



The Export-Import Bank of the Republic of China

2011 Annual Report





The Export-Import Bank of the Republic of China

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2011





The Export-Import Bank of the Republic of China

Annual Report

Vision

Strengthen Trade Finance and Assist External Trade

Supporting government economic and trade policies by providing financial services to assist manufacturers in developing foreign trade

Participating in international financial activities so as to enhance international economic cooperation

Participating in major domestic economic construction programs in order to facilitate industrial development and increase employment

Website : [http : //www.eximbank.com.tw](http://www.eximbank.com.tw)



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01

I. Operating Performance Summary

NT\$ Million

Year	FY 2011	FY 2010	FY 2009
Total Operating Revenues	1,929	1,692	2,322
Total Operating Expenses	1,443	1,439	1,802
Net Income Before Tax	486	253	520
Profits per Employee Before Tax	2.42	1.25	2.51
Loans Outstanding (Average)	85,009	83,066	78,715
Guarantees Undertaken	8,349	7,012	6,430
Export Credit Insurance Underwritten	73,409	63,957	58,053
Total Assets	92,116	85,980	86,992
Net Worth	18,431	17,978	18,406
BIS Ratio (%)	28.96	31.60	32.66

*The final accounts of FY 2011 are subject to audit.

**Eximbank's fiscal year runs from January 1 to December 31.

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II. Business Report

1. Mission

The Export-Import Bank of the Republic of China (Eximbank) is a specialized financial institution owned by the Government. Its vision is to “strengthen trade finance and assist external trade.” Eximbank was founded with the aim to enhance employment and maintain domestic economic growth by coordinating government economic, trade and financial policies, facilitating financial and export credit insurance services, assisting local firms to expand foreign trade, and advancing international economic cooperation. Eximbank offers medium- and long-term financing and guarantee services to facilitate local firms to expand exports of capital goods, undertake overseas construction projects, import precision machinery and equipment and essential industrial raw materials, as well as introduce foreign technology into Taiwan. Meanwhile, Eximbank provides export credit insurance and overseas investment insurance to protect local exporters and investors against commercial and political risks. With Eximbank’s services, local enterprises can expand external trade and overseas investments.

2. Key Operation Strategies and Achievements

In 2011, the Eximbank's average loans outstanding was NT\$85,009 million, a year-on-year increase of 2.34 percent, and guarantees totaled NT\$8,349 million, an increase of 19.07 percent from 2010. Meanwhile the export credit insurance underwritten by the Bank was NT\$73,409 million, a year-on-year growth of 14.78 percent. Below is a summary of key operational strategies and achievements for 2011:

(1) Supporting Economic and Trade Policies While Assisting Enterprises in Expanding Target and Emerging Markets

1. Eximbank supports government economic and trade policies. Focusing on target markets determined by the Ministry of Economic Affairs, its export financing and insurance mechanisms provide exporters with the financial support and services they need to enhance competitiveness. Primary target markets include Japan, Korea, Indonesia, Vietnam, India, Mainland China (including Hong Kong), Brazil, Russia, South Africa, Turkey, and the Middle East region. In 2011, Eximbank granted accumulated export

financing of NT\$3,938 million in these target markets, a year-on-year growth of 29.33%, while it underwrote export credit insurance of NT\$29,977 million, an increase of 39.12 percent compared to 2010.

2. Eximbank executes programs initiated by the Bureau of Foreign Trade in emerging markets. Through its export financing, relending, and export insurance, Eximbank's niche is to help Taiwanese enterprises enter emerging markets. It explores new business opportunities and helps local firms expand into the emerging markets in Southeast Asia, Central and South America, East Europe, East Asia, and South Asia. Its business areas cover Brazil, Peru, Colombia, Mexico, Russia, Belarus, Poland, Slovenia, Croatia, Portugal, Turkey, Cyprus, Pakistan, India, Bangladesh, Sri Lanka, Singapore, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam. Eximbank helps enterprises compete for orders in these countries and build sales channels in emerging markets while diversifying risk.

3. To help Taiwanese enterprises promote exports, Eximbank develops Relending Facility business by cooperating with prestigious banks worldwide. In 2011, the total credit lines extended by Eximbank to emerging markets topped US\$315 million, with services offered across America, Europe, Asia, and the Middle East to approximately 50 banks



▶▶▶ Chair of the Board of Directors / Yen Chrystal Shih

throughout Argentina, Chile, Brazil, the Dominican Republic, Honduras, Hungary, India, Indonesia, Mongolia, Nicaragua, Peru, Slovakia, the Philippines, Thailand, Turkey, Ukraine, Russia, Belarus, Bulgaria, and Vietnam.

(2) Strengthening Services and Assisting SMEs in Expanding Export Markets

The majority of Taiwan's businesses are SMEs. To help these companies determine the creditworthiness of potential foreign buyers and quickly obtain insurance covers, Eximbank has cooperated with more than 30 international credit agencies over the years and widely promotes its customized credit insurance policy-GlobalSure. According to the practical needs of enterprises, Eximbank



▶▶▶ President / Ruen-Fong Chu

uses the said policy to assist enterprises in managing risks of their accounts receivables, so they can avoid the bad debt risks associated with international trade. In 2011, SMEs accounted for 90% of the total insurance clients and the amount underwritten was NT\$32,849 million, an increase of 7.56% compared to 2010.

To increase financing for SMEs, Eximbank also conducts the Program to Encourage Lending by Domestic Banks to SMEs. The average balance of loans granted to SMEs in 2011 was NT\$6,500 million, a year-on-year growth of 3.17 percent.

(3) Cooperating with Domestic Trade Organizations to Promote Export Trade

To help domestic enterprises expand exports

and to improve cooperation with trade organizations, Eximbank signed a cooperation agreement with the Taiwan External Trade Development Council (TAITRA). The two organizations hold business promotion activities such as conferences, and Eximbank participates in important TAITRA exhibitions by introducing its business. The agreement also calls for greater cooperation between personnel stationed abroad, including building mechanisms for the exchange of business data, so trade and financial information can be passed on to enterprises at any time. By signing and executing this agreement, the two sides can work closely together to provide enterprises with information to expand exports, resulting in raising their export competitiveness, expanding overseas markets, providing more business opportunities and thereby accelerating Taiwan's economic development.

(4) Advancing Cross-Strait Financial Cooperation to help Enterprises Expand the Mainland Market

In August 2011, Eximbank signed a cooperation memorandum with the Export-Import Bank of China. Through co-financing and guarantees, credit lines are provided to Taiwanese businesses so they have revolving funds needed to operate. And in line with cross-strait trade policy, Eximbank cooperates with state-run banks in Mainland China to provide joint financing to Taiwanese enterprises building factories in the Mainland. Eximbank also signed a



▶▶▶ Yen Chrystal Shih, the Chair of the Board of Directors, hosted the Welcome Reception of the 2011 Berne Union Spring Meeting in Taipei. (Photo taken on Apr. 10, 2011)

cooperation memorandum with the China Export and Credit Insurance Corporation to establish communication mechanisms and cooperation platform. This allows for more visits and interactions between the organizations and provides improved credit assessments, collection of account receivables, and reinsurance cooperation so as to assist Taiwanese enterprises.

(5) Cooperating with Foreign Export Credit Agencies to Expand Markets for Taiwan Enterprises

To strengthen cooperation with foreign export credit agencies, Eximbank actively participates in activities held by the Berne Union, a global association for export credit and investment insurance. And from April 11 to 13, Eximbank hosted the union's 2011 spring meeting in Taipei with experts and representatives of union members coming from 44 organizations

located in 34 countries or territories across five continents. Topics included: short, medium, and long-term export insurance trends; foreign investment insurance trends; economic trends and challenges in Asia; and analysis of the situation in the Middle East and North Africa. The event not only let Eximbank communicate with and learn from foreign export credit agencies, but also effectively enhanced its global recognition.

Besides the cooperation memoranda Eximbank inked in 2011 with the Export-Import Bank of China and the China Export and Credit Insurance Corporation, cooperation agreements were reached with the Israel Export Insurance Corporation, the Korea Trade Insurance Corporation, and the Swedish Export Credit Corporation. By working with these credit and insurance agencies, Eximbank obtains local information that it can provide to Taiwan enterprises for their expansion



▶▶▶ Finance Minister Christina Y. Liu (3rd right) gave the 2011 award for “Excellent Performance by a Financial Institution in Export Insurance Referral.” (Photo taken on Mar. 12, 2012)

on overseas markets. Through the end of 2011, Eximbank had reached cooperation agreements with 15 official export credit agencies.

(6) Using Reinsurance to Enhance Eximbank's Export Insurance Underwriting Capacity

To increase underwriting capacity and improve the basis of export insurance operations, Eximbank signed a reinsurance contract with the Central Reinsurance Corporation in 2011. The contract raised maximum limit for single risk insured and eliminated the ceiling on annual accumulated losses. These changes meant better reinsurance terms. By transferring a portion of risk to reinsurance corporations, Eximbank raised its insurance underwriting capacity and allowed its export insurance business to continue growing.

Eximbank also signed a facultative reinsurance agreement with Nippon Export and Investment Insurance (NEXI) in September 2010, followed by a supplemental quota share reinsurance contract in December 2011. Based on this-quota share reinsurance contract, Eximbank solely determines buyers' lines of credit and Japan's NEXI automatically reinsures at the stated percentage for policies Eximbank issued therefore eliminating the need for case-by-case approval and shortening the application period for Japanese enterprises in Taiwan. The contract also enables Eximbank to improve its services for these Japanese firms by expanding reinsurance operations from the originally agreed comprehensive export credit insurance for open account (O/A) transactions to comprehensive export credit insurance for document against payment (D/

P) and document against acceptance (D/A) transactions, along with GlobalSure Credit Insurance.

(7) Promoting Export Insurance with Domestic Commercial Banks

Eximbank held seven seminars throughout Taiwan for commercial banks to introduce the advantages of export insurance and advocate the cooperation with commercial banks in the field of export insurance. In 2011, Eximbank signed cooperation agreements to promote export insurance with four commercial banks, including Taishin International Bank, Hwatai Commercial Bank, Yuanta Bank, and E. Sun Bank. By the end of the year, it had signed cooperation agreements with 15 Taiwanese commercial banks, and the value of referral cases in 2011 had grown by 109.64% compared to 2010.

(8) Actively Participating in International Syndicated Loans to Expand Business Outreach and Enhance International Financial Cooperation

Eximbank actively participates in international syndicated loans to strengthen business ties with international financial institutions, expanding its business scope and niche. At the end of 2011, the outstanding amount of syndicated loans participated by Eximbank reached US\$568 million, equivalent to NT\$17,172 million with borrowers covering more than 30 financial organizations and

40 foreign enterprises (including overseas Taiwanese business). The loans originated in over 30 countries located in Asia, Oceania, Europe, Central and South America, Africa, and the Middle East.

