Venture's investee companies. In accordance with the contract, Mega I Venture should pay 2% per annum of the total issued capital as management fee which is payable quarterly to Mega Management Consulting Corporation. At the end of every fiscal year, 20% of net income calculated based on the terms of contracts are paid as performance-based bonus which is payable within 15 days of the completion of general shareholders' meeting.

(5) The subsidiaries- Mega I Venture

Mega Management Consulting Corporation acts as an agent to deal with management, investment, assignment and re-investment of all assets on behalf of Mega Venture Capital and conduct enterprise operation, management and consultation service for Mega Venture Capital's investee companies. In accordance with the contract, Mega Venture Capital should pay 1.7% per annum of average of beginning year and ending year of the total issued capital stock as management fee which is payable quarterly to Mega Management Consulting Corporation. At the end of every fiscal year, 20% of net income calculated based on the terms of contracts are paid as performance-based bonus which is payable within 15 days of the completion of general shareholders' meeting.

8. SIGNIFICANT DISASTER LOSS

None.

9. SIGNIFICANT SUBSEQUENT EVENTS

The subsidiary MICB's Board of Directors has resolved to adjust the revaluation of the assets at book value on March 23, 2012 amounting to NT$1,513,763 thousand (US$50,005 thousand) , and recognized the land incremental valuation tax amounting to NT$396,007 thousand (US$13,082 thousand) (listed under other liabilities of the subsidiary). The remaining amount of NT$1,117,756 thousand (US$36,924 thousand) is recognized as others under the stockholders' equity of the subsidiary.

10. OTHERS

(1) Presentation of financial statements

Certain accounts of the December 31, 2010 consolidated financial statements have been reclassified to conform to the presentation of the December 31, 2011 consolidated financial statements.

(2) Financial instruments information:

A. Fair Value

	December 31, 2011				December 31, 2010	
	NT$		US$		NT$	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Non-derivative financial instruments						
Assets						
Cash and cash equivalents	$ 322,992,872	$ 322,992,872	$ 10,669,691	$ 10,669,691	$ 271,737,992	$ 271,737,992
Due from the Central Bank and call loans to banks	180,399,521	180,399,521	5,959,287	5,959,287	126,448,073	126,448,073
Financial assets held for trading						
Stocks	5,144,175	5,144,175	169,932	169,932	4,795,252	4,795,252
Commercial papers	96,933,023	96,933,023	3,202,069	3,202,069	87,458,516	87,458,516
Bankers' acceptances	-	-	-	-	64,092	64,092
Treasury bills	16,092,460	16,092,460	531,595	531,595	497,923	497,923
Foreign currency bills	11,723	11,723	387	387	86,505	86,505
Beneficiary certificates	65,192	65,192	2,153	2,153	590,299	590,299
Negotiable certificates of time deposit	17,853,217	17,853,217	589,760	589,760	20,001,299	20,001,299
Corporate bonds	11,461,186	11,461,186	378,607	378,607	9,666,545	9,666,545
Government bonds	2,460,859	2,460,859	81,292	81,292	1,774,295	1,774,295
Financial bonds	200,856	200,856	6,635	6,635	864,891	864,891
Other bonds	613,189	613,189	20,256	20,256	1,471,400	1,471,400
Financial assets designated at fair value through profit or loss						
Corporate bonds	23,396,815	23,396,815	772,886	772,886	18,014,143	18,014,143
Governments bonds	790,899	790,899	26,127	26,127	2,031,839	2,031,839
Financial bonds	7,513,845	7,513,845	248,211	248,211	8,492,706	8,492,706
Bills and bonds purchased under resale agreements	1,460,685	1,460,685	48,252	48,252	1,783,691	1,783,691
Receivables－net	107,160,487	107,160,487	3,539,921	3,539,921	147,486,410	147,486,410
Bills discounted and loans－net	1,462,054,154	1,462,054,154	48,297,243	48,297,243	1,336,834,541	1,336,834,541
Available-for-sale financial assets						
Stocks	16,148,222	16,148,222	533,438	533,438	23,502,975	23,502,975
Commercial papers	6,176,759	6,176,759	204,042	204,042	6,333,138	6,333,138
Governments bonds	77,571,383	77,571,383	2,562,480	2,562,480	87,513,788	87,513,788
Corporate bonds	25,109,064	25,109,064	829,448	829,448	29,023,949	29,023,949
Foreign currency corporate bonds	151,015	151,015	4,989	4,989	250,000	250,000
Beneficiary certificates	634,461	634,461	20,959	20,959	2,444,237	2,444,237
Beneficiary securities	4,763,902	4,763,902	157,370	157,370	5,179,917	5,179,917
Certificate of time deposits	617,701	617,701	20,405	20,405	605,842	605,842
Financial bonds	30,230,329	30,230,329	998,623	998,623	30,786,222	30,786,222
Foreign financial bonds	30,127	30,127	995	995	29,327	29,327
Treasury bills	-	-	-	-	229,012	229,012
Held-to-maturity financial assets	131,290,215	131,290,215	4,337,018	4,337,018	217,839,872	217,839,872
Other financial assets	23,289,566	23,289,566	769,343	769,343	23,460,086	23,460,086
Liabilities						
Due to the Central Bank and financial institutions	367,548,678	367,548,678	12,141,539	12,141,539	322,704,165	322,704,165
Funds borrowed from the Central Bank and other banks	71,873,400	71,873,400	2,374,253	2,374,253	38,568,640	38,568,640

	December 31, 2011				December 31, 2010	
	NT$		US$		NT$	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Non-derivative financial instruments						
Financial liabilities at fair value through profit or loss	$ 13,667,338	$ 13,667,338	$ 451,484	$ 451,484	$ 30,019,921	$ 30,019,921
Bills and bonds sold under repurchased agreements	199,581,332	199,581,332	6,592,935	6,592,935	181,816,680	181,816,680
Commercial papers payable, net	1,749,387	1,749,387	57,789	57,789	8,862,396	8,862,396
Payables	58,514,085	58,514,085	1,932,944	1,932,944	71,412,873	71,412,873
Deposits and remittances	1,588,560,967	1,588,560,967	52,476,248	52,476,248	1,558,573,139	1,558,573,139
Bonds payable	61,401,059	61,401,059	2,028,312	2,028,312	53,050,000	53,050,000
Other borrowings	5,429,400	5,429,400	179,354	179,354	11,168,000	11,168,000
Other financial liabilities	12,620,054	12,620,054	416,889	416,889	7,357,699	7,357,699
Non-hedging derivative financial instruments						
Forward contracts	79,484,469	435,360	2,625,676	14,382	53,196,640	671,513
Interest rate swap contracts	108,790,240	(1,199,002)	3,593,758	(39,608)	183,828,657	1,554,079
Cross currency contracts	17,957,654	367,795	593,210	12,150	104,126,687	(2,234,609)
Asset swap contracts	13,331,909	340,743	440,404	11,256	7,279,150	(510,000)
Options	30,514,754	(1,370,036)	1,008,019	(45,258)	21,301,722	(2,608,357)
Credit default swaps	12,108,800	(591,180)	400,000	(19,529)	737,500	(915,841)
Currency swaps	461,300,417	584,585	15,238,518	19,311	483,687,177	380,036
Futures trading margin	118,554	118,554	3,916	3,916	166,634	166,634

B. The assumptions and methods adopted by the Group to estimate the fair values of the above financial instruments are summarized below.

(a) The fair values of short-term financial instruments are approximated using their carrying value. Since they are either short-term in nature and the estimated future receipts or payments are closely related to their carrying value, it is reasonable that their fair value be determined based on their carrying value. This method applies to cash and cash equivalents, due from the Central Bank and call loans to banks, bills and bonds purchased under resale agreements, receivables, due to the Central Bank and financial institutions, payables, remittances, funds borrowed from the Central Bank and other banks and other financial liabilities.

(b) When there is a quoted market price available in an active market for financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity financial assets, the fair value is determined using the market price. If there is no quoted market price for reference, a valuation technique will be adopted to measure the fair value. The estimation and assumption of the valuation technique used by the Group is consistent with those used by the market participants for financial instrument pricing. The discount rate used is consistent with the expected return rate of the financial instruments that have the same conditions and characteristics. Such conditions and characteristics include the debtor's credit rating, the remaining period of the fixed interest rate contracts, the remaining period for principal repayment, the payment currency, etc.

For open-end funds, fair value is determined based on the net asset value of the given fund at the balance sheet date. For beneficiary securities, fair value is determined based on the discounted value of expected future cash flows at the balance sheet date or the market price provided by Bloomberg, Reuters or counterparties. For bonds listed on TSE or OTC, fair value is determined based on the latest transaction price of Automatic Order Matching and Execution System in OTC or the "fair value of bonds" bulletined in OTC. For those bonds which are not listed on the TSE or OTC, fair value is determined based on discounted cash flow technique at the balance sheet date or the market price provided by Bloomberg, Reuters or counterparties. For derivative financial instruments held for trading purpose, fair value is determined based on a quoted market price in an active market at the balance sheet date. If a quoted market price in an active market is not available, fair value is determined by applying other valuation techniques, such as discounted cash flow analysis or option pricing models.

(c) For held-to-maturity, available-for-sale and other financial assets, the fair value of investments is determined by reference to the closing price at the balance sheet date for listed shares and depositary receipts, the quoted price at the balance sheet date for bonds, and valuation techniques for financial instruments with no active markets.

(d) Bills discounted and loans, bills and bonds sold under repurchase agreements, commercial papers payable, deposits and bonds payable are financial assets and liabilities with mainly floating interests. Thus, their carrying values are deemed to be equivalent to their fair values.

(e) Financial assets measured at cost, composed of unlisted stocks or those not actively traded in the market and whose fair values cannot be reliably estimated, are measured at cost in compliance with the statements of financial accounting standards.

C. The fair values of financial assets and liabilities either determined using public quoted prices in the active market or estimated using valuation methods are as follows:

	December 31, 2011				December 31, 2010	
	Quoted market prices		Amount determined by a valuation technique		Quoted market prices	Amount determined by a valuation technique
	NT$	US$	NT$	US$	NT$	NT$
Non-derivative financial instruments						
Assets						
Cash and cash equivalents	$ -	$ -	$ 322,992,872	$ 10,669,691	$ -	$ 271,737,992
Due from the Central Bank and call loans to banks	-	-	180,399,521	5,959,287	-	126,448,073
Financial assets held for trading						
Stocks	5,144,175	169,932	-	-	4,795,252	-
Commercial papers	-	-	96,933,023	3,202,069	-	87,458,516
Bankers' acceptances	-	-	-	-	-	64,092
Foreign currency bills	-	-	11,723	387	-	86,505
Treasury bills	-	-	16,092,460	531,595	-	497,923
Beneficiary certificates	65,192	2,153	-	-	590,299	-
Negotiable certificates of time deposit	-	-	17,853,217	589,760	-	20,001,299
Corporate bonds	-	-	11,461,186	378,607	-	9,666,545
Government bonds	925,811	30,583	1,535,048	50,709	1,753,616	20,679
Financial bonds	-	-	200,856	6,635	-	864,891
Other bonds	613,189	20,256	-	-	1,471,400	-
Financial assets designated at fair value through profit or loss						
Corporate bonds	795,286	26,272	22,601,529	746,615	779,351	17,234,792
Governments bonds	639,198	21,116	151,701	5,011	628,673	1,403,166
Financial bonds	3,024,628	99,915	4,489,217	148,296	1,757,649	6,735,057
Bills and bonds purchased under resale agreements	-	-	1,460,685	48,252	-	1,783,691
Receivables-net	-	-	107,160,487	3,539,921	-	147,486,410
Loans-net	-	-	1,462,054,154	48,297,243	-	1,336,834,541
Available-for-sale financial assets						
Stocks	16,148,222	533,438	-	-	23,502,975	-
Commercial papers	5,249,005	173,395	927,754	30,647	5,106,802	1,266,336
Governments bonds	1,979,784	65,400	75,591,599	2,497,080	823,915	86,689,873
Corporate bonds	583,320	19,269	24,525,744	810,179	-	29,023,949
Foreign corporate bonds	-	-	151,015	4,989	-	250,000
Beneficiary certificates	634,461	20,959	-	-	2,444,237	-
Beneficiary securities	-	-	4,763,902	157,370	-	5,179,917
Certificate of deposits	-	-	617,701	20,405	-	605,842
Financial bonds	11,874,882	392,273	18,355,447	606,350	10,856,219	19,930,003
Foreign financial bonds	-	-	30,127	995	-	29,327
Treasury bills	-	-	-	-	-	229,012
Held-to-maturity financial assets	-	-	131,290,215	4,337,018	-	217,839,872
Other financial assets	-	-	23,289,566	769,343	-	23,460,086

	December 31, 2011				December 31, 2010	
	Quoted market prices		Amount determined by a valuation technique		Quoted market prices	Amount determined by a valuation technique
	NT$	US$	NT$	US$	NT$	NT$
Liabilities						
Due to the Central Bank and financial institutions	-	-	367,548,678	12,141,539	-	322,704,165
Funds borrowed from the Central Bank and other banks	-	-	71,873,400	2,374,253	-	38,568,641
Financial liabilities for trading purpose	61,098	2,018	-	-	680,209	-
Financial liabilities at fair value through profit or loss	-	-	13,606,240	449,466	-	29,339,712
Bills and bonds sold under repurchase agreements	-	-	199,581,332	6,592,935	-	181,816,680
Commercial papers payable, net	-	-	1,749,387	57,789	-	8,862,396
Payables	-	-	58,514,085	1,932,944	-	71,412,873
Deposits	-	-	1,588,560,967	52,476,248	-	1,558,573,139
Bonds payable	-	-	61,401,059	2,028,312	-	53,050,000
Other loans	-	-	5,429,400	179,354	-	11,168,000
Other financial liabilities	-	-	12,620,054	416,889	-	7,357,699
Derivative financial instruments						
Assets						
Financial assets held for trading	118,603	3,918	2,701,102	89,228	168,168	3,085,926
Financial assets designated at fair value through profit or loss	-	-	3,512,408	116,028	-	3,256,384
Liabilities						
Financial liabilities held for trading	-	-	2,770,041	91,505	-	2,548,619
Financial liabilities designated at fair value through profit or loss	-	-	4,875,253	161,049	-	7,812,771

D. Net loss determined by a valuation technique arising from derivative financial instruments at fair value through profit or loss for the years ended December 31, 2011 and 2010 amounted to NT$244,631 thousand (US$8,081 thousand) and NT$862,153 thousand, respectively.

E. The interest income arising from other than financial assets at fair value through profit or loss for the years ended December 31, 2011 and 2010 amounted to NT$38,566,261 thousand (US$1,273,991 thousand) and NT$33,261,906 thousand, respectively.

F. The adjustment in equity arising from available-for-sale financial assets for the years ended December 31, 2011 and 2010 amounted to NT$4,530,737 thousand (US$149,668 thousand) and NT$909,466 thousand, respectively.

(3) Information of fair value hierarchy of financial instruments

A. Information of fair value hierarchy of financial instruments

	December 31, 2011			(NT$)
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Investment in stocks	$ 5,144,175	$ 5,144,175	$ -	$ -
Investment in bills	130,890,423	-	130,890,423	-
Investment in bonds	14,736,090	1,539,000	13,197,090	-
Beneficiary certificates	65,192	65,192	-	-
Assets designated to be measured at fair value at initial recognition	31,701,559	4,459,112	27,242,447	-
Available-for-sale financial assets				
Investment in stocks	16,148,222	16,148,222	-	-
Investment in bonds	133,091,918	14,437,986	118,653,932	-
Others	12,192,823	5,883,466	6,309,357	-
Liabilities				
Financial liabilities at fair value through profit or loss	(13,667,338)	(61,098)	(13,606,240)	-
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	6,332,113	118,603	5,488,989	724,521
Liabilities				
Financial liabilities at fair value through profit or loss	(7,645,294)	-	(7,261,683)	(383,611)
Total	$ 328,989,883	$ 47,734,658	$ 280,914,315	$ 340,910

	December 31, 2011			(US$)
	Total	Level 1	Level 2	Level 3
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Investment in stocks	$ 169,932	$ 169,932	$ -	$ -
Investment in bills	4,323,811	-	4,323,811	-
Investment in bonds	486,790	50,839	435,951	-
Beneficiary certificates	2,153	2,153	-	-
Assets designated to be measured at fair value at initial recognition	1,047,224	147,302	899,922	-
Available-for-sale financial assets				
Investment in stocks	533,438	533,438	-	-
Investment in bonds	4,396,535	476,942	3,919,593	-
Others	402,776	194,354	208,422	-
Liabilities				
Financial liabilities at fair value through profit or loss	(451,484)	(2,018)	(449,466)	-
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	209,174	3,918	181,322	23,934
Liabilities				
Financial liabilities at fair value through profit or loss	(252,554)	-	(239,882)	(12,672)
Total	$ 10,867,795	$ 1,576,860	$ 9,279,673	$ 11,262

Note 1: The table above shows the Group's measurement method of financial assets and liabilities, which is applicable to financial assets or liabilities at fair value through profit or loss and available-for-sale financial assets, debt instrument investment in a non-active market, derivative financial assets and liabilities for hedging purposes under other financial assets and liabilities.

Note 2: Level 1: In accordance with SFAS No. 34 "Financial Instruments: Recognition and Measurement", if the market for the financial instrument is active, the fair value of the financial instrument is represented by the quoted prices of the same instruments. An active market refers to a market that meets all of the following conditions:

a. the goods traded in the market are homogeneous;

b. willing sellers and buyers can be found at the same time; and

c. the price information is available to the public.

Note 3: Level 2: Observable prices other than the quoted prices in an active market comprise direct (e.g. prices) or indirect (e.g. introduced by prices) observable inputs obtained from an active market.

a. The quoted prices of similar financial instruments in an active market represent the fair value of the financial instruments held by the Group. The quoted prices are introduced by recent transaction prices of similar financial instruments, which are decided based on their features and transaction terms. The fair value of financial instruments needs to be adjusted based on observable transaction prices of similar financial instruments; adjustment elements might include time lag of the last financial instrument transactions, differences of transaction terms, transaction prices involving related parties, relevance between observable transaction prices of similar financial instruments and the prices of held financial instruments.

b. Public quotation of the same or similar financial instruments in a non-active market.

c. Fair value is measured using an evaluation model, and the inputs (e.g. interest rate, yield curve, volatility rate) used in the model are based on obtainable data (e.g. observable inputs obtained from market materials, which reflect market participants' expectation) from the market.

d. Most inputs are derived from observable market data, or that the relevance can be verified by observable market data.

Note 4: Level 3: The inputs adopted to measure fair value at this level are not based on available data from the markets (non-observable inputs, e.g. option pricing model using history volatility rate, because history volatility rate cannot represent the expectation value of market participants for future volatility rate).

B. Movements of financial assets classified into Level 3 of fair value are as follows:

(NT$)

			Addition		Reduction		
	January 1, 2011	Valuation gain (loss) recognized as gain (loss) of the period or as stockholders' equity	Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Transferred from Level 3	December 31, 2011
Financial assets at fair value through profit or loss:							
Investment in bills and bonds	$ 10,297	($ 297)	$ -	$ -	($ 10,000)	$ -	$ -
Assets designated to be measured at fair value at initial recognition	9,224,811	(724,648)	-	278,868	(2,000,000)	(6,779,101)	-
Derivative financial instruments	24,279	263,122	330	444,079	(303)	(6,986)	724,521
Financial liabilities at fair value through profit or loss:							
Assets designated to be measured at fair value at initial recognition	(2,994,451)	(5,549)	-	-	3,000,000	-	-
Derivative financial instruments	(2,600,782)	702,235	-	(642,133)	500	2,156,569	(383,611)

(US$)

			Addition		Reduction		
	January 1, 2011	Valuation gain (loss) recognized as gain (loss) of the period or as stockholders' equity	Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Transferred from Level 3	December 31, 2011
Financial assets at fair value through profit or loss:							
Investment in bills and bonds	$ 340	($ 10)	$ -	$ -	($ 330)	$ -	$ -
Assets designated to be measured at fair value at initial recognition	304,731	(23,935)	-	9,212	(66,068)	(223,940)	-
Derivative financial instruments	802	8,692	11	14,670	(10)	(231)	23,934
Financial liabilities at fair value through profit or loss:							
Assets designated to be measured at fair value at initial recognition	(98,918)	(183)	-	-	99,101	-	-
Derivative financial instruments	(85,915)	23,198	-	(21,212)	17	71,240	(12,672)

(4) INFORMATION ON FINANCIAL RISK

A. MICB

(a) Market risk

Except for fund dispatching, deposit pricing and long-term/medium-term capital funding and usage, the Bank controls market risk, manages indicators of interest rate sensitivite assets and liabilities and market risk exposure limits through the treasury department. Regarding the foreign exchange market, foreign currency market, capital market and derivative transactions and so on, the Bank sets regulations on the transaction range and amount, assesses the limitation of the position and estimation of management risk index. Also, sets limitations on daily amount, overnight amount, counterparties amount and stop loss points for the dealing room and dealers. The foreign branches set limitation for foreign exchange which is controlled daily, and monthly reports are presented to the management for reference. The transactions have set limitations and are periodically accrued as unrealized profit or loss, and reports are prepared for management and Board of Directors review.

To measure the risk weighted assets in accordance with the standards set by the authorities.

The interest rate risk is measured based on the "Interest-rate sensitivity gap" and the "Interest rate sensitivity assets and liabilities ratio" and so on, so that the interest rate risk can be maintained within the suitable range. As for the exchange rate and investments in quoted securities exposure amount, the daily estimation of profit or loss is based on the market price and the stop loss point in order to make sure it is within the range acceptable for risk control.

Derivatives on trading book with hedge or non-hedge transaction characteristics are evaluated on a semi-monthly and weekly basis.

(b) Credit risk

1. Credit risk represents the risk of loss that the Bank would incur if the counterparty fails to perform MICB's contractual obligations.

   The concentrations of credit risk exist when the counterparty to financial instrument transactions are either concentrated in certain individuals or group of individuals engaged in similar activities or having activities in the same region, which would impair their ability to meet contractual obligations under negative economic or other conditions. MICB has not transacted with one single customer or entered into one single transaction which would expose the Bank to concentration risk. However, MICB is likely exposed to industry concentration risk.

   For credit cards, no collateral is required, but the credit status of each cardholder is closely monitored. Depending on the results of credit status monitoring, appropriate measures are adopted, including amending the credit limit.

2. The maximum credit risk exposure amounts of financial instruments held by the MICB are as follows:

	December 31, 2011				December 31, 2010	
	Carrying value		Maximum risk exposure amount		Carrying value	Maximum risk exposure amount
Financial assets	NT$	US$	NT$	US$	NT$	NT$
Financial assets at fair value through profit or loss	$ 41,805,870	$ 1,381,008	$ 41,807,123	$ 1,381,049	$ 34,977,627	$ 34,986,066
Available-for-sale financial assets	71,269,770	2,354,313	71,269,770	2,354,313	83,419,111	83,419,111
Bills discounted and loans	1,462,054,154	48,297,243	1,462,054,154	48,297,243	1,336,834,541	1,336,834,541
Held-to-maturity financial assets	130,949,228	4,325,754	130,949,228	4,325,754	217,320,776	217,320,776
Off-balance sheet commitments and guarantees	1,523,950,040	50,341,902	1,523,950,040	50,341,902	1,512,623,973	1,512,623,973
Total	$ 3,230,029,062	$ 106,700,220	$ 3,230,030,315	$ 106,700,261	$ 3,185,176,028	$ 3,185,184,467

The amounts summarized above are valued from financial instruments with positive fair value and off-balance sheet commitments and guarantees.

3. MICB and its subsidiaries strictly assess and evaluate each credit application for loan facility, guarantee and letters of credit. Collaterals, mostly in the form of real estate, cash, inventories and marketable securities, may be required depending on the result of the credit worthiness evaluation. As of December 31, 2011 and 2010, collaterals secured approximately 55.07% and 56.29%, respectively, of total loans (excluding overdue loans). When a borrower defaults, MICB and indirect banks would enforce the foreclosure of the collaterals and guarantees to lower MICB's credit risk. As disclosing the maximum credit risk exposure amount, MICB would not consider the fair value of collaterals. However, MICB and indirect banks are likely exposed to industry concentration risk. MICB's and indirect banks' information on industry concentration of credit risk is as follows:

	December 31, 2011				December 31, 2010	
	Carrying value		Maximum risk exposure amount		Carrying value	Maximum risk exposure amount
Industry type	NT$	US$	NT$	US$	NT$	NT$
Manufacturing	$ 531,385,639	$ 17,553,701	$ 531,385,639	$ 17,553,701	$ 501,534,412	$ 501,534,412
Financial institution, insurer, real estate and leasing	276,885,680	9,146,593	276,885,680	9,146,593	194,426,107	194,426,107
Wholesale and retail	128,580,082	4,247,492	128,580,082	4,247,492	114,998,838	114,998,838
Transportation and storage	96,763,727	3,196,476	96,763,727	3,196,476	86,494,165	86,494,165
Government institution	27,392,970	904,895	27,392,970	904,895	25,268,254	25,268,254
Individuals	288,777,800	9,539,436	288,777,800	9,539,436	289,400,664	289,400,664
Others (Note2)	392,963,428	12,981,086	392,963,428	12,981,086	388,107,779	388,107,779
Total	$ 1,742,749,326	$ 57,569,679	$ 1,742,749,326	$ 57,569,679	$ 1,600,230,219	$ 1,600,230,219
Geographic region						
Domestic	$ 1,248,317,413	$ 41,236,701	$ 1,248,317,413	$ 41,236,701	$ 1,201,513,114	$ 1,201,513,114
North America	52,568,344	1,736,534	52,568,344	1,736,534	52,761,479	52,761,479
Others (Note2)	441,863,569	14,596,444	441,863,569	14,596,444	345,955,626	345,955,626
Total	$ 1,742,749,326	$ 57,569,679	$ 1,742,749,326	$ 57,569,679	$ 1,600,230,219	$ 1,600,230,219

Note 1: The above figures include loans (excluding overdue loans – factoring without recourse), guarantees and acceptances.
Note 2: Loans according to government policy are inclusive.

Contract amounts of significant credit risk concentration are as follows:

December 31, 2011			
Ranking (Note 1)	Name of Enterprise Group (Note 2)	Total outstanding loan amount (Note 3)	Total outstanding loan amount / net worth of the current year (%)
1	A Corporation– Railway Transportation	$ 66,792,064	40.99%
2	B Group – Sea Transportation	63,635,659	39.04%
3	C Group – LED Panels and Spare Parts Manufacturing	26,331,785	16.15%
4	D Group – Steelmaking	24,905,405	15.28%
5	E Group – Investment consultation	20,176,860	12.38%
6	F Group – LED Panels and Spare Parts Manufacturing	18,525,697	11.37%
7	G Group – Other Articles Rental and Leasing	15,730,106	9.65%
8	H Group – Tire manufacturing	14,945,572	9.17%
9	I Group – Other Articles Rental and Leasing	14,708,540	9.02%
10	J Group – Cotton & wooly yarn Spinning	13,316,717	8.17%

December 31, 2010			
Ranking (Note 1)	Name of Enterprise Group (Note 2)	Total outstanding loan amount (Note 3)	Total outstanding loan amount / net worth of the current year (%)
1	A Group – Petroleum and Coal Products Manufacturing	$ 69,464,705	44.04%
2	B Corporation – Railway Transportation	66,759,269	42.32%
3	C Group – LED Panels and Spare Parts Manufacturing	28,897,096	18.32%
4	D Group – Steelmaking	24,765,876	15.70%
5	E Group – Cotton & wooly yarn Spinning	19,404,184	12.30%
6	F Group – LED Panels and Spare Parts Manufacturing	16,490,566	10.45%
7	G Group – Other Articles Rental and Leasing	14,392,844	9.12%
8	H Group – Cement Manufacturing	13,341,368	8.46%
9	I Group – Computer Peripherals Manufacturing	11,999,046	7.61%
10	J Group – Iron Rolling and Extruding	11,825,291	7.50%

Note 1: Ranking the top ten enterprise groups other than government and government enterprise according to their total amounts of outstanding loans. If an outstanding loan belongs to an enterprise group, the outstanding loan of the enterprise group should be categorized and listed in total, and disclosed by “code” plus “industry type” (for example, company (or group) A – Liquid Crystal Panel and Components Manufacturing). If it is an enterprise group, industry type of maximum exposure of the enterprise group should be disclosed. Industry type should be filled in accordance with “Standard Industrial Classification System” of Directorate-General of Budget, Accounting and Statistics, Executive Yuan.

Note 2: Definition of enterprise group is based on Article 6 of Supplementary Provisions to the Taiwan Stock Exchange Corporation Rules for Review of Securities Listings.

Note 3: Total outstanding loan amount is the sum of balances of all types of loans (including import negotiation, export negotiation, bills discounted, overdraft, short-term loan, short-term secured loan, margin loans receivable, medium-term unsecured loan, medium-term secured loan, long-term unsecured loan, long-term secured loan and overdue loan), bills purchased, without recourse factoring, acceptance receivable and guarantees.