(9) Amending Internal Regulations to Streamline Workflow and Improve Service

1. The changing financial environment in 2011 led Eximbank to revise not only the principles behind the quoted rates for its short, general, medium-term, and long-term export loans but also the items considered for loan pricing in order to make it more competitive when seeking and dealing with clients.
2. Eximbank revised its operation guidelines for short-term comprehensive export credit insurance by eliminating limits on the proportion of domestic sales and exports. The purpose was to provide more assistance to exporters by meeting the indirect export insurance needs arising in their upstream and downstream production supply chains.
3. Eximbank examined each of its export insurance regulations, decentralized responsibility, built an information-based work environment, and improved the case response time. To satisfy client needs it simplified work processes and application forms, so it could provide fast and convenient service.



(10) Improving Country, Financial, and Industrial Risk Management

2011 presented many challenges. The European debt crisis severely challenged the peripheral eurozone countries like Greece, Portugal, and Ireland, and threatened to extend to core countries such as Italy and Spain. It also increased liquidity pressure on eurozone banks. Turmoil in the Middle East and North Africa meanwhile caused political risk to increase. Facing the circumstances, in 2011 Eximbank was constantly strengthening its analysis and monitoring of country risk and financial risk. For industry risk, the Bank was paying more specific attention to risks associated with the DRAM, TFT-LCD, LED, and solar energy industries. In addition, Eximbank revised its guidelines for risk acceptance in relation to industry to improve risk diversification and management.

(11) Establishing a Task Force to Achieve IFRS Accounting Standards Compliance

In response to implementation of the Statement of Financial Accounting Standards (SFAS) No. 40 in 2011, Eximbank's export credit insurance reserves, which were designed as an equalisation provision, were switched from liabilities to equity. Meanwhile, additional reserves set aside were listed as special surplus funds in equity, and net export credit insurance business income was recognized as income starting from January 1, 2011.

Eximbank will be required to prepare financial statements in accordance with IFRS starting from January 1, 2013, due to the "Framework for Adoption of International Financial Reporting Standards by Companies in the ROC" issued by the Financial Supervisory Commission (FSC).



▶▶▶ Mrs. Kimberly Wiehl (3rd right), the secretary-general of the Berne Union, and Berne Deputy Secretary-General Lennart Skarp (currently the secretary-general, 2nd right), visited Eximbank. (Photo taken on Apr. 15, 2011)

To ensure a timely transition to IFRS to comply with financial regulations and enhance financial reporting information, Eximbank has established a cross-departmental task force that is responsible for proposing an IFRS adoption plan and reports progress towards achieving the plan to the Board of Directors quarterly. Furthermore, for IFRS implementation, Eximbank conducted a 31-hour training program related to IFRS standards and applications, led by specialist instructors. The purpose was to build a globally recognized accounting system.

(12) Training Finance Professionals to Raise Capability

1. Eximbank established an annual training plan for employees so they could learn while on the job. By actively training finance professionals, it strengthened execution capabilities. Employees were sent

to attend meetings held by professional financial research training organizations, and Eximbank planned its own theme-based training courses, inviting expert and academic lecturers. In 2011, seven on-the-job training sessions were held and there were 13 theme-based lectures. Total attendance for these activities was 1,611. Taking a proactive approach to strengthening employees' professional knowledge let Eximbank satisfy new needs arising from the development of its business.

2. In 2011, Eximbank also sent employees to research and study activities held by international insurance organizations or export credit groups. Five trips were made by employees for this purpose, so they could gain and bring back new experiences. Also employees made 16

trips to international finance or insurance meetings or to visit foreign export credit organizations. These trips resulted in valuable information sharing related to international finance and insurance business, enabling Eximbank to improve its business quality and effectiveness.

(13) Simplifying Case Procedures, Dissolving Overseas Representative Offices, and Adjusting the Personnel Structure

Eximbank offered early retirement incentives in 2011 aimed at middle to upper-rank employees. The program's intent was to improve performance, better deploy workers, and lower personnel costs. Employees who retired under this program were replaced by new staff who brought in new ideas. Other benefits included lowering the average age of workers and improving a top-heavy employment structure. Also, following a cost-benefit analysis, Eximbank decided to dissolve representative offices in Sao Paulo, Brazil; Warsaw, Poland; and Kuala Lumpur, Malaysia. This reduced costs while promoting better usage of staff.

3. Credit Rating

(1) Expanding the number of partners and lowering the cost of funding are essential for Eximbank. Therefore, in 2011, Eximbank asked Fitch Ratings to assign a credit rating for the first time. Fitch gave Eximbank the highest IDR Rating among all other banks in Taiwan. In addition, Eximbank is a 100% state-owned policy bank, and IDR rating for Eximbank is aligned with Taiwan's sovereign rating, showing Eximbank's excellent credit and high capability of honoring the debts. Fitch's rating will help Eximbank raise additional credit lines in the future and lower funding costs, resulting in being capable of providing more competitive interest rates and services to clients.

(2) Fitch announced its ratings for Eximbank on November 21, 2011

The long-term foreign currency issuer default rating (IDR) was A+; outlook stable

The short-term foreign currency IDR was F1

The national long-term rating was AAA(twn); outlook stable

The national short-term rating was F1+(twn)

The support rating was 1

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III. Bank Profile

1. Profile

Eximbank was established on January 11, 1979, under the Statute of the Export-Import Bank of the Republic of China. It is a state-owned bank supervised by the Ministry of Finance. Its mission is to “promote export trade and develop the economy” while its vision is to “strengthen trade finance and assist external trade.” Eximbank's main objective is to support government economic and trade policies by providing financing, guarantees as well as export credit and investment insurance to help enterprises expand external trade and overseas investments. It also increases international cooperation to ensure the steady and continuous development of Taiwan's economy.

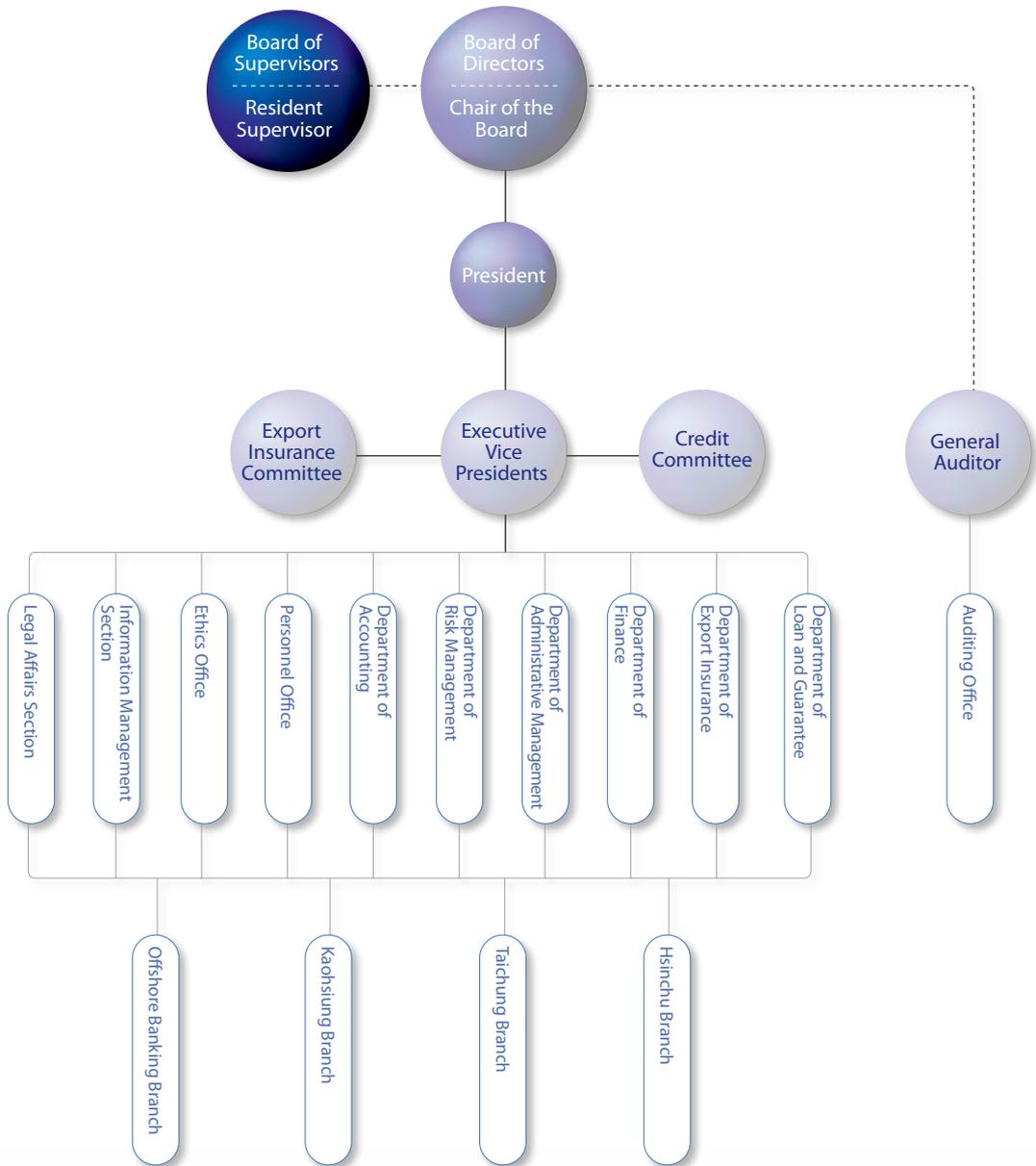
To assist exporting enterprises, Eximbank provides export financing facilities and export credit insurance. For better service, it

has established three domestic branches in Kaohsiung, Taichung and Hsinchu.

Formerly Eximbank had representative offices in Sao Paulo (Brazil), Warsaw (Poland), and Kuala Lumpur (Malaysia). Their main purpose was to help Taiwanese enterprises expand exports by collecting global market information. However, due to cooperating closely with the Taiwan External Trade Development Council (TAITRA), Eximbank can utilize TAITRA's global trade network to gather this data. Therefore, a proposal was formulated to close the said three overseas representative offices. A resolution was passed by the Board of Directors in December 2010 and submitted to the Financial Supervisory Commission(FSC) for final approval. After gaining the FSC's approval, Eximbank closed the offices in June 2011.