Profile of concentration of credit risk and credit extensions of interested parties

	December 31, 2011		December 31, 2010	
Amount of credit extensions to interested parties (Note 1)	$ 83,960,579		$ 86,790,698	
Ratio of credit extensions to interested parties (%) (Note 2)	4.76%		5.26%	
Ratio of credit extensions secured by stocks (%) (Note 3)	1.44%		1.67%	
	Industry	Ratio	Industry	Ratio
Industry concentration (%) (Top 3 industries with highest ratio of credit extension amount)	Manufacturing	30.49%	Manufacturing	31.34%
	Real estate	9.36%	Real estate	7.50%
	Wholesale and retail sales industry	7.38%	Wholesale and retail sales industry	7.19%

Note 1: Total amount of credit extensions include loans, bills discounted, acceptances receivable, guarantees receivable, and advance accounts for factoring receivable.
Note 2: The ratio of credit extensions to interested parties = the amount of credit extensions to interested parties / the total amount of all credit extensions.
Note 3: The ratio of credit extensions secured by stocks = the amount of credit extensions secured by stocks / the total amounts of all credit extensions

.(c) Liquidity risk

The capital and working capital of the subsidiaries and its indirect subsidiaries were sufficient to execute all the obligation of contracts and had no liquidity risk. The possibility of the derivative financial instruments held by the subsidiaries and its indirect subsidiaries being unable to liquidate quickly with minimal loss in value is low.

The management policy of MICB is to match the contractual maturity profile and interest rate of its assets and liabilities. As a result of the uncertainty, the maturities and interest rates of assets and liabilities usually do not fully match. The gap may result in potential gain or loss. The subsidiaries and its indirect subsidiaries applied the appropriate grouping of assets and liabilities.

Mega International Commercial Bank Co., Ltd.
Analysis for time to maturity of the Bank's assets and liabilities
December 31, 2011
Unit : thousands of New Taiwan dollars

	1 year		1~7 years		over 7 years		Total	
	Amount	Recoverable amount or repayment amount	Amount	Recoverable amount or repayment amount	Amount	Recoverable amount or repayment amount	Amount	Recoverable amount or repayment amount
Assets								
Due from Central Bank and call loans to banks	$ 181,399,521	$ 181,399,521	$ -	$ -	$ -	$ -	$ 181,399,521	$ 181,399,521
Financial assets at fair value through profit or loss (Note)	2,988,212	2,988,212	28,656,244	28,656,244	57,103	57,103	31,701,559	31,701,559
Bills and bonds purchased under resale agreements	349,562	349,562	-	-	-	-	349,562	349,562
Bills discounted and loans	439,039,828	435,404,991	613,576,851	605,577,185	425,206,966	421,071,978	1,477,823,645	1,462,054,154
Available-for-sale financial assets (Note)	32,006,231	32,006,231	30,055,685	30,055,685	1,576,544	1,576,544	63,638,460	63,638,460
Held-to-maturity financial assets	127,298,962	127,298,962	3,618,828	3,618,828	31,438	31,438	130,949,228	130,949,228
Other financial assets (Note)	83,953	83,504	-	-	4,670,751	4,262,343	4,754,704	4,345,847
Total Assets	783,166,269	779,530,983	675,907,608	667,907,942	431,542,802	426,999,406	1,890,616,679	1,874,438,331
Liabilities								
Due to the Central Bank and financial institutions	365,132,678	365,132,678	-	-	-	-	365,132,678	365,132,678
Funds borrowed from Central Bank and other banks	71,873,400	71,873,400	-	-	-	-	71,873,400	71,873,400
Financial liabilities at fair value through profit or loss (Note)	6,039,163	6,039,163	7,567,077	7,567,077	-	-	13,606,240	13,606,240
Bills and bonds sold under repurchase agreements	7,339,481	7,339,481	-	-	-	-	7,339,481	7,339,481
Time deposit	756,942,730	751,900,564	15,169,462	15,016,186	-	-	772,112,192	766,916,750
Bonds payable	-	-	42,600,000	42,600,000	-	-	42,600,000	42,600,000
Other financial liabilities	12,613,856	12,613,856	-	-	-	-	12,613,856	12,613,856
Total Liabilities	1,219,941,308	1,214,899,142	65,336,539	65,183,263	-	-	1,285,277,847	1,280,082,405
Net liquidity gap	($ 436,775,039)	($ 435,368,159)	$ 610,571,069	$ 602,724,679	$ 431,542,802	$ 426,999,406	$ 605,338,832	$ 594,355,926

(Note) Exclusive of stocks, beneficiary certificates and derivatives.

Mega International Commercial Bank Co., Ltd.
Analysis for time to maturity of the Bank's assets and liabilities
December 31, 2011
Unit : thousands of US dollars

	1 year		1~7 years		over 7 years		Total	
	Amount	Recoverable amount or repayment amount	Amount	Recoverable amount or repayment amount	Amount	Recoverable amount or repayment amount	Amount	Recoverable amount or repayment amount
Assets								
Due from Central Bank and call loans to banks	$ 5,992,320	$ 5,992,320	$ -	$ -	$ -	$ -	$ 5,992,320	$ 5,992,320
Financial assets at fair value through profit or loss (Note)	98,712	98,712	946,626	946,626	1,886	1,886	1,047,224	1,047,224
Bills and bonds purchased under resale agreements	11,547	11,547	-	-	-	-	11,547	11,547
Bills discounted and loans	14,503,166	14,383,093	20,268,791	20,004,532	14,046,213	13,909,619	48,818,170	48,297,244
Available-for-sale financial assets (Note)	1,057,289	1,057,289	992,854	992,854	52,079	52,079	2,102,222	2,102,222
Held-to-maturity financial assets	4,205,172	4,205,172	119,544	119,544	1,039	1,039	4,325,755	4,325,755
Other financial assets (Note)	2,773	2,758	-	-	154,293	140,801	157,066	143,559
Total Assets	25,870,979	25,750,891	22,327,815	22,063,556	14,255,510	14,105,424	62,454,304	61,919,871
Liabilities								
Due to the Central Bank and financial institutions	12,061,730	12,061,730	-	-	-	-	12,061,730	12,061,730
Funds borrowed from Central Bank and other banks	2,374,253	2,374,253	-	-	-	-	2,374,253	2,374,253
Financial liabilities at fair value through profit or loss (Note)	199,497	199,497	249,970	249,970	-	-	449,467	449,467
Bills and bonds sold under repurchase agreements	242,451	242,451	-	-	-	-	242,451	242,451
Time deposit	25,004,715	24,838,153	501,105	496,041	-	-	25,505,820	25,334,194
Bonds payable	-	-	1,407,241	1,407,241	-	-	1,407,241	1,407,241
Other financial liabilities	416,684	416,684	-	-	-	-	416,684	416,684
Total Liabilities	40,299,330	40,132,768	2,158,316	2,153,252	-	-	42,457,646	42,286,020
Net liquidity gap	($ 14,428,351)	($ 14,281,877)	$ 20,169,499	$ 19,,910,304	$ 14,255,510	$ 14,105,424	$ 19,996,658	$ 19,633,851

(Note) Exclusive of stocks, beneficiary certificates and derivatives.

Mega International Commercial Bank Co., Ltd.
Analysis for time to maturity of the Bank's assets and liabilities
December 31, 2010
Unit : thousands of New Taiwan dollars

	1 year		1~7 years		over 7 years		Total	
	Amount	Recoverable amount or repayment amount	Amount	Recoverable amount or repayment amount	Amount	Recoverable amount or repayment amount	Amount	Recoverable amount or repayment amount
Assets								
Due from Central Bank and call loans to banks	$ 126,548,563	$ 126,548,073	$ -	$ -	$ -	$ -	$ 126,548,563	$ 126,548,073
Financial assets at fair value through profit or loss (Note)	5,373,486	5,373,486	22,966,590	22,966,590	198,612	198,612	28,538,688	28,538,688
Bills and bonds purchased under resale agreements	895,012	895,012	-	-	-	-	895,012	895,012
Bills discounted and loans	423,325,667	421,061,170	516,727,023	512,315,397	407,392,487	403,457,974	1,347,445,177	1,336,834,541
Available-for-sale financial assets (Note)	27,907,186	27,907,186	41,032,328	41,032,328	2,165,727	2,165,727	71,105,241	71,105,241
Held-to-maturity financial assets	208,335,370	208,335,370	8,958,988	8,958,988	26,418	26,418	217,320,776	217,320,776
Other financial assets (Note)	25,391	25,391	-	-	4,685,843	4,208,827	4,711,234	4,234,218
Total Assets	792,410,675	790,145,688	589,684,929	585,273,303	414,469,087	410,057,558	1,796,564,691	1,785,476,549
Liabilities								
Due to the Central Bank and financial institutions	318,907,166	318,907,166	-	-	-	-	318,907,166	318,907,166
Funds borrowed from Central Bank and other banks	38,568,641	38,568,641	-	-	-	-	38,568,641	38,568,641
Financial liabilities at fair value through profit or loss (Note)	5,621,611	5,621,611	13,711,108	13,711,108	-	-	19,332,719	19,332,719
Bills and bonds sold under repurchase agreements	4,285,605	4,285,605	-	-	-	-	4,285,605	4,285,605
Time deposit	753,162,328	753,162,328	15,228,163	15,228,163	-	-	768,390,491	768,390,491
Bonds payable	4,800,000	4,800,000	30,000,000	30,000,000	-	-	34,800,000	34,800,000
Other financial liabilities	7,355,420	7,355,420	-	-	-	-	7,355,420	7,355,420
Total Liabilities	1,132,700,771	1,132,700,771	58,939,271	58,939,271	-	-	1,191,640,042	1,191,640,042
Net liquidity gap	($ 340,290,096)	($ 342,555,083)	$ 530,745,658	$ 526,334,032	$ 414,469,087	$ 410,057,558	$ 604,924,649	$ 589,833,507

(Note) Exclusive of stocks, beneficiary certificates and derivatives.

(d) Cash flow risk and fair value risk of interest rate fluctuation

Interest rate risk is the risk to earnings and value of financial instruments caused by fluctuations in interest rate. The risk is considered to be material to MICB, and MICB enters into interest rate swap contracts to manage the risk.

As of December 31, 2011, expected repricing and maturity dates of interest-bearing financial instruments are not affected by dates of related contracts. The interest rate risk of subsidiaries is presented by the book value of financial assets and financial liabilities and is classified by the earlier of the expected repricing date or expected maturity date:

B. MS

(a) Derivative financial instruments

i. Stock warrants

1) Call (Put) warrants issued by the Company are all US or European style warrants. The warrants mature in 6 months time starting from the trading date and can be exercised either by cash or spot securities. The Company retains the right to choose either one.

2) The purpose of issuing derivative financial instruments is to generate reasonable profits by controlling the risk within a tolerable limit.

3) Credit risk

As proceeds from the stock warrants issued by MS have all been received, there is no credit risk.

4) Market risk

MS is a short position for the stock warrants issued, which is in reverse to the investors' position. As the investors may exercise their option rights before expiration of the contracts because of the fluctuations in the underlying securities' fair values, MS's position is exposed to market risk. To reduce the uncertainty, MS mainly adopts delta and vega risk hedging strategies which are summarized below.

a) Delta risk hedging strategy

(i) Hedge instruments

The hedge instruments are mainly the underlying securities and are supplemented by the title certificates of the underlying securities.

(ii) Risk hedging strategy

The dynamic hedging method is adopted by referring to the delta risk value calculated using MS' risk model. Under this method, when the values of the underlying securities fluctuate, MS will trade the underlying securities or the title certificates of those securities to maintain its position in gains (losses) on the stock warrants being neutral to the delta risk.

b) Vega risk hedging strategy

(i) Hedge instruments

The hedge instruments are mainly the warrants listed in the domestic market with the same underlying securities (including the warrants issued by MS) and are supplemented by the convertible bonds issued by the companies of the underlying securities.

(ii) Risk hedging strategy

The strategy adopted in vega hedge is primarily through buying the significantly underpriced stock warrants with the same underlying securities, of which the price volatility will partly offset the price volatility of the stock warrants issued by MS. As convertible bonds inherent the risk of early redemption by the bond issuers, coupled with the liquidity risk (large difference between the buying and selling prices) and the interest rate risk, the hedging strategy would become complicated and inefficient if convertible corporate bonds are used as hedge instruments. Therefore, convertible bonds will not be used as the primary hedge instruments unless the underlying securities of the stock warrants issued show volatile price movements, and the terms on the convertible bonds and their liquidity meet the risk hedging requirements of MS.

5) Amount and timing of expected future cash flows

When the options on the stock warrants are exercised by the warrant holders, MS can opt to settle the contracts by cash or by delivery of the underlying securities. As a result, cash inflows or outflows will occur, respectively. The amount and timing of the cash flows depend on the amount of the stock warrants exercised by the warrant holders and the exercise date.

6) Accounting policies

Please refer to Note 2(27) for details.

7) Fair values and carrying values

The stock warrants issued by MS are all American-style and European-style warrants with the contract periods ranging from six months to one year, starting from the date on which the warrants are listed in the market. The warrants can be settled by either cash or delivery of securities at MS' discretion.

8) Supplementary disclosures

Gain (loss) arising from stock warrant transactions for the years ended December 31, 2011 and 2010 are set forth below.

a) Valuation gain (loss)

	Valuation gain (loss)			
	For the year ended December 31, 2011		For the year ended December 31, 2010	Financial
	NT$	US$	NT$	Statement Account
Gain on variation in value of liability on issuance of stock warrants	$ 6,275,616	$ 207,308	$ 1,117,854	Gain on issuance of stock warrants
Valuation gain (loss) on repurchase of stock warrants issued	(3,351,967)	(110,728)	510,336	(Loss) gain on issuance of stock warrants
Securities held for risk hedging	(18,255)	(603)	(24)	Valuation adjustments on securities held for operations
Payables –securities borrowed – hedging	105	3	(432)	Valuation gain (loss) on securities borrowed and bonds purchased under resale agreements
Loss on futures contract - hedge	314	10	(281)	Gain (loss) on derivative financial instruments-futures

b) Gain (loss) on sale

	Valuation gain (loss)						
	For the year ended December 31, 2011				For the year ended December 31, 2010		Financial Statement Account
	NT$		US$		NT$		
Loss on resale of the stock warrants repurchased	($	772,728)	($	25,526)	($	1,215,656)	Loss on issuance of stock warrants
Securities held for risk hedging	(	644,296)	(	21,284)		4,427	(Loss) gain on sale of securities - hedging
Payables - securities borrowed - hedging	(	7,339)	(	242)	(	12,160)	Valuation loss on securities borrowed and bonds purchased under resale agreements
Repurchase of payable lending - hedge		-		-		519	Profit from sale of securities - hedge
Loss on futures contract - hedge		38,335		1,266	(	5,830)	Gain (loss)on derivative financial instruments- futures
Loss on options trading - hedge		-		-	(	348)	Loss on derivative financial instruments- futures

c) Gain (loss) at maturity

	Valuation gain (loss)						
	For the year ended December 31, 2011				For the year ended December 31, 2010		Financial Statement Account
	NT$		US$		NT$		
Gain on early execution of stock warrants	$	4,019	$	133	$	3,070	Gain on issuance of stock warrants
Gain on unexercised expired stock warrants		12,136		401		7,125	Gain on issuance of stock warrants
Maturity gain(loss) – repurchase of re-issued call warrants	(	977,345)	(	32,285)	(	987,962)	Loss on issuance of stock warrants

(b) Derivative financial instruments – futures and options

i. Futures contracts and options

a) MS's details of the futures contracts outstanding as of December 31, 2011 and 2010 are set forth below:

Unit : In thousand of NT dollars

		December 31, 2011						
		Uncover position						
Item	Type of transaction	Buyer / seller	Number of contracts	Contract amount or paid (collected) premium		Fair value		Note
Futures contract	Taiwan Micro Index Futures	Buyer	4	$	1,376	$	1,408	Hedging
	Taiwan Index Futures	Seller	40	(	56,793)	(	56,312)	Non-hedging
Option contract	Taiwan Index Futures Options – Call option	Buyer	4		28		23	Non-hedging
	Taiwan Index Futures Options – Put option	Seller	4		24		26	Non-hedging

Unit : In thousand of US dollars

		December 31, 2011						
		Uncover position						
Item	Type of transaction	Buyer / seller	Number of contracts	Contract amount or paid (collected) premium		Fair value		Note
Futures contract	Taiwan Micro Index Futures	Buyer	4	$	45	$	47	Hedging
	Taiwan Index Futures	Seller	40	(	1,876)	(	1,860)	Non-hedging
Option contract	Taiwan Index Futures Options – Call option	Buyer	4		1		1	Non-hedging
	Taiwan Index Futures Options – Put option	Seller	4		1		1	Non-hedging

Unit : In thousand of NT dollars

December 31, 2010						
		Uncover position				
Item	Type of transaction	Buyer / seller	Number of contracts	Contract amount or paid (collected) premium	Fair value	Note
Futures contract	Taiwan Micro Index Futures	Seller	55	($ 24,433)	($ 24,714)	Hedging
	Taiwan Index Futures	Buyer	8	14,235	14,379	Non-hedging
	Taiwan Micro Index Futures	Buyer	2	895	899	Non-hedging
Option contract	Taiwan Index Futures Options – Call option	Buyer	72	398	1,433	Non-hedging
	Taiwan Index Futures Options – Call option	Seller	72	(214)	(209)	Non-hedging
	Taiwan Index Futures Options – Put option	Buyer	414	1,196	101	Non-hedging

b) For the years ended December 31, 2011 and 2010, gains and losses from direct and indirect subsidiaries' engaging in futures contracts and options are as follows :

	For the year ended December 31, 2011		(Unit : thousand of NT dollars)
	Realized gains (losses)	Valuation gains (losses)	Total
Gains on futures contracts	$ 144,400	$ 647	$ 145,047
Losses on futures contracts	(105,000)	-	(105,000)
Gains on option trading	6,319	51	6,370
Losses on option trading	(9,552)	-	(9,552)
	$ 36,167	$ 698	$ 36,865

	For the year ended December 31, 2011		(Unit : thousand of US dollars)
	Realized gains (losses)	Valuation gains (losses)	Total
Gains on futures contracts	$ 4,770	$ 21	$ 4,791
Losses on futures contracts	(3,469)	-	(3,469)
Gains on option trading	209	2	211
Losses on option trading	(315)	-	(315)
	$ 1,195	$ 23	$ 1,218

	For the year ended December 31, 2010		(Unit : thousand of NT dollars)
	Realized gains (losses)	Valuation gains (losses)	Total
Gains on futures contracts	$ 109,558	$ 144	$ 109,702
Losses on futures contracts	(132,628)	(281)	(132,909)
Gains on option trading	242,892	-	242,892
Losses on option trading	(237,606)	(5,010)	(242,616)
	($ 17,784)	($ 5,147)	($ 22,931)

Gains and losses of the above futures contract in 2010 include gains and losses of non-operating future contract amounting to NT$8,000 and NT$58,000 thousand, respectively. Gains and losses of option trades in 2010 include gains and losses of non-operating option trades amounting to NT$1,188 and NT$1,544 thousand, respectively. No such situation happened in 2011.

ii. Bond options

1) MS has been engaged in trading of bond options since March 2005. As of December 31, 2011 and 2010, MS did not hold any uncovered positions of bond options.

2) The MS's (loss) profit arising from trading of bond options for the years ended December 31, 2011 and 2010 resulted in (loss) income of NT$743 thousand (US$25 thousand) and (NT$591) thousand, respectively, and is recorded under "Gain (loss) on derivative financial instruments - OTC".

iii. Credit risk

The credit risk pertains to the risk that the counterparties may default at expiration of the contracts. The option contracts entered into by MS and its indirect subsidiaries are all exchange-traded and can be settled at expiration without default. Therefore, no significant credit risk is expected to arise. Evaluation on credit status for the counterparties of bond option should be made and followed up by regular monitoring to mitigate the credit risk.

iv. Market price risk

The major risk associated with the futures and option trading undertaken by MS and its indirect subsidiaries is the market risk arising from the fluctuations in the market prices of the underlying securities. Losses will be incurred if market index prices and the prices of the underlying securities move in opposite directions. To control the risk within a tolerable limit, a stop-loss mechanism has been established.

Pursuant to the Letter (87) Tai-Tsai-Tseng (2) No.01761 issued by the SFC, securities firms are allowed to undertake futures trading for risk hedging purpose with the approval from the SFC if risk hedging is deemed necessary for the marketable securities held for proprietary trading and underwriting. However, the total market value of the securities firm's position in the outstanding futures contracts cannot exceed the total market value of the spot securities held on hand nor can it exceed 20% of the securities firm's net worth. Hence, market risk is assessed to be remote.

v. Liquidity risk

As premiums are paid before futures and option contracts are bought, no funding requirement is expected. In addition, the options written and the outstanding futures contracts can be settled at reasonable prices. Therefore, liquidity risk is assessed to be remote.

vi. Amount and timing of future cash flows

To hedge the risk arising from proprietary trading of stocks, MS has entered into TAIEX Index Futures and TAIEX Index Option contracts. Margin deposits are paid before the transactions take effect. MS's position in the outstanding futures contracts is marked–to-market daily, and its working capital is assessed to be adequate to support the margin calls. Hence, no cash flow risk or significant cash requirements are expected.

(c) Derivative financial instruments - interest rate swaps

i. MS has been undertaking interest rate swap contracts for risk hedging and trading purposes. Details of the interest rate swap contracts outstanding as of December 31, 2011 and 2010 are set forth below:

	December 31, 2011					
	Notional principal		Fair value			
Item	NT$	US$	NT$	US$	Nature	Risk hedging
Cross currency swap (assets)	$ 64,390,000	$ 2,127,048	$ 855,364	$ 28,256	For trading purpose	None
Cross currency swap (liabilities)	63,925,000	2,111,687	(872,450)	(28,820)	For trading purpose	None

	December 31, 2010			
Item	Notional principal (NT$)	Fair value (NT$)	Nature	Risk hedging
Cross currency swap (assets)	$ 65,090,000	$ 1,483,111	For trading purpose	None
Cross currency swap (liabilities)	65,525,000	(1,509,276)	For trading purpose	None

ii. Credit risk

The credit risk pertains to the risk that the counterparties may default at expiration of the contracts. The counterparties of MS are all well-known banks, bills companies and securities companies with good credit ratings. Thus, the credit risk is assessed to be remote.

iii. Market risk

The market risk arises from the fluctuations in interest rates. The interest rate swaps are undertaken by MS to hedge the interest rate risk arising from net assets. Thus, the market risk is offset against each other. MS mainly utilizes interest rate swaps when an increase in interest rates is expected. When the interest rate moves in an unfavorable direction, the loss can be controlled within a tolerable limit. As a result, no significant market risk is expected.

iv. Amount and timing of expected future cash flows

Upon settlement of the contracts, the amount of the notional principal multiplied by the interest rate differential is received or paid. As the amount settled is insignificant and the notional principal is not settled, no significant cash requirement is expected.

v. Gain (loss) on derivative financial instruments arising from interest rate swap is as follows :

For the year ended December 31, 2011:

	Realized Gain (Loss)		Valuation Gain (Loss)		Total	
	NT$	US$	NT$	US$	NT$	US$
Interest rate swaps	($ 21,670)	($ 716)	$ 9,080	$ 300	($ 12,590)	($ 416)

For the year ended December 31, 2010:

	Realized Gain (Loss)	Valuation Gain (Loss)	Total
	NT$	NT$	NT$
Interest rate swaps	($ 33,201)	$ 36,878	$ 3,677

The MS's profit (loss) arising from interest rate swaps is recorded under "Gain (loss) on derivative financial instruments-OTC".

(d) Derivative financial instruments - asset swaps

i. As MS has underwritten convertible bonds on a firm commitment basis, it has entered into convertible bond asset swap option contracts to enhance the liquidity of the remaining convertible bonds held on hand and thereby, reduce the risk of its position in the convertible bonds.

ii. Details of the asset swap-option contracts undertaken by MS as of December 31, 2011 and 2010 are as follows:

December 31, 2011:

	Notional Principal / Contract Amount		Fair Value	
Financial Instrument	NT$	US$	NT$	US$
Sale of American call options	$ 21,035	$ 695	$ 4,257	$ 141

December 31, 2010:

	Notional Principal / Contract Amount	Fair Value
Financial Instrument	NT$	NT$
Sale of American call options	($ 25,785)	($ 32,478)

iii. Credit risk

The credit risk pertains to the risk that the counterparties may default at expiration of the contracts. The quantitative information of MS' right to buy or obligation to sell convertible bonds are entered into the information system of the GreTai Securities Market (the over-the-counter market) on the contract date and settlement of the asset swap option contracts is conducted through the Taiwan Depository and Clearing Corporation. Hence, no significant credit risk is expected.

iv. Market price risk

When MS exercises its right to buy or perform its obligation to sell convertible bonds, the related prices are quoted in accordance with the rules specified in the contracts. Therefore, market risk is assessed to be remote.

v. Amount and timing of expected future cash flows

MS's working capital is assessed to be adequate to support the periodic payment of the specified interest on the convertible corporate asset swaps transaction during the contract period. Hence, no significant funding risk is expected.

vi. Gain (loss) on the convertible bond asset swaps are as follows:

For the year ended December 31, 2011:

	Realized Gain (Loss)		Valuation Gain (Loss)		Total	
	NT$	US$	NT$	US$	NT$	US$
Asset swap-options	($ 879)	($ 29)	$ 23,742	$ 784	$ 22,863	$ 755

For the year ended December 31, 2010:

	Realized Gain (Loss)	Valuation Gain (Loss)	Total
	NT$	NT$	NT$
Asset swap-options	($ 22,595)	$ 41,564	$ 18,969

The MS's profit (loss) arising from trading of asset swaps is recorded under "Gain (loss) on derivative financial instruments-OTC".

(e) Derivative financial instruments - structured financial instruments

i. MS obtained the approval from the governing authority in July 2003 to issue structured financial products denominated in New Taiwan dollars, which include equity-linked notes (ELN) and principal-guaranteed notes (PGN). Details of the outstanding contracts of the structured financial instruments as of December 31, 2011 and 2010 are set forth below:

December 31, 2011:

Transaction	Contract Principal	Cost of Fixed Income Securities	Market Price of Fixed Income Securities	Option Cost	Option Value
					(In Thousands of NT Dollars)
ELN	$ 6,200	$ 6,198	$ 6,199	$ 52	$ 46

Transaction	Contract Principal	Cost of Fixed Income Securities	Market Price of Fixed Income Securities	Option Cost	Option Value
					(In Thousands of US Dollars)
ELN	$ 205	$ 205	$ 205	$ 2	$ 2

December 31, 2010:

Transaction	Contract Principal	Cost of Fixed Income Securities	Market Price of Fixed Income Securities	Option Cost	Option Value
					(In Thousands of NT Dollars)
ELN	$ 2,280	$ 2,279	$ 2,279	$ 25	$ 15

ii. Credit risk

The credit risk pertains to the risk that the counterparties may default at expiration of the contracts. As payments for the structured financial instruments are collected from the investors on the contract date and placed in an exclusive account at the custodian institution, no significant credit risk is expected.

iii. Market risk

Payments received from the investors for the structured financial instruments on the contract date are utilized in accordance with the terms and conditions specified in the contract. As the prices of the underlying securities and the fixed income securities invested using the payments from the investors can be referred to the public quoted market prices, market risk is assessed to be remote.

iv. Amount and timing of expected cash flows

Payments received from the investors for the structured financial instruments on the contract date are placed in an exclusive account at the custodian institution, which are separated from MS's own assets. The terms and conditions on utilization of the investors' payments are specified in the contract, including the proportion to be invested in fixed income securities. Therefore, no significant cash requirements are expected at expiration of the contract.

v. Gains (losses) on the structured financial instruments for the years ended December 31, 2011 and 2010 are set forth below:

	For the year ended December 31, 2011					
	Realized Gain		Valuation Gain		Total	
	NT$	US$	NT$	US$	NT$	US$
ELN	$ 698	$ 23	$ 4	$ -	$ 702	$ 23

	For the year ended December 31, 2010		
	Realized Gain	Valuation Loss	Total
	NT$	NT$	NT$
ELN	$ 1,608	($ 10)	$ 1,598

The MS's profit (loss) arising from trading of structured financial instruments is recorded under "Gain (loss) on derivative financial instruments-OTC".

vi. Subsidiaries engage in margin loans and stock loans business. Margin loans given to customers and are collateralized by the securities that the customers purchase and securities lent to customers to sell short as of December 31, 2011 and 2010 are as follows:

December 31, 2011:

	Number of financing shares (In thousand of shares)	Market price NT$	Market price US$
Margin loans given to customers and are collateralized by the securities that the customers purchase	694,399	$ 16,024,991	$ 529,367
Securities lent to customer to sell short	51,362	2,247,681	74,250

December 31, 2010:

	Number of financing shares (In thousand of shares)	Market price NT$
Margin loans given to customers and are collateralized by the securities that the customers purchase	997,301	$ 32,718,689
Securities lent to customer to sell short	46,164	2,084,809

C. MBF

(a) Derivative financial instruments – futures and options

i. As of December 31, 2011, MBF did not hold any uncovered positions of futures and options. As of December 31, 2010, MBF holds uncovered positions of futures and options as below:

Unit: In thousand of NT$ dollars

December 31, 2010					
Item	Type of transaction	Uncover position: Buyer / Seller	Uncover position: Number of Contracts	Notional principal (NT$)	Fair value
Futures contract	Taiwan Index Futures	Buyer	2	$ 3,559	$ 3,595

Futures trading that MBF engages is share price index futures. As of December 31, 2010, the margin deposits in the futures account was NT$10,455 thousand, with the excess margin deposits of NT$10,327 thousand.

ii. Gains (losses) on the structured financial instruments for the years ended December 31, 2011 and 2010 are set forth below:

	For the year ended December 31, 2011					
	Realized Gain (Loss)		Valuation Gain (Loss)		Total	
	NT$	US$	NT$	US$	NT$	US$
(Loss) gain on futures contracts	($ 517)	($ 17)	($ 36)	($ 1)	($ 553)	($ 18)

	For the year ended December 31, 2010		
	Realized Gain (Loss)	Valuation Gain (Loss)	Total
	NT$	NT$	NT$
(Loss) gain on futures contracts	($ 1,034)	$ 36	($ 998)
(Loss) gain on option contracts	687	(1,637)	($ 950)
	($ 347)	($ 1,601)	($ 1,948)

iii. Credit risk

The credit risk pertains to the risk that the counterparties may default at expiration of the contracts. MBF trades securities and bills at securities exchange market. The counterparties of MBF are all well-known banks and bills companies with good credit ratings. Therefore, no significant credit risk is expected to arise.

iv. Market risk

The major risk associated with the futures and option trading undertaken by MBF is the market risk arising from the fluctuations in the market prices of the underlying securities. Losses will be incurred if market index prices and the prices of the underlying securities move in opposite directions. To control the risk within a tolerable limit, a stop-loss mechanism has been established.

v. Liquidity risk

As premiums are paid before futures and option contracts are bought, no funding requirement is expected. In addition, the options written and the outstanding futures contracts can be settled at reasonable prices. Therefore, liquidity risk is assessed to be remote.

vi. Amount and timing of future cash flows

To hedge the risk arising from proprietary trading of stocks, MBF has entered into TAIEX Index Futures and TAIEX Index Option contracts. Margin deposits are paid before the transactions take effect. MS's position in the outstanding futures contracts is marked-to- market daily, and its working capital is assessed to be adequate to support the margin calls. Hence, no cash flow risk or significant cash requirements are expected.

(b) Derivative financial instruments - interest rate swaps

i. As of December 31, 2011, MBF did not hold any interest rate swap contracts outstanding. Details of the interest rate swap contracts outstanding as of December 31, 2010 are set forth below:

December 31, 2011:None

	December 31, 2010	
Item	Notional principal (NT$)	Fair value (NT$)
Financial assets at fair value through profit or loss-Cross currency swap	$ 2,600,000	$ 9,237
Financial liabilities at fair value through profit or loss-Cross currency swap	1,700,000	10,130

ii. Gains (losses) on the interest rate swaps for the years ended December 31, 2011 and 2010 are set forth below:

	For the year ended December 31, 2011					
	Realized Gain (Loss)		Valuation Gain (Loss)		Total	
	NT$	US$	NT$	US$	NT$	US$
Interest rate swap	($ 1,037)	($ 34)	$ 893	$ 29	($ 144)	($ 5)

	For the year ended December 31, 2010		
	Realized Gain (Loss)	Valuation Gain (Loss)	Total
	NT$	NT$	NT$
Interest rate swap	$ 106	($ 60)	$ 46

iii. Credit risk

The credit risk pertains to the risk that the counterparties may default at expiration of the contracts. The counterparties of MBF are all well-known banks and securities companies with good credit ratings. Thus, the credit risk is assessed to be remote.

iv. Market risk

The market risk arises from the fluctuations in interest rates. When the interest rate moves in an unfavorable direction, the loss can be controlled within a tolerable limit. As a result, no significant market risk is expected.

v. Amount and timing of expected future cash flows

Upon settlement of the contracts, the amount of the notional principal multiplied by the interest rate differential is received or paid. As the amount settled is insignificant and the notional principal is not settled, no significant cash requirement is expected.

(c) Derivative financial instruments - Cross currency swaps

i. As of December 31, 2011 and 2010, there was no transaction of immature currency swap contract.

ii. Gains (losses) on the cross currency swaps for the years ended December 31, 2011 and 2010 are set forth below:

	For the year ended December 31, 2011					
	Realized Gain(Loss)		Valuation Gain (Loss)		Total	
	NT$	US$	NT$	US$	NT$	US$
Interest rate swap	($ 138)	($ 5)	$ -	$ -	($ 138)	($ 5)

	For the year ended December 31, 2010		
	Realized Gain (Loss)	Valuation Gain (Loss)	Total
	NT$	NT$	NT$
Interest rate swap	($ 191)	$ -	($ 191)

iii. Credit risk

The credit risk pertains to the risk that the counterparties may default at expiration of the contracts. The counterparties of MBF are all well-known banks and securities companies with good credit ratings. Thus, the credit risk is assessed to be remote.

iv. Market risk

The currency swap contracts MBF engages in are primarily for hedging exchange rate volatility of foreign currency bills and bonds positions. As the contract positions are similar to current positions in the contractual period, no material market risk is estimated.

v. Amount and timing of expected future cash flows

The amount of currency swaps MBF engages in is the difference received or paid with nominal principal multiplied by the exchange rate difference at maturity; the amount is not significant and the working capital of MBF will be sufficient to cover the amount; thus, there is no material extra cash demand.

(d) Credit risk

i. The credit risk pertains to the risk that the counterparties may default at expiration of the contracts. One of the primary operations of MBF is providing guarantees for the issuance of commercial papers. Such guarantees agreement normally comes with a 1 year expiration period. The range of contract period for commercial papers is normally from 10 days to 180 days and the expiration dates are not concentrated on the same day.

ii. As of December 31, 2011 and 2010, the off-balance sheet contract amount for the guarantees of commercial papers subject to potential credit risks is NT$266,308 million (US$8,797 million) and NT$259,285 million, respectively. (The contract amount which has been drawn upon amounted to NT$134,979 million (US$4,459 million) and NT$114,477 million, respectively).

iii. Since MBF is only subject to payments in the event of default on the issuer of commercial papers in such guarantee contracts, the contract amount for such financial instruments does not represent the expected future cash outflow. In fact, the demand for future cash flow is less than the contract amount. When the guaranteed amount had been drawn upon and the underlying collateral or other collaterals has completely lost its values, the amount of credit risk exposure will equal to the contract amount which is the maximum potential loss.

iv. In granting guarantees for the issuance of commercial papers, MBF undertakes strict credit assessment and also demands appropriate collaterals from the customers as necessary. As of December 31, 2011and 2010, the percentage of guarantees with collaterals is 48% and 52%, respectively. Collaterals provided normally include real estate properties, circulating securities or other properties, etc. In the event of customer defaults, the MBF assumes rights on such collaterals.

v. For all financial instruments held by the MBF, the maximum credit exposures are as follows:

Financial assets	December 31, 2011				December 31, 2010	
	Carrying value		Maximum risk exposure amount		Carrying value	Maximum risk exposure amount
	NT$	US$	NT$	US$	NT$	NT$
Financial assets at fair value through profit or loss	$ 135,756,870	$ 4,484,569	$ 135,756,870	$ 4,484,569	$ 112,685,775	$ 112,685,775
Bills and bonds purchased under resale agreements	-	-	-	-	529,800	529,800
Receivables	1,833,166	60,557	1,833,166	60,557	2,101,018	2,101,018
Available-for-sale financial assets	83,240,989	2,749,768	83,240,989	2,749,768	91,189,051	91,189,051
Held-to-maturity financial assets	250,000	8,258	250,000	8,258	250,000	250,000
Other financial assets	822,684	27,176	822,684	27,176	693,381	693,381
Off-balance sheet guarantees	134,979,200	4,458,880	134,979,200	4,458,880	114,477,300	114,477,300
Total	$ 356,882,909	$ 11,789,208	$ 356,882,909	$ 11,789,208	$ 321,926,325	$ 321,926,325

The credit exposure amounts stated above are for those with positive fair value as of the balance sheet date and those contracts with off-balance sheet commitments and guarantees. The disclosed maximum credit exposures did not take fair value of collateral into account.

vi. Information on concentrations of assets, liabilities and off-balance sheet items

There will be a significant concentration of credit risk when the counterparty of the financial instruments is highly concentrated in a single customer or a group of counterparties who engage mostly in similar business activities with similar economic nature, and such business activities make their abilities to fulfill the contractual obligations influenced similarly by the economic affairs or other situations. MBF does not engage in transactions that are concentrated significantly in a single customer or counterparty. However, significant credit risk concentrations (including on and off-balance sheet items) for provision of guarantees for commercial papers are as follows:

	December 31, 2011				December 31, 2010	
	Carrying value		Maximum risk exposure amount		Carrying value	Maximum risk exposure amount
	NT$	US$	NT$	US$	NT$	NT$
Financial & insurance	$ 41,604,600	$ 1,374,359	$ 41,604,600	$ 1,374,359	$ 40,456,834	$ 40,456,834
Manufacturing	40,706,000	1,344,675	40,706,000	1,344,675	30,608,970	30,608,970
Real estate	26,135,600	863,359	26,135,600	863,359	20,748,600	20,748,600
Wholesale & retail	10,227,400	337,850	10,227,400	337,850	7,720,204	7,720,204
Services	5,056,900	167,049	5,056,900	167,049	5,181,800	5,181,800
Others – less than 5% of balance of guarantees at period end	11,248,700	371,587	11,248,700	371,587	9,862,589	9,862,589
Total	$ 134,979,200	$ 4,458,879	$ 134,979,200	$ 4,458,879	$ 114,578,997	$ 114,578,997

vii. The following information is disclosed in accordance with “Guidelines for Preparation of Financial Reports by Publicly Listed Bills Finance Companies”.

1) Overview of main business

Item	December 31, 2011		December 31, 2010
	NT$	US$	NT$
Total guarantees and endorsement for short-term bills	$ 134,979,200	$ 4,458,879	$ 114,477,300
Guarantees and endorsement for short-term bills / Net amount (after deducting final accounts allotment) (Note)	4.52	4.52	3.80
Total bills and bonds sold under repurchase agreements	184,993,275	6,111,036	170,163,470
Bills and bonds sold under repurchase agreements / Net amount (after deducting final accounts allotment) (Note)	6.19	6.19	5.65

2) Profile of concentration of credit risk and credit extensions of interested parties

(Expressed In Thousands of NT Dollars, %)

	December 31, 2011		December 31, 2010	
Amount of credit extensions to interested parties	$	210,000	$	230,000
Ratio of credit extensions to interested parties (%) (Note 1)		0.16		0.20
Ratio of credit extensions secured by stocks (%) (Note 2)		17.79		19.60
	Industry	Ratio (%)	Industry	Ratio (%)
Industry concentration (%) (Top 3 industries with highest ratio of credit extension amount) (Note 3)	Manufacturing	30.82	Financial & Insurance	35.31
	Financial & Insurance	30.16	Manufacturing	26.71
	Real estate	19.36	Real estate	18.11

Note 1 : The ratio of credit extensions to interested parties = the amount of credit extensions to interested parties / the total amount of all credit extensions.
Note 2 : The ratio of credit extensions secured by stocks = the amount of credit extensions secured by stocks / the total amounts of all credit extensions.
Note 3 : Total amount of credit extensions include loans, bills discounted, acceptances receivable, guarantees receivable, and advance accounts for factoring receivable.

3) Policy of reserve for losses and movements of allowance for credit losses

MBF has evaluated the allowance and reserves for bills receivable, accounts receivable, overdue loans, and the ending balance guaranteed by commercial papers by considering unrecoverable risks and analyzed the possibility of loss based on “Regulations Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserves, and Handle Non-Performing Credit, Non-Accrual Loans, and Bad Debt”. Movements in allowance and reserves for bills receivable, accounts receivable, overdue loans are as follows:

	For the year ended December 31,					
	2011				2010	
	NT$		US$		NT$	
Beginning balance	$	2,903,376	$	95,909	$	3,039,239
Provisions		89,757		2,965		345,695
Write-off	(	111,323)	(	3,677)	(	481,558)
Deferred incomes transferred		30,117		995		-
Ending balance	$	2,911,927	$	96,912	$	2,903,376

(e) Market risk

Market risk is the risk of potential decrease in values due to changes in interest rate. Fluctuations in market interest rates results in changes in the fair value of debt investments. The market interest rate risks associated with financial instruments held by MBF is appropriately managed within specified quota and limit for potential losses.

(f) Liquidity risk

i. The operating capital of MBF is sufficient to meet cash flows for all contractual obligations; therefore, there is no liquidity risk regarding inability to raise capital to meet existing contractual obligations.

ii. Since the derivative financial instruments possessed by MBF are primarily associated with major foreign currency contracts, the liquidity risk is low for the possibility of inability to sell such instruments at reasonable price in the market.

iii. MBF’s fundamental management policy is to match the maturity date and interest rate on assets and liabilities and control cap arising from any mismatch. Due to uncertainty of terms and variety of types, maturity date and interest rate on assets and liabilities usually cannot fully match up, such mismatch may result to either potential gain or loss. As of December 31, 2011 and 2010, the carrying amounts of financial assets and financial liabilities are classified according to their time-to-maturity as follows:

(In Thousand of NT Dollars)

	December 31, 2011								
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Assets									
Financial assets at fair value through profit or loss									
Investment in bills	$ 53,159,878	$ 55,178,808	$ 22,632,884	$ -	$ -	$ -	$ -	$ -	$ 130,971,570
Investment in foreign currency bills	-	-	11,723	-	-		-	-	11,723
Fixed rate commercial paper	-	-	-	345	6,676	-	-	-	7,021
Bond investments – convertible corporate bonds	34,104	-	720,553	91,218	128,921	575,520	350,742	-	1,901,058
Convertible corporate bond asset swaps	-	65,280	372,994	1,075,491	1,310,254	-	-	-	2,824,019
Available-for-sale financial assets									
Bond investments – government bonds	8,492,452	2,506,905	9,257,815	14,289,273	10,362,460	8,444,583	8,672,807	5,344,585	67,370,880
Bond investments – financial bonds	-	-	50,000	-	-	-	518,548	1,662,479	2,231,027
Bond investments – foreign financial bonds	-	-	30,127	-	-	-	-	-	30,127
Bond investments – corporate bonds	-	-	3,474,447	2,127,345	1,675,078	1,414,534	1,691,614	-	10,383,018
Bond investments – foreign corporate bonds	-	-	-	151,015	-	-	-	-	151,015
Beneficiary or asset-backed securities	-	-	-	-	-	-	416,732	-	416,732
Held-to-maturity financial assets	-	-	250,000	-	-	-	-	-	250,000
Total assets	$ 61,686,434	$ 57,750,993	$ 36,800,543	$ 17,734,687	$ 13,483,389	$ 10,434,637	$ 11,650,443	$ 7,007,064	$ 216,548,190
Liabilities									
Bills and bonds sold under repurchase agreements	(137,952,107)	(44,006,887)	(3,034,281)	-	-	-	-	-	(184,993,275)
Total liabilities	(137,952,107)	(44,006,887)	(3,034,281)	-	-	-	-	-	(184,993,275)
Net Liquidity Gap	($ 76,265,673)	$ 13,744,106	$ 33,766,262	$ 17,734,687	$ 13,483,389	$ 10,434,637	$ 11,650,443	$ 7,007,064	$ 31,554,915

(In Thousand of US Dollars)

	December 31, 2011								
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Assets									
Financial assets at fair value through profit or loss									
Investment in bills	$ 1,756,074	$ 1,822,767	$ 747,651	$ -	$ -	$ -	$ -	$ -	$ 4,326,492
Investment in foreign currency bills	-	-	387	-	-	-	-	-	387
Fixed rate commercial paper	-	-	-	11	221	-	-	-	232
Bond investments – convertible corporate bonds	1,127	-	23,803	3,103	4,259	19,012	11,586	-	62,800
Convertible corporate bond asset swaps	-	2,156	12,321	35,528	43,283	-	-	-	93,288
Available-for-sale financial assets									
Bond investments – government bonds	280,538	82,813	305,821	472,029	342,312	278,957	286,496	176,552	2,225,518
Bond investments – financial bonds	-	-	1,652	-	-	-	17,130	54,918	73,700
Bond investments – foreign financial bonds	-	-	995	-	-	-	-	-	995
Bond investments – corporate bonds	-	-	114,775	70,275	55,333	46,727	55,881	-	342,991
Bond investments – foreign corporate bonds	-	-	-	4,989	-	-	-	-	4,989
Beneficiary or asset-backed securities	-	-	-	-	-	-	13,766	-	13,766
Held-to-maturity financial assets	-	-	8,258	-	-	-	-	-	8,258
Total assets	$ 2,037,739	$ 1,907,736	$ 1,215,663	$ 585,845	$ 445,408	$ 344,696	$ 384,859	$ 231,470	$ 7,153,416
Liabilities									
Bills and bonds sold under repurchase agreements	(4,557,086)	(1,453,716)	(100,234)	-	-	-	-	-	(6,111,036)
Total liabilities	(4,557,086)	(1,453,716)	(100,234)	-	-	-	-	-	(6,111,036)
Net Liquidity Gap	($ 2,519,347)	$ 454,020	$ 1,115,429	$ 585,845	$ 445,408	$ 344,696	$ 384,859	$ 231,470	$ 1,042,380

(In Thousand of NT Dollars)

	December 31, 2010								
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Assets									
Financial assets at fair value through profit or loss									
Investment in bills	$ 86,194,563	$ 19,145,529	$ 3,439,388	$ -	$ -	$ -	$ -	$ -	$ 108,779,480
Foreign currency bills	29,094	29,065	10,146	-	-	-	-	-	68,305
Fixed rate commercial paper	-	60	12,290	-	-	-	-	-	12,350
Bond investments – government bonds	-	-	-	-	-	20,679	-	-	20,679
Bond investments – financial bonds	-	374,395	-	-	-	-	-	-	374,395
Bond investments – convertible corporate bonds	-	-	-	576,546	49,990	-	340,464	-	967,000
Convertible corporate bond asset swaps	-	95,038	735,014	863,011	498,442	-	-	-	2,191,505
Derivatives – interest rate swaps	5,340	3,897	-	-	-	-	-	-	9,237
Bill and bonds purchased under resale agreement	529,800	-	-	-	-	-	-	-	529,800
Available-for-sale financial assets									
Bond investments – government bonds	2,197,492	666,247	6,900,503	21,126,661	14,539,901	10,491,571	8,755,042	9,946,753	74,624,170
Bond investments – financial bonds	-	-	180,824	-	-	-	-	919,631	1,100,455
Bond investments – international financial bonds	-	-	-	29,327	-	-	-	-	29,327
Bond investments – corporate bonds	300,208	-	4,299,174	3,547,042	2,023,322	1,021,465	1,218,684	-	12,409,895
Bond investments – international corporate bonds	-	-	-	-	145,239	-	-	-	145,239
Held-to-maturity financial assets	-	-	-	250,000	-	-	-	-	250,000
Total assets	$ 89,256,497	$ 20,314,231	$ 15,577,339	$ 26,392,587	$ 17,256,894	$ 11,533,715	$ 10,314,190	$ 10,866,384	$ 201,511,837
Liabilities									
Financial liabilities at fair value through profit or loss									
Derivatives – interest rate swaps	-	(2,837)	(7,293)	-	-	-	-	-	(10,130)
Bills and bonds sold under repurchase agreements	(154,820,706)	(14,040,752)	(1,302,012)	-	-	-	-	-	(170,163,470)
Total liabilities	(154,820,706)	(14,043,589)	(1,309,305)	-	-	-	-	-	(170,173,600)
Net Liquidity Gap	($ 65,564,209)	$ 6,270,642	$ 14,268,034	$ 26,392,587	$ 17,256,894	$ 11,533,715	$ 10,314,190	$ 10,866,384	$ 31,338,237

iv. Supplementary information in accordance with the Regulations

December 31, 2011

Unit : In Millions of NT dollars

		1-30 days	31-90 days	91-180 days	181 days to 1 year	Over 1 year
Utilization of Capital	Bills	53,160	55,179	15,700	6,944	-
	Bonds	8,527	2,572	2,360	11,445	60,654
	Bank deposits	671	130	-	200	-
	Loans extended	-	-	-	-	-
	Bills and bonds purchased under resale agreements	-	-	-	-	-
	Total	62,358	57,881	18,060	18,589	60,654
Sources of Capital	Loans borrowed	3,416	-	-	-	-
	Bills and bonds sold under repurchase agreements	137,952	44,007	2,229	805	-
	Own capital	-	-	-	-	32,595
	Total	141,368	44,007	2,229	805	32,595
Net Flow of Capital		(79,010)	13,874	15,831	17,784	28,059
Accumulated Net Flow of Capital		(79,010)	(65,136)	(49,305)	(31,521)	(3,462)

December 31, 2011

Unit : In Millions of US dollars

		1-30 days	31-90 days	91-180 days	181 days to 1 year	Over 1 year
Utilization of Capital	Bills	1,756	1,823	519	229	-
	Bonds	282	85	78	378	2,004
	Bank deposits	22	4	-	7	-
	Loans extended	-	-	-	-	-
	Bills and bonds purchased under resale agreements	-	-	-	-	-
	Total	2,060	1,912	597	614	-
Sources of Capital	Loans borrowed	113	-	-	27	-
	Bills and bonds sold under repurchase agreements	4,557	1,454	74	-	-
	Own capital	-	-	-	-	1,077
	Total	4,670	1,454	74	27	1,077
Net Flow of Capital		(2,610)	458	523	587	927
Accumulated Net Flow of Capital		(2,610)	(2,152)	(1,629)	(1,041)	(114)

December 31, 2010

Unit : In Millions of NT dollars

		1-30 days	31-90 days	91-180 days	181 days to 1 year	Over 1 year
Utilization of Capital	Bills	86,224	19,174	3,263	187	-
	Bonds	2,498	1,041	3,335	8,397	76,841
	Bank deposits	736	-	-	200	-
	Loans extended	-	-	-	-	-
	Bills and bonds purchased under resale agreements	530	-	-	-	-
	Total	89,988	20,215	6,598	8,784	76,841
Sources of Capital	Loans borrowed	3,897	-	-	-	-
	Bills and bonds sold under repurchase agreements	154,821	14,041	1,302	-	-
	Own capital	-	-	-	-	32,535
	Total	158,718	14,041	1,302	-	32,535
Net Flow of Capital		(68,730)	6,174	5,296	8,784	44,306
Accumulated Net Flow of Capital		(68,730)	(62,556)	(57,260)	(48,476)	(4,170)

(g) Cash flow risk and fair value risk associated with movements in interest rates

1) As of December 31, 2011 and 2010, a subsidiary holds floating interest-earning assets and floating interest-bearing liabilities. Future cash flows of such assets and liabilities may fluctuate and result in risk due to market interest rate. The following table shows the interest rate risk of the subsidiary, and is presented by the book value of financial assets and financial liabilities and is classified by the earlier of the expected reprising date or expected maturity date:

(In Thousand of NT Dollars)

	December 31, 2011								
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Assets									
Available-for-sale financial assets									
Corporate bonds with floating rate	$ 10,000	$ 700,000	$ 50,000	$ -	$ -	$ -	$ -	$ -	$ 760,000
Total assets	$ 10,000	$ 700,000	$ 50,000	$ -	$ -	$ -	$ -	$ -	$ 760,000

(In Thousand of US Dollars)

	December 31, 2011								
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Assets									
Available-for-sale financial assets									
Corporate bonds with floating rate	$ 330	$ 23,124	$ 1,652	$ -	$ -	$ -	$ -	$ -	$ 25,106
Total assets	$ 330	$ 23,124	$ 1,652	$ -	$ -	$ -	$ -	$ -	$ 25,106

(In Thousand of NT Dollars)

	December 31, 2010								
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Assets									
Financial assets at fair value through profit or loss									
International financial bonds with floating rate	$ -	$ 374,395	$ -	$ -	$ -	$ -	$ -	$ -	$ 374,395
Derivatives - interest rate swaps	3,123	6,114	-	-	-	-	-	-	9,237
Total assets	$ 3,123	$ 380,509	$ -	$ -	$ -	$ -	$ -	$ -	$ 383,632
Liabilities									
Financial liabilities at fair value through profit or loss									
Derivatives - interest rate swaps	(7,293)	(2,837)	-	-	-	-	-	-	(10,130)
Total liabilities	(7,293)	(2,837)	-	-	-	-	-	-	(10,130)
Total	($ 4,170)	$ 377,672	$ -	$ -	$ -	$ -	$ -	$ -	$ 373,502

2) Market interest rate (Excluding financial assets held for trading)

Items of financial assets	December 31, 2011	December 31, 2010
Available-for-sale financial assets		
Bond investments - government bonds	0.7356%-1.7457%	0.4971%~2.1731%
Bond investments - financial bonds	2.1441%-2.4288%	2.0160%~2.9334%
Bond investments - foreign financial bonds	4.1116%	2.4411%
Bond investments - corporate bonds	0.9012%-1.8473%	0.6619%~2.1335%
Bond investments - foreign corporate bonds	2.9465%	2.8773%
Beneficiary or asset-backed securities	1.3181%	-
Held-to-maturity financial assets		
Bond investments - corporate bonds	3.4000%	3.4000%

D. CKI

CKI holds various types of financial instruments. The goal of risk management of CKI is to achieve optimal asset allocation position, maintain proper liquidity position, and manage all market risk centralized by considering the economic environment, competition condition and impact on market value risk. In order to achieve this goal as well as effectively control and measure market risk, credit risk and liquidity risk, CKI's financial risks and control strategies are as follows:

(a) Interest rate risk

The interest-rate-linked financial products held by CKI are mainly fixed interest rate products and they have no significant interest rate risks. However, the fair value of bonds would change due to fluctuations in market interest rate. CKI undertakes derivative financial instruments such as interest rate swaps to hedge cash flow risk and fair value risk arising from fluctuations in interest rates. To mitigate interest rate risk, CKI also closely monitors interest rate trends and sets a stop-loss amount on the derivatives undertaken.

(b) Foreign exchange rate risks

The foreign currency quotas of CKI's utilization of operating capital primarily include time deposits and funds denominated in foreign currencies with strong international influence. CKI observes and researches factors affecting trends of exchange rates including both domestic and international economic environment and interests on a periodic basis. CKI analyzes the variability of New Taiwan dollars in response to foreign exchange rates. In addition, CKI also adopts the method of maintaining a basket of various foreign currencies in order to hedge foreign exchange rate risks.

(c) Price risks

CKI sets limits to control the transaction volume and stop-loss amount of derivatives to reduce its market risk. CKI is exposed to equity securities price risk because of investments held by CKI, but CKI sets stop-loss amount of derivatives to reduce its market risk.

(d) Credit risks

Financial instruments held by CKI are exposed to potential loss due to failure of counterparties in meeting obligations when they come due. CKI utilizes capital in compliance to Insurance Law No.146 and related regulations, companies with equivalent credit ratings or issuance and guarantees from reputable financial institutions must be obtained and confirmed prior to entering every transaction for investments. In addition, the amounts of transactions cumulated by each counterparty are bound to strict restrictions established by laws. As a result, CKI should have no significant credit risks.

(e) Liquidity risks

CKI's operating capital is adequate in meeting demand for cash outflows, thus there is no liquidity risk regarding inability to raise capital for meeting contractual obligations. CKI's investments in bonds are traded in active markets; therefore, these financial assets are expected to be sold in the market at prices relevant to their fair values.