2. Organization

(1) Organization Chart



(2) Board of Directors and Supervisors



▶▶▶ Chair of the Board
of Directors
Yen Chrystal Shih



▶▶▶ Managing Director
Ruen-Fong Chu



▶▶▶ Managing Director
Hau-Min Chu



▶▶▶ Director
Shih-Chao Cho



▶▶▶ Director
Sun-Yuan Lin



▶▶▶ Director
Ting-Chieh Wang



▶▶▶ Director
Hsin-Chung Chen



▶▶▶ Resident Supervisor
Chang-Nan Lo



▶▶▶ Supervisor
Yu-Jer Sheu



▶▶▶ Supervisor
Hui-Mei Chen

Board of Directors		Board of Supervisors	
Yen Chrystal Shih	Chair of the Board of Directors	Chang-Nan Lo	Resident Supervisor
Rueen-Fong Chu	Managing Director	Yu-Jer Sheu	Supervisor
Hau-Min Chu	Managing Director	Hui-Mei Chen	Supervisor
Shih-Chao Cho	Director		
Sun-Yuan Lin	Director		
Ting-Chieh Wang	Director		
Hsin-Chung Chen	Director		

(3) Principal Managers and General Auditor

Name	Title
Rueen-Fong Chu	President
Chi-Chung Wang	Executive Vice President
Shui-Yung Lin	Executive Vice President
Song-Bin Huang	General Auditor
Pei-Jean Liu	Advisor (Senior Officer of Information Management Section and Legal Affairs Section)
Hwa-Yu Mo	Advisor (Senior Officer of Auditing Office)
Chin-Huo Tsai	Senior Vice President and General Manager, Department of Loan and Guarantee
Cheng-Tsung Liao	Senior Vice President and General Manager, Department of Export Insurance
Fu-Sheng Huang	Senior Vice President and General Manager, Department of Finance and Offshore Banking Branch
Chung-Ming Lee	Senior Vice President and General Manager, Department of Administrative Management
Ih-Li Peng	Senior Vice President and General Manager, Department of Risk Management
Yu-Huai Wang	Senior Vice President and General Manager, Department of Accounting
Tung-Meng Lin	Senior Vice President and General Manager, Personnel Office
Kuo-Cheng Liao	Ethics Office Acting Director



Executive Vice President

Shui-Yung Lin

President

Rueen-Fong Chu

Chair of the Board of
Directors

Yen Chrystal Shih

Executive Vice President

Chi-Chung Wang

General Auditor

Song-Bin Huang

04

IV. Operations Overview

1. Business Overview

Below is a summary of Eximbank's loan, guarantee, and export insurance business in 2011:

(1) Loans

Eximbank offers medium- and long-term export credits, short-term export credits, medium- and long-term import credits, overseas investment credits, overseas construction credits, shipbuilding credits, international syndicated loans, relending facilities and major public construction credits.

In 2011, Eximbank granted an average balance of NT\$85,009 million in loans, a year-on-year increase of 2.34% .

Eximbank's loan portfolio mainly consists of medium- and long-term loans. In 2011, the average balance of these loans totaled NT\$76,614 million, accounting for 90.12% of total loans.

(2) Guarantees

Guarantee services include overseas construction guarantees, import guarantees, export guarantees and major public construction guarantees.

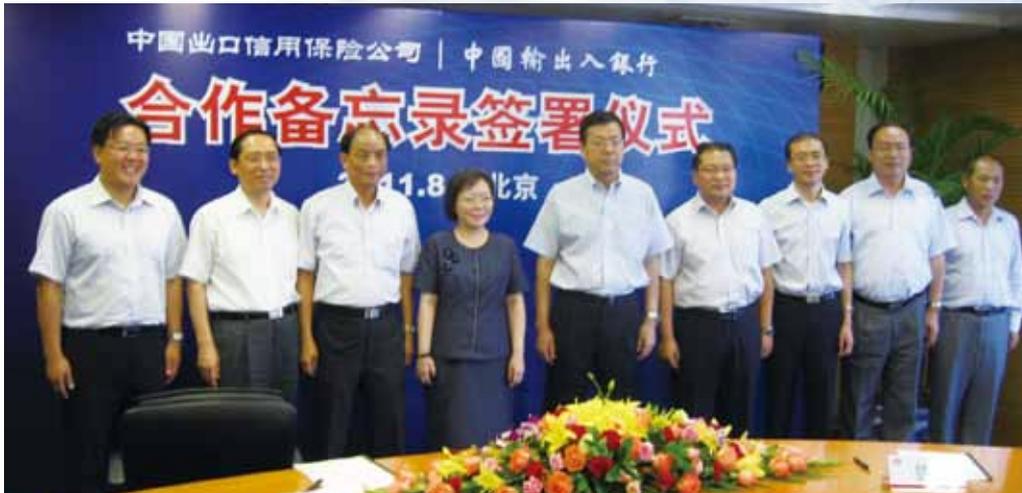
In 2011, guarantees totaled NT\$8,349 million, a year-on-year increase of 19.07%.

Eximbank's guarantees are mainly composed of major construction guarantees and import guarantees, which accounted for 57.33 % and 38.73% of the total, respectively.

(3) Export Credit Insurance

Eximbank's export credit insurance includes comprehensive export credit insurance for document against payment (D/P) and document against acceptance (D/A) transactions, comprehensive export credit insurance for open account (O/A) transactions, export credit insurance for small and medium enterprises, export credit insurance for letter of credit (L/C) transactions, medium- and long-term deferred payment insurance, overseas investment insurance, export credit insurance for offshore accounts receivable and GlobalSure Credit Insurance.

Export credit insurance coverage of 2011 totaled NT\$73,409 million, with a year-on-year increase of 14.78% .



▶▶▶ Yen Chrystal Shih, the Chair of the Board of Directors, visited the Beijing headquarters of the China Export and Credit Insurance Corporation to sign a cooperation memorandum with the corporation president, Wang Yi (5th right). (Photo taken on Aug. 10, 2011)

2. Market overview

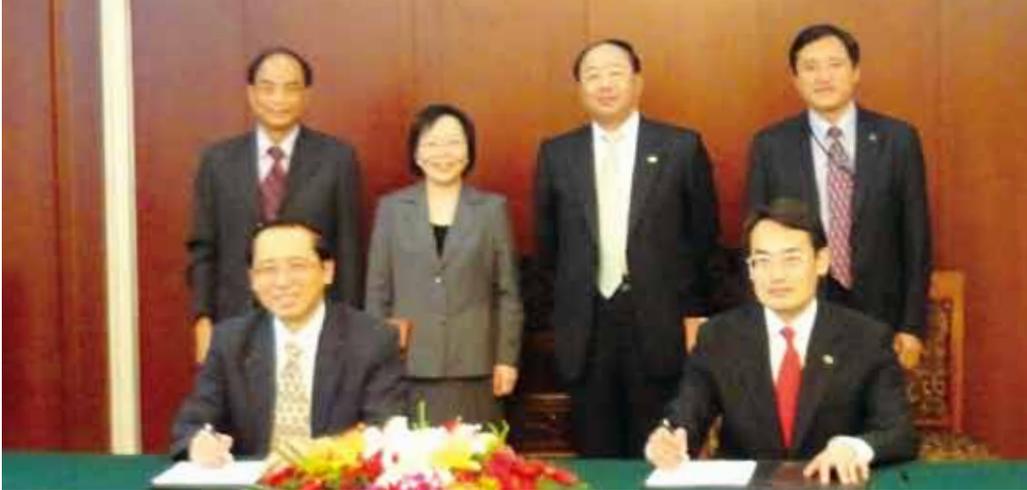
(1) Domestic and Global Financial Conditions

From the beginning of 2011, significant events across the world affected economic and financial stability. Political turmoil took place in the Middle East and North Africa; the United States initiated extensive quantitative easing measures, sending global commodity prices soaring; and the March 11 earthquake in Japan led to power shortages and work stoppages, disrupting the global supply chain. Debt woes in Europe and the United States also affected stock and foreign exchange markets, raising fears of an economic slowdown and rapid inflation.

To combat inflation, many countries raised interest rates over the first half of the year, and then turned to a moderately loose monetary policy over the second half of the year to stimulate growth. Some developed nations, however, also implemented strict austerity measures, weakening their economy. For

interest rates, the U.S. Federal Reserve kept its federal funds rate between 0% and 0.25% while the euro zone raised rates in April and July. Then as the European debt crisis worsened and sent many of the continent's countries into recession, before the end of 2011 the European Central Bank cut rates twice consecutively, sending its benchmark interest rate to a record low of 1%. And in the emerging markets of mainland China, India, and Brazil, as inflationary pressure eased during the second half of the year and growth slowed, tight monetary policies were gradually loosened.

In the exchange market, America's extensive quantitative easing caused the U.S. dollar to drop against other major currencies during the first half of the year. From August, as the European debt crisis worsened, investors sought the safety of U.S. Treasuries. The U.S. dollar strengthened, and besides the Japanese yen and Chinese renminbi, through the end of 2011 most major currencies had weakened against the greenback.



▶▶▶ Yen Chrystal Shih, the Chair of the Board of Directors, and the president of the Export-Import Bank of China, Li Ruogu (back row, 2nd right) witnessed that representatives of Eximbank and the Export-Import Bank of China signed a cooperation memorandum. (Photo taken on Aug. 11, 2011)

Taiwan's financial environment meanwhile was affected by relatively high international commodity prices during the first half of the year. Pressure caused by climbing consumer prices led our Central Bank to raise the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral by 0.125 percentage points each in both April and July, bringing the annual rates to 1.875%, 2.25% and 4.125%, respectively. In the foreign exchange market, hot money inflows had an impact on New Taiwan dollar exchange rates over the first half of the year, and the value of the New Taiwan dollar against the greenback rose from 30.368 in December 2010 to a record 28.752. But the New Taiwan dollar retreated during the second half of the year as the U.S. dollar regained strength, bringing the exchange rate to 30.290 in December 2011, for a slight annual rise of 0.25%.

(2) Credit Market Overview

Started from the second half of 2011, the expansion of the European debt crisis along with high unemployment in advanced countries and austerity measures weakened global demand. Combined with a lack of policy coordination among countries on how to handle the crisis, global growth slowed dramatically. In Taiwan, over the first half of 2011 growth was stable, but as the global economy cooled in the second half of the year, key economic indicators began to suffer. Started in November, for two straight months Taiwan's overall economic monitoring indicator flashed blue, showing that growth had become slowed. The GDP growth rate for 2011 was forecasted at 4.04%, a steep decline from the 10.72% registered in 2010.

In order to stimulate domestic demand, the Central Bank launched an expansionary monetary policy previously. As the economy began to recover, the Central Bank gradually returned to a more neutral stance. During



- ▶▶▶ Yen Chrystal Shih, the Chair of the Board of Directors, visited Korea's official export insurance organization, the Korea Trade Insurance Corporation (K-sure). Shih met with K-sure Chairman Chang-Moo Ryu at K-sure headquarters to sign a cooperation agreement. (Photo taken on May 25, 2011)

the first half of 2011, it raised interest rates twice, by a total of 0.25%. Since uncertainty remained in the global economy and inflation was expected to ease, over the second half of 2011 the Central Bank decided to keep current interest rates level. The relatively low rates caused the domestic money supply to be very high, leading to high competition in the financial market. Eximbank meanwhile continued promoting export financing and diversifying credit risk while taking part in financing of major public construction, international syndicated loans, and medium- and long-term import credits. These efforts allowed its lending performance to grow in 2011.