(f) Details of calculation of gross premiums are as follows:

Expressed in thousands of NT dollars

	For the year ended December 31, 2011			
Type	Premium income (1)	Reinsurance premium (2)	Reinsurance premiums ceded (3)	Retained insurance premiums (4)=(1)+(2)-(3)
Compulsory insurance	$ 426,346	$ 96,098	$ 120,346	$ 402,098
Non-compulsory insurance	5,031,401	568,130	2,848,390	2,751,141
Total	$ 5,457,747	$ 664,228	$ 2,968,736	$ 3,153,239

Expressed in thousands of NT dollars

	For the year ended December 31, 2011		
Type	Provision of reserve for unearned premiums (5)	Reserve released for unearned premiums (6)	Gross premiums (7)=(4)-(5)+(6)
Compulsory insurance	$ 167,757	$ 160,660	$ 395,001
Non-compulsory insurance	1,640,750	1,525,581	2,635,972
Total	$ 1,808,507	$ 1,686,241	$ 3,030,973

Expressed in thousands of US dollars

	For the year ended December 31, 2011			
Type	Premium income (1)	Reinsurance premium (2)	Reinsurance premiums ceded (3)	Retained insurance premiums (4)=(1)+(2)-(3)
Compulsory insurance	$ 14,084	$ 3,174	$ 3,975	$ 13,283
Non-compulsory insurance	166,,206	18,768	94,093	90,881
Total	$ 180,290	$ 21,942	$ 98,068	$ 104,164

Expressed in thousands of US dollars

Type	For the year ended December 31, 2011 Provision of reserve for unearned premiums (5)	Reserve released for unearned premiums (6)	Gross premiums (7)=(4)-(5)+(6)
Compulsory insurance	$ 5,542	$ 5,307	$ 13,048
Non-compulsory insurance	54,200	50,395	87,076
Total	$ 59,742	$ 55,702	$ 100,124

Expressed in thousands of NT dollars

Type	For the year ended December 31, 2010 Premium income (1)	Reinsurance premium (2)	Reinsurance premiums ceded (3)	Retained insurance premiums (4)=(1)+(2)-(3)
Compulsory insurance	$ 393,280	$ 99,490	$ 113,568	$ 379,202
Non-compulsory insurance	4,876,733	556,036	2,713,243	2,719,526
Total	$ 5,270,013	$ 655,526	$ 2,826,811	$ 3,098,728

Expressed in thousands of NT dollars

Type	For the year ended December 31, 2010 Provision of reserve for unearned premiums (5)	Reserve released for unearned premiums (6)	Gross premiums (7)=(4)-(5)+(6)
Compulsory insurance	$ 160,660	$ 165,909	$ 384,451
Non-compulsory insurance	1,546,819	1,546,710	2,719,417
Total	$ 1,707,479	$ 1,712,619	$ 3,103,868

(g) Details of calculation of net claims are as follows:

Expressed in thousands of NT dollars

Type	For the year ended December 31, 2011 Claims incurred (1)	Reinsurance Claims incurred (2)	Claims recovered from reinsurers (3)	Net claims (4)=(1)+(2)-(3)
Compulsory insurance	$ 314,357	$ 96,874	$ 124,386	$ 286,845
Non-compulsory insurance	2,755,857	255,231	1,520,584	1,490,504
Total	$ 3,070,214	$ 352,105	$ 1,644,970	$ 1,777,349

Expressed in thousands of US dollars

Type	For the year ended December 31, 2011 Claims incurred (1)	Reinsurance Claims incurred (2)	Claims recovered from reinsurers (3)	Net claims (4)=(1)+(2)-(3)
Compulsory insurance	$ 10,384	$ 3,199	$ 4,111	$ 9,472
Non-compulsory insurance	91,037	8,431	50,231	49,237
Total	$ 101,421	$ 11,630	$ 54,342	$ 58,709

Expressed in thousands of NT dollars

Type	For the year ended December 31, 2010 Claims incurred (1)	Reinsurance Claims incurred (2)	Claims recovered from reinsurers (3)	Net claims (4)=(1)+(2)-(3)
Compulsory insurance	$ 237,808	$ 89,766	$ 94,093	$ 233,481
Non-compulsory insurance	1,895,332	272,966	943,207	1,225,091
Total	$ 2,133,140	$ 362,732	$ 1,037,300	$ 1,458,572

(h) Details of balance, provisions and reserve released for unearned premiums are as follows:

Expressed in thousands of NT dollars

Compulsory automobile liability insurance for car	For the year ended December 31, 2011 Beginning balance	Provision of reserve for unearned premiums	Reserve released for unearned premiums	Ending balance
Reserve for unearned premiums	$ 138,329	$ 141,136	($ 138,329)	$ 141,136
Reserve for catastrophic losses	239,855	-	(51,912)	187,943
Reserve for outstanding losses (Note)	90,128	95,814	(90,128)	95,814
Total	$ 468,312	$ 236,950	($ 280,369)	$ 424,893

Compulsory automobile liability insurance for motorcycle	For the year ended December 31, 2011 Beginning balance	Provision of reserve for unearned premiums	Reserve released for unearned premiums	Ending balance
Reserve for unearned premiums	$ 88,961	$ 98,867	($ 88,961)	$ 98,867
Reserve for catastrophic losses	298,127	37,013	-	335,140
Reserve for outstanding losses (Note)	13,716	16,598	(13,717)	16,597
Total	$ 400,804	$ 152,478	($ 102,678)	$ 450,604

Expressed in thousands of US dollars

Compulsory automobile liability insurance for car	For the year ended December 31, 2011 Beginning balance	Provision of reserve for unearned premiums	Reserve released for unearned premiums	Ending balance
Reserve for unearned premiums	$ 4,570	$ 4,662	($ 4,569)	$ 4,663
Reserve for catastrophic losses	7,923	-	(1,715)	6,208
Reserve for outstanding losses (Note)	2,977	3,165	(2,977)	3,165
Total	$ 15,470	$ 7,827	($ 9,261)	$ 14,036

Compulsory automobile liability insurance for motorcycle	For the year ended December 31, 2011 Beginning balance	Provision of reserve for unearned premiums	Reserve released for unearned premiums	Ending balance
Reserve for unearned premiums	$ 2,939	$ 3,266	($ 2,939)	$ 3,266
Reserve for catastrophic losses	9,848	1,223	-	11,071
Reserve for outstanding losses (Note)	453	548	(453)	548
Total	$ 13,240	$ 5,037	($ 3,392)	$ 14,885

Expressed in thousands of NT dollars

Compulsory automobile liability insurance for car	For the year ended December 31, 2010 Beginning balance	Provision of reserve for unearned premiums	Reserve released for unearned premiums	Ending balance
Reserve for unearned premiums	$ 160,155	$ 138,329	($ 160,155)	$ 138,329
Reserve for catastrophic losses	266,742	-	($ 26,887)	239,855
Reserve for outstanding losses (Note)	46,654	90,128	(46,654)	90,128
Total	$ 473,551	$ 228,457	($ 233,696)	$ 468,312

Compulsory automobile liability insurance for motorcycle	Beginning balance	Provision of reserve for unearned premiums	Reserve released for unearned premiums	Ending balance
	For the year ended December 31, 2010			
Reserve for unearned premiums	$ 74,434	$ 88,961	($ 74,434)	$ 88,961
Reserve for catastrophic losses	262,517	35,610	-	298,127
Reserve for outstanding losses (Note)	6,089	13,716	(6,089)	13,716
Total	$ 343,040	$ 138,287	($ 80,523)	$ 400,804

Note: it includes claim on reported but not paid and incurred but not reported.

(i) Net premiums:

For the years ended December 31, 2011 and 2010, net premiums of the respective insurances are as follows:

	For the years ended December 31,		
	2011		2010
	NT$	US$	NT$
General fire insurance	$ 1,000,000	$ 33,034	$ 1,000,000
Fire & allied perils insurance	1,000,000	33,034	1,000,000
Marine cargo insurance	200,000	6,607	200,000
Marine hull insurance	200,000	6,607	200,000
Fishing vessel insurance	50,000	1,652	50,000
Aviation insurance	USD10,000	10,000	USD10,000
Engineering insurance	1,000,000	33,034	1,000,000
Money insurance	200,000	6,607	200,000
Motor physical damage insurance	6,000	198	6,000
Motor third party liability insurance	60,000	1,982	60,000
Motor passengers liability insurance	75,000	2,478	75,000
Compulsory automobile liability insurance for motorcycle	All retained	All retained	All retained
Car driver injury insurance	All retained	All retained	All retained
Driver injury insurance	All retained	All retained	All retained
Liability insurance	200,000	6,607	200,000
Fidelity bond insurance	50,000	1,652	50,000
Engineering bond insurance	200,000	6,607	200,000
Bankers' bond insurance	500,000	16,517	500,000
Other insurance	200,000	6,607	200,000
Other credit and bond insurance	120,000	3,964	120,000
Nuclear energy insurance	300,000	9,910	200,000
Group accident insurance	20,000	661	20,000
Personal accident insurance	20,000	661	20,000
Travel accident insurance	20,000	661	20,000

(j) Unqualified reinsurance reserve

i. The summarized content in respect of ineligible reinsurance contract and related explanation for each insurance type are as follows: CKI entered into outward reinsurance contracts with Sunbright Ins. Pte. Ltd. and Walsun Insurance. The scope of the reinsurance contracts is the same as the reinsurance contracts of CKI.

Insurance company / insurance agent	Type of outward reinsurance contract
Walsun Insurance	Construction insurance
Aon Taiwan Ltd.	Fire & allied perils insurance
Marsh Ltd. Taiwan Branch	Fire & allied perils insurance
Howden Insurance Brokers Ltd. Taiwan Branch	Fire & allied perils insurance
Century International Insurance Broker Co., Ltd.	Fire & allied perils insurance
Elite Risk Services Ltd.	Fire & allied perils insurance

ii. The unqualified reinsurance expense was NT$171,661 thousand (US$5,671 thousand) and NT$133,284 for the years ended December 31, 2011 and 2010, respectively.

As of December 31, 2011 and 2010, the unqualified reinsurance reserve are unearned premium reserve and reported but not paid ceded reserve. Details are set forth as below:

	December 31, 2011		December 31, 2010
	NT$	US$	NT$
Unearned premium reserve	$ 85,830	$ 2,835	$ 66,642

E. MITC

Accounts receivable: management fees and sales fees receivable and other receivables (including related parties)

(a) Market risk

All receivables of the Company mature within 1 year; hence, no significant market risk is expected.

(b) Credit risk

The Company's credit policy should be assessed and procedures confirmed. For receivables- related parties, as debtors are with good credit, no significant credit risk is expected.

(c) Liquidity risk

All receivables of the Company mature within 1 year; hence, no significant liquidity risk is expected.

(d) Cash flow risk associated with movement in interest rates

All receivables of the Company mature within 1 year; hence, there is no cash flow risk associated with movement in interest rates.

F. MAM

Financial instruments held by the MAM mainly include cash and cash equivalents, short-term loans, short-term bills payable and long-term loans, etc. MAM takes advantage of such financial instruments to adjust for the demand for operating capitals. In addition, MAM also holds other financial assets and liabilities, such as obligor receivables purchased and payables incurred as a result of operating activities, and rent receivable.

(a) Cash flow risk associated with movements in interest rates

The following table shows the interest rate risk of MAM, and is presented by the book value of financial instruments and is classified by the earlier of the expected maturity date:

i. Fixed interest rate

Expressed in thousands of NT dollars

	Within 1 year	1 ~ 2 years	Over 2 years	Total
Short-term loans	$ 4,405,000	$ -	$ -	$ 4,405,000
Short-term bills payable	1,849,278	-	-	1,849,278

Expressed in thousands of US dollars

	Within 1 year	1 ~ 2 years	Over 2 years	Total
Short-term loans	$ 145,514	$ -	$ -	$ 145,514
Short-term bills payable	61,089	-	-	61,089

ii. Floating interest rate

Expressed in thousands of NT dollars

	Within 1 year	1 ~ 2 years	Over 2 years	Total
Bank deposits	$ 19,089	$ -	$ -	$ 19,089
Restricted assets – current	-	20,271	-	20,271
Short-term loans	1,000,000	-	-	1,000,000
Long-term loans (with 1 year maturity)	-	24,400	-	24,400

Expressed in thousands of US dollars

	Within 1 year	1 ~ 2 years	Over 2 years	Total
Bank deposits	$ 631	$ -	$ -	$ 631
Restricted assets – current	-	670	-	670
Short-term loans	33,034	-	-	33,034
Long-term loans (with 1 year maturity)	-	806	-	806

Interests of financial instruments with floating interest rate are repriced within 1 year; interests of financial instruments with fixed interest rate are fixed until maturity. Other financial instruments excluded from the above table are financial instruments with no interests, as they do not have interest rate risk, they are excluded from the above table.

(b) Credit risk

Transactions are conducted only with approved counterparties with good credit conditions. According to MAM's policy, MAM assesses the credit standing of the counterparty before entering into transactions and assesses collectability of receivables and notes receivable on a periodic basis, and thereafter a payment due date is assigned for each counterparty according to assessments on their relative credit standings. Therefore, there is no doubtful account.

(c) Liquidity risk

MAM achieves the objectives of effective use of capital and stabilization of capital by adjusting capital through the use of cash and cash equivalents, bank loans and short-term bills payable, etc. The operating capital of the Company is sufficient in meeting capital on demand; therefore, no significant liquidity risk is expected to occur.

(5) Risk management and hedging strategy

A. The Company

Non-derivative financial assets and liabilities held by the Company mainly includes cash and cash equivalents, bonds and bills sold under repurchase agreements, short-term loans, commercial papers payable and bond payable, etc. The Company takes advantage of such financial instruments to adjust for the demand for operating capitals. In addition, the Company also holds other financial assets and liabilities, such as receivables and payables incurred as a result of operating activities.

The primary risks of the Company's financial instruments are cash flow risk associated with interest rate variations, credit risks and liquidity risks. The risk management policies approved by the Board of Directors are as follows:

i. Cash flow risks associated with interest rate variations

The Company's major exposure to cash flow risk associated with interest rate variations comes primarily from corporate bonds payable with floating interest. The Company adopts a combination of fixed interest and floating interest rate methods in issuance of loans to manage such interest rate risks. In addition, the Company also engages in interest rate swaps to enhance the effectiveness of interest rate management.

ii. Foreign exchange risk

The Company holds financial assets denominated in foreign currencies, values of these investments fluctuate due to changes in foreign exchange rate. The Company controls the market risk by management limits and a stop loss mechanism on the positions undertaken.

iii. Credit risk

The financial instruments acquired or issued by the Company are subject to risk of financial loss resulting from the failure of a customer or counterparty to settle their contractual obligations when they fall due.

iv. Liquidity risk

The Company achieves the objectives of effective use of capital and stabilization of capital by adjusting capital through the use of cash and cash equivalents, commercial paper payable, bank loans and bonds payable, etc. The operating capital of the Company is sufficient in meeting capital on demand; therefore, no significant liquidity risk is expected to occur.

B. The subsidiaries

(a) MICB

The risk management policies and practices and major exposure of risk conditions of the credit risk, market risk, business risk, and liquidity risk are as follows:

MICB's Board of Directors has the ultimate approval right in risk management and has ultimate responsibility for MICB's risk strategies and ensures the function works. The Assets & liabilities Management Committee, Loan Committee, Problem Loan Committee, Investment Committee, Fund Management Committee, Product & Regulation Committee, Wealth Management Committee, Offshore Structured Products Committee, Personal Appraisal Committee, Occupational Safety & Health Committee and Trust Assets Screening Committee subordinated under the President are responsible for reviewing relevant risk proposals. In addition, a disaster (risk) emergency team convened by the President for the purpose of disaster or other contingent events, takes appropriate actions to minimize losses, end disaster/risk and restore normal business operations.

Risk management is controlled by each individual department of head office according to its authorization and responsibility. In terms of credit risk, Credit Management Department is responsible for risk management of credit business, management of large amount of money and risk exposure of related parties, credit policy and to draft relevant Articles; Card Service Center is in charge of risk management of credit card business and to draft relevant Articles; Investment Department manages risk management of investment business and to draft relevant Articles; Treasury Department presides over risk management of investment banking, financial assets and real estate securitization and to draft relevant Articles; Credit Department takes care of credit checking, analysis and evaluation of corporate banking clients and to draft relevant Articles. For market risk and liquidity risk, Risk management is carried out by Financial Management Service Center, accounting for setting up pricing model and valuation system of financial instruments and to draft relevant Articles. For operation risk, losses may be incurred from internal operation, personnel, system or external events; therefore, Risk Management Department is responsible for monitoring execution performance of each department. Planning Department manages country risk and sets up limit and relevant Articles for country risk. In addition, Risk Management Department is also in charge to set up MICB's short-term, medium-term and long-term targets, drive risk management of MICB, hold risk control meetings on a quarterly basis (amended to on a bimonthly basis), summarize risk controls and report to the Board of Directors and Risk Management Committee of Mega Financial Holdings regularly.

Risk management policy is established to identify, evaluate, monitor, report and respond to financial risks in the Group's operating units, to set up accurate risk management objectives, management mechanism and segregation of duties, to ensure operation risk is within the tolerable limits, and to maximize the Bank's earnings and stockholders' profits. The procedure of risk management and principles of measuring and controlling regarding credit risk, market risk, operation risk, liquidity risk and country risk are as follows:

i. Credit risk

a) Procedure of risk management

The promotion of credit and investment business of the Bank is in accordance with the bank laws and other related regulations; moreover, risk management targets identified by each business supervisor units are sent to the risk control department and reported to the risk control committee of Mega Financial Holdings and Board of Directors for approval. In addition, the Bank conveys risk tolerant limits and maintains sound credit risk management organizations and standards through stipulating credit and investment Articles.

As a result of the implementation of Basel II, MICB is developing various credit risk component models and valuation systems, adopting Internal Ratings Based Approach which links to probability of default, and using quantifiable analysis tools to predict customers' probability of default, loss given default and so on. This also enhances the current credit rating system and then strengthens monitoring of credit risk.

MICB should ensure that credit checking and examination have been done before engaging loan and investment business and also designates credit amount, provides responsibilities according to levels to shorten operating procedures, and require periodic monitoring while engaging the business. MICB also should set up a reporting system and have timely reports if any unusual event or significant accident occurs.

Establishment of a unit mainly responsible for the overdue loan management in order to solve credit management problems and to seek the recovery of obligations. In order to execute this strategy, MICB sets regulations for procedures to evaluate asset rewards for dealing with recovery of non-performing loans, outsourcing of loans receivable as a base for managing doubtful credits and overdue loans.

b) Principles of measuring and controlling

MICB's goals of credit risk management are set from downward sloping to upward sloping annually and then presented to the Board of Directors for approval. In order to strengthen the risk management, the evaluation of conducting circumstances is in accordance with the economic and financial conditions. Moreover, in accordance with regulatory institutions, MICB is required to disclose the information of credit risk through its financial reports and website.

In order to control the group and industry risk and avoid excess concentration risk, MICB will separately set the credit limit of the individual clients, group and industry based on the industry condition, perspective and credit risk, and report to the management unit regarding the condition of complying with the bank laws, regulations stipulated by the authorities and internal credit rules to set the credit limits and balances monthly.

In order to strengthen the understanding of the client's credit, reviews should be conducted periodically. For those that have high risk or abnormalities, the frequency of their reviews will be increased. Analysis and reviews will be made annually and the reports will be sent to the management.

Analysis and investigation should be conducted at least once a year, especially operation, capital inflow/outflow and business plan execution and problem solving. Analysis and investigation will be made annually and the reports will be sent to the management.

Abnormal notification system: When operating units determine that a client's operations are abnormal, facing financial difficulties, or experience some unexpected events, the business supervisor will report this to the management, and information will be sent to the Mega Financial Holdings by the risk management department, in order for them to understand the circumstances so that they are able to take proper actions.

Appraisal of assets: Accrue possible losses or impairment of assets, investments, other assets, or contingent assets based on the experience of bad debts, reserves, other historical losses, the current overdue loan rate, recovery conditions, supervisory regulations, generally accepted accounting principles and so on.

ii. Market risk

a) Procedure of risk management

MICB's market risk management objectives are set up by Treasury Department and Financial Service Center. The Risk Management Department then summarizes and reports to the Risk Management Committee of Mega Financial Holdings and Board of Directors for approval.

The Financial Service Center not only prepares daily market risk portions and profit or loss statements, but also summarizes investment performance of marketable securities and reports to Board of Directors regularly. Risk Management Department summarizes and analyzes financial information prepared by the Treasury Department on a daily basis and pays attention to market changes when it is closer to stop loss limits. Monthly summary are prepared to analyze positions, profit or loss, sensitivity risk indicators analysis and stress test of financial products held by MICB for management reviews.

b) Principles in measuring and controlling

MICB's market risk reports including positions and profit or loss evaluation of exchange rate, interest rate and equity securities products. All transactions should follow amount limits and stop loss policy and submit for supervisors to be approved in accordance with MICB's Articles. As long as transactions meet stop loss limits, the transactions should be revoked immediately, if not, the transaction unit should explain reasons and follow-up plans for management approval and report to the Board of Directors on a quarterly basis.

Non-hedging positions of derivative financial products are evaluated on daily market price while hedging positions are evaluated twice a month.

The Bank started to set up the SUMMIT information system from 2008, sub-systems of FX transactions, lending market, currency exchange rate options, foreign currency denominated bonds and financial derivatives products are completed, while equity securities are expected to be completed in 2012. Upon completion, the system provides on-spot credit limit control, profit or loss evaluation, sensitivity risk indicators analysis, stress test and risk value calculation, and so on.

iii. Operation risk

a) Procedure of risk management

Prior the release of new products, new business and establishment of new foreign operations, risk identification and evaluation, law compliance analysis and information operation system planning should be performed.

MICB institutes business management Articles and operating guidance which are embedded in computer system for personnel on-spot search, as business support.

Self-assessment is conducted to understand business controls and modify weaknesses.

In accordance with eight industries and seven loss events of Basel II, report and gather operation risk loss events.

MICB sets up self-assessment mechanism of operation risk at MICB level, in order to strengthen identification and evaluation of operation risk and improve current control mechanism.

b) Principles in measuring and controlling

MICB sets up self-assessment mechanism to measure the exposure of operation risk and reinforce controls on items that are likely to happen and with high effects.

MICB reports operation risk loss events, compliance with laws and regulations, auditing and self-assessment to the Board of Directors regularly.

Operation risk loss events report, compliance with laws and regulations and auditing system cover all departments of MICB. Self-assessments are conducted by Occupational Safety & Health Committee, Data Processing & Information Department, domestic and foreign branches and subsidiaries.

Each department discovers weaknesses via the aforesaid management mechanism, each weakness will be discussed and improved and followed-up by its management.

iv. Liquidity risk

a) Procedure of risk management

There is an upper limit to control the amount of cash flow shortage for daily NTD and foreign currency. Also, the Financial Service Center is in charge of preparing weekly reports which are submitted to the fund management committee on semi-monthly basis in order to the control the liquidity risk. The risk management department reports to the Board of Directors periodically.

b) Principles of measuring and controlling

MICB sets up limits of liquidity gap by periods and periodically prepares liquidity gap tables for monitoring liquidity risk and considers seasonal and short-term factors in order to effectively control capital flows.

In terms of fund management, in addition to provide sufficient legal reserves, the Bank invests in government bonds, negotiable certificates of time deposit of Central Bank, treasury bills, financial bonds, government bonds with repurchase agreement, corporate bonds, commercial papers, bankers' acceptance and beneficiary certificates. The MICB diversifies its investments to reduce its operation risk.

v. Country risk

a) Procedure of risk management

Planning Department reports to the Board of Directors for establishment of guidelines governing country risk, and prepares monthly "Table of risk limits to individual countries and each level" to inspect risk limits to be submitted to management. The Planning Department also reports the usage and exposure of country risk limits on a quarterly basis and then Risk Management Department reports to the Board of Directors.

b) Principles of measuring and controlling

For the political stability, economic development, credit condition and ability to repay debts of individual countries, MICB takes the latest Country Ceilings for Foreign Currency published by Moody's Investors Services, actual usage of allocated country risk limits and other information as references for setting up country risk limits of individual countries and each level and summarizing creditor's rights of individual countries on a monthly basis, in order to avoid risk concentration on a specific country. Also, the price (spread) of five-year CDS is monitored daily as the management on motion of national risk limit.

(b) MS

i. Market risk

MS and its subsidiaries' investments in fixed income and equity securities are measured at the fair value of the quoted market price. Market price risks arise from variation in market prices that correspond to changes in market risk factors, such as stock prices, interest rates, exchange rates, etc. The management functions in place dealing with market risk not only include establishing limits on positions, notional principal, stop – loss, risk tolerance, but also include adopting quantification model and other sensitivity indices to assess market risk. The validity of such models has been verified on a periodic basis and the risk limits has been monitored and analyzed on a daily basis.

ii. Credit risk

MS and its indirect subsidiaries' potential credit risk mainly arises from financial instruments including cash and cash equivalents, financial assets at fair value through profit or loss, accounts receivable, and receivables from margin trading of securities. MS's cash is placed with different financial institutions in order to minimize exposure to risk of cash deficit in each financial institution (to diversify and avoid concentration risks). In addition, the financial institutions selected by MS to place cash with are all publicly listed companies in excellent business positions. Regarding the counterparties in which corporate bonds and short-term bills, also categorized as cash equivalents, are invested, their excellent credit standings have been previously assured in order to minimize the credit risk.

MS and its indirect subsidiaries assess the credit standing of the counterparty before entering into transactions and such assessment is to be held on a periodic basis thereafter for minimizing credit risk. A trading limit is assigned for each counterparty according to internal assessments on their relative credit standings prior to the trading. Generally speaking, with the effort MS puts into continuously monitoring credit risk control measures and assessing the credit standings, there should be no contingency regarding concentration of credit risk.

iii. Liquidity risk

The operating capital of MS and its indirect subsidiaries is sufficient to meet cash flows for all contractual obligations; therefore, there is no liquidity risk regarding inability to raise capital to meet existing contractual obligations. In order to control liquidity risk effectively, MS and its indirect subsidiaries perform capital maturity gap on a daily basis to avoid the occurrence of emergency situations.

All investments in equity securities, such as outstanding or unsettled futures contracts and options, equity certificates, etc. held by MS and its indirect subsidiaries are subject to prompt delivery of cash at reasonable prices in the market; therefore, the liquidity risk is assessed to be minimum.

Cash flows associated with investments in fixed income securities, such as convertible corporate bond swaps and interest rate swaps, etc., are interest receipts or payments calculated by the product of notional principal and the difference in the interest rates. Since amounts of such interest receipts or payments are not material and there are no cash inflows or outflows of notional principal, the liquidity risk undertaken is also minimized.

iv. Cash flow risk associated with interest rate variations

MS and its indirect subsidiaries' short-term and long-term loans are fixed interest obligations; therefore, changes in market interest will neither affect the effective interest rate on such loans nor will it result in fluctuations in the expected future cash flows.

Most of MS and its indirect subsidiaries' bond investments have fixed interest rates; therefore, changes in market interest will not result in fluctuations in the expected future cash flows. The effects on cash flows for other non-fixed interest investments are considered relatively immaterial.

v. Risk management organization structure and policy

In order to effectively manage MS' risk as a whole, MS established specialized risk management committee primarily responsible for the allocation of MS' assets, standard setting for risk management targets, re-adjusting and early warning procedures, monitoring the implementation of risk management system on a continuing basis, examining the proposals from various departments regarding MS' management standards as well as the management of other operating risks.

MS and its indirect subsidiaries' risk management organization structure include the Board of Directors and risk management section. The Board of Directors is the highest instruction unit of MS and its indirect subsidiaries' risk management organization structure and is responsible for authorizing MS and its indirect subsidiaries' level of acceptance for risks as well as ensuring the management team's awareness of risks and its mutual integration to operating decisions resolved. The risk management section, authorized by the risk management committee, is responsible for the comprehensive programming, implementing and tracking of various risk management system.

MS and its indirect subsidiaries' risk management policy is established in order to manage the risk of the Group as a whole effectively and to pursue the optimum balance of risk compensation for ensuring that MS and its indirect subsidiaries' administrator is seeking for business development with the comprehension of MS and its indirect subsidiaries' risk as a priority.

vi. Concentration of credit risk information

The concentration of credit risk exist when the counterparties in the trading of financial instruments are concentrated in a small number of counterparties; or when the counterparties in the trading of financial instruments are not concentrated in a small number of counterparties, but a majority of counterparties do engage in similar business activities and possess similar economic characteristics which will result in economic factors or other circumstances having similar influence on the counterparties' ability to meet obligations. The counterparties in the trading of financial instruments are not concentrated.

(c) MBF

Other than complying with the laws and regulations, the purpose of risk management for MBF is to ensure operating risks are under control and maintaining proper capital adequacy ratio, pursuant to sustainable development. In order to achieve this goal, MBF's risk management mechanism is set up via a system and culture followed by the Board of Directors, management and all staff, to safeguard MBF's assets and ensure asset and financial quality. The effective mechanism is also to identify, measure, monitor, report and respond to the levels of risk, setting up a controlling and organized manner of risk management and allocation of responsibility.

MBF's Board of Directors has the ultimate approval right in risk management. Major management risk items that include the company-wide risk management policy, risk tolerance limit, and authority must be approved by the Board of Directors. Under the Board of Directors, there is a risk management committee, which is responsible to supervise market risk, credit risk and operating risk. Besides, Audit Committee supervises and controls the implementation status of operating risk management policy. In order to effectively manage overall risks and integrate associated information of risk, define risk evaluation techniques and sum up risk positions, business segment is responsible for implementing the risk management strategy of MBF.

MBF's risk management procedures are divided into establishment of risk policy and process of implementation status, setting up proper internal control system and management procedures against potential risks, building up limits of authority toward the entry of electronic files and evaluate potential negative impacts arising from associated risks.

Financial instruments held by MBF have high level of risk-factor (interest rate, foreign exchange rate and price changes). MBF reduces or avoids liquidity risk or risk of changes in fair value by using individual or combination hedging tools. MBF also reviews and adjusts limits of trading risks according to the changes of economic and financial situations and operating perspectives, to ensure data measured from associated risks and procedures conform to established policies, internal control and operating process.

(d) CKI

In order to effectively recognize, measure and monitor the risks CKI is exposed to and ensure that the risks are within a coverable range, to balance risks and rewards reasonably, to maximize the value of stockholders' equity and to maintain the adequacy of self-owned capital and repayment ability to secure the company's operation, CKI established a risk management committee under the Board of Directors and a risk control department independent from business units in accordance with Jin-Guan-Pao-Tsai No. 098002512072 as well as risk control policy and procedures. Insurance risks and financial risks will be explained below.