(3) Export Credit Insurance Market Overview

Based on statistics from customs, the amount of Taiwan's external trade reached US\$589.91 billion in 2011. The total export value was US\$308.3 billion, 12.3% higher than the previous year, and the total import value was

US\$281.61 billion, 12.1% higher than the previous year. Trade surplus reached US\$26.69 billion. Export orders showed that Taiwan maintained close relationships with its major trading partners, with 84.5% of all exports amount going to five countries/regions, namely mainland China (including Hong Kong), Association of Southeast Asian Nations (ASEAN) countries, the United States, Europe and Japan.

The top two regions for Eximbank's export insurance underwriting business in 2011 were Asia and Europe. Underwriting grew the fastest in Asia, with growth of 45.63% compared to 2010.

The numbers above show that Eximbank's insurance business was in line with the trend of the Taiwan's trade development. By giving enterprises a chance to mitigate trade credit risks, Eximbank can help them expand emerging markets, achieving Taiwan's goals of deeper penetration and an expanded global presence.



▶▶▶ Yen Chrystal Shih (1st right), the chair of the Board of Directors, visited Chairman Yong Hwan Kim (1st left) of the Export-Import Bank of Korea. The two shared ideas. (Photo taken on May 25, 2011)

3. Social Responsibility

(1) Raising Environmental Awareness by Saving Energy and Reducing Carbon

Eximbank executes government policies of saving energy, cutting carbon, reducing paper use and buying green. In 2011 it created an energy saving, carbon reduction plan that lowered costs for water, electricity, gas and paper. It also improved equipment and encouraged employees to join. Results are manifest. In 2011 electricity use was 4.47% lower than 2010, while water, gas and paper consumption dropped by 8.06%, 18.53%, and 15%, respectively. This showed Eximbank's commitment toward protecting the environment.

(2) Joining Charity Events to Improve the Bank's Image and Fulfill Social Responsibility

Social care is an important part of Eximbank's business. It actively supports charitable events, with the aim of achieving significant results through humble efforts by encouraging

more participation among citizens. In 2011, it donated secondhand computers and books along with winter clothes to rural children and disadvantaged families. It also joined numerous events hosted by the Ministry of Economic Affairs, including the Finance Cup Sports Meet, the Cherish the Earth Fest, the Golden Decade – Centenary Finance Carnival, and the Uniform Invoice Races that were held in northern, central and southern Taiwan. These events improved the bank's image while helping it fulfill its social responsibility.

4. Prospects

Eximbank will continue responding to financial trends to assist development of domestic industry. When needed it will investigate and draft new business rules to expand services and raise quality while contributing to government economic efforts. Together with the Ministry of Economic Affairs it works to strengthen export loans, and it actively helps enterprises open new global markets. By advancing export trade, it creates local job opportunities.

05 V . Financial Statements

1. Balance Sheets

NT\$ Thousand

Item	Notes	December 31,	December 31,	Percentage Change (%)
		2011	2010	
		Amount	Amount	
Assets		92,116,365	85,980,460	7.14
Cash and Cash Equivalents	Note 6 (1)	71,436	241,995	-70.48
Due from the Central Bank and Call Loans to Other Banks	Note 6 (2)	151,897	33,750	350.07
Financial Assets at Fair Value through Profit or Loss	Note 6 (3)	299,556	324,802	-7.77
Receivables – Net	Note 6 (4)	835,106	300,433	177.97
Loans and Discounts – Net	Note 6 (5)	87,855,973	81,593,150	7.68
Held-to-Maturity Financial Assets – Net		2,100,000	2,800,000	-25.00
Other Financial Assets – Net	Note 6 (6)	236,046	102,612	130.04
Fixed Assets – Net	Note 6 (7)	495,608	505,204	-1.90
Intangible Assets – Net	Note 6 (8)	25,068	20,458	22.53
Other Assets – Net	Note 6 (9)	45,675	58,056	-21.33
Total Assets		92,116,365	85,980,460	7.14
Liabilities		73,685,633	68,002,297	8.36
Due to the Central Bank and Other Banks		23,526,637	22,231,516	5.83
Borrowed Funds from the Central Bank and Other Banks	Note6(10)	18,777,587	19,269,099	-2.55
Financial Liabilities at Fair Value through Profit or Loss	Note6(11)	7,256,471	8,583,138	-15.46
Payables	Note6(12)	669,257	493,924	35.50
Financial Debentures Payable		8,750,000	5,750,000	52.17
Accrued Pension Liabilities		29,351	36,514	-19.62
Other Financial Liabilities	Note6(13)	12,350,544	9,500,683	30.00
Other Liabilities	Note6(14)	2,325,786	2,137,423	8.81
Total Liabilities		73,685,633	68,002,297	8.36
Equity		18,430,732	17,978,163	2.52
Capital		12,000,000	12,000,000	
Retained Earnings		6,029,404	5,738,931	5.06
Legal Reserve		5,918,846	5,738,931	3.13
Special Reserve		110,558		
Other Equity		401,328	239,232	67.76
Unrealized Revaluation Increments		145,041	145,041	
Cumulative Translation Adjustments		256,287	94,191	172.09
Total Equity		18,430,732	17,978,163	2.52
Total Liabilities and Equity		92,116,365	85,980,460	7.14

Notes: 1. The disclosure of major contingencies or commitments:

(1) Loan commitments that customers have yet to draw down totaled NT\$12,545,840 thousand.

(2) Various guarantees totaled NT\$7,346,776 thousand.

2. The 2010 account has been recognized by the Ministry of Audit, R.O.C. The final accounts of 2011 are still subject to audit.



▶▶▶ President Ruen-Fong Chu signed a letter of intent to cooperate with the Mongolian government on SMEs. (Photo taken on Oct. 20, 2011)

2. Income Statements

NT\$ Thousand

Item	Notes	January 1, 2011 – December 31, 2011		January 1, 2010 – December 31, 2010		Percentage Change (%)
		Subtotal	Total	Subtotal	Total	
Interest Revenue		1,176,710		1,056,413		11.39
Minus: Interest Expenses		522,047		465,280		12.20
Net Interest Income			654,663		591,133	10.75
Non-Interest Income			473,164		216,152	118.90
Net Fees and Commissions	Note 6 (15)	19,047		60,722		-68.63
Gains (Losses) on Financial Assets and Liabilities at Fair Value through Profit or Loss	Note 6 (16)	138,707		180,263		-23.05
Foreign Exchange Gains (Losses)		2,939		-2,098		240.09
Net Export Credit Insurance Income	Note 6 (17)	110,558				
Other Non-Interest Income	Note 6 (18)	201,913		-22,735		988.12
Net Operating Income			1,127,827		807,285	39.71
Bad Debt Expense	Note 6 (19)		169,646		83,064	104.24
Operating Expenses			471,703		471,644	0.01
Personnel Expenses		347,286		347,273		0.00
Depreciation and Amortization		21,893		23,846		-8.19
Other Business and Administrative Expenses		102,524		100,525		1.99
Net Income Before Tax			486,478		252,577	92.61
Income Tax			-36,689		-25,892	-41.70
Net Income			449,789		226,685	98.42

Note1: The 2010 account has been recognized by the Ministry of Audit, R.O.C. The final accounts of 2011 are still subject to audit.

Note2: Effective from 2011, Eximbank adopted the SFAS No. 40 "Insurance Contracts." According to the "Regulations Governing the Setting Aside of Various Reserve by Insurance Enterprise," the additional amount of special claim reserves and export credit insurance reserves set aside shall be recorded as special reserve in equity from 2011, before December 31, 2010, the amount of reserves were recorded under liabilities. To compare to the preceding year, the impact of recognizing net export credit insurance business income amounted to NT\$163,276 thousand as income increased the net income for 2010 to NT\$389,961 thousand.

3. Statements of Cash Flows

NT\$ Thousand

Item	January 1, 2011 – December 31, 2011		January 1, 2010 – December 31, 2010	
	Subtotal	Total	Subtotal	Total
Cash Flows from Operating Activities:		478,960		485,998
Net Income (Net Loss)		449,789		226,685
Adjustments:		29,171		259,313
Non-cash items included in Net Income		236,197		236,516
Depreciation and Amortization	21,965		23,714	
Bad Debt Expenses	159,667		58,146	
Losses (Gains) on Disposal of Assets	983		1,522	
Other Adjustments	53,582		153,134	
Decrease (Increase) in Operating Assets		-432,718		40,294
Decrease (Increase) in Receivables	-463,901		54,651	
Decrease (Increase) in Deferred Income Tax Assets	1,069		2,116	
Decrease (Increase) in Financial Assets at Fair Value through Profit or Loss	25,247		-13,862	
Decrease (Increase) in Other Financial Assets	863		-7	
Decrease (Increase) in Other Assets	4,004		-2,604	
Increase (Decrease) in Operating Liabilities		225,692		-17,497
Increase (Decrease) in Payables	187,143		-33,358	
Increase (Decrease) in Financial Liabilities at Fair Value through Profit or Loss	-26,668		16,418	
Increase (Decrease) in Deferred Income Tax Liabilities			-1,087	
Increase (Decrease) in Other Liabilities	65,217		530	
Net Cash Provided by (Used in) Operating Activities		478,960		485,998
Cash Flows from Investing Activities:		-6,297,703		169,089
Decrease (Increase) in Loans and Discounts	-6,287,121		186,697	
Proceeds from the disposal of Equipment	274		51	
Decrease (Increase) in Other Assets	-10,856		-17,659	
Net Cash Provided by (Used in) Investing Activities		-6,297,703		169,089
Cash Flows from Financing Activities:		5,061,751		-863,569
Increase (Decrease) in Amount Due to the Central Bank and Other Banks	1,295,121		-5,206,551	
Increase (Decrease) in Borrowed funds from the Central Bank and Other Banks	-491,512		-1,970,591	
Increase (Decrease) in Financial Debentures Payable	3,000,000		4,000,000	
Increase (Decrease) in Long-Term Liabilities	-8,837		-636	
Increase (Decrease) in Other Financial Liabilities	1,549,861		2,625,210	
Increase (Decrease) in Other Liabilities	-39,500		-181,939	
Cash Dividends	-243,382		-129,062	
Net Cash Provided by (Used in) Financing Activities		5,061,751		-863,569
Effects of Exchange Rate Changes		4,580		6,133
Increase (Decrease) in Cash and Cash Equivalents		-752,412		-202,349
Cash and Cash Equivalents at the Beginning of the Period		3,075,745		3,278,094
Cash and Cash Equivalents at the End of the Period		2,323,333		3,075,745



▶▶▶ Yen Chrystal Shih, the Chair of the Board of Directors, and Takashi Suzuki (4th right), the chairman of Nippon Export and Investment Insurance (NEXI), signed a supplemental reinsurance cooperation agreement. (Photo taken on Dec. 20, 2011)