CKI's contracts are assessed to be transferred insurance contracts, and management procedures and methods for related risks are as follows:

i. Insurance risk, measurement and corresponding risk management

Insurance risks are the risks to overpay expected claims due to insufficient estimate of the frequency, degree of impact and uncertainty of time of the insured incidents, and such uncertain elements including natural disaster, catastrophe risks, legal changes and litigation, which might occur randomly. CKI primarily covers automobile insurance, fire insurance, accident insurance and flood insurance, and the risk management methods are stated as follows:

a) Automobile insurance

The automobile insurance mainly covers automobile insurance businesses, and the risks primarily result from accident losses due to the behavior of the insured; therefore, CKI selects clients of good quality through careful underwriting standards and practice. The amount of each policy is small and covered insurance is spreads all over the country; the insurance is not concentrated on a specific location or on people of certain age group or occupation. However, the accumulative risks as a whole are still large, CKI signs reinsurance contracts for automobile insurance when claims of various insurance exceed retention amount.

b) Fire insurance

The fire insurance mainly covers commercial fire insurance businesses, and the targets include manufacturing factories, losses due to machines and operation interruption. The insurance primarily covers fire or explosion resulting from machine abandonment, machine damage or human behavior, and risks concentrate on industrial parks, and petrochem or heavy industries. Also, the insurance additionally covers typhoon, flood and earthquake, which elevates the overall degree of risks covered; therefore, CKI excludes high risk clients through strict underwriting policy. CKI disperses risks through fire reinsurance contract, over-insurance per risk unit reinsurance contract, over-insurance for catastrophe losses reinsurance contract or coassurance. Also, CKI assesses the relation between the scope of insurance cases and premium consideration; those with lower risks are self-retained, and facultative reinsurance arrangement will be adopted for the rest.

c) Incident insurance

The incident insurance mainly covers engineering insurance businesses, targeting non-renewal contracts, including contractor's all risk insurance, installation all risk insurance and carrying forward various all risk insurance, including risks resulting from typhoons (due to Taiwan's geographic location), floods and earthquakes. CKI disperses risks through reinsurance contract and coassurance with the Engineering Insurance Association; if CKI is unable to disperse risks through the abovementioned methods, the relations between actual risk and premium consideration is considered, and those with lower risks are self-retained, while facultative reinsurance arrangement are adopted for the rest. Also, CKI examines business performance and accumulated value of natural disasters; observes if there is any abnormal situation from loss rates and performance results for the insurer as reference. The maximum self-retention amount is revised each year after assessing market situation, business characteristics and previous year's performance result. For large and concentrated losses from natural disasters such as typhoons or earthquakes, foreign department will transfer self-retained risk above certain amount to be covered by reinsurers, and control risk through setting claim limit of self-retained risks.

d) Marine insurance

Marine insurance includes cargo transportation, hull insurance and fishing vessel insurance, primarily covering risks resulting from hull or cargo damage from accidents, which does not generate risk concentration problems. However, the accumulative risks as a whole are still large, CKI selects quality businesses through strict underwriting policy and make facultative reinsurance arrangement when claims of various insurance exceed retention amount based on insurance types and targets, e.g. hull insurance contracts. For cargo transportation insurance, CKI disperses risks through surplus reinsurance contract and quota share reinsurance. When there are businesses that cannot be covered by reinsurance contracts or special risks, facultative reinsurance arrangement or coassurance are adopted.

ii. CKI covering fire insurance and engineering insurance will result in a higher risk concentration in location and in industry; risks are dispersed through reinsurance ceding. As of December 31, 2011, through effective policies' premium income (fire insurance and engineering insurance) and self-retained premium, insurance risk concentration situation is as follows:

Unit: NT$ thousand

Type	Premium Income	Self-retained Premium
Fire insurance	$ 820,730	$ 171,408
Engineering insurance	2,548,612	1,644,373

Unit:US$ thousand

Type	Premium Income	Self-retained Premium
Fire insurance	$ 27,112	$ 5,662
Engineering insurance	84,190	54,320

iii. CKI assesses claim reserves through loss development model and estimated loss rate for various insurance types. Due to some uncertainties including changes in external environment (e.g. changes in regulations or legal ruling), trends or payment methods, which changes loss development model and estimated loss rate that could affect the estimation of claim reserves. CKI performs sensitivity test on estimated loss rate as of December 31, 2011. The results are as follows:

iv. As of December 31, 2011, CKI's claim development trend is as follows:

Unit: NT$ thousand

Year of Accident	Day of evaluation 2007.12.31	2008.12.31	2009.12.31	2010.12.31	2011.12.31	Estimated accumulative claim amounts	Accumulative claim amounts	Accumulative present unpaid amount	Adjustments (Note)	Amounts recognized in the balance sheet
2007	$ 11,915,751	$ 12,235,404	$ 12,282,665	$ 12,128,180	$ 12,060,708	$ 12,060,708	$ 11,769,086	$ 291,622	$ -	$ -
2008		2,612,067	2,596,765	2,608,422	2,715,571	2,715,571	2,397,129	318,442		
2009			2,116,129	2,185,536	2,168,941	2,168,941	1,997,613	171,328		
2010				3,609,724	3,515,512	3,515,512	2,528,552	986,960		
2011					1,824,491	1,824,491	1,025,418	799,073		
Total						22,285,223	19,717,798	2,567,425	707,308	3,274,733

Unit: US$ thousand

Year of Accident	Day of evaluation 2007.12.31	2008.12.31	2009.12.31	2010.12.31	2011.12.31	Estimated accumulative claim amounts	Accumulative claim amounts	Accumulative present unpaid amount	Adjustments (Note)	Amounts recognized in the balance sheet
2007	$ 393,623	$ 404,182	$ 405,743	$ 400,640	$ 398,411	$ 398,411	$ 388,778	$ 9,633	$ -	$ -
2008		86,287	85,781	86,166	89,706	89,706	79,186	10,519		
2009			69,904	72,197	71,648	71,648	65,989	5,660		
2010				119,243	116,131	116,131	83,528	32,603		
2011					60,270	60,270	33,873	26,397		
Total						736,166	651,354	84,812	23,365	108,177

Note: Claim reserves for compulsory private automobile liability insurance, compulsory commercial automobile liability insurance, compulsory motorcycle liability insurance, credit insurance, nuclear energy insurance, government sponsored earthquake insurance and health insurance are provided in accordance with related regulations; therefore, the loss development triangle of direct businesses does not include the abovementioned insurance types. Claim reserves on account are estimated based on current available data; however, the final result might differ from initial estimation value due to subsequent developments.

v. Financial risks, control and hedging strategies

For various financial assets held by CKI, the management considers economic environment, competition and market value changes as well as safety, profitability, and liquidity to optimize asset allocation positions and maintain appropriate liquidity position, to effectively control and measure market risk, credit risk and liquidity risk. CKI adopts different control strategies for different financial risks as follows:

a) Interest risk

CKI invests in fixed interest rate financial instruments, and no material interest risk is estimated. Changes in market interest rate will result in changes in the fair value of bond investment. CKI hedges fair value risk from interest rate fluctuation with part interest swap derivative financial instruments. CKI also observes interest rate trend and set stop-loss point to lower interest rate risk.

b) Foreign exchange risk

CKI's primary working capital utilizing foreign currency positions include internationally dominant currencies such as foreign currency time deposit and foreign funds. CKI closely follows the economic situation and market changes, monitors exchange rate movement, and hedges with basket of currencies to lower the potential cash flow fair value risk.

c) Price risk

CKI set up purchase principles based on investment assets' risk characteristics and set individual stop-loss point for risk assets to lower potential price risk resulting from price changes. The equity CKI invests in has been affected by market price changes; however, a stop-loss point has been set and no material market risk is estimated.

d) Credit risk

CKI establishes credit assessment standards and only counterparties that meet certain level of standards are qualified; debt security measures are adapted appropriately to lower credit risk. In accordance with Article 146 of Insurance Act, CKI carefully selects counterparties rated at no lower than a specified rating of credit quality before starting to make investments. Also, the investment limits are strictly restricted by law; therefore, no material credit risk is estimated and the largest credit risk amount is the book value.

e) Liquidity risk

CKI considers the amount and timing of capital demand, assesses the allocation, marketability and financial condition of the investment assets and monitors potential cash flow demand continually. The financial assets invested by CKI are mostly in an active market, where the assets could be sold quickly with the prices closing to fair value. The working capital is sufficient to meet contract obligation and no material liquidity risk is estimated.

(e) MITC

Derivative financial instruments held by MITC mainly include cash and cash equivalents, bonds purchased under resale agreements, available-for-sale financial assets and bonds investments with no active market. MITC utilizes the advantages of such financial instruments to adjust for the flow of operating capitals. In addition, CKI also holds other financial assets and liabilities, such as receivables incurred as a result of operating activities.

The primary risks of MITC's financial instruments are market risk, credit risk, liquidity risks and cash flow risk associated with interest rate variations.

i. Market risk

Market risks arise from variation in market interest rates. Variations in market interest rates fluctuate the fair value of bond investments. Limits on positions and stop–loss of the financial instruments held by MITC are properly controlled.

ii. Credit risk

MITC has no significant credit risk concentration.

iii. Liquidity risk

The operating capital of MITC is sufficient to meet cash flows for all contractual obligations; therefore, there is no liquidity risk regarding inability to raise capital to meet existing contractual obligations.

iv. Cash flow risk associated with interest rate variations

MITC has no short-term and long-term loans; therefore, there is no cash flow risk associated with interest rate variations.

(6) Capital adequacy ratio

A. Capital adequacy ratio of the Company and its subsidiaries

Mega Financial Holding Co., Ltd. And Its Subsidiaries
Capital Adequacy Ratio
December 31, 2011

	Ownership percentage held by the Company		Eligible capital			Minimum capital	
			NT$	US$		NT$	US$
The Company	100%		$ 206,477,447	$ 6,820,740		$ 225,093,042	$ 7,435,684
MICB	100%		187,980,784	6,209,724		130,113,192	4,298,137
MS	100%		10,095,773	333,502		2,748,602	90,797
MBF	100%		28,220,229	932,222		15,586,780	514,891
CKI	100%		5,308,881	175,373		1,895,048	62,601
MITC	100%		816,571	26,974		429,584	14,191
MAM	100%		2,648,528	87,491		5,094,445	168,289
Mega Life Insurance Agency	100%		121,989	4,030		96,086	3,174
Mega Venture Capital	100%		699,498	23,107		356,944	11,791
Deduction item			(237,413,126)	(7,842,663)		(218,167,682)	(7,206,912)
Subtotal		(A)	$ 204,956,574	$ 6,770,500	(B)	$ 163,246,041	$ 5,392,641
Capital adequacy ratio of the Consolidated Company (C)=(A)÷(B)					(C)		125.55%

Mega Financial Holding Co., Ltd. And Its Subsidiaries
Capital Adequacy Ratio
December 31, 2010

	Ownership percentage held by the Company		Eligible capital NT$		Minimum capital NT$
The Company	100%		$ 205,586,157		$ 224,011,818
MICB	100%		170,133,377		120,898,741
MS	100%		10,756,667		4,429,224
MBF	100%		29,002,098		14,306,754
CKI	100%		5,295,844		1,858,158
MITC	100%		877,613		538,218
MAM	100%		2,576,850		6,288,203
Mega Life Insurance Agency	100%		77,102		64,243
Mega Venture Capital	100%		939,984		475,694
Deduction item			(230,007,936)		(214,061,392)
Subtotal		(A)	$ 195,237,756	(B)	$ 158,809,661
Capital adequacy ratio of the Consolidated Company (C)=(A)÷(B)				(C)	122.94%

B. As of December 31, 2011, the financial holding's net eligible capital

Mega Financial Holding Co., Ltd. And Its Subsidiaries
Financial Holding's Net Eligible Capital
December 31, 2011

	NT$	US$
Common stocks	$ 112,806,148	$ 3,726,419
Unaccumulated preferred stocks which meet tier 1 capital requirement and unaccumulated subordinated debts with no maturity date	-	-
Other preferred stocks and subordinated debts	3,600,000	118,922
Capital collected in advance	-	-
Additional paid-in capital	43,426,403	1,434,540
Legal reserve	18,298,900	604,483
Special reserve	833,091	27,520
Accumulated earnings	22,828,132	754,100
Equity adjustments number	4,688,712	154,886
Less : goodwill	-	-
deferred assets	3,939	130
treasury stocks	-	-
Total net eligible capital	$ 206,477,447	$ 6,820,740

Mega Financial Holding Co., Ltd. And Its Subsidiaries
Financial Holding's Net Eligible Capital
December 31, 2010

	NT$	
Common stocks	$	110,594,262
Unaccumulated preferred stocks which meet tier 1 capital requirement and unaccumulated subordinated debts with no maturity date		-
Other preferred stocks and subordinated debts		4,800,000
Capital collected in advance		-
Additional paid-in capital		43,426,403
Legal reserve		16,787,828
Special reserve		354,967
Accumulated earnings		18,824,681
Equity adjustments number		10,882,979
Less : goodwill		-
deferred assets		84,963
treasury stocks		-
Total net eligible capital	$	205,586,157

(7) Disclosures of total amounts or ratios with respect to credit extensions, endorsements, or other transactions undertaken by a financial holding company and its subsidiaries for the same individual, the same related individual, or the same affiliated enterprises in accordance with Article 46 of the "Financial Holding Company Act" as of December 31, 2011:

(Please refer to P.121~130 of the consolidated financial statements)

(8) Significant impact arising from changes in government laws and regulations:

None.

(9) Information for discontinued operations:

None.

(10) Major operating assets or liabilities transferred from (or to) other financial institutions:

None.

(11) Information on the apportionment of the revenues, costs, expenses, gains and losses arising from the transactions between the Company and its subsidiaries, joint promotion of businesses, and sharing of information, operating facilities or premises.

A. Transactions between the Company and its subsidiaries

Please refer to Note 5.

B. Joint promotion of businesses

In order to create synergies within the group and provide customers financial services in all aspects, the Company has continuously established other financial consulting service centers (including banking services, securities trading services, and insurance services) in its subsidiaries and simultaneously promoted service business in banking, securities and insurance areass.

C. Sharing of information

Under the Financial Holding Company Act, Computer-Process Personal Data Protection Law and the related regulations stipulated by the Ministry of Finance, when customers' information of a financial holding company's subsidiary is disclosed to the other subsidiaries under the group or exchanged between the subsidiaries for the purpose of cross-selling of products, the subsidiaries receiving, utilizing, managing or maintaining the information are bound to use the information for the specified purposes only. In addition, the Company is required to publish its "Measures for Protection of Customers' Information" at its website. Customers also reserve the right to have their information withdrawn from the information sharing mechanism.

D. Sharing of operating facilities or premises

To provide one-stop-shopping services, MICB set up a securities desk and an insurance desk within its financial consulting center on April 2, 2003, which is engaged in the cross-selling of MS and CKI's products, respectively. In addition, the Company had obtained the authorization to set up industry specialized desk in its business premises, and the set up had been gradually taking place in the Company's subsidiaries.

E. Apportionment of revenues, costs, expenses, gains and losses

(a) For the year ended December 31, 2011:

The promotion bonus paid to other subsidiaries by MITC, MBF and MICB amounted to NT$25,970 thousand (US$858 thousand), NT$710 thousand (US$23 thousand) and NT$570 thousand (US$19 thousand), respectively. As a result of cross-selling by other subsidiaries, the insurance premium income increased by NT$340,848 thousand (US$11,260 thousand) for CKI; NT$12,320 thousand (US$407 thousand) for MICB; NT$120,070 thousand (US$3,966 thousand) for MITC; and NT$8,880 thousand (US$293 thousand) for MBF.

(b) For the year ended December 31, 2010:

The promotion bonus paid to other subsidiaries by MITC, MBF and MICB amounted to NT$17,630 thousand, NT$860 thousand and NT$1,160 thousand, respectively. As a result of cross-selling by other subsidiaries, the insurance premium income increased by NT$317,310 thousand for CKI; NT$10,310 thousand for MICB; NT$72,940 thousand for MITC; and NT$14,210 thousand for MBF.

(12) Information for private placement securities:

None.

(13) Financial information by business segments

Financial information by business segments
For the year ended December 31, 2011
(Expressed in Thousands of NT Dollars)

Items \ Operation (Note)	Bank division	Insurance division	Bills division	Securities division	Total other division	Consolidation
Interest income, net	$ 25,225,248	$ 74,011	$ 2,429,455	$ 949,779	($ 399,389)	$ 28,279,104
Revenues other than interest, net	12,367,925	948,249	1,508,943	1,230,649	1,416,280	17,472,046
Net revenue	37,593,173	1,022,260	3,938,398	2,180,428	1,016,891	45,751,150
Bad debt expense	(3,593,448)	-	(89,757)	-	(31,130)	(3,714,335)
Provisions for the reserve for insurance	-	67,136	-	-	-	67,136
Operational expenses	(16,351,770)	(870,766)	(741,242)	(2,343,891)	(680,778)	(20,988,447)
Income before Income Tax from Continuing Operations	17,647,955	218,630	3,107,399	(163,463)	304,983	21,115,504
Income tax expense	(2,575,859)	(45,351)	(455,801)	(226,617)	(126,194)	(3,429,822)
Consolidated Net Income from Continuing Operations	$ 15,072,096	$ 173,279	$ 2,651,598	($ 390,080)	$ 178,789	$ 17,685,682

Note: Amounts eliminated in the consolidated financial statements among the Company and its subsidiaries.

Financial information by business segments
For the year ended December 31, 2011
(Expressed in Thousands of US Dollars)

Items / Operation (Note)	Bank division	Insurance division	Bills division	Securities division	Total other division	Consolidation
Interest income, net	$ 833,286	$ 2,445	$ 80,254	$ 31,375	($ 13,193)	$ 934,167
Revenues other than interest, net	408,560	31,324	49,847	40,653	46,785	577,169
Net revenue	1,241,846	33,769	130,101	72,028	33,592	1,511,336
Bad debt expense	(118,705)	-	(2,966)	-	(1,028)	(122,699)
Provisions for the reserve for insurance	-	2,218	-	-	-	2,218
Operational expenses	(540,161)	(28,765)	(24,486)	(77,428)	(22,489)	(693,329)
Income before Income Tax from Continuing Operations	582,980	7,222	102,649	(5,400)	10,075	697,526
Income tax expense	(85,090)	(1,498)	(15,057)	(7,486)	(4,169)	(113,300)
Consolidated Net Income from Continuing Operations	$ 497,890	$ 5,724	$ 87,592	($ 12,886)	$ 5,906	$ 584,226

Note: Amounts eliminated in the consolidated financial statements among the Company and its subsidiaries.

Financial information by business segments
For the year ended December 31, 2010
(Expressed in Thousands of NT Dollars)

Items / Operation (Note)	Bank division	Insurance division	Bills division	Securities division	Total other division	Consolidation
Interest income, net	$ 21,633,647	$ 84,047	$ 2,840,867	$ 1,047,724	($ 542,456)	$ 25,063,829
Revenues other than interest, net	9,947,427	1,126,340	1,595,192	3,286,854	1,391,483	17,347,296
Net revenue	31,581,074	776,102	4,436,059	4,334,578	849,027	42,411,125
Bad debt expense	(1,888,092)	-	(345,696)	-	-	(2,233,788)
Provisions for the reserve for insurance	-	(544,604)	-	-	-	(544,604)
Operational expenses	(16,018,986)	(837,396)	(712,849)	(2,729,013)	(694,798)	(20,993,042)
Income before Income Tax from Continuing Operations	13,673,996	(171,612)	3,377,514	1,605,565	154,229	18,639,692
Income tax expense	(2,398,150)	(13,770)	(500,754)	(229,284)	(348,116)	(3,490,074)
Consolidated Net Income from Continuing Operations	$ 11,275,846	($ 185,382)	$ 2,876,760	$ 1,376,281	($193,887)	$ 15,149,618

Note: Amounts eliminated in the consolidated financial statements among the Company and its subsidiaries.

(14) Financial statements of the Company and condensed financial statements of its subsidiaries:

MEGA FINANCIAL HOLDING CO., LTD.
BALANCE SHEETS
December 31, 2011 and 2010
(Expressed in Thousands of Dollars)

ASSETS	December 31, 2011 NT$	December 31, 2011 US$	December 31, 2010 NT$
Assets			
Cash and cash equivalents	$ 4,276,849	$ 141,281	$ 2,689,068
Receivables, net	715,141	23,624	2,182,939
Available-for-sale financial assets, net	5,279,193	174,392	7,147,325
Equity investments accounted for by the equity method, net	218,167,682	7,206,913	214,061,392
Financial assets carried at cost	762,046	25,173	762,046
Property and equipment, net	784,065	25,901	702,490
Other assets, net	15,514	512	119,298
Deferred tax assets, net	3,659	121	81,590
TOTAL ASSETS	$ 230,004,149	$ 7,597,917	$ 227,746,148

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2011 NT$	December 31, 2011 US$	December 31, 2010 NT$
Liabilities			
Payables	$ 10,778,190	$ 356,045	$ 11,083,061
Bonds payable	16,301,059	538,486	15,750,000
Accrued pension liability	41,906	1,384	36,779
Other liabilities	1,608	53	5,188
Total Liabilities	27,122,763	895,968	26,875,028
Stockholders' Equity			
Common stock	112,806,148	3,726,419	110,594,262
Capital surplus	43,426,403	1,434,540	43,426,403
Retained earnings			
Legal reserve	18,298,900	604,483	16,787,828
Special reserve	833,091	27,520	354,967
Unappropriated retained earnings	22,828,132	754,101	18,824,681
Equity adjustments			
Land revaluation increment	2,206,808	72,899	2,319,945
Cumulative translation adjustments	1,505,518	49,733	829,397
Unrealized gains on financial instruments	1,033,669	34,146	7,733,637
Net loss of unrecognized pension cost	(57,283)	(1,892)	-
Total Stockholders' Equity	202,881,386	6,701,949	200,871,120
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 230,004,149	$ 7,597,917	$ 227,746,148

MEGA FINANCIAL HOLDING CO., LTD.
STATEMENTS OF INCOME
For the years ended December 31, 2011 and 2010
(Expressed in Thousands of Dollars, Except Earnings Per Share Amounts)

	For the year ended December 31, 2011		For the year ended December 31, 2010	
	NT$	US$	NT$	
Revenues				
Interest income	$ 37,256	$ 1,231	$ 19,063	
Gain from financial assets and liabilities at fair value through profit or los	241,800	7,988	-	
Investment income from equity investments accounted for by the equity method	18,111,631	598,296	16,099,414	
Other revenue except for interest income	11,079	366	13,460	
Total revenue	18,401,766	607,881	16,131,937	
Expenses and losses				
Interest expense	(364,912)	(12,055)	(490,865)	
Personnel expenses	(223,532)	(7,384)	(219,824)	
Depreciation and amortization	(31,677)	(1,046)	(39,355)	
Other business and administrative expenses	(97,340)	(3,216)	(80,700)	
Total expenses and losses	(717,461)	(23,701)	(830,744)	
Income before Income Tax from Continuing Operations	17,684,305	584,180	15,301,193	
Income tax expense	(4,413)	(146)	(190,473)	
Net Income	$ 17,679,892	$ 584,034	$ 15,110,720	
Basic Earnings Per Share (in dollars)	Before Taxes	After Taxes	Before Taxes	After Taxes
Net Income from Continuing Operations	$1.57	$1.57	$1.36	$1.34
Diluted Earnings Per Share (in dollars)	Before Taxes	After Taxes	Before Taxes	After Taxes
Net Income from Continuing Operations	$1.57	$1.57	$1.36	$1.34

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.
CONDENSED BALANCE SHEETS
December 31, 2011 and 2010
(Expressed in Thousands of Dollars)

ASSETS	December 31, 2011 NT$	December 31, 2011 US$	December 31, 2010 NT$	LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2011 NT$	December 31, 2011 US$	December 31, 2010 NT$
Assets				Liabilities			
Cash and cash equivalents	$ 312,094,483	$ 10,309,675	$ 261,308,888	Due to the Central Bank and financial institutions	$ 362,573,923	$ 11,977,204	$ 316,221,722
Due from the Central Bank and call loans to banks	181,270,586	5,988,061	125,172,379	Funds borrowed from the Central Bank and other banks	71,873,400	2,374,254	38,568,641
Financial liabilities at fair value through profit or losst	41,766,764	1,379,716	34,961,402	Financial liabilities at fair value through profit or loss	20,361,058	672,604	27,759,086
Bills and bonds purchased under resale agreements	349,562	11,547	895,012	Bills and bonds sold under repurchase agreements	7,339,481	242,451	4,285,605
Receivables, net	81,343,007	2,687,071	109,403,855	Payables	37,873,288	1,251,100	52,098,850
Bills discounted and loans, net	1,443,255,804	47,676,262	1,319,719,641	Deposits and remittances	1,577,120,139	52,098,313	1,547,309,354
Available-for-sale financial assets, net	71,167,598	2,350,938	83,199,684	Financial bonds payable	42,600,000	1,407,241	34,800,000
Held-to-maturity financial assets, net	130,183,210	4,300,450	216,526,320	Accrued pension liabilities	1,543,327	50,982	1,354,976
Equity investments accounted for by the equity method, net	9,214,207	304,381	9,302,766	Other financial liabilities	12,613,856	416,684	7,355,420
Other financial assets, net	17,915,815	591,828	17,970,339	Other liabilities	12,325,863	407,170	9,770,669
				Total Liabilities	2,146,224,335	70,898,003	2,039,524,323
Property and equipment, net	13,322,226	440,084	13,165,572	Stockholders' equity			
Other assets, net	7,341,571	242,520	5,646,383	Capital stock	68,000,000	2,246,300	64,109,878
				Capital surplus	33,070,028	1,092,430	33,070,028
				Retained earnings	59,220,190	1,956,269	54,710,620
				Equity adjustments	2,710,280	89,531	5,857,392
				Total Stockholders' Equity	163,000,498	5,384,530	157,747,918
TOTAL ASSETS	$2,309,224,833	$ 76,282,533	$2,197,272,241	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$2,309,224,833	$ 76,282,533	$2,197,272,241

Financial Information

MEGA SECURITIES CO., LTD.
CONDENSED BALANCE SHEETS
December 31, 2011 and 2010
(Expressed in Thousands of Dollars)

ASSETS	December 31, 2011 NT$	December 31, 2011 US$	December 31, 2010 NT$	LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2011 NT$	December 31, 2011 US$	December 31, 2010 NT$
Assets				Liabilities			
Current assets	$ 27,433,601	$ 906,237	$ 39,908,878	Current liabilities	$ 17,436,617	$ 575,998	$ 28,533,262
Funds and investments	1,465,513	48,411	1,496,230	Long-term liabilities	2,500,000	82,585	2,500,000
Property and equipment, net	2,680,523	88,548	2,584,181	Other liabilities	75,871	2,506	280,685
Intangible assets	39,804	1,315	27,505	Total liabilities	20,012,488	661,089	31,313,947
Other assets	1,916,971	63,325	1,981,012				
Debit items for securities				Stockholders' equity			
consignment trading, net	151,941	5,019	83,337	Capital stock	11,600,000	383,192	11,600,000
				Capital surplus	906,255	29,937	906,255
				Retained earnings	1,303,875	43,072	2,426,522
				Equity adjustments	(134,265)	(4,435)	(165,581)
				Total Stockholders' Equity	13,675,865	451,766	14,767,196
TOTAL ASSETS	$ 33,688,353	$ 1,112,855	$ 46,081,143	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 33,688,353	$ 1,112,855	$ 46,081,143

MEGA BILLS FINANCE CO., LTD.
CONDENSED BALANCE SHEETS
December 31, 2011 and 2010
(Expressed in Thousands of Dollars)

ASSETS	December 31, 2011 NT$	December 31, 2011 US$	December 31, 2010 NT$	LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2011 NT$	December 31, 2011 US$	December 31, 2010 NT$
Assets				Liabilities			
Cash and cash equivalents	$ 601,915	$ 19,884	$ 736,833	Due to the Central Bank and financial institutions	$ 3,416,000	$ 112,843	$ 3,897,000
Financial assets at fair value through profit or loss	135,756,870	4,484,569	112,685,775	Financial liabilities at fair value through profit or loss	-	-	10,130
Bill and bonds purchased under resale agreements	-	-	529,800	Bills and bonds sold under repurchase agreements	184,993,275	6,111,036	170,163,470
Receivables, net	1,833,166	60,557	2,101,018	Payables	1,257,098	41,527	1,243,823
Available-for-sale financial assets, net	83,240,989	2,749,768	91,189,051	Accrued pension liabilities	235,663	7,785	166,141
Held-to-maturity financial assets, net	250,000	8,258	250,000	Reserve for guarantee	2,911,927	96,192	2,884,046
Property and equipment, net	2,928,881	96,752	693,381	Reserve for securities trading loss	-	-	200,000
Other financial assets, net	822,684	27,176	2,945,800	Other liabilities	73,473	2,427	87,170
Intangible assets, net	1,096	36	309	Total Liabilities	192,887,436	6,371,810	178,651,780
Other assets	47,010	1,553	55,134	Stockholders' equity			
				Capital stock	13,114,411	433,219	13,114,411
				Capital surplus	312,823	10,334	312,823
				Retained earnings	15,897,794	525,165	14,917,082
				Equity adjustments	3,270,147	108,025	4,191,005
				Total Stockholders' Equity	32,595,175	1,076,743	32,535,321
TOTAL ASSETS	$225,482,611	$ 7,448,553	$211,187,101	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$225,482,611	$ 7,448,553	$211,187,101

CHUNG KUO INSURANCE CO., LTD.
CONDENSED BALANCE SHEETS
December 31, 2011 and 2010
(Expressed in Thousands of Dollars)