4. Statements of Changes in Equity

January 1 – December 31, 2010 and 2011

NT\$ Thousand

Item	Capital	Retained Earnings			Equity Adjustments		Total
		Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Unrealized Revaluation Increments	
Balance, January 1, 2010	12,000,000	5,648,256			638,822	118,819	18,405,897
Provision for Legal Reserve		90,675		-90,675			
Cash Dividends Appropriated				-136,010			-136,010
Net Income for FY 2010				226,685			226,685
Changes in Cumulative Translation Adjustments					-544,631		-544,631
Change in Unrealized Revaluation Increments						26,222	26,222
Balance, December 31, 2010	12,000,000	5,738,931			94,191	145,041	17,978,163
Provision for Legal Reserve		179,915		-179,915			
Provision for Special Reserve			110,558	-110,558			
Cash Dividends Appropriated				-159,316			-159,316
Net Income for FY 2011				449,789			449,789
Changes in Cumulative Translation Adjustments					162,096		162,096
Balance, December 31, 2011	12,000,000	5,918,846	110,558		256,287	145,041	18,430,732



▶▶▶ The director of the Ulaanbaatar Trade and Economic Office in Taipei, Mr. Markhaaj Choidorj (3rd left), accompanied a Mongolian delegation visiting to promote bilateral trade. (Photo taken on Jun. 22, 2011)

5. Financial Analysis

NT\$ Thousand; %

Item		FY 2011	FY 2010
Operating Ability	Non-Performing Loan Ratio	0.18%	0.42%
	Ratio of Interest Income to Annual Average Loans	1.38%	1.27%
	Total Asset Turnover (Times)	1.22	0.94
	Average Operating Income per Employee	5,611	3,977
	Average Profit per Employee	2,238	1,117
Profitability	Return on Tier 1 Capital	2.70%	1.40%
	Return on Assets	0.51%	0.26%
	Return on Equity	2.47%	1.25%
	Net Income to Net Operating Income	39.88%	28.08%
	Earnings per Share (NT\$ Dollars)	0.37	0.19
Financial Structure	Ratio of Liabilities to Assets	79.99%	79.09%
	Ratio of Fixed Assets to Equity	2.69%	2.81%
Growth Rate	Asset Growth Rate	7.14%	-1.16%
	Profit Growth Rate	92.61%	-51.44%
Cash Flow	Cash Flow Ratio	1.30%	1.55%
	Cash Flow Adequacy Ratio	292.90%	280.65%
	Cash Flow Sufficiency Ratio	-7.61%	287.42%
Liquid Reserve Ratio		24.59%	30.34%
Operating Scale	Market Share of Assets	0.27%	0.26%
	Market Shares of Net Worth	0.84%	0.86%
	Market Shares of Loans	0.41%	0.41%

1. The decline in the non-performing loan ratio in 2011 was attributed to efforts to clean up overdue loans.
2. The ratio of operating ability, profitability, and profit growth all increased in 2011 primarily because Eximbank adopted the SFAS No. 40 "Insurance Contracts" from January 1, 2011. According to the "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises," the additional amount of special claim reserves and export credit insurance reserves set aside from 2011 switched from liabilities to special reserve in equity at the end of this fiscal year. At the same time, net income would increase resulting from the change in accounting principle. Excluding the impact of change in accounting principle, net income increased due to bad-debt collection.
3. Asset growth rate increased in 2011 primarily because of the increase of total amounts of outstanding loans owing to expanded business.
4. The cash flow sufficiency ratio decreased in 2011 primarily because the increase in loans and discounts led to lower net cash flows from investing activities.

Note 1: The 2010 account has been recognized by the Ministry of Audit, R.O.C. The final accounts of 2011 are still subject to audit.



▶▶▶ Ambassador Victor S. Ngele (2nd left), from the Embassy of the Solomon Islands in Taipei, visited Eximbank. He discussed trade between the two countries and bank cooperation. (Photo taken on Feb. 10, 2011)

Financial Formulae:

1. Operating Ability

- (1) Non-Performing Loan Ratio = $\frac{\text{Non-Performing Loans}}{\text{Total Loans Outstanding}}$
- (2) Ratio of Interest Income to Annual Average Loans = $\frac{\text{Total Interest Income}}{\text{Annual Average Loans}}$
- (3) Total Assets Turnover = $\frac{\text{Net Operating Income}}{\text{Total Assets}}$
- (4) Average Operating Income per Employee (Note 5) = $\frac{\text{Net Operating Income}}{\text{Number of Employees}}$
- (5) Average Profit per Employee = $\frac{\text{Net Income}}{\text{Number of Employees}}$

2. Profitability

- (1) Return on Tier 1 Capital = $\frac{\text{Net Income Before Tax}}{\text{Average Total Tier 1 Capital}}$
- (2) Return on Assets = $\frac{\text{Net Income}}{\text{Average Total Assets}}$

$$(3) \text{ Return on Equity} = \frac{\text{Net Income}}{\text{Average Net Equity}}$$

$$(4) \text{ Net Income to Net Operating Income} = \frac{\text{Net Income}}{\text{Net Operating Income}}$$

$$(5) \text{ Earnings per Share} = \frac{\text{Net Income} - \text{Dividends from Preferred Stocks}}{\text{Weighted Average Outstanding Shares}} \text{ (Note 4)}$$

3. Financial Structure

- (1) Ratio of Liabilities to Assets = $\frac{\text{Total Liabilities (Note 3)}}{\text{Total Assets}}$
- (2) Ratio of Fixed Assets to Equity = $\frac{\text{Net Fixed Assets}}{\text{Net Equity}}$

4. Growth Rate

- (1) Asset Growth Rate = $\frac{\text{Total Assets for Current Year} - \text{Total Assets for Previous Year}}{\text{Total Assets for Previous Year}}$

(2) Profit Growth Rate = (Net Income Before Tax for Current Year – Net Income Before Tax for Previous Year) / Net Income Before Tax for Previous Year

5. Cash Flows (Note 6)

(1) Cash Flow Ratio = Net Cash Flows from Operating Activities / (Due to Banks + Commercial Papers Payable + Financial Liabilities at Fair Value through Profit or Loss + Securities Sold Under Agreements to Repurchase + Payables Within One Year)

(2) Cash Flow Adequacy Ratio = Net Cash Flows from Operating Activities for the Past Five Years / (Capital Expenditures + Cash Dividends) for the Past Five Years

(3) Cash Flow Sufficiency Ratio = Net Cash Flows from Operating Activities / Net Cash Flows from Investing Activities

6. Liquid Reserve Ratio = Central Bank Liquid Asset Requirements / Liabilities Requiring the Provision of Liquid Reserves

7. Operating Scale

(1) Market Share of Assets = Total Assets / Total Assets of All Financial Institutions Available for Deposits and Loans (Note 7)

(2) Market Share of Net Worth = Net Worth / Total Net Worth of All Financial Institutions Available for Deposits and Loans

(3) Market Share of Loans = Total Loans / Total Loans of All Financial Institutions Available for Deposits and Loans

Note 3: Liabilities exclude guarantee reserve, reserve for losses from securities trading, reserve for default losses, and reserve for accident losses.

Note 4: Eximbank is a non-company entity. For ease of analysis, the number of shares are calculated based on a hypothetical value of NT\$10 per share.

Note 5: Net operating income refers to the sum of interest income and non-interest income.

Note 6: Comments on cash flow analysis:

1. Net cash flows from operating activities refer to the same item in the statements of cash flows.
2. Capital expenditures refer to cash outflows required for capital investments each year.
3. Cash dividends include cash dividends for common stock and preferred stock.

Note 7: Financial institutions handling deposits and loans include domestic banks, the local branches of foreign banks, credit cooperatives, credit departments of farmers' and fishermen's associations, and investment and trust companies.

6. Capital Adequacy

NT\$ Thousand; %

		Item	FY 2011	FY 2010
Self-Owned Capital	Tier 1 Capital	Common Equity	12,000,000	12,000,000
		Non-Cumulative Perpetual Preferred Stock		
		Non-Cumulative Perpetual Subordinated Debt		
		Capital Collected in Advance		
		Capital Reserve (Excluding Reserves Arising from Fixed Assets Revaluation)		
		Legal Reserve	5,918,846	5,738,931
		Special Reserve	110,558	
		Accumulated Gains or Losses		
		Minority Interest		
		Equity Adjustments	256,287	94,191
		Less: Goodwill		
		Less: Unamortized Losses on Sale of Non-Performing Loans		
		Less: Capital Deductions	51,250	51,250
	Tier 1 Capital	18,234,441	17,781,872	
	Tier 2 Capital	Cumulative Perpetual Preferred Stock		
		Cumulative Perpetual Subordinated Debt		
		Reserves Arising from Fixed Assets Revaluation	145,041	145,041
		45% of Unrealized Gains on Available-for-Sale Equities		
		Convertible Bond		
		General Reserves / Loan-Loss Reserves	826,838	736,168
		Long-Term Subordinated Debt		
		Non-Perpetual Preferred Stock		
		Total of Non-Cumulative Perpetual Preferred Stock and Non-Cumulative Perpetual Subordinated Debt Exceeding Tier 1 Capital by 15%		
Less: Capital Deductions		51,250	51,250	
Tier 2 Capital	920,629	829,959		
Tier 3 Capital	Short-Term Subordinated Debt			
	Non-Perpetual Preferred Stock			
	Tier 3 Capital			
Self-Owned Capital			19,155,070	18,611,831
Total Risk-Weighted Assets	Credit Risk	Standardized Approach	64,202,929	56,581,768
		Internal Ratings-Based Approach		
		Assets Securitization		
	Operational Risk	The Basic Indicator Approach	1,922,263	2,100,299
		The Standardized Approach / The Alternative Standardized Approach		
		Advanced Measurement Approach		
	Market Risk	Standardized Approach	21,795	211,373
Internal Models Approach				
Total Risk-Weighted Assets			66,146,987	58,893,440

Item	FY 2011	FY 2010
Capital Adequacy Ratio	28.96%	31.60%
Tier 1 Risk-Based Capital Ratio	27.57%	30.19%
Tier 2 Risk-Based Capital Ratio	1.39%	1.41%
Tier 3 Risk-Based Capital Ratio		
Common Equity to Total Assets Ratio	13.03%	13.96%

Note: Self-Owned Capital and Total Risk-Weighted Assets have been filled in accordance with “Regulations Governing the Capital Adequacy of Banks” and related instructions for capital adequacy calculations.