ASSETS	December 31, 2011 NT$	December 31, 2011 US$	December 31, 2010 NT$	LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2011 NT$	December 31, 2011 US$	December 31, 2010 NT$
Assets				Liabilities			
Current assets	$ 6,596,264	$ 217,900	$ 5,651,317	Payables	$ 1,272,801	$ 42,045	$ 1,193,584
Receivables, net	1,775,968	58,667	1,677,227	Financial liabilities at fair value through profit or loss	6,736	223	-
Funds and investments	1,689,082	55,797	2,683,681				
Reinsurance reserve assets	2,996,956	99,001	3,688,848	Operation and liabilities reserve	8,532,270	281,854	9,283,446
Property and equipment, net	870,987	28,772	908,076	Other liabilities	302,359	9,988	286,629
				Total liabilities	10,114,166	334,110	10,763,659
Intangible assets	22,620	747	15,865	Stockholders' equity			
Other assets	866,868	28,636	777,078	Capital stock	3,000,000	99,101	3,000,000
				Capital surplus	1,058,461	34,965	1,058,461
				Retained earnings	784,232	25,906	546,620
				Equity adjustments	(138,114)	(4,562)	33,352
				Total Stockholders' Equity	4,704,579	155,410	4,638,433
TOTAL ASSETS	$14,818,745	$ 489,520	$15,402,092	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$14,818,745	$ 489,520	$15,402,092

MEGA INTERNATIONAL INVESTMENT TRUST CO., LTD.
CONDENSED BALANCE SHEETS
December 31, 2011 and 2010
(Expressed in Thousands of Dollars)

ASSETS	December 31, 2011 NT$	December 31, 2011 US$	December 31, 2010 NT$	LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2011 NT$	December 31, 2011 US$	December 31, 2010 NT$
Assets				Liabilities			
Current assets	$ 336,525	$ 11,117	$ 493,695	Current liabilities	$ 32,683	$ 1,080	$ 189,841
Property and equipment, net	5,257	174	5,880	Other liabilities	9,913	327	8,982
				Total liabilities	42,596	1,407	198,823
Intangible assets	83	3	-				
Other assets	517,302	17,088	576,861	Stockholders' equity			
				Capital stock	527,000	17,409	527,000
				Capital surplus	336	11	336
				Retained earnings	287,181	9,487	348,598
				Equity adjustments	2,054	68	1,679
				Total Stockholders' Equity	816,571	26,975	877,613
TOTAL ASSETS	$ 859,167	$ 28,382	$ 1,076,436	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 859,167	$ 28,382	$ 1,076,436

MEGA ASSET MANAGEMENT CO., LTD.
CONDENSED BALANCE SHEETS
December 31, 2011 and 2010
(Expressed in Thousands of Dollars)

ASSETS	December 31, 2011 NT$	December 31, 2011 US$	December 31, 2010 NT$	LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2011 NT$	December 31, 2011 US$	December 31, 2010 NT$
Assets				Liabilities			
Current assets	$ 9,286,849	$ 306,780	$ 11,671,227	Current liabilities	$ 7,336,152	$ 242,341	$ 8,716,916
Funds and investments	144,238	4,765	144,238	Long-term liabilities	24,400	806	1,078,000
Property and equipment, net	995	33	1,550	Other liabilities	179,825	5,940	204,640
				Total liabilities	7,540,377	249,087	9,999,556
Intangible assets	1,583	52	934				
Other assets	755,239	24,948	758,457	Stockholders' equity			
				Capital stock	2,000,000	66,068	2,000,000
				Retained earnings	648,527	21,423	576,850
				Total Stockholders' Equity	2,648,527	87,491	2,576,850
TOTAL ASSETS	$ 10,188,904	$ 336,578	$ 12,576,406	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$10,188,904	$ 336,578	$12,576,406

MEGA INSURANCE AGENCY CO., LTD.
CONDENSED BALANCE SHEETS
December 31, 2011 and 2010
(Expressed in Thousands of Dollars)

ASSETS	December 31, 2011 NT$	December 31, 2011 US$	December 31, 2010 NT$	LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2011 NT$	December 31, 2011 US$	December 31, 2010 NT$
Assets				Liabilities			
Current assets	$ 187,024	$ 6,178	$ 125,481	Current liabilities	$ 70,183	$ 2,318	$ 51,384
Funds and investments	-	-	371	Total liabilities	70,183	2,318	51,384
Property and equipment, net	711	23	855	Stockholders' equity			
Other assets	4,437	147	1,779	Capital stock	20,000	661	20,000
				Retained earnings	101,989	3,369	57,146
				Equity adjustments	-	-	(44)
				Total Stockholders' Equity	121,989	4,030	77,102
TOTAL ASSETS	$ 192,172	$ 6,348	$ 128,486	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 192,172	$ 6,348	$ 128,486

MEGA VENTURE CAPITAL CO., LTD.
CONDENSED BALANCE SHEETS
December 31, 2011 and 2010
(Expressed in Thousands of Dollars)

ASSETS	December 31, 2011 NT$	December 31, 2011 US$	December 31, 2010 NT$	LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2011 NT$	December 31, 2011 US$	December 31, 2010 NT$
Assets				Liabilities			
Current assets	$ 101,513	$ 3,353	$ 189,486	Current liabilities	$ 14,390	$ 474	$ 11,404
Funds and investments	612,375	20,229	761,902	Total liabilities	14,390	474	11,404
				Stockholders' equity			
				Capital stock	1,000,000	33,034	1,000,000
				Retained earnings	(78,530)	(2,593)	43,526
				Equity adjustments	(221,972)	(7,333)	(103.542)
				Total Stockholders' Equity	699,498	23,108	939,984
TOTAL ASSETS	$ 713,888	$ 23,582	$ 951,388	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 713,888	$ 23,582	$ 951,388

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.
CONDENSED INCOME STATEMENTS
For the years ended December 31, 2011 and 2010
(Expressed in Thousands of Dollars, Except Earnings Per Share Amounts)

Items	For the year ended December 31, 2011 NT$	For the year ended December 31, 2011 US$	For the year ended December 31, 2010 NT$
Interest income, net	$ 24,662,404	$ 814,693	$ 21,132,556
Revenues other than interest, net	12,348,846	407,930	10,094,765
Net revenue	37,011,250	1,222,623	31,227,321
Bad debts expense on loans	(3,397,965)	(112,248)	(1,927,657)
Operating Expenses	(16,143,464)	(533,280)	(15,848,325)
Income before Income Tax	$ 17,469,821	$ 577,095	$ 13,451,339
Net Income	$ 15,007,858	$ 495,767	$ 11,171,687
Earnings Per Share (Pre-tax)	$ 2.57	$ 0.08	$ 1.98
Earnings Per Share (After-tax)	$ 2.21	$ 0.07	$ 1.64

MEGA SECURITIES CO., LTD.
CONDENSED INCOME STATEMENTS
For the years ended December 31, 2011 and 2010
(Expressed in Thousands of Dollars, Except Earnings Per Share Amounts)

Items	For the year ended December 31, 2011 NT$	For the year ended December 31, 2011 US$	For the year ended December 31, 2010 NT$
Revenues	$ 4,145,913	$ 136,955	$ 4,924,774
Expenses	(4,296,506)	(141,930)	(3,305,009)
Income before Income Tax	($ 150,593)	($ 4,975)	$ 1,619,765
Net Income	($ 370,929)	($ 12,253)	$ 1,397,330
Earnings Per Share (Pre-tax)	($ 0.13)	($ 0.00)	$ 1.40
Earnings Per Share (After-tax)	($ 0.32)	($ 0.01)	$ 1.20

MEGA BILLS FINANCE CO., LTD.
CONDENSED INCOME STATEMENTS
For the years ended December 31, 2011 and 2010
(Expressed in Thousands of Dollars, Except Earnings Per Share Amounts)

Items	For the year ended December 31, 2011 NT$	For the year ended December 31, 2011 US$	For the year ended December 31, 2010 NT$
Interest income, net	$ 2,407,627	$ 79,533	$ 2,838,161
Revenues other than interest, net	1,599,847	52,849	1,426,187
Net revenue	4,007,474	132,382	4,264,348
Provision for various reserves	(89,757)	(2,965)	(345,695)
Operating Expenses	(779,614)	(25,753)	(763,003)
Income before Income Tax	$ 3,138,103	$ 103,644	$ 3,155,650
Net Income	$ 2,682,302	$ 88,607	$ 2,654,897
Earnings Per Share (Pre-tax)	$ 2.39	$ 0.08	$ 2.41
Earnings Per Share (After-tax)	$ 2.05	$ 0.07	$ 2.02

CHUNG KUO INSURANCE CO., LTD.
CONDENSED INCOME STATEMENTS
For the years ended December 31, 2011 and 2010
(Expressed in Thousands of Dollars, Except Earnings Per Share Amounts)

Items	For the year ended December 31, 2011 NT$	For the year ended December 31, 2011 US$	For the year ended December 31, 2010 NT$
Operating Revenues	$ 3,637,062	$ 120,146	$ 3,604,964
Operating Costs	(2,478,238)	(81,866)	(2,862,044)
Gross operating profit	1,158,824	38,280	742,920
Operating Expenses	(872,751)	(28,830)	(825,444)
Non-Operating Revenues and Gains	20,962	692	15,122
Non-Operating Expenses and Losses	(24,073)	(795)	(13,659)
Income before Income Tax	$ 282,962	$ 9,347	($ 81,061)
Net income	$ 237,612	$ 7,849	($ 94,831)
Earnings Per Share (Pre-tax)	$ 0.94	$ 0.03	($ 0.27)
Earnings Per Share (After-tax)	$ 0.79	$ 0.03	($ 0.32)

MEGA INTERNATIONAL INVESTMENT TRUST CO., LTD.
CONDENSED INCOME STATEMENTS
For the years ended December 31, 2011 and 2010
(Expressed in Thousands of Dollars, Except Earnings Per Share Amounts)

Items	For the year ended December 31, 2011 NT$	For the year ended December 31, 2011 US$	For the year ended December 31, 2010 NT$
Operating Revenues	$ 347,019	$ 11,463	$ 294,300
Operating Expenses	(217,034)	(7,169)	(196,447)
Net operating income	129,985	4,294	97,853
Non-Operating Revenues and Gains	17,181	568	155,364
Non-Operating Expenses and Losses	(2,139)	(71)	(20)
Income before Income Tax	$ 145,027	$ 4,791	$ 253,197
Net Income	$ 120,706	$ 3,987	$ 202,358
Earnings Per Share (Pre-tax)	$ 2.75	$ 0.09	$ 4.80
Earnings Per Share (After-tax)	$ 2.29	$ 0.08	$ 3.84

MEGA ASSET MANAGEMENT CO., LTD.
CONDENSED INCOME STATEMENTS
For the years ended December 31, 2011 and 2010
(Expressed in Thousands of Dollars, Except Earnings Per Share Amounts)

Items	For the year ended December 31, 2011 NT$	For the year ended December 31, 2011 US$	For the year ended December 31, 2010 NT$
Operating Revenues	$ 681,630	$ 22,517	$ 633,548
Operating Expenses	(176,202)	(5,821)	(149,034)
Net operating income	505,428	16,696	484,514
Non-Operating Revenues and Gains	106,326	3,512	103,702
Non-Operating Expenses and Losses	(82,753)	(2,733)	(87,740)
Income before Income Tax	$ 529,001	$ 17,475	$ 500,476
Net Income	$ 433,223	$ 14,311	$ 401,717
Earnings Per Share (Pre-tax)	$ 2.65	$ 0.09	$ 2.50
Earnings Per Share (After-tax)	$ 2.17	$ 0.07	$ 2.01

MEGA INSURANCE AGENCY CO., LTD.
CONDENSED INCOME STATEMENTS
For the years ended December 31, 2011 and 2010
(Expressed in Thousands of Dollars, Except Earnings Per Share Amounts)

Items	For the year ended December 31, 2011 NT$	For the year ended December 31, 2011 US$	For the year ended December 31, 2010 NT$
Operating Revenues	$ 605,975	$ 20,018	$ 371,386
Operating Expenses	(514,099)	(16,983)	(320,195)
Non-Operating Revenues and Gains	12,036	398	4,203
Non-Operating Expenses and Losses	(44)	(2)	(18)
Income before Income Tax	$ 103,868	$ 3,431	$ 55,376
Net Income	$ 86,206	$ 2,848	$ 45,960
Earnings Per Share (Pre-tax)	$ 51.93	$ 1.72	$ 27.69
Earnings Per Share (After-tax)	$ 43.10	$ 1.42	$ 22.98

MEGA VENTURE CAPITAL CO., LTD.
CONDENSED INCOME STATEMENTS
For the years ended December 31, 2011 and 2010
(Expressed in Thousands of Dollars, Except Earnings Per Share Amounts)

Items	For the year ended December 31, 2011 NT$	For the year ended December 31, 2011 US$	For the year ended December 31, 2010 NT$
Operating Revenues	$ 235,265	$ 7,772	$ 361,981
Operating Costs	(302,628)	(9,997)	(293,634)
Gross operating profit	(67,363)	(2,225)	68,347
Operating Expenses	(20,764)	(686)	(30,422)
Non-Operating Revenues and Gains	219	7	134
Income before Income Tax	($ 87,908)	($ 2,904)	$ 38,059
Net Income	($ 89,356)	($ 2,951)	$ 36,287
Earnings Per Share (Pre-tax)	($ 0.88)	($ 0.03)	$ 0.38
Earnings Per Share (After-tax)	($ 0.89)	($ 0.03)	$ 0.36

(15) Profitability, asset quality, management information, and liquidity and market risk sensitivity of the Company and subsidiaries:

A. Profitability

(a) The Company :

UNIT : %

Items		MEGA FINANCIAL HOLDING CO., LTD	
		For the year ended December 31, 2011	For the year ended December 31, 2010
Return on assets	Pre-tax	7.73	6.77
	After tax	7.72	6.68
Return on equity	Pre-tax	8.76	7.72
	After tax	8.76	7.62
Net profit margin		96.08	93.67

UNIT : %

Items		MEGA FINANCIAL HOLDING CO., LTD AND ITS SUBSIDIARIES	
		For the year ended December 31, 2011	For the year ended December 31, 2010
Return on assets	Pre-tax	0.82	0.74
	After tax	0.69	0.61
Return on equity	Pre-tax	10.44	9.38
	After tax	8.75	7.62
Net profit margin		38.66	35.72

(b) Subsidiaries:

UNIT : %

Items		MICB	
		For the year ended December 31, 2011	For the year ended December 31, 2010
Return on assets	Pre-tax	0.78	0.61
	After tax	0.67	0.51
Return on equity	Pre-tax	10.89	8.57
	After tax	9.36	7.12
Net profit margin		40.55	35.78

UNIT : %

Items		MS	
		For the year ended December 31, 2011	For the year ended December 31, 2010
Return on assets	Pre-tax	(0.38)	3.61
	After tax	(0.93)	3.11
Return on equity	Pre-tax	(1.06)	11.06
	After tax	(2.61)	9.54
Net profit margin		(9.30)	29.13

UNIT : %

Items		MBF	
		For the year ended December 31, 2011	For the year ended December 31, 2010
Return on assets	Pre-tax	1.44	1.52
	After tax	1.23	1.28
Return on equity	Pre-tax	9.64	9.65
	After tax	8.24	8.12
Net profit margin		66.93	62.26

UNIT : %

Items		CKI	
		For the year ended December 31, 2011	For the year ended December 31, 2010
Return on assets	Pre-tax	1.87	(0.57)
	After tax	1.57	(0.66)
Return on equity	Pre-tax	6.06	(1.72)
	After tax	5.09	(2.01)
Net profit margin		6.53	(2.63)

Note : (1) Return on assets = Income (loss) before income tax ÷ Average total assets

(2) Return on equity = Income (loss) before income tax ÷ Average stockholders' equity

(3) Net profit margin = Net income (loss) after income tax ÷ Operating revenues

(4) Net income (loss) pre-tax / after-tax refers to the income (loss) for the years ended December 31, 2011 and 2010.

B. Asset quality

(a) MICB

i. Non-performing loans and overdue accounts

Unit : In thousands of NT dollars, %

Month / Year			December 31, 2011				
Business / Items			Amount of non-performing loans (Note 1)	Gross loans	Non-performing loan ratio (Note 2)	Allowance for doubtful accounts	Coverage ratio (Note 3)
Corporate Banking	Secured loans		$ 352,515	$ 549,792,258	0.06%	$ 7,323,945	2077.63%
	Unsecured loans		2,522,702	627,542,415	0.40%	6,163,658	244.33%
Consumer banking	Residential mortgage loans (Note 4)		605,977	202,221,261	0.30%	1,438,462	237.38%
	Cash card services		-	-	-	-	-
	Small amount of credit loans (Note 5)		15,635	11,311,448	0.14%	72,034	460.72%
	Others (Note 6)	Secured loans	26,647	67,027,301	0.04%	385,842	1447.98%
		Unsecured loans	40,009	754,375	5.30%	9,313	23.28%
Gross loan business			3,563,485	1,458,649,058	0.24%	15,393,254	431.97%
			Amount of overdue accounts	Balance of accounts receivable	Overdue account ratio	Allowance for doubtful accounts	Coverage ratio
Credit card services			$ 9,118	$ 4,295,018	0.21%	$ 82,912	909.32%
Without recourse factoring (Note 7)			236,386	59,331,468	0.40%	302,943	128.16%

Unit : In thousands of New Taiwan dollars, %

Month / Year			December 31, 2010				
Business / Items			Amount of non-performing loans (Note 1)	Gross loans	Non-performing loan ratio (Note 2)	Allowance for doubtful accounts	Coverage ratio (Note 3)
Corporate Banking	Secured loans		$ 898,614	$ 502,241,169	0.18%	$ 3,157,400	351.36%
	Unsecured loans		2,336,365	550,610,301	0.42%	5,137,196	219.88%
Consumer banking	Residential mortgage loans (Note 4)		1,165,227	197,514,696	0.59%	1,644,496	141.13%
	Cash card services		-	-	-	-	-
	Small amount of credit loans (Note 5)		25,702	12,348,003	0.21%	77,340	300.91%
	Others (Note 6)	Secured loans	80,419	66,867,771	0.12%	385,745	479.67%
		Unsecured loans	38,522	544,494	7.07%	4,886	12.68v
Gross loan business			4,544,849	1,330,126,434	0.34%	10,407,063	228.98%
			Amount of overdue accounts	Balance of accounts receivable	Overdue account ratio	Allowance for doubtful accounts	Coverage ratio
Credit card services			20,954	4,154,998	0.50%	79,131	377.64%
Without recourse factoring (Note 7)			261,335	87,419,330	0.30%	361,088	138.17%

Note 1: The amount recognized as non-performing loans is in accordance with the “Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans”. The amount included in overdue accounts for credit cards is in accordance with the Banking Bureau (4) Letter No.0944000378 dated July 6, 2005.

Note 2: Non-performing loan ratio=non-performing loans/gross loans. Overdue account ratio for credit cards=overdue accounts/balance of accounts receivable.

Note 3: Coverage ratio for loans=allowance for doubtful accounts of loans/non-performing loans. Coverage ratio for accounts receivable of credit cards=allowance for doubtful accounts for accounts receivable of credit cards/overdue accounts.

Note 4: For residential mortgage loans, the borrower provides his/her (or spouses) house as collateral in full and mortgages it to the financial institution for the purpose of obtaining funds to purchase or add improvements to a house.

Note 5: Small amount of credit loans apply to the norms of the Banking Bureau (4) Letter No. 09440010950 dated December 19, 2005, excluding credit card and cash card services.

Note 6: Other consumer banking is specified as secured or unsecured consumer loans other than residential mortgage loan, cash card services and small amount of credit loans, and excluding credit card services.

Note 7: Pursuant to the Banking Bureau (5) Letter No. 094000494 dated July 19, 2005, the amount of without recourse factoring will be recognized as overdue accounts within three months after the factor or insurance company resolves not to compensate the loss.

ii. Total amount of non-performing loans or overdue receivables exempted from reporting to the competent authoritty

Unit : In thousands of NT dollars

	December 31, 2011		December 31, 2010	
	Total amount of non-performing loans exempted from reporting to the competent authority	Total amount of overdue receivables exempted from reporting to the competent authority	Total amount of non-performing loans exempted from reporting to the competent authority	Total amount of overdue receivables exempted from reporting to the competent authority
Performing amounts exempted from reporting to the competent authority as debt negotiation (Note 1)	$ 158	$ -	$ 215	$ -
Performing amounts in accordance with debt liquidation program and restructuring program (Note 2)	$ 242	$ 5,393	$ 354	$ 5,836
Total	$ 400	$ 5,393	$ 569	$ 5,836

Note 1: The Bank disclosed the total amount of non- performing loans and overdue receivables exempted from reporting to the competent authority as debt negotiation in accordance with the Explanatory Letter Jin-Guan-Yin (1) No. 09510001270 of the FSC dated April 25, 2006.

Note 2: The Bank disclosed the total amount of non- performing loans and overdue receivables exempted from reporting to the competent authority as debt liquidation program and restructuring program in accordance with the Explanatory Letter Jin-Guan-Yin (1) No. 09700318940 of the FSC dated September 15, 2008.

(b) MBF

Unit: In thousands of dollars, %

Items	December 31, 2011	December 31, 2010
	NT$	NT$
Guarantees in arrear and guaranteed credits overdue for longer than three months	$ -	$ 870
Overdue credits (non-accrual loans are inclusive)(Note 1)	-	100,827
Loans under surveillance	555,300	646,900
Overdue receivables	-	100,827
Ratio of overdue credits (%) (Note 2)	-	0.09
Ratio of overdue credits plus ratio of loans under surveillance (%)	0.41	0.65
Provision for bad debts and guarantees as required by regulation	2,829,282	2,674,543
Provision for bad debts and guarantees actually reserved	2,911,927	2,903,376

Note 1: Loan overdue refers to loans that lack guarantees and endorsements for over three months after repayment date, or within three months but the principal and subordinate debtors have been charged with legal action or have disposed collaterals.

Note 2: Ratio of overdue credits = overdue credits (including overdue receivables, receivables and bills receivable) ÷ (outstanding guaranteed credits + payments for guarantee credits.

C. Structure analysis of time to maturity

MICB

NTD structure analysis of time to maturity
December 31, 2011

Unit: In thousands of NT dollars

	Total	Remaining Balance before Maturity				
		1-30 days	31-90 days	91-180 days	181 days–1 year	Over 1 year
Primary funds inflow upon maturity	$ 1,417,849,012	$ 379,658,535	$ 79,613,931	$ 81,125,298	$ 171,914,741	$ 705,536,507
Primary funds outflow upon maturity	1,591,954,343	250,153,197	218,330,147	149,040,150	225,261,408	749,169,441
Gap	(174,105,331)	129,505,338	(138,716,216)	(67,914,852)	(53,346,667)	(43,632,934)

The amount in the above table only includes New Taiwan dollar denominated assets and liabilities of the head office and domestic branch office.

USD structure analysis of time to maturity
December 31, 2011

Unit: In thousands of US dollars

	Total	Remaining Balance before Maturity				
		1-30 days	31-90 days	91-180 days	181 days–1 year	Over 1 year
Primary funds inflow upon maturity	$ 25,814,045	$ 7,495,395	$ 5,824,314	$ 2,612,029	$ 2,465,522	$ 7,416,785
Primary funds outflow upon maturity	26,460,786	15,662,775	2,759,123	1,499,514	2,315,933	4,223,441
Gap	(646,741)	(8,167,380)	(3,065,191)	(1,112,515)	(149,589)	(3,193,344)

Notes : 1. The above amounts included only US dollars amounts by the head office, domestic and foreign branches, and the OBU branch.
2. If overseas assets exceed 10% of total assets, supplementary information shall be disclosed.

NTD structure analysis of time to maturity
December 31, 2010

Unit: In thousands of NT dollars

	Total	Remaining Balance before Maturity				
		1-30 days	31-90 days	91-180 days	181 days–1 year	Over 1 year
Primary funds inflow upon maturity	$1,496,857,266	$ 467,027,631	$ 103,525,413	$ 90,477,976	$ 158,225,078	$ 677,601,168
Primary funds outflow upon maturity	1,603,222,573	313,093,471	209,934,275	154,447,153	213,350,800	712,396,874
Gap	(106,365,307)	153,934,160	(106,408,862)	(63,969,177)	(55,125,722)	(34,795,706)

The amount in the above table only includes New Taiwan dollar denominated assets and liabilities of the head office and domestic branch office.

USD structure analysis of time to maturity
December 31, 2010

Unit: In thousands of US dollars, %

	Total	Remaining Balance before Maturity				
		1-30 days	31-90 days	91-180 days	181 days–1 year	Over 1 year
Primary funds inflow upon maturity	$ 23,729,484	$ 7,469,831	$ 4,668,931	$ 3,499,122	$ 2,608,185	$ 5,483,415
Primary funds outflow upon maturity	23,949,735	13,921,596	2,464,581	1,442,066	1,916,949	4,204,543
Gap	(220,251)	(6,451,765)	(2,204,350)	(2,057,056)	(691,236)	(1,278,872)

Notes : 1. The above amounts included only US dollars amounts by the head office, domestic and foreign branches, and the OBU branch.
2. If overseas assets exceed 10% of total assets, supplementary information shall be disclosed.

D.Interest rate sensitivity analysis on assets and liabilities

(a) MICB

Interest rate sensitivity analysis on assets and liabilities (NT Dollars)
December 31, 2011

Unit: In thousands of NT dollars, %

Items	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitive assets	$ 406,472,133	$ 621,620,710	$ 38,138,635	$ 20,769,878	$ 1,087,001,356
Interest rate sensitive liabilities	438,526,810	496,763,418	31,566,003	42,630,684	1,009,486,915
Interest rate sensitive gap	(32,054,677)	124,857,292	6,572,632	(21,860,806)	77,514,441
Net worth					163,004,520
Ratio of interest rate sensitive assets to interest rate sensitive liabilities					107.68%
Ratio of interest rate sensitivity gap to net worth					47.55%

Notes: 1. The above amounts included only New Taiwan dollar amounts by the onshore branches of the Company (i.e. excluding foreign currency).
2. Interest rate sensitive assets and liabilities refer to the interest-earning assets and interest-bearing liabilities of which the income or costs are affected by the fluctuations in interest rates.
3. Interest rate sensitivity gap = Interest rate sensitive assets – Interest rate sensitive liabilities
4. Ratio of interest rate sensitive assets to interest rate sensitive liabilities = Interest rate sensitive assets ÷ Interest rate sensitive liabilities (referring to the current interest rate sensitive assets and liabilities denominated in New Taiwan dollars)

Interest rate sensitivity analysis on assets and liabilities (US Dollars)
December 31, 2011

Unit: In thousands of US dollars, %

Items	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitive assets	$ 26,323,580	$ 535,866	$ 246,992	$ 1,067,177	$ 28,173,615
Interest rate sensitive liabilities	26,794,611	788,917	683,744	2,583	28,269,855
Interest rate sensitive gap	(471,031)	(235,051)	(436,752)	1,064,594	(96,240)
Net worth					5,384,663
Ratio of interest rate sensitive assets to interest rate sensitive liabilities					99.66%
Ratio of interest rate sensitivity gap to net worth					-1.79%

Notes: 1. The above amounts included only US dollars denominated assets and liabilities of head office, domestic and foreign branches, and the OBU branch. Contingent assets and liabilities are excluded.
2. Interest rate sensitive assets and liabilities refer to the interest-earning assets and interest-bearing liabilities of which the income or costs are affected by the fluctuations in interest rates.
3. Interest rate sensitivity gap = Interest rate sensitive assets – Interest rate sensitive liabilities
4. Ratio of interest rate sensitive assets to interest rate sensitive liabilities = Interest rate sensitive assets ÷ Interest rate sensitive liabilities (referring to the current interest rate sensitive assets and liabilities denominated in US dollars).

Interest rate sensitivity analysis on assets and liabilities (NT Dollars)
December 31, 2010

Unit: In thousands of NT dollars, %

Items	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitive assets	$ 488,075,251	$ 601,370,042	$ 24,976,015	$ 23,511,621	$ 1,137,932,929
Interest rate sensitive liabilities	465,624,184	481,987,169	30,002,532	36,423,081	1,014,036,966
Interest rate sensitive gap	22,451,067	119,382,873	(5,026,517)	(12,911,460)	123,895,963
Net worth					157,747,918
Ratio of interest rate sensitive assets to interest rate sensitive liabilities					112.22%
Ratio of interest rate sensitivity gap to net worth					78.54%

Notes: 1. The above amounts included only New Taiwan dollar amounts by the onshore branches of the Company (i.e. excluding foreign currency).
2. Interest rate sensitive assets and liabilities refer to the interest-earning assets and interest-bearing liabilities of which the income or costs are affected by the fluctuations in interest rates.
3. Interest rate sensitivity gap = Interest rate sensitive assets – Interest rate sensitive liabilities
4. Ratio of interest rate sensitive assets to interest rate sensitive liabilities = Interest rate sensitive assets ÷ Interest rate sensitive liabilities (referring to the current interest rate sensitive assets and liabilities denominated in New Taiwan dollars)

Interest rate sensitivity analysis on assets and liabilities (US Dollars)
December 31, 2010

Unit: In thousands of US dollars, %

Items	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitive assets	$ 23,551,085	$ 769,583	$ 198,255	$ 927,464	$ 25,446,387
Interest rate sensitive liabilities	24,903,323	830,904	689,820	997	26,425,044
Interest rate sensitive gap	(1,352,238)	(61,321)	(491,565)	926,467	(978,657)
Net worth					5,347,,387
Ratio of interest rate sensitive assets to interest rate sensitive liabilities					96.30%
Ratio of interest rate sensitivity gap to net worth					-18.30%

Notes: 1. The above amounts included only US dollars denominated assets and liabilities of head office, domestic and foreign branches, and the OBU branch. Contingent assets and liabilities are excluded.
2. Interest rate sensitive assets and liabilities refer to the interest-earning assets and interest-bearing liabilities of which the income or costs are affected by the fluctuations in interest rates.
3. Interest rate sensitivity gap = Interest rate sensitive assets – Interest rate sensitive liabilities
4. Ratio of interest rate sensitive assets to interest rate sensitive liabilities = Interest rate sensitive assets ÷ Interest rate sensitive liabilities (referring to the current interest rate sensitive assets and liabilities denominated in US dollars).