Financial Formulas

1. Self-Owned Capital = Tier 1 Capital + Tier 2 Capital + Tier 3 Capital
2. Total Risk-Weighted Assets = Credit Risk-Weighted Assets + (Operational Risk + Market Risk) Capital Requirement \times 12.5
3. Capital Adequacy Ratio = Self-Owned Capital / Total Risk-Weighted Assets
4. Tier 1 Risk-Based Capital Ratio = Tier 1 Capital / Total Risk-Weighted Assets
5. Tier 2 Risk-Based Capital Ratio = Tier 2 Capital / Total Risk-Weighted Assets
6. Tier 3 Risk-Based Capital Ratio = Tier 3 Capital / Total Risk-Weighted Assets
7. Common Equity to Total Assets Ratio = Common Equity / Total Assets

7. Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies and Basis of Measurement

(I) Foreign Currency Transactions and Foreign Currency Financial Statements

1. Foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange gains or losses derived from foreign-currency transactions or monetary assets and liabilities denominated in foreign currencies are recognized in earnings. On the balance sheet date, monetary assets and liabilities denominated in foreign currencies are revalued at prevailing exchange rates with the resulting gains or losses recognized in earnings. However, any foreign exchange gain or loss arising from foreign currency advances with a long-term investment nature to offshore branches not intended for settlement in the foreseeable future is entered as an owners' equity adjustment item under "Cumulative Translation Adjustment."
2. Translation of foreign currency financial statements into local currency financial statements is based on the Schedule of Foreign Currency Settlement Rates published by the Bank of Taiwan.

(II) Taxes

1. Under the Ministry of Finance Circular No. 68 Tai-Tsai-Shui 37537, Eximbank's income from export credit insurance business is exempt from corporate income tax, business tax and stamp duty.
2. The Alternative Minimum Tax has been applicable from the 2006 tax year for filing of business income tax returns. Eximbank's tax-exempt income from its Offshore Banking Branch is included in its basic business income for computation of the basic tax amount.

(III) Financial Products:

Based on Eximbank's Financial Product Accounting Policies, which were approved by the Board of Directors, apart from forex spot and financial derivatives trading which are based on trade-day accounting, other transactions are based on settlement-day accounting.

Eximbank's financial products are divided into the following key categories:

1. Investment in Bills Held to Maturity:

Book value as of closing date was NT\$2,100 million. To maintain the CBC Interbank Funds Transfer System's pledge requirement, Eximbank purchased the Central Bank's negotiable certificate of deposits to be held to maturity. These certificates are recognized at cost and interest is calculated monthly.

2. Loans and Receivables

Initial value is recognized as the trading price plus the acquisition cost. Valuation is subsequently measured at amortized cost using the effective interest rate method of amortization, and gains or losses are recognized at the time of derecognition, impairment, or amortization.

- Notes of NT\$26,498 thousand and GDRs of NT\$42 thousand were obtained from restructured non-performing loans in 2011, which were recorded as debt investment with no active market and financial assets carried at cost, respectively. Impairment loss was assessed, and Eximbank plans to sell these investments at an appropriate time.

4. Long-Term Equity Investments:

Eximbank invested NT\$7 million in the Taipei Forex Incorporation, NT\$45.5 million in the Financial Information Service Co., Ltd, and NT\$50 million in Taiwan Asset Management Company. Individually, Eximbank controls less than 20% of all outstanding shares, so it does not exercise significant influence in the companies. As the companies are neither listed in the stock exchange nor over-the-counter, they do not have a quoted market price in an active market, so their fair value cannot be reliably measured. Therefore, the investments are classified as financial assets carried at cost. Accounting treatment for subsequent valuation is based on the cost method.

5. Trading of Financial Derivatives:

Eximbank trades financial derivatives to manage assets and liabilities so as to pursue long-term capital, reduce cost of capital, and control risk. Subsequent valuation of financial derivatives is based on Eximbank's proprietary valuation model, which derives fair value by adopting the discounted cash flow method. This method is widely used among investors. On the accounts closing day, the positive fair value was NT\$299,556 thousand and was recognized as a financial asset. Change in fair value is recognized as profit or loss of the current period.

Trading of derivatives with unexpired maturity on the accounts closing day is detailed as follows:

Interest Rate-Related Contracts

Instrument: Interest Rate Swaps

Purpose: To meet demand for Eximbank's NTD-denominated loans, financial debentures are issued with interest rate swaps agreements to tap floating money as a long-term source of funds.

Notional Principal: NT\$6.95 billion.

Credit Risk: Trading counterparts are financial institutions with good international credit standing. Hence, credit risk is within Eximbank's control.

Market Risk: This is for hedging purposes. Funding costs for financial debentures may be converted into more favorable benchmark rates. Also, financial debentures issued under

fixed interest rates may convert positions with substantial risk exposure to floating rate to reduce interest rate risk.

6. Financial Liabilities Designated at Fair Value through Profit or Loss:

Although Eximbank's derivatives are traded to provide an economic hedge, they do not fit the definition of hedging instruments in strict terms. Therefore, such transactions are recognized as "non-hedging transactions." Derivatives that do not meet the criteria for hedge accounting are initially recognized at fair value, with transaction costs expensed as incurred. The derivatives are remeasured at fair value with changes in fair value recognized in earnings. To reduce inconsistencies during accounting calculation and recognition, the corresponding financial debentures, valued at NT\$6,950 million, are recognized as financial liabilities designated at fair value through profit or loss. The changes in fair value shall also be stated in the income statement. Subsequent valuation thereof is based on a model developed by Eximbank. The model adopts the discounted cash flow method, which is widely used by market investors, to determine fair value. (Book value on the day of closing of accounts was NT\$7,256.471 million.) The change in fair value is recognized as a profit or a loss for the current period.

(IV) Valuation and Depreciation of Fixed Assets:

Fixed assets include land, buildings, machinery & equipment, transportation vehicles, miscellaneous equipment, and leasehold improvements. Eximbank's land is all carried on the accounts at cost, except for land belonging to the head office, which was revalued in October 2001, July 2005 and March 2010. Valuation of other fixed assets is based on historical cost less accumulated depreciation. Depreciation is calculated using the straight-line depreciation method.

(V) Asset Impairment:

As of December 31, 2011, the "book value" of Eximbank's real estate totaled NT\$467.784 million, while its estimated "fair value" totaled NT\$1,098.014 million. After deducting disposal costs of NT\$33.493 million, the "net fair value" totaled NT\$1,064.521 million, indicating there was no asset impairment situation as described in the SFAS No. 35.

(VI) Valuation and Amortization of Intangible Assets

Eximbank's intangible assets are computer software, amortized using the straight-line depreciation method.

(VII) The Methods of Deferred Asset Valuation Basis and Amortization:

Eximbank's deferred assets are "deferred income tax assets" and "other deferred assets," where other deferred assets are accounted by actual expenditure amount and will be equally amortized within five years. Meanwhile, due to tax effects of temporary differences, deferred income tax assets will be

reversed in the upcoming recognized year.

(VIII) Employee Retirement Plan and Pension Cost

The Labor Standards Act became applicable to the financial industry in May 1997. Net pension cost for the head office and domestic branches was calculated based on the Regulations Governing the Allocation and Management of Labor Pension Fund Contributions and the SFAS No. 18. Such cost is recognized under the Employee Pension and Redundancy Package and the Accrued Pension Liabilities.

Pension cost is based on total annual salaries (allocation for expatriates is based on local salary scales). Allocation is 10.4% for executive staff and 14.3% for non-executive staff. Contributions to staff are administered by Eximbank's Retirement Fund Supervisory Committee, and contributions for non-executive staff and security guards are deposited under the account of the Eximbank Workers Pension Monitoring Committee in the Bank of Taiwan.

Eximbank contributes an amount equivalent to 6% of employees' salary for employees opting for the new pension schedule. Such contribution is deposited in the employees' personal pension accounts with the Bureau of Labor Insurance.

(IX) Income Recognition:

Except for financial products stated under part (3) hereof, income is recognized on an accrual

basis.

(X) Differentiation of Capital Expenditure and Expenses:

Expenditures exceeding NT\$10,000 with a minimum two-year economic life are recognized as assets; otherwise, as expenses.

(XI) Gains and Losses from the Disposal of Fixed Assets

Losses from the disposal of fixed assets due to asset write-offs are treated as non-operating expenses.

(XII) Impairment of Financial Assets Measured at Amortized Cost

1. At the end of each reporting date, Eximbank conducts an evaluation to determine whether any objective evidence exists which would indicate that an asset may have been impaired. If such evidence is found, an impairment loss is recognized. The amount of impairment loss is the difference between the book value of the financial asset and the estimated present value based on future cash flow discounted with the original effective interest rate. In cases where there is no objective evidence of impairment for an individually assessed financial asset, losses are estimated based on a collective assessment of assets with similar credit risk characteristics. Estimated future cash flows of portfolios, including estimated consolidated losses, are based on the historical losses of each portfolio.

2. The book value of financial assets is reduced

by the allowance account. The amount of impairment loss is recognized as the profit or loss of the current period. When determining the amount of impairment loss, the estimate of expected future cash flow includes the recoverable amount from collateral and related insurance.

3. Debt which is confirmed to be uncollectible is written off upon approval by the Board of Directors.
4. If the amount of impairment loss decreases in the subsequent period, and the respective reduction is related to incidents after the loss was recognized (i.e., improvement of credit ratings of the debtor), then previously recognized impairment losses will be adjusted by reversing the allowance account. Such reversal shall not cause the carrying value of the financial asset to be greater than the amortized cost as if the loss was not recognized. The reversal amount shall be recognized as the profit or loss of the current period.
5. With respect to loan assets, on the date of balance sheets, allowances for doubtful accounts are evaluated in accordance with the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing / Non-accrual Loans” enacted by the FSC.

(XIII) Provision of Reserves for Guaranteed Liability

The guarantee cases of Eximbank currently involved are mainly performance obligations, which are not classified as Financial Guarantee

Contracts. The reserve for guarantee obligation is conducted in accordance with the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing / Non-accrual Loans,” which require a reserve based on 0.5% of the remaining balance of guarantee.

(XIII) Provisions for Various Insurance Reserves:

Among various insurance reserves, “claim reserve,” “special claim reserves,” “unearned premium reserves,” and “export credit insurance reserves” are prepared in compliance with relevant regulations. Beginning in 2011, the annual increase of the escrow amount of “special claim reserves,” and “export insurance reserves” are recognized under “special reserves,” which is under equity. “Export credit insurance reserves” recognized under liabilities for the current fiscal year includes allocations from the Ministry of Finance and the Bureau of Foreign Trade of the Ministry of Economic Affairs.

Note 2. Significant Commitments and Contingent Liabilities

1. The followings are not recognized on the balance sheet but are addressed in the footnotes: assets (liabilities) under trust, agency, and guarantee of NT\$7,751,482 thousand, including guarantee receivables of NT\$7,346,776 thousand, custodial collections receivables of NT\$339,591 thousand, joint loans receivables (memo account) of NT\$64,267 thousand, and collateral of NT\$848 thousand.

2. No bills receivable (or payable).
3. Undisbursed loan commitments of NT\$12,545,840 thousand.

Note 3. Financial Information of the Operating Segments

Eximbank's results of operating segments are periodically reviewed by the chief operating decision maker in order to develop policies regarding resource allocation and performance assessment. The information used is classified by the nature of the business activities in which it engages in accordance with the SFAS No. 41 "Operating Segment." The reportable operating segments are the Credit Business Segment and the Export Credit Insurance Business Segment.

Eximbank Financial Information of Operating Segments

NT\$ thousand

	FY 2011			FY 2010		
	Credit Business	Export Credit Insurance Business	Total	Credit Business	Export Credit Insurance Business	Total
Net Interest Income	649,543	5,120	654,663	586,193	4,940	591,133
Non-Interest Income	378,811	94,353	473,164	228,011	151,417	379,428
Net Fees and Commissions	16,772	2,275	19,047	55,770	4,952	60,722
Gains (Losses) on Financial Assets and Liabilities at Fair Value through Profit or Loss	138,707		138,707	180,263		180,263
Foreign Exchange Gains (Losses)	2,939		2,939	-2,098		-2,098
Net Export Credit Insurance Income		110,558	110,558		163,276	163,276
Other Non-Interest Income	220,393	-18,480	201,913	-5,924	-16,811	-22,735
Net Operating Income	1,028,354	99,473	1,127,827	814,204	156,357	970,561
Bad Debt Expenses	169,646		169,646	83,064		83,064
Operating Expenses	300,210	171,493	471,703	304,942	166,702	471,644
Net Income (Losses) Before Tax	558,498	-72,020	486,478	426,198	-10,345	415,853

Note: 1. Beginning in 2011, Eximbank adopted the SFAS No. 40 "Insurance Contracts." Pursuant to the "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises," starting in 2011, the additional amount of "special claims reserves" and "export credit insurance reserves" has been amended to be recognized as "special reserves in equities" instead of the original "operation and liabilities reserves." To ensure uniform comparison between the two years, the net export credit insurance income has been adjusted for fiscal year 2010.

Note: 2. The evaluation of the asset value of Eximbank's operating segment has not been provided for an operational strategy, and has thus been disclosed as "zero" to comply with the provision listed under "Accounting Research and Development Foundation Interpretation (99) Ji-Mi-Zi 151."

Note 4. Reasons for Changes in Accounting Principles and Their Effect on the Financial Statements

1. On January 1, 2011, Eximbank began adopting the SFAS No. 40 “Insurance Contracts”. Adopting this standard has no effect on the cumulative change in accounting principles. Eximbank complied with the aforesaid standard by arranging various export credit insurance reserves to be expressed on a net basis. Furthermore, the additional amount of special claim reserves and export credit insurance reserves set aside shall be recorded as special reserves in equity from the beginning of 2011 due to the amendments of the FSC on the “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises” issued on December 28, 2009, and the interpretation Jin-Guan-Pao No.09902513540 issued on December 6, 2010. As a result of the adoption of the new accounting principles, net income before tax increased by NT\$110,558 thousand.
2. Effective January 1, 2011, Eximbank adopted the third-time amended SFAS No. 34 “Financial Instruments: Recognition and Measurement” in which originally generated loans and receivables are included in the scope. Therefore, the recognition, subsequent valuation and impairment losses of loans and receivables shall comply with the amendment. Such change in accounting principles caused a decrease in revenue

from fees and commissions of NT\$79,583 thousand, an increase in interest revenue of NT\$15,188 thousand, and a decrease in net income before tax by NT\$64,395 thousand.

3. On January 1, 2011, Eximbank adopted the SFAS No. 41, “Operating Segments.” Pursuant to the standard, companies shall disclose information that is helpful to users of the financial statements in evaluating the company's operating activities and the nature and financial impact of its economic conditions. Eximbank divided its reported segments into the Credit Business Segment and the Export Credit Insurance Business Segment based on the information provided to the chief operating decision maker, and the nature of the business activities.

Note 5. Pre-disclosure of the Adoption of IFRS

Pursuant to the “Framework for Adoption of International Financial Reporting Standards by Companies in the ROC ” released by the FSC on May 14, 2009, banks, financial holding companies, and bills finance corporations in Taiwan shall begin adopting the IFRSs in 2013 to compile financial statements. To comply with this amendment, Eximbank has formed a specific task force and established an IFRSs adoption plan. The plan will be coordinated by Mr. Lin Sui Yong, Vice President of Eximbank. The main contents of the plan, expected schedule, and current status of execution are as follows:

Plan Contents	Responsible Department	Current Status of Execution
1. Phase I: Assessment (2010.1.1 to 2011.12.31)		
⊙ Establish plan for adopting IFRSs and create specific task force	Accounting Department	Completed
⊙ Conduct phase one of internal training of employees	Personnel Office	Completed
⊙ Analyze differences between current accounting practices and IFRSs and assess effects of changes	Accounting Department and relevant units	Completed
⊙ Evaluate the effect of exemptions under IFRS 1 "First-time Adoption of IFRSs"	Accounting Department and relevant units	Completed
⊙ Assess adjustments to be made to the information technology system and internal controls	All relevant units	Completed
2. Phase 2: Preparation (2011.1.1 to 2012.12.31)		
⊙ Determine the adjustments to be made to the current accounting policies to comply with IFRSs	Accounting Department and relevant units	Completed
⊙ Determine how to adopt the IFRS 1 "First-time Adoption of IFRSs"	Accounting Department and relevant units	Completed
⊙ Adjust relevant information system and internal controls	All relevant units	In progress
⊙ Conduct phase two of the internal training of employees.	Personnel Office	In progress
3. Phase 3: Implementation (2012.1.1 to 2013.12.31)		
⊙ Test operation status of the relevant information system	Information Technology Department and relevant units	In progress
⊙ Collect information for preparation of the opening IFRSs balance sheet and comparative financial statements in conformity with IFRSs adoption	Accounting Department and relevant units	In progress
⊙ Prepare financial statements in compliance with IFRSs	Accounting Department	

The significant differences between the existing accounting policies and the accounting policies to be adopted under IFRSs, as evaluated by Eximbank, are as follows:

Accounting Issue	Explanation of the difference
Employee Benefits	The ROC SFAS No. 18 states that pensions are to be recognized as liabilities, and does not make further specification in regards to other retirement benefits with the exception of IAS 19 and the “Regulations Governing the Preparation of Financial Reports by Public Banks” released by the FSC that will be effective 2013. In addition to recognizing pensions, Eximbank is also responsible for recognizing other employee retirement benefits including excess interest expense(s) for preferential deposits of retired employees, holiday pay, condolence pay, etc. Eximbank has hired actuaries to determine such relative liabilities and retained earnings at the date of transition to IFRSs.
Reserves	According to the “Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises,” effective in 2013 and issued by FSC, parts of reserves accumulated before December 31, 2010, listed as “Special Claim Reserves” and “Export Credit Insurance Reserve-own” under “Operating and Liabilities Reserve,” do not meet the criteria for “reserves” under IFRSs. Therefore, these reserves shall be recorded as special reserve in equity for first-time adopting of IFRSs.
Translation of Foreign Currency	Eximbank currently determines profit or losses of Offshore Banking Branches based on the foreign exchange rate of the previous period (end of June) or the following period (end of December) against the New Taiwan dollar. To further comply with IAS 21, starting from 2013, profits and losses of aforesaid Branch will be based on the foreign exchange rate at the end of the month in which the transactions take place.
Classification of Financial Assets	Pursuant to the “Regulations Governing the Preparation of Financial Reports by Public Banks” released by the FSC, which will go into effect in 2013, in Article 26, section 1, upon first-time adoption of IFRSs, other than the financial assets and financial liabilities carried at cost, all other financial assets and liabilities may not be reclassified. Eximbank currently has invested in three non-publicly traded companies, which were originally listed as “financial assets carried at cost.” After implementation of IAS 39, the assets may not be reclassified, thus implementation of IFRSs will not affect the bank’s accounting.
Routine Transactions of Financial Assets	Eximbank currently recognizes the trading of financial assets measured at fair value through profit or loss by settlement-day accounting except for forex spot and financial derivatives, which are recognized by trade-day accounting. After adoption of IFRSs, trade-day accounting will apply to financial assets at fair value through profit or loss, and settlement-day accounting will apply to other financial assets. Moreover, the affected accounting treatments for bonds shall be adjusted at the same time.
Dividend Income	Eximbank currently recognizes dividend income upon collection of the dividend. Upon implementation of IFRSs, dividend income will be recognized as declared.
Income Tax	The ROC SFAS No.22 currently adopts the income statement method, which is different from the balance sheet method adopted by IAS 12. Thus upon implementation of IFRSs, Eximbank will recognize and calculate the impact on income under other comprehensive income.
Property and Equipment	After implementation of IFRSs, property and equipment will be revalued by carried amount. All land owned by Eximbank will no longer be revalued. Any appreciation in property will not affect the equity.

Eximbank’s assessment is based on the current interpretation and translation of the IFRSs by the Accounting Research and Development Foundation approved by the FSC.



▶▶▶ Mr. Levi A Bradshaw (1st left), the lead budget analyst in the St. Kitts and Nevis Ministry of Finance, and the Hon. Dr. Earl Asim Martin (2nd right), minister of public works, utilities, local transport and housing, led a delegation to visit Eximbank. (Photo taken on Mar. 8, 2011)

Note 6 Details of Significant Accounts (NT\$ Thousand)

(1) Cash and Cash Equivalent

Item	Date	December 31, 2011	December 31, 2010
Cash on Hand		9	9
Petty Cash & Revolving Funds		241	311
Checks for Clearance		702	99
Due from Banks		70,484	241,576
Total		71,436	241,995

(2) Call Loans to Other Banks and Due from the Central Bank

Item	Date	December 31, 2011	December 31, 2010
Call Loans to Other Banks		57,933	
Due from the Central Bank		93,964	33,750
Total		151,897	33,750

(3) Financial Asset at Fair Value through Profit or Loss

Item	Date	December 31, 2011	December 31, 2010
Financial Assets Held for Trading-Adjustment Valuation		299,556	324,802
Total		299,556	324,802

(4) Receivables - Net

Item	Date	December 31, 2011	December 31, 2010
Earned Revenue Receivable		756	473
Interest Receivable		230,821	239,279
Accounts Receivable Factoring without Recourse		336,265	
Premium Receivable		1	1
Claims Recoverable from Reinsurers		9,844	
Other Receivable		79,169	3,597
Forex Spot Receivable		181,650	59,000
Total		838,506	302,350
Allowance for Doubtful Accounts		-3,400	-1,917
Net Amount		835,106	300,433

(5) Loans and Discounts - Net

Item	Date	December 31, 2011	December 31, 2010
Short-Term Loans		6,626,987	7,122,261
Short-Term Secured Loans		5,000	10,000
Medium-Term Loans		48,710,434	41,798,818
Medium-Term Secured Loans		5,731,559	5,113,376
Long-Term Loans		2,850,240	2,350,224
Long-Term Secured Loans		24,286,187	25,258,257
Overdue Loans		127,359	342,737
Total		88,337,766	81,995,673
Allowance for Doubtful Accounts		-481,793	-402,523
Net Account		87,855,973	81,593,150