(b) MBF

Interest rate sensitivity analysis on assets and liabilities (NT Dollars)
December 31, 2011

Unit: In thousands of NT dollars, %

Items	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitive assets	$ 120,238,992	$ 18,060,358	$ 18,588,988	$ 60,653,896	$ 217,542,234
Interest rate sensitive liabilities	185,374,995	2,229,037	805,243	-	188,409,275
Interest rate sensitive gap	(65,136,003)	15,831,321	17,783,745	60,653,896	29,132,959
Net worth					32,595,175
Ratio of interest rate sensitive assets to interest rate sensitive liabilities					115.46%
Ratio of interest rate sensitivity gap to net worth					89.38%

Interest rate sensitivity analysis on assets and liabilities (NT Dollars)
December 31, 2010

Unit: In thousands of NT dollars, %

Items	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitive assets	$ 110,202,423	$ 6,597,874	$ 8,784,465	$ 76,841,471	$ 202,426,233
Interest rate sensitive liabilities	172,758,458	1,302,012	-	-	174,060,470
Interest rate sensitive gap	(62,556,035)	5,295,862	8,784,465	76,841,471	28,365,763
Net worth					32,535,321
Ratio of interest rate sensitive assets to interest rate sensitive liabilities					116.30%
Ratio of interest rate sensitivity gap to net worth					87.18%

Notes: 1. Interest rate sensitive assets and liabilities refer to the interest-earning assets and interest-bearing liabilities of which the income or costs are affected by the fluctuations in interest rates.
2. Interest rate sensitivity gap = Interest rate sensitive assets – Interest rate sensitive liabilities
3. Ratio of interest rate sensitive assets to interest rate sensitive liabilities = Interest rate sensitive assets ÷ Interest rate sensitive liabilities (referring to the current interest rate sensitive assets and liabilities denominated in New Taiwan dollars)

E. Average amount and average interest rates of interest-earning assets and interest-bearing liabilities

(a) MICB

	For the years ended December 31,				
	2011			2010	
	Average amount (NT$)	Average amount (US$)	Average interest rate (%)	Average amount (NT$)	Average interest rate (%)
Assets					
Due from banks (including call loans to banks)	$ 274,423,280	$ 9,065,251	0.73	$ 246,657,237	0.47
Due from the Central Bank	53,612,317	1,771,020	0.45	53,818,385	0.41
Financial assets held for trading purposes	35,585	1,176	1.03	268,143	8.74
Financial assets at fair value through profit or loss	27,769,907	917,346	2.37	22,389,850	2.38
Bonds and bills purchased under resale agreements	369,984	12,222	0.94	250,702	0.39
Available-for-sale financial assets	68,090,385	2,249,286	2.60	83,230,713	2.18
Receivables – credit card transaction with circulating interests	1,808,085	59,728	16.06	2,018,016	16.01
Receivables on factoring	48,100,287	1,588,937	1.02	52,203,989	0.84
Bills discounts and loans	1,398,949,694	46,212,662	2.01	1,267,280,790	1.93
Held-to-maturity financial assets	183,470,933	6,060,747	1.00	249,607,071	0.72
Other debt investments	4,000,000	132,135	0.05	4,074,088	0.14
Bills purchased	48,376	1,598	2.41	39,177	4.24
Liabilities					
Due to the Central Bank	200,585,204	6,626,097	0.27	188,252,446	0.26
Due to other banks	76,376,845	2,523,019	1.36	77,843,598	0.96
Demand deposits	469,574,746	15,511,851	0.09	436,927,720	0.07
Demand saving deposits	309,043,947	10,208,904	0.38	288,283,806	0.35
Time deposits	540,794,318	17,864,506	0.76	548,564,625	0.64
Time saving deposits	195,382,337	6,454,226	1.47	200,696,556	1.25
Negotiable certificate of deposits	1,349,904	44,592	0.27	1,795,845	0.13
Financial liabilities at fair value through profit or loss	14,657,079	484,179	2.40	21,639,952	1.98
Bonds and bills sold under repurchase agreements	9,525,113	314,651	0.46	3,031,431	0.18
Funds borrowed from the Central Bank and other banks	52,680,699	1,740,245	0.56	48,539,116	0.43
Financial bonds payable	35,587,123	1,175,579	1.80	25,399,806	2.01

(b) MBF

	For the years ended December 31,				
	2011			2010	
	Average amount (NT$)	Average amount (US$)	Average interest rate (%)	Average amount (NT$)	Average interest rate (%)
Assets					
Cash and cash equivalents	$ 1,090,372	$ 36,019	0.33	$ 1,036,805	0.16
Financial assets at fair value through profit or loss	110,690,685	3,656,537	0.96	105,510,126	0.68
Bonds and bills purchased under resale agreements	315,847	10,434	0.50	278,479	0.37
Available-for-sale financial assets	78,932,159	2,607,431	2.78	90,662,363	2.88
Held-to-maturity financial assets	250,000	8,258	3.40	282,329	3.31
Liabilities					
Due to banks	7,960,227	262,957	0.77	6,702,079	0.43
Bonds and bills sold under repurchase agreements	157,572,913	5,205,236	0.56	166,583,192	0.29

F. Net position for major foreign currency transactions

MICB

	December 31, 2011		December 31, 2010	
	Currency	NT$ (in thousands)	Currency	NT$ (in thousands)
Net position for major foreign currency transactions (Market Risk)	USD	$ 6,383,473	THB	$ 4,992,683
	THB	4,908,283	USD	2,619,052
	EUR	2,196,307	AUD	2,146,480
	AUD	1,729,009	EUR	1,949,559
	CAD	1,007,684	CAD	951,377

Note 1: Major foreign currencies are the top 5 currencies in amount after denominated to one currency.

Note 2: The net position for major foreign currencies is the absolute value of the net position of various currencies. The exchange rate of USD to TWD as of December 31, 2011 and 2010 adopted by the Company were 1:30.272 and 1:29.500, respectively; the net position of USD were $6,383,473 thousand (US$ 210,871 thousand) and NT $2,619,052 thousand, respectively.

G. Extraordinary Items : (Please refer to page 164-165 of the Consolidted Financial Statements)

(16) In accordance with Article 17 of the Trust Enterprise Law, the disclosures of the trust balance sheet, trust income statement and schedule of investment for trust business are as follows :

(Please refer to page 166-168 of the Consolidated Financial Statements)

11. Additional Disclosures

The transactions between and among subsidiaries has been eliminated during the consolidation. The disclosed information below is for reference purposes.

(1) Significant transaction information:

A. Marketable securities acquired or disposed of, at costs or prices of at least NT$300 million or 10% of the issued capital:
(Please refer to page 169-170 of the Consolidted Financial Statements)

B. Acquisition or disposal of individual real estate, at costs or prices of at least NT$300 million or 10% of the issued capital: None.

C. Disposal of individual real estate, at costs or prices of at least NT$300 million or 10% of the issued capital:

Disposal Company	Name of property	Transaction or event date	Acquisition date	Carrying value (Note 2)	Transaction Amount	Tax and expenses	Proceeds	Gain from Disposal	Counterparty	Relationship	Disposal purpose	Pricing basis
MICB	Jian Guo Building	100.5.24	Note 1	$ 163,103	$ 712,120	$ 28,373	Fully collected	$ 636,205	Kingcar Group	None	Activate real estate usage to increase income	Public bidding

Note 1 : The acquisition dates of land and buildings were May 19, 1962 and February 8, 2000, respectively.

Note 2 : The carrying value includes re-evaluation and land value-added tax totaling $115,561 thousand.

D. Allowance for service fees to related parties amounting to at least NT$5 million: None.

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

F. Information on selling non-performing loans of subsidiaries:

(a) Summary of selling non-performing loans:

December 31, 2011

UNIT: In thousands of NT dollars

Transaction date	Counterparty	Contents of right of claim (Note 1)	Carrying value (Note 2)	Sale price	Gain or loss from disposal	Attached conditions (Note 3)	Relationship with the Company (Note 4)
2011.01.21	ミレニスム	Corporate lending	$ -	$ 12,271 (Note 6)	$ 12,271	None	None
2011.01.17	Yuanta Asset Management	Corporate lending	-	198,552	198,552	None	None
2011.04.08	Deutsche Bank A.G, London Branch	Corporate lending	-	33,274	33,274	None	None
2011.04.26	Deutsche Bank A.G, London Branch	Corporate lending	-	88,643	88,643	None	None
2011.05.17	Yi Da Corporation	Corporate lending	-	901,969	901,969	None	None
2011.05.27	Credit Suisse	Corporate lending	218,982	220,212 (Note 7)	1,230	None	None
2011.08.09	Huei cheng Asset Management Consultants	Corporate lending	-	158,789	158,789	None	None
2011.08.10	SC Lowry Primary Investment Ltd.	Corporate lending	518,407	527,774 (Note 7)	9,367	None	None

Note 1 : For contents of right of claim, this represents the types of right of claim, for example, credit card, debit card, house mortgage, accounts receivable.
Note 2 : The carrying value is the balance of initial right of claim less allowance for doubtful loans (Including interest receivable.).
Note 3 : Should there be any additional conditions, please disclose the contents of the conditions, for example, profit sharing, repurchase or resale agreements.
Note 4 : Please fill out the relationship with related parties in accordance with SFAS No. 6 Related Party Disclosures; judgment basis of the related parties shall be explained.
Note 5 : Please note "Detailed transaction information of sale of non-performing loans to related parties".
Note 6 : This sales price of the transaction was JPY 33,155 thousand and the currency exchange rate of company was 1:0.3701.
Note 7 : This sales price of the transaction was AUD 7,187 thousand and AUD 17,225 thousand, respectively, the currency exchange rate of company was 1:30.6397.

(b) Single-run of sales of non-performing loans with an amount exceeding NT$ 1,000 million (excluding sales of non-performing loans to related parties). Details of the single-run of sales of non-performing loans are set forth below:

Trade with: SC Lowry Primary Investment Ltd.

Execution date: August 10, 2011

UNIT: In thousands of NT dollars

Loan Components			Amount (Note 1)	Carrying Amount	Price Amortization (Note 2)
Corporate	Secured		$ -	$ -	$ -
	Unsecured		1,089,339	518,407	527,774
Individual	Secured	Mortgage Loan	-	-	-
		Car Loan	-	-	-
		Others	-	-	-
	Unsecured	Credit Card	-	-	-
		Cash Card	-	-	-
		Micro Credit Loan (Note 3)	-	-	-
		Others	-	-	-

Note 1 : The loan amount refers to the loan amount claimable for the creditor that the buyer acquired, including remaining balance of non-performing loans (carrying amount before the allowance of doubtful debt is deducted) and the sum of doubtful debts written off.
Note 2: Sale price amortization is based on the evaluation on recoverability of various loans of the Branch sold upon selling.
Note 3: Micro credit loan refer to the micro credit loans that is applicable for Gin-Guan-Yi (4) Letter No. 09440010950 on December 19, 2005 not belonging to credit card or cash card business.

G. Information on categories of securitization of assets of subsidiaries applied for and approved in accordance to both financial asset securitization rule and real estate securitization regulations: None.

H. Other significant transactions which may affect the decisions of users of financial reports: None.

(2) Information on the investees :

A. Supplementary disclosure regarding investee companies:

(Please refer to page 173-177 of the Consolidated Financial Statements)

B. Marketable securities acquired or disposed of, at costs or prices of at least NT$300 million or 10% of the issued capital: Please refer to Note 11 Additional Disclosures for details.

C. Information on financial derivative transactions: None.

D. Acquisition or disposal of individual real estate, at costs or prices of at least NT$300 million or 10% of the issued capital: Please refer to Note 11 Additional Disclosures for details.

E. Allowance for service fees to related parties amounting to at least NT$5 million: None.

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

G. Sale of non-performing loans: Please refer to Note 11 Additional Disclosures for details.

H. Information on categories of securitization of assets of subsidiaries applied for and approved in accordance to both financial asset securitization rule and real estate securitization regulations: None.

I. Other significant transactions which may affect the decisions of users of financial reports: None.

J. Funds lent to others:

UNIT: In thousands of NT dollars

No. (Note 1)	Lending company	Borrower	Account (Note 2)	Maximum balance at current period	Ending Balance (Note 7)	Interest rate	Characteristic of fund lent to others (Note 3,4,and 5)	Amount	Reason for short-term loans	Provision for credit loss	Collateral	Fund lent to others (Note 6)	Total limit of funds lent to others (Note 6)
1	Mega Capital (Asia) Co. Ltd.	Mega Securities (Hong Kong) Co., Ltd.	Other receivables	$ 58,442 (HKD15,000)	$ 77,922 (HKD20,000)	1.50%	2	$ -	In order to be in compliance with the Securities and Futures ommission.	$ -	$ -	$ 96,177	$ 96,177

Note 1 : The numeric numbers assigned for Mega Securities Co., Ltd. and subsidiaries endorsement is in accordance to following rules:
(a) 0 for endorsement issuer.
(b) Subsidiaries are numbered in sequence from 1.

Note 2 : Items listed under receivables from associates, receivables from related parties, stockholders' payables and receivables, prepayment, temporary payments, etc. should all be put into the list if with a nature of fund lending.

Note 3 : The numbers filled for loans are as follows:
(a) The amount of transaction is numbered "1".
(b) The short-term financing is numbered "2".

Note 4 : If the capital lending has a nature of "1", the amount of transaction should be put down.

Note 5 : If the fund lending has a nature of "2", the reason for the loan and the purpose or application of the loan for the creditor should be addressed specifically. For example, loan repayment, equipment acquisition, operating turnover and so on.

Note 6 : The calculation and method for fund lending and limit should be addressed. According to rule 4 in "Fund Lending, Endorsement and Guarantee Regulation" of the subsidiary, the total amount of fund lent to others or any individual should not exceed 40% the most recent net value in the financial statements of each borrowers' company.
Calculation for the limited amount: Net value of Mega Capital (Asia) Co., Ltd. as of December 2011, $240,444 thousand dollars×40%=$96,177 thousand dollars.

Note 7 : The actual loan granted of the current period has amounted to $58,442 thousand dollars (HKD15, 000).

K. Endorsement/guarantee provided:

(Please refer to page 179-180 of the Consolidated Financial Statements)

L. Securities held at the end of period

(Please refer to page 181-188 of the Consolidated Financial Statements)

(3) Information on investments in Mainland China:

A. The Company: None.

B. Subsidiaries: (Please refer to page 189 of the Consolidated Financial Statements)

(4) Significant transactions between parent company and subsidiaries

(Please refer to page 190-193 of the Consolidated Financial Statements)

12. Disclosure of financial information by segments

(1) General Information

The Group's operation segment reports are consistent with the internal reports provided to chief operating decision-maker ("CODM"). The CODM is a team that allocates resources to operating segments and evaluates their performance. The Group's CODM refers to the Board of Directors.

Inter-segmental transactions are arm's-length transactions, and gain and loss arising from such transactions are eliminated by the parent company upon the presentation of consolidated financial statements. Profit and loss directly attributable to various segments have been considered when segment performance is being evaluated.

The operating segments of the Group comprise banking, securities, bills finance, insurance and other businesses. The operating results are reviewed by the Group's Board of Directors (CODM) regularly and are referenced when allocating resources and evaluating operating performance.

The Group is based in the global market, comprising four major business segments; there was no movement in the reporting segments for the period.

The operating results have different income items due to different nature of the operating segments, and the Group's Board of Directors evaluates segment performance based on the net profit before tax of various segments. Therefore, performance of all reporting segments is presented by the net amount of operating net profit less various operating expenses. Income from external clients provided for the Board of Directors to review is measured on the same basis with the statement of income.

Adjustments of internal pricing and transfer pricing are reflected in segment performance evaluation. Income from external clients has been allocated based on the regulated allocation standard between segments.

The internal management's operating reports are prepared based on net operating profit, including net interest income, net service fee income, recovered bad debts (provision), loan loss impairment, net gain (loss) on financial instruments and other operating gain (loss). Measurement basis does not include non-recurring items, e.g. litigation expenses:

(2) Financial Information by Industry

(NTD)

	For the year ended December 31, 2011						
Items	Bank Department	Securities Department	Bills Department	Insurance Department	Other Department	Adjustment and write-off	Total
Revenues from non-affiliated parties	$ 49,376,617	$ 2,405,477	$ 4,944,419	$ 1,088,577	$ 19,499,825	($ 18,368,551)	$ 58,946,364
General expense	(20,132,726)	(2,367,688)	(869,371)	(805,614)	(777,939)	317,692	(24,635,646)
Interest expense	(11,660,080)	(182,101)	(936,945)	-	(441,735)	25,647	(13,195,214)
Income before income taxes	$ 17,583,811	($ 144,312)	$ 3,138,103	$ 282,963	$ 18,280,151	($ 18,025,212)	$ 21,115,504
Asset attributable to specific departments	$2,322,568,142	$ 35,715,113	$225,482,611	$ 14,790,566	$ 24,087,965	($ 6,790,856)	$2,615,853,541
Equity investments accounted for by the equity method	2,548,824	84,241	-	28,179	217,578,824	(217,691,674)	2,548,394
Total assets	$2,325,116,966	$ 35,799,354	$225,482,611	$ 14,818,745	$241,666,789	($224,482,530)	$2,618,401,935

(USD)

	For the year ended December 31, 2011						
Items	Bank Department	Securities Department	Bills Department	Insurance Department	Other Department	Adjustment and write-off	Total
Revenues from non-affiliated parties	$ 1,631,099	$ 79,462	$ 163,333	$ 35,960	$ 644,154	($ 606,784)	$ 1,947,224
General expense	(665,061)	(78,214)	(28,718)	(26,613)	(25,699)	10,495	(813,810)
Interest expense	(385,177)	(6,015)	(30,951)	-	(14,592)	847	(435,888)
Income before income taxes	$ 580,861	($ 4,767)	$ 103,664	$ 9,347	$ 603,863	($ 595,442)	$ 697,526
Asset attributable to specific departments	$ 76,723,313	$ 1,179,807	$ 7,448,553	$ 488,589	$ 795,718	($ 224,327)	$ 86,411,653
Equity investments accounted for by the equity method	84,198	2,783	-	931	7,187,461	(7,191,190)	84,183
Total assets	$ 76,807,511	$ 1,182,590	$ 7,448,553	$ 489,520	$ 7,983,179	($ 7,415,517)	$ 86,495,836

(NTD)

Items	For the year ended December 31, 2010 Bank Department	Securities Department	Bills Department	Insurance Department	Other Department	Adjustment and write-off	Total
Revenues from non-affiliated parties	$ 41,529,876	$ 4,529,052	$ 4,773,401	$ 868,639	$ 17,479,274	($ 16,146,387)	$ 53,033,855
General expense	(18,119,013)	(2,752,951)	(1,108,698)	(949,700)	(747,915)	341,129	(23,337,148)
Interest expense	(9,840,861)	(149,487)	(509,053)	-	(567,607)	9,993	(11,057,015)
Income before income taxes	$ 13,570,002	$ 1,626,614	$ 3,155,650	($ 81,061)	$ 16,163,752	($ 15,795,265)	$ 18,639,692
Asset attributable to specific departments	$2,210,876,988	$ 47,761,631	$211,187,101	$ 15,434,617	$ 28,920,235	($ 6,907,339)	$2,507,273,233
Equity investments accounted for by the equity method	2,635,880	93,476	-	33,980	214,061,392	(214,249,966)	2,574,762
Total assets	$2,213,512,868	$ 47,855,107	$211,187,101	$ 15,468,597	$242,981,627	($221,157,305)	$2,509,847,995

(3) Financial information by geographic area

Unit: In thousands of NT dollars

	For the year ended December 31, 2011 Domestic (including OBU)	North America	Other Overseas Operating Departments	Adjustment and elimination	Total
Revenue from customers outside the Company and its subsidiaries	$ 50,322,534	$ 2,183,417	$ 6,440,413	$ -	$ 58,946,364
Revenue from customers in the Company and its subsidiaries	39,001,690	173,595	814,001	(39,989,286)	-
Total revenue	$ 89,324,224	$ 2,357,012	$ 7,254,414	($ 39,989,286)	$ 58,946,364
Profit or loss	$ 16,833,904	$ 2,046,767	$ 2,234,833	$ -	$ 21,115,504
Asset attributable to specific departments	$ 2,023,588,961	$ 314,703,919	$ 280,109,055	$ -	$ 2,618,401,935

Unit: In thousands of US dollars

	For the year ended December 31, 2011 Domestic (including OBU)	North America	Other Overseas Operating Departments	Adjustment and elimination	Total
Revenue from customers outside the Company and its subsidiaries	$ 1,662,346	$ 72,127	$ 212,751	$ -	$ 1,974,224
Revenue from customers in the Company and its subsidiaries	1,288,375	5,734	26,890	(1,320,999)	-
Total revenue	$ 2,950,721	$ 77,861	$ 239,641	($ 1,320,999)	$ 1,974,224
Profit or loss	$ 556,088	$ 67,613	$ 73,825	$ -	$ 697,526
Asset attributable to specific departments	$ 66,846,887	$ 10,395,875	$ 9,253,074	$ -	$ 86,495,836

Unit: In thousands of NT dollars

	For the year ended December 31, 2010 Domestic (including OBU)	North America	Other Overseas Operating Departments	Adjustment and write-off	Total
Revenue from customers outside the Company and its subsidiaries	$ 44,461,745	$ 2,325,370	$ 6,246,740	$ -	$ 53,033,855
Revenue from customers in the Company and its subsidiaries	40,061,231	97,819	563,300	(40,722,350)	-
Total revenue	$ 84,522,976	$ 2,423,189	$ 6,810,040	($ 40,722,350)	$ 53,033,855
Profit or loss	$ 16,466,449	$ 1,100,554	$ 1,072,689	$ -	$ 18,639,692
Asset attributable to specific departments	$ 1,974,994,046	$ 302,873,069	$ 231,980,880	$ -	$ 2,509,847,995

(4) Export sales by geographic area :The Company and its subsidiaries have no export sales.

(5) Information on major customers: The Company and its subsidiaries have no customers accounting for more than 10% of the Group's operating revenues for the years ended December 31, 2011 and 2010.

(6) MS and MF engaged in futures business and shall meet the requirements of relevant futures transactions regulations. Financial ratio and enforcement of MS and MF are as follows:

The table below is prepared according to: "Regulations Governing Futures Commission Merchants"

MS

Article	Calculation formula	December 31, 2011		December 31, 2010		Standard	Enforcement
		Calculation	Ratio	Calculation	Ratio		
17	Stockholders' equity (Total liability-futures trader's equity-reserve for trading losses -reserve for breach of contract losses)	947,739 44,005	21.54	958,451 1,292	741.81	≧1	Meets the requirements
17	Current assets Current liabilities	939,934 963	976.05	906,965 1,187	764.08	≧1	Meets the requirements
22	Stockholders' equity Minimum paid-in capital	947,739 400,000	236.93%	958,415 400,000	239.60%	≧60% ≧40%	Meets the requirements
22	Adjusted net capital Total amount of customer margins required for the open positions of futures traders	941,544 2,450	38430.37%	951,557 -	- (Note)	≧20% ≧15%	Meets the requirements

Note : The total amount of customer margin deposit required for open interest of the futures trade was NT$0.

MF

Article	Calculation formula	December 31, 2011		December 31, 2010		Standard	Enforcement
		Calculation	Ratio	Calculation	Ratio		
17	Stockholders' equity (Total liability-futures trader's equity-reserve for trading losses -reserve for breach of contract losses)	501,386 38,665	12.97	457,479 42,293	10.82	≧1	Meets the requirements
17	Current assets Current liabilities	2,258,782 1,936,813	1.17	2,040,343 1,723,566	1.18	≧1	Meets the requirements
22	Stockholders' equity Minimum paid-in capital	501,386 400,000	125.35%	457,479 400,000	114.37%	≧60% ≧40%	Meets the requirements
22	Adjusted net capital Total amount of customer margins required for the open positions of futures traders	461,949 348,692	132.48%	452,310 324,151	139.54%	≧20% ≧15%	Meets the requirements

(7) The Prospective Risk For Futures Trading

Brokerage department of MF, which is under the consignment of futures' traders, conducts brokerage services pursuant to the laws and regulations. Uncovered positions are daily adjusted by mark-to-market price of Taiwan Futures Exchange. If margin call is lower than certain level, additional margin calls are requested to maintain limits of guarantee deposits. The Company controls credit risk by constantly monitoring the balance of performance bonds based on market price of positions held by each client, regulations of Taiwan Stock Exchange and the Company to minimize the risk.

Futures' trading and futures option trading are with high financial leverage risk. When MS and MF purchase options, the maximum loss arising from fluctuation on futures index is limited to the paid premium; hence, market price risk is insignificant. When MS and MF sell options, market price risk is the fluctuation of TAIEX Index Option contracts. Futures department of MS and MF have established relevant risk control mechanism and set up stop-loss limits, in order to monitor changes on positions held and their prices. When there is significant fluctuation on futures price, MS and MF will conversely purchase options or TAIEX Index Futures to manage the market price risk, and loss incurred would be controlled.

13. RELEVANT INFORMATION ON ADOPTION OF IFRSs

In accordance with the Financial Supervisory Commission, Executive Yuan (FSC), financial enterprises supervised by FSC and public listed companies should prepare financial statements in accordance with International Financial Reporting Standards, and the relevant interpretation letters and announcements pronounced by the FSC ("Taiwan IFRSs"), starting from the fiscal year of 2013.

The Group pre-disclose the following information before the adoption of Taiwan IFRSs in accordance with Jin-Guan-Zheng-Zeng Letter No. 0990004943 dated February 2, 2010 and Jin-Guan-Yi Letter No. 10000073410 dated April 7, 2011:

(1) Major contents and status of execution of the Group's plan for Taiwan IFRSs adoption.

The Group has already formed a project committee and set up Taiwan IFRSs adoption and conversion plan which is championed by the Vice-President or higher management of the Group (or Director of the financial and accounting department). The major contents and status of execution are as follows:

Working Items for Taiwan IFRSs Adoption	Status of Execution
1. Set up the project team	Completed.
2. Establish an adoption plan for Taiwan IFRSs conversion	Completed.
3. Complete identification of GAAP differences between current accounting policies and Taiwan IFRSs	Completed.
4. Complete identification of Taiwan IFRSs consolidated entities	Completed.
5. Complete impact evaluation from various exemptions of IFRS 1 - First-time Adoption of International Financial Reporting Standards	Completed.
6. Complete the evaluation of adjustments needed for information system	Completed.
7. Complete the evaluation of adjustments needed for internal controls	Completed.
8. Decide on Taiwan IFRSs' accounting policies	Completed.
9. Decide on various exemptions and options of IFRS No. 1 "First- time Adoption of International Financial Reporting Standards"	Completed.
10. Complete the preparation of Taiwan IFRSs statement of financial position on the date of transition	In progress.
11. Complete the preparation of Taiwan IFRSs comparative financial information for 2012	In progress.
12. Complete the adjustment of relevant internal controls (including the standard procedure of financial reporting and relevant information system)	In progress.

(2) Significant differences may arise between current accounting standards and the standards adopted in accordance with IFRSs, "Regulations Governing the Preparation of Financial Reports by Financial Holdings Companies", "Regulations Governing the Preparation of Financial Reports by Public Banks", "Regulations Governing the Preparation of Financial Reports by Bills Issuers Financial Companies", "Regulations Governing the Preparation of Financial Reports by Securities Firms", "Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants", "Regulations Governing the Preparation of Financial Reports by Insurance Enterprises" and "Regulations Governing the Preparation of Financial Reports by Securities Issuers" in the future.

The Group evaluates the significant differences on the basis of IFRSs approved by the FSC and "Regulations Governing the Preparation of Financial Reports by Financial Holdings Companies", "Regulations Governing the Preparation of Financial Reports by Public Banks", "Regulations Governing the Preparation of Financial Reports by Bills Issuers Financial Companies", "Regulations Governing the Preparation of Financial Reports by Securities Firms", "Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants", "Regulations Governing the Preparation of Financial Reports by Insurance Enterprises" and "Regulations Governing the Preparation of Financial Reports by Securities Issuers" estimated to be effective in year 2013. However, the current assessment result may be affected by International Accounting Standards, Interpretation Letters, or announcements pronounced or released by the FSC in the future. As a result, the variances arise from the actual practice with future IFRSs adoption.

The potential significant differences between current accounting standards and IFRSs, "Regulations Governing the Preparation of Financial Reports by Financial Holdings Companies", "Regulations Governing the Preparation of Financial Reports by Public Banks", "Regulations Governing the Preparation of Financial Reports by Bills Issuers Financial Companies", "Regulations Governing the Preparation of Financial Reports by Securities Firms", "Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants", "Regulations Governing the Preparation of Financial Reports by Insurance Enterprises" and "Regulations Governing the Preparation of Financial Reports by Securities Issuers" that will be used in the preparation of the financial statements in the future are set forth below:

A. Financial assets: Equity instruments

All unlisted stocks and emerging stocks held by the Group are measured by costs and recognized as "Financial assets carried at a cost". However, according to IAS No. 39 "Financial Instrument: Recognition and Measurement", equity instruments without an active market where the fair values can be reliably measured (that is, the variables of estimated reasonable fair value for the equity instruments are immaterial or the various estimates can be appropriately evaluated to calculate the fair values) should be measured by fair values.

B. Pension

(a) Discount method adopted for pension actuarial calculation is determined by referencing Sec. 23 set out in SFAS No. 18. However, according to IAS No. 19 "Employee Benefits", adoption of discount rate should be determined with reference to market yields on high quality corporate bonds with the same currency at the reporting period ending date and maturity periods.

(b) According to the current accounting standards adopted by the R.O.C., unrecognized transition obligation payables are amortized under straight line method based on the expected average remaining working lives of the participating employees who are eligible for pensions. However, considering that it is the first time for the Company to adopt IFRSs, the transition regulation of IAS No. 19 "Employee benefits" should not be applicable here and no transition liabilities are recognized.

(c) Pursuant to the current accounting standards adopted by the R.O.C., the amount of obligation payable on the balance sheet date exceeding fair value of the pension fund assets should be recognized as the lower limit of pension liability. However, there is no such requirement set out in IAS No. 19 "Employee Benefits".

(d) The profits and losses for the pension actuarial calculation of the Group should be recognized as net current pension costs under the corridor approach according to the current accounting standards adopted by the R.O.C.. However, it shall be immediately recognized in other comprehensive income according to IAS No. 19 "Employee Benefits".

C. Preferential interest rate for retired and current employee:

No specific requirement regarding the preferential interest rate for retired or current employees has been set out under the current accounting standards adopted by the R.O.C.. The Company and its subsidiaries recognize the expenses when the payment is made. According to "Regulations Governing the Preparation of Financial Reports by Public Banks", the preferential interest rate for current employees is accrued on monthly basis. And any difference between preference and market interest rate is listed under employee benefit expenses. For retired employees, the incremental amount of the agreed preferential interest rate exceeding the general market interest rate shall be eligible for the defined benefit plan in IAS No. 19 from the year employees retire.

D. Investment property

Investment property available for lease of the Group should be classified as "Investment property" if the definition of investment property is met, in accordance with IAS No. 40 "Investment Property".

E. Lending of brokerage trades

Pursuant to "Regulations Governing the Preparation of Financial Reports by Securities Firms", transactions of brokerage trades shall be presented by the balance in the financial statements after offsetting each other. However, according to IAS No. 32, "Financial Instruments: Presentation", clients' settlement payable or receivable arising due to brokerage trades business are not eligible for the rule to offset.

With regard to the above differences, some may be deemed exempt due to rules under IFRS No. 1, "First-time Adoption of International Financial Reporting Standards" and therefore no impact on amounts during transition may occur.

Review of Financial Conditions, Operating Results, and Risk Management

7.1 Analysis of Financial Status

Unconsolidated

Unit: NT$1,000

Item \ Year	2011	2010	Difference Amount	Difference %
Cash and Cash Equivalents	4,276,849	2,689,068	1,587,781	59.05
Available-for-Sale Financial Assets	5,279,193	7,147,325	(1,868,132)	(26.14)
Receivables	715,141	2,182,939	(1,467,798)	(67.24)
Equity Investments Accounted for by the Equity Method	218,167,682	214,061,392	4,106,290	1.92
Property and Equipment	784,065	702,490	81,575	11.61
Other Financial Assets	762,046	762,046	0	0
Other Assets	19,173	200,888	(181,715)	(90.46)
Total Assets	230,004,149	227,746,148	2,258,001	0.99
Payables	10,778,190	11,083,061	(304,871)	(2.75)
Bonds Payable	16,301,059	15,750,000	551,059	3.50
Other Liabilities	43,514	41,967	1,547	3.69
Total Liabilities	27,122,763	26,875,028	247,735	0.92
Capital Stock	112,806,148	110,594,262	2,211,886	2.00
Capital Surplus	43,426,403	43,426,403	0	0
Retained Earnings	41,960,123	35,967,476	5,992,647	16.66
Equity Adjustments	4,688,712	10,882,979	(6,194,267)	(56.92)
Total Stockholders' Equity	202,881,386	200,871,120	2,010,266	1.00

Analysis of changes in financial ratios:

1. Cash and cash equivalents increased by 59.05% mainly resulting from issuance of exchangeable bonds due 2014.
2. The available-for-sale financial assets decreased by 26.14% mainly due to valuation loss on the shareholding of Taiwan Business Bank.
3. The decrease in receivables was primarily from reduction in receivables from related parties.
4. Other assets reduced by 90.46% mainly due to decline in deferred income tax assets and return of assets leased to the Company's subsidiary.
5. Equity adjustments were down 56.92% primarily resulting from reduction in unrealized gains on financial instruments.

7.2 Analysis of Operational Results

Unconsolidated

Unit: NT$1,000

Item \ Year	2011	2010	Difference Amount	Difference %
Investment Income from Equity Investments Accounted for by the Equity Method	18,111,631	16,099,414	2,012,217	12.50
Other Income	290,135	32,523	257,612	792.09
Operating Expenses	352,549	339,879	12,670	3.73
Other Expenses and Losses	364,912	490,865	(125,953)	(25.66)
Income Before Income Tax from Continuing Operations	17,684,305	15,301,193	2,383,112	15.57
Income After Income Tax from Continuing Operations	17,679,892	15,110,720	2,569,172	17.00
Net Income	17,679,892	15,110,720	2,569,172	17.00

Analysis of changes in financial ratios:

1. Increase in other income was mostly due to rise of valuation gain on financial liabilities at fair value through profit or loss.
2. Decrease in other expenses and losses was mainly attributed to decrease in interest expenses.

7.3 Analysis of Cash Flow

7.3.1 Cash Flow Analysis for 2011

Unconsolidated

Item \ Year	2011	2010	Variance (%)
Cash Flow Ratio (%)	1,007.27%	581.84%	73.12%
Cash Flow Adequacy Ratio (%)	100.60%	91.62%	9.80%
Cash Reinvestment Ratio (%)	100.65%	218.29%	(53.89%)

Analysis of financial ratio change:

1. Increase in the cash flow ratio was primarily due to reduction in payables.
2. Decline of cash reinvestment ratio is mainly driven by decrease in net cash provided by operating activities.

7.3.2 Cash Flow Analysis for 2012

Unit: NT$1,000

Cash and Cash Equivalents (12 / 31 / 2011) (1)	Estimated Net Cash Flow from Operating Activities (2)	Estimated Cash Outflow (3)	Cash Surplus (12 / 31 / 2012) (1)+(2)-(3)	Leverage of Cash Surplus (Deficit)	
				Investment Plans	Financing Plans
440,000	11,233,048	11,573,048	100,000	None	None

Analysis of cash flow:

1. Operating activities: mainly net cash inflow from investment income
2. Investing activities: mainly procurement of property and equipment, intangible assets, and other deferred assets
3. Financing activities: primarily for repayment of bond and payout of cash dividends

7.4 Investment Policies in 2012

- Expanding the Group's operations network through merger and acquisition and enlarging the economic scale
  - Banking sector: We target at state-owned and private banks specializing in consumer banking which is complementary to our business.
  - Securities sector: We aim at increasing our market share of securities brokerage over 5% and entering Top 5 securities brokers in Taiwan.
  - Life insurance sector: We aim at domestic life insurance companies to expand the Group's business scope.
- Continually studying domestic and global financial environment, development of merger and acquisition, and directions for the Group's future development. The study findings are used as reference for investment policies.
- Keeping an eye on the easing of restriction on access to China's financial market, and evaluating the feasibility as well as opportunity of entering China's financial market.

7.5 Review of Investment Performance

Mega International Commercial Bank Co., Ltd.

The Bank posted a net profit of NTD 15,007,858 thousand in 2011, an increase of 34.34% from 2010. The increase in profit was mainly due to a growth in the volume of loans and gains on the disposal of property and non-performing loan.

Mega Securities Co., Ltd.

The company suffered a net loss of NTD 370,929 thousand in 2011 due to poor stock market performance affected by earthquake in Japan, credit rating downgrade of sovereign debt in the EU and the US. The company plans to tighten risk control and raise fee income to improve profitability.

Mega Bills Finance Co., Ltd.

The company posted a net profit of NTD 2,682,302 thousand in 2011, an increase of 1.03% from the previous year. To cope with the narrowing interest spread, the company has adopted such measures as controlling RP transactions cost, increasing issuance volume in the primary bills market, and making efforts to recover its non-performing loans.

Chung Kuo Insurance Co., Ltd.

The company recorded a net profit of NTD 237,612 thousand in 2011, compared with a net loss of NTD 94,831 thousand in 2010, owing to reduced catastrophic losses and a better performance of its financial operation.

Mega Asset Management Co., Ltd.

In 2011, the company posted a net profit of NTD 433,223 thousand, an increase of 7.84% from 2010, mainly due to disposal of NPL ahead of schedule.

Mega Life Insurance Agency Co., Ltd.

The company posted a net profit of NTD 86,206 thousand in 2011, an increase of 87.57% from 2010, owing to an increase in commission income from selling life insurance policies especially the traditional endowment life insurance businesses.

Mega Venture Capital Co., Ltd.

The company recorded a net loss of NTD 89,336 thousand in 2011 due to a drop in capital gain on disposal of investment and the recognition of impairment losses on available-for-sale financial assets. The company will improve profitability by building a portfolio of quality companies and selling its securities investments in due course.

Mega International Investment Trust Co., Ltd.

The company posted a net profit of NTD 120,706 thousand in 2011, an increase of 41.92% (excluding gains of NTD 117,306 thousand on reversal of recognized losses in connection with the Lehman Brothers bankruptcy in 2010) from 2010. The increase is primarily due to a growth in mutual funds under management.

Taipei Financial Center Corporation

The company posted a net profit of NTD 1,710,480 thousand in 2011, a growth of NTD 286,974 thousand, or 496.04%, from 2010. The profit growth was mostly contributed by a rise of NTD 927,255 thousand in sales income from the tenant counters and its private label products and the recognition of tax benefit due to loss carryback of NTD 1,248,826 thousand. The new marketing strategies of the company, such as increasing the number of boutigue stores and rotating brand name merchandise, have successfully lifted the number of customers.

Taiwanpay Corporation

The company closed business at the end of August 2011. The company held on February 1, 2012 a shareholders' meeting which resolved to dissolve the corporation. The company recorded a net profit after tax of NTD 806 thousand in 2011, an increase of NTD 212 thousand, or 280.19% from 2010. The growth was mostly contributed by a drop of NTD 3,018 thousand in personnel expenses because the company laid off all employees on October 1, 2011, and consequently reversed NTD 2,280 thousand of pension reserve recognized in previous years.

Taiwan Depository & Clearing Corporation

The company recorded a net profit of NTD 1,574,787 thousand in 2011, a reduction of 1.88% from NTD 1,605,010 thousand in 2010. The profit decline was caused by an income decrease of NTD 120,131 thousand from book-entry service, which was mainly due to a drop in the stock market volume amidst the European debt crisis.

Taiwan Business Bank

The Bank posted a net profit of NTD 2,977,898 thousand in 2011, an increase of 48.43% from 2010. The rise in its profitability was largely due to an increase of NTD 1,574,083 thousand in net interest income contributed by growing loan volume and a wider interest spread. The decrease in loan provisions for NTD 447,869 thousand also contributed to the better performance.

7.6 Investment Plans for 2012

- Continuing to evaluate and explore opportunities for merging with financial institutions that are complementary to our operations and can enhance synergy within the Group
- Developing cross-strait financial businesses with characteristics
- Evaluating the feasibility of entering China’s financial market
- Injecting NT$ 3 billion cash capital into Mega International Commercial Bank to increase its BIS ratio

7.7 Analysis of Risk Management

7.7.1 Risk Management Structure

As the highest authority and the policy-making body for the Group’s risk management, the Board of Directors of the Company takes ultimate responsibility for the Group’s risk management system and its effective operation. The Risk Management Committee, which reports to the Board and meets once every two months, takes charge of formulating the Group’s risk management policy, and supervising the operation of the risk management mechanisms of its subsidiaries. The Risk Management Department is responsible for collecting, measuring, analyzing, monitoring, controlling, and reporting all risk information within the Group. Finally, the Auditing Office of the Board takes charge of evaluating the effectiveness of internal control systems and the efficiency of the Group’s operations.

The bank, bills, securities, insurance and asset management subsidiaries of the Company have set up Risk Management Committees responsible for overseeing risk management objectives and execution. All subsidiaries have had risk management departments in place to perform their risk management tasks. In addition, the internal audit departments verify the effectiveness of the risk management mechanism on a periodic basis.

7.7.2 Risk Management Policy

The purposes of our risk management policy are to build mechanisms for identifying, evaluating, responding to, supervising, and controlling risks arising from various businesses and to carry out consistent approaches to evaluate and manage all risks to ensure that the management team of the Company is well-informed regarding the Group’s overall risk profile. Additionally, the policy aims to ensure the capital adequacy of our subsidiaries to pursue rationalized risk and reward.

7.7.3 Risk Management Tasks

The Company has set out mid- and long-term risk management goals for the Group, and has established a risk management strategy in line with Basel II as required by the competent authority. The major tasks of risk management are to set and monitor the annual risk management targets and early warning indicators for the Group; to enhance horizontal interaction among subsidiaries for the risk management practices; to encourage the implementation of advanced risk management tools and approaches; to supervise the subsidiaries building their risk management systems; to establish and amend the policy, regulations and limits of risk management for the Group; to review risk management rules and regulations; and to monitor capital adequacy, operational risk exposure, and the risk concentrations of the subsidiaries. The Company's risk management tasks are described as follows:

1. Credit risk: supervising all subsidiaries developing credit risk management systems. Mega International Commercial Bank (MICB) is currently developing and maintaining the Internal Rating Model for Corporate Banking, the Mortgage Credit Score System, the Behavior Score System, and the Enforced Model Control Mechanism and has also completed the Client Credit Risk Clustering Enquiry System and Credit Risk Meta Analysis System. Main tasks performed by other subsidiaries are managing risk concentration and limits, setting early warning criteria, building monitoring mechanisms, strengthening computerized risk report processes, screening credit risks with models, and establishing counterparty management mechanism.
2. Market risk: carrying out research and development for the advanced market risk management tools, and improving data collection, analyses, and report of all risk positions within the Group. In addition to Summit, a financial transaction information system currently being developed by MICB, the Company's subsidiaries also manage market risks primarily by strengthening market risk management standards, analyzing and assessing domestic and global economic situations, monitoring risk limits of various financial products, and creating and submitting reports on control and management on a daily basis.
3. Operational risk: continue supervising the subsidiaries developing operational risk management mechanisms. MICB has completed a loss event reporting system to manage operational risks. Through the real-time reporting system, the Bank is able to develop measures for improvement, and build up self-evaluation mechanism to identify and analyze the operational risk exposure and also to improve the control and management mechanism. The Company has also required other subsidiaries to conduct self-evaluation and to record loss events so that the operational risk management of the Group may be systematic and consistent.
4. Liquidity risk: monitoring liquidity risk position according to the risk management goals and risk limits; carrying out stress testing on a periodic basis; producing cash flow gap reports for reviews by the top management; and setting up mechanism for capital contingency management.
5. Other risk management tasks:
   - Building and maintaining inter-subsidiary risk management information systems, such as the credit rating enquiry system that provides the internal credit rating results for related subsidiaries. Other information platforms of the Group are Default Securities Settlement and Financial Highlights and the Listed Company Watch List system.
   - Continue collecting and analyzing risk management information, such as improving credit risk management report and its automation; collecting and reporting loss information of operational risk of all subsidiaries on a monthly basis; and producing consolidated asset evaluation and capital adequacy reports of the Group on a quarterly basis.
   - Following up and reporting of the Group's risk management cases and major risk events.
   - Enhancing communication and cooperation among the Company, its subsidiaries and the auditing units to examine the operational risk management mechanisms.
   - Developing a response plan to ensure Basel II compliance in capital requirements to reduce future operation impact.

Special Disclosure

8.1 Summary of Affiliated Companies

December 31, 2011
Expressed in thousands of dollars

Company	Date of Incorporation	Address	Paid-in Capital	Main Business
Mega International Commercial Bank Co., Ltd.	12.17.1971	No. 100 Jilin Road, Taipei, Taiwan	NTD 68,000,000	Commercial banking & industrial banking business
Mega Securities Co., Ltd.	10.19.1989	3F, No. 95, Sec. 2, Jhongsiao E. Road, Taipei, Taiwan	NTD 11,600,000	Brokerage, dealing and underwriting of securities
Mega Bills Finance Co., Ltd.	05.20.1976	2～5F, No. 91, Hengyang Road, Taipei, Taiwan	NTD 13,114,411	Brokerage, dealing, underwriting, and guaranteeing of short-term debt instruments
Chung Kuo Insurance Co., Ltd.	11.01.1931	58 Sec. 1, Wuchang Street, Taipei, Taiwan	NTD 3,000,000	Non-life insurance
Mega International Investment Trust Co., Ltd.	08.09.1983	7、8F, No. 91, Hengyang Road, Taipei, Taiwan	NTD 527,000	Asset management
Mega Asset Management Co., Ltd.	12.05.2003	6F, No. 91, Hengyang Road, Taipei, Taiwan	NTD 2,000,000	NPL asset management
Mega Life Insurance Agency Co., Ltd	11.05.1996	5F, No. 100 Jilin Road, Taipei, Taiwan	NTD 20,000	Life Insurance Agency
Mega Venture Capital Co., Ltd.	12.13.2005	7F, No. 91, Hengyang Road, Taipei, Taiwan	NTD 1,000,000	Venture capital investment
Mega Management & Consulting Co., Ltd.	01.16.2002	7F, No. 91, Hengyang Road, Taipei, Taiwan	NTD 10,000	Asset management, investment consulting and business administration consulting
Mega I Venture Capital Co., Ltd.	11.05.2003	7F, No. 91, Hengyang Road, Taipei, Taiwan	NTD 600,000	Venture capital investment
Mega Futures Co., Ltd.	07.29.1999	4F, No. 563, Sec. 4, Jhongsiao E. Road, Taipei, Taiwan	NTD 400,000	Futures brokerage Futures advisory services
Mega International Investment Services Co., Ltd.	11.20.1997	10F, No. 95, Sec. 2, Jhongsiao E. Road, Taipei, Taiwan	NTD 20,000	Securities investment advisory
Mega Securities Holdings Co., Ltd.	05.05.1997	Suites 1109-1111, 11/F, Tower 6, The Gateway, 9 Canton Road, Tsimshatsui, Kowloon, Hong Kong	USD 25,990	Investment Holding Business
Mega Global Asset Management Co., Ltd.	07.16.1998	Suites 1111, 11/F, Tower 6, The Gateway, 9 Canton Road, Tsimshatsui, Kowloon, Hong Kong	USD 8,740	Securities proprietary trading
Mega Capital (Asia) Co., Ltd.	05.23.1997	Suites 1109, 11/F, Tower 6, The Gateway, 9 Canton Road, Tsimshatsui, Kowloon, Hong Kong	HKD 80,000	Securities underwriting, financial advisory services
Mega Securities (Hong Kong) Co., Ltd.	08.20.1992	Suites 1110-1111, 11/F, Tower 6, The Gateway, 9 Canton Road, Tsimshatsui, Kowloon, Hong Kong	HKD 60,000	Securities brokerage, futures brokerage
Mega International Asset Management Co., Ltd.	01.16.1998	Suites 1110, 11/F, Tower 6, The Gateway, 9 Canton Road, Tsimshatsui, Kowloon, Hong Kong	USD 5,000	Securities proprietary trading
China Products Trading Co.	12.29.1956	7F, No. 100 Jilin Road, Taipei, Taiwan	NTD 5,000	Investment in property, warehousing and other businesses（stop running business since 1966）

Company	Date of Incorporation	Address	Paid-in Capital	Main Business
Yung-Shing Industries Co.	12.09.1950	7F, No. 100 Jilin Road, Taipei, Taiwan	NTD 135,644	International trading and agency service for electronic data processing, printing and packaging
Win Card Co., Ltd.	11.10.2000	4~7F, No. 99, Sec. 3, Chongyang Rd., Sanchong Dist., New Taipei City 24145, Taiwan, R.O.C	NTD 50,000	Business administration consulting, advertising, and management of past due accounts receivable
ICBC Assets Management & Consulting Co., Ltd.	02.13.2003	3F, No. 100 Jilin Road, Taipei, Taiwan	NTD 285,388	Asset management and investment consulting
ICBCAMC Offshore Ltd.	04.01.2003	Romasco Place, Wickhams Cay 1, P. O. Box 3140, Road Town, Tortola, British Virgin Islands	USD 0.001	Fund management
Junior Preference Share Co., Ltd.	04.01.2003	Century Yard, Cricket Square, Hutchins Drive, P. O. Box 2681 GT, George Town, Grand Cayman, British West Indies	USD 0.001	Investment
ICBCAMC Offshore (Taiwan) II Ltd.	10.28.2003	Romasco Place, Wickhams Cay 1, P. O. Box 3140, Road Town, Tortola, British Virgin Islands	USD 0.001	Fund management
Junior Preference Share Co. (Taiwan) II Ltd.	10.28.2003	Century Yard, Cricket Square, Hutchins Drive, P. O. Box 2681 GT, George Town, Grand Cayman, British West Indies	USD 0.001	Investment
Mega International Commercial Bank (Canada)	12.01.1982	North York Madison Centre, 4950 Yonge Street, Suite 1002, Toronto, Ontario, M2N 6K1, Canada	CAD 23,000	Commercial banking
Mega International Commercial Bank Public Co., Ltd.	08.08.2005	36/12 P.S. Tower, Asoke, Sukhumvit 21 Road, Klongtoey-nua, Wattana, Bangkok 10110, Thailand	THB 4,000,000	Commercial banking
Cathay Investment & Warehousing Ltd.	11.01.1982	Dominador Bazan y Calle 20, Manzana 31, P. O. Box 0302-00445 Colon Free Zone, Republic of Panama	USD 1,000	Renting of real estate
Cathay Investment & Development Corp. (Bahamas)	07.15.1969	Post Office Box 3937 Nassau, Bahamas	USD 5	International investment and development
Ramlett Finance Holdings Inc.	01.13.1982	Calle 50 Y Esquina Margarita A de Vallarino, Entrada Nuevo Campo Alegre, Edificio ICBC, No. 74, Panama	USD 20	Investment of real estate

Note: 1. Mega International Commercial Bank, Mega Securities Co., Ltd. and Chung Kuo Insurance Co., Ltd. held 25%, 10% and 5% stake, respectively in Mega I Venture Capital Co., Ltd.
Note: 2. Mega Securities (Hong Kong) Co., Ltd. plans to execute a capital increase for cash contribution of HKD 24 million.
Note: 3. Mega International Asset Management Co., Ltd. is in the process of liquidation.

8.2 Operational Highlights of Affiliated Companies

As of December 31, 2011
Unit: NT$ thousand, except EPS in NT$

Company	Paid-in Capital	Total Assets	Total Liabilities	Stockholders' Equity	Operating Revenues (Net Revenue*)	Operating Income (Income before Income Tax*)	Net Income (After Tax)	Earnings per share (After Tax)
Mega International Commercial Bank	68,000,000	2,309,224,833	2,146,224,335	163,000,498	37,011,250*	17,469,821*	15,007,858	2.21
Mega Securities Co., Ltd.	11,600,000	33,688,353	20,012,488	13,675,865	3,988,507	(206,627)	(370,929)	(0.32)
Mega Bills Finance Co., Ltd.	13,114,411	225,482,611	192,887,436	32,595,175	4,007,474*	3,138,103*	2,682,302	2.05
Chung Kuo Insurance Co., Ltd.	3,000,000	14,818,745	10,114,166	4,704,579	3,637,062	286,073	237,612	0.79
Mega International Investment Trust Co., Ltd.	527,000	859,167	42,596	816,571	347,019	129,985	120,706	2.29
Mega Asset Management Co., Ltd.	2,000,000	10,188,904	7,540,377	2,648,527	681,630	505,428	433,223	2.17
Mega Life Insurance Agency Co., Ltd.	20,000	192,172	70,183	121,989	605,975	91,876	86,206	43.10
Mega Venture Capital Co., Ltd.	1,000,000	713,888	14,390	699,498	235,265	46,599	(89,356)	(0.89)
Mega Management & Consulting Co., Ltd.	10,000	63,959	5,125	58,834	45,768	20,385	17,375	17.38
Mega I Venture Capital Co., Ltd.	600,000	489,538	675	488,863	202,356	9,427	9,492	0.16
Mega Futures Co., Ltd.	400,000	2,446,219	1,944,833	501,386	284,916	21,314	29,781	0.74
Mega International Investment Services Co., Ltd.	20,000	46,653	11,298	35,355	39,606	4,463	3,392	1.97
Mega Securities Holdings Co., Ltd.	783,414	647,489	351	647,138	0	75,070	75,070	2.89
Mega Capital (Asia) Co., Ltd	311,688	242,205	1,761	240,444	1,411	(47,716)	(47,716)	(0.60)
Mega Global Asset Management Co., Ltd.	264,924	67,366	95	67,271	167,302	164,014	164,014	0.61
Mega Securities (Hong Kong) Co., Ltd.	233,766	1,641,096	1,595,753	45,343	46,265	(55,867)	(55,867)	(558.67)
Mega International Asset Management Co., Ltd.	149,844	120,425	0	120,425	19,229	16,270	16,270	3.25
China Products Trading Co.	5,000	56,307	24,076	32,231	5,164	4,319	3,967	39.67
Yung-Shing Industries Co.	135,644	1,452,192	533,781	918,411	186,327	2,059	25,698	18.95
Win Card Co., Ltd.	50,000	86,538	16,491	70,047	162,635	10,360	9,175	18.35
ICBC Assets Management & Consulting Co., Ltd.	285,388	347,218	64,050	283,168	6,159	(3,750)	(11,615)	(0.41)
ICBCAMC Offshore Ltd.	0.3027	33,426	1,547	31,879	81	(1,335)	(1,335)	(1,335,342.57)
Junior Preference Share Co., Ltd.	0.3027	271,427	0	271,427	365	(8,869)	(8,869)	(8,869,372.54)
ICBCAMC Offshore (Taiwan) II Ltd.	0.3027	9,696	2,018	7,678	23	(572)	(572)	(571,664.92)
Junior Preference Share Co. (Taiwan) II Ltd.	0.3027	44,899	60,544	(15,645)	78	(443)	(443)	(443,348.20)

Company	Paid-in Capital	Total Assets	Total Liabilities	Stockholders' Equity	Operating Revenues (Net Revenue*)	Operating Income (Income before Income Tax*)	Net Income (After Tax)	Earnings per share (After Tax)
Mega International Commercial Bank (Canada)	682,136	6,841,293	5,809,962	1,031,331	218,108*	54,125*	40,162	174.76
Mega International Commercial Bank Public Co., Ltd.	3,813,600	16,878,120	12,021,377	4,856,743	675,824*	143,134*	47,423	0.12
Cathay Investment & Warehousing Ltd.	30,272	94,622	738	93,884	3,867	(2,478)	(2,205)	(2,205)
Cathay Investment & Development Corp. (Bahamas)	151	292,510	0	292,510	2,883	2,611	2,611	522.28
Ramlett Finance Holdings Inc.	605	62,933	65,648	(2,715)	9,064	(468)	(468)	(311.82)

Note: 1. Par value of common stock of Mega Securities Holdings Co., Ltd., Mega Global Asset Management Co., Ltd., and Mega International Asset Management Co., Ltd. is US$1 per share. Par value of common stock of Mega Capital (Asia) Co., Ltd. and Mega Securities (Hong Kong) Co., Ltd. are HK$1 and HK$600 per share, respectively. Par value of common share of Yung-Shing Industries Co. is NT$100 per share.

2. Foreign exchange rates applied by the affiliated companies are as follows:

Balance Sheet Items	Income Statement Items	Company Name
USD 1=NTD 30.2720	USD1=NTD 29.4299	ICBCAMC Offshore Limited, Junior Preference Share Company Limited, ICBCAMC Offshore (Taiwan) II Limited, Junior Preference Share Company (Taiwan) II Limited, Cathay Investment & Warehousing Limited, Cathay Investment & Development Corp. (Bahamas) and Ramlett Finance Holdings Inc.
CAD 1=NTD 29.6581	CAD 1=NTD 29.7718	Mega International Commercial Bank (Canada)
THB 1=NTD 0.9534	THB 1=NTD 0.9586	Mega International Commercial Bank Public Co., Ltd.
HKD 1=NTD 3.8961	HKD 1=NTD 3.7788	Mega Securities Holdings Co., Ltd., Mega Global Asset Management Co., Ltd., Mega Capital (Asia) Co., Ltd., Mega Securities (Hong Kong) Co., Ltd. and Mega International Asset Management Co., Ltd.

Mega Financial Holding Co., Ltd.

Chairman