(6) Other Financial Assets-Net

Item	Date	December 31, 2011	December 31, 2010
Short-Term Advances			112
Reinsurance Reserve Assets		107,800	
Financial Assets Carried at Cost		102,542	102,500
Accumulated Impairment - Financial Assets at Cost		-42	
Debt Investment With No Active Market		26,498	
Accumulated Impairment - Debt Investment With No Active Market		-752	
Net Amount		236,046	102,612

(7) Fixed Assets-Net

Item	Date	December 31, 2011	December 31, 2010
Land		80,203	80,203
Revaluation Increments-Land		186,420	186,420
Buildings		351,936	351,598
Accumulated Depreciation – Building		-150,775	-144,793
Machinery and Equipment		50,391	57,991
Accumulated Depreciation – Machinery and Equipment		-33,752	-40,707
Transportation Equipment		11,244	12,089
Accumulated Depreciation – Transportation Equipment		-7,737	-7,278
Miscellaneous Equipment		27,125	28,170
Accumulated Depreciation – Miscellaneous Equipment		-20,614	-20,298
Leasehold Improvements		2,401	3,274
Accumulated Depreciation – Leasehold Improvements		-1,234	-1,465
Net Amount		495,608	505,204

(8) Intangible Assets - Net

Item	Date	December 31, 2011	December 31, 2010
Software		25,068	20,458
Total		25,068	20,458

(9) Other Assets - Net

Item	Date	December 31, 2011	December 31, 2010
Inventory of Supplies		137	106
Prepaid Expenses		22,717	26,879
Other Prepayments		131	4
Refundable Deposits		640	1,326
Temporary Payments and Suspense Accounts		1,306	7,974
Deferred Income Tax Assets		20,316	21,385
Other Deferred Assets		428	382
Total		45,675	58,056

(10) Borrowed Funds from the Central Bank and Other Banks

Item	Date	December 31, 2011	December 31, 2010
Borrowed Funds from the Central Bank		18,138,838	18,604,100
Borrowed Funds from Other Banks		638,749	664,999
Total		18,777,587	19,269,099



- ▶▶▶ Eximbank held a social welfare activity that encouraged people to donate secondhand computers. Triple-E Institute President Jeffery Bor (2nd right) presented a thank-you certificate. (Photo taken on Feb. 11, 2011)

(11) Financial Liabilities at Fair Value through Profit or Loss

Item	Date	December 31, 2011	December 31, 2010
Financial Liabilities Held for Trading-Adjustment Valuation			1,794
Financial Liabilities Designated at Fair Value through Profit or Loss		6,950,000	8,250,000
Financial Liabilities Designated at Fair Value through Profit or Loss-Adjustment Valuation		306,471	331,344
Total		7,256,471	8,583,138

(12) Payables

Item	Date	December 31, 2011	December 31, 2010
Accrued Expenses		97,902	83,738
Accrued Interest		146,070	148,942
Tax Payable		36,507	23,628
Dividends (Official) and Bonuses Payable			11,811
Accounts Payable Factoring without Recourse		100,140	
Custodial Collections Payable		2,486	5,096
Commissions Payable		201	744
Reinsurance Benefits Payable		11,500	42,266
Other Payable		92,801	118,699
Forex Spot Payable		181,650	59,000
Total		669,257	493,924

(13) Other Financial Liabilities

Item	Date	December 31, 2011	December 31, 2010
Commercial Paper Payable		5,300,000	
Discount on Commercial Paper Payable		-208	
Funds Appropriated for Loans		7,050,752	9,500,683
Total		12,350,544	9,500,683

(14) Other Liabilities

Item	Date	December 31, 2011	December 31, 2010
Unearned Premiums		806	1,142
Unearned Revenues		67,957	2,404
Estimated Land Value-Added Tax Payable		41,379	41,379
Guarantee Liability Reserve		36,734	22,996
Unearned Premium Reserve		70,373	51,565
Claim Reserve		142,574	12,916
Export Credit Insurance Reserve		1,762,329	1,884,363
Special Claim Reserve		85,501	85,501
Refundable Deposits		1,761	2,738
Custodial Deposits		2,021	2,070
Temporary Receipts and Suspense Accounts		114,351	30,349
Total		2,325,786	2,137,423

(15) Net Fees and Commissions

Item	Date	January 1~December 31, 2011	January 1~December 31, 2010
Revenue from Fees and Commissions		38,030	78,325
Expenses from Fees and Commissions		18,983	17,603
Net Amount		19,047	60,722

(16) Gains or Losses on Financial Assets and Liabilities at Fair Value through Profit or Loss

Item	Date	January 1~December 31, 2011	January 1~December 31, 2010
Gain on Disposal of Financial Assets		139,090	179,501
Gain (+) / Loss (-) on Valuation of Financial Assets		-25,247	15,375
Gain (+) / Loss (-) on Valuation of Financial Liabilities		24,864	-14,613
Net Amount		138,707	180,263



▶▶▶ Eximbank held a social welfare activity to donate secondhand books to rural elementary schools. The principal of Taoyuan Jeso Elementary school, Yu, Su-Chen, presented a thank-you certificate. (Photo taken on May 31, 2011)

(17) Net Export Credit Insurance Income

Item	Date	January 1~December 31, 2011	January 1~December 31, 2010
Export Credit Insurance Income		294,372	338,829
Premium Income		218,201	283,259
Reinsurance Commissions Income		23,363	27,719
Claims Recovered from Reinsurers		40,602	12,822
Unearned Premium Reserve Released		12,206	3,732
Claim Reserve Released			11,297
Export Credit Insurance Costs		183,814	338,829
Reinsurance Premium		93,759	152,225
Commission Expenses		2,214	3,178
Insurance Claims Payments		34,969	20,150
Provision for Claim Reserve		52,872	
Provision for Special Claim Reserve			19,215
Provision for Export Credit Insurance Reserve			144,061
Net Amount		110,558	0

Note: Effective from January 1, 2011, Eximbank adopted the SFAS No. 40 "Insurance Contracts." According to the "Regulations Governing the Setting Aside of Various Reserves by Insurance Enterprises," the additional amount of special claim reserves and export credit insurance reserves set aside shall be recorded as special reserve in equity beginning in 2011. Before December 31, 2010, the amount of reserves was recorded under liabilities.

(18) Other Non-Interest Income

Item	Date	January 1~December 31, 2011	January 1~December 31, 2010
Other Non-Interest Profits		253,240	23,765
Gains from Financial Assets Carried at Cost		11,460	19,279
Miscellaneous Income		241,780	4,486
Other Non-Interest Losses		51,327	46,500
Loss on Disposal of Fixed Assets		1,037	1,550
Preferential Deposit Interest in Excess		49,096	43,524
Loss on Assets Impairment		752	
Other		442	1,426
Net Amount		201,913	-22,735

(19) Bad Debt Expenses

Item	Date	January 1~December 31, 2011	January 1~December 31, 2010
Bad Debt Expenses for Loans		154,374	82,124
Bad Debt Expenses for Factoring Receivables		2,570	
Bad Debt Expenses for Guarantee Receivables		13,771	773
Bad Debt Expenses for Other Receivables		-1,069	167
Total		169,646	83,064

06

VI. Risk Management

1. Credit Risk Management System and Capital Requirement

(1) Credit Risk Management System

January 1~December 31, 2011

Item	Content
1. Credit Risk Strategy, Objective, Policy and Procedure	<p>Eximbank is a specialized, state-owned bank established to support export and import trade. Its main assets are used to provide loans; As a result, the major risks are credit risks of loans. Its primary risk management goals are strengthening risk management and preventing risk from becoming too concentrated. Meanwhile, its strategies include conducting risk analyses of countries, banks, groups, and enterprises while arranging for its own credit rating. To ensure that risk is suitably diversified, Eximbank sets limits on country risk, bank risk, industry risk, group/enterprise risk, and the risk associated with individual clients.</p> <p>The credit risk management process includes identifying, evaluating, monitoring, and reporting risk. Its range extends to credit risk both on and off the balance sheet (including existing and potential items).</p> <p>Before Eximbank undertakes its everyday business or starts new financial products, it must first determine any related credit risks. Also, when conducting business with associated credit risks, it needs to thoroughly assess the potential losses for each loan, investment, or trade. It then can adopt appropriate countermeasures, including risk avoidance, transfer, or mitigation, ensuring that business fits the bank's risk management and acceptance conditions.</p>
2. Organizational Structure of Credit Risk Management	<p>The Board of Directors is the supreme decision-making level of Eximbank's credit risk management. The Credit Committee is responsible for reviewing the credit risk of individual cases at and above executive vice presidents' authorization. Meanwhile, the Department of Risk Management is the specialized unit of credit risk and is in charge of Eximbank's overall credit risk management matters. The competent department of each business shall supervise and monitor the credit risk implementation of various business units, which shall follow the relevant regulations and provisions of credit risk management.</p>

Item	Content
3. Scope and Characteristics of the Credit Risk Report and Evaluation System	<p>Eximbank established a customer data integration system, a risk assessment system, a credit register system, and a risk management system, so it could control risks associated with its credit extension business. It uses these mechanisms to monitor loans to all borrowers. The customer data integration system is used to compile basic data for individual clients, the credit system is used for approving and granting loans, and an objective analysis must be executed using the risk assessment system before credit is granted. Finally using the risk management system, exposure is determined daily to manage risk limits and pass data on to executives and related departments.</p> <p>Risk management includes monthly reporting on domestic and international economic conditions, exposure changes in countries where loans are granted, and financial and industrial risks. Eximbank compiles data on relevant country risks, exposure associated with key credit risks, and risk limit management, passing this information on to its Board of Directors. The information is used to manage risk and for credit policymaking.</p> <p>Based on the regulations of the financial supervisor, Eximbank discloses on its website qualitative and quantitative data associated with its credit risks.</p>
4. Credit Risk Hedging and Risk Mitigation Policies / Strategies and Procedures of Monitoring Tools for Hedging and Risk Mitigation	<p>Eximbank also established Country Risk, Financial Risk and Corporate Credit Risk early warning indicators. For each debtor, a rating system was established and assistance was sought from international credit agencies. For countries with a relatively high risk-level (Level C- and below), individual financial institutions or credit customers at Level C- or below, or when there were recent negative reports about a particular country or bank, Eximbank analyzed warning indicators to understand risk. When Eximbank is considering to extend its business, it uses these data as reference to strengthen risk management.</p> <p>To lower credit risk, export financing cases exceeding US\$1 million must include technical evaluations and reports along with credit evaluation reports for reference. In addition, for relatively high-risk financial cases, clients are encouraged to arrange export insurance through Eximbank to mitigate risk.</p> <p>Eximbank's risk management system also monitors risk concentration. Every day executives and account officers of related departments and risk management officials are alerted by email of any countries, banks, or industries that have reached 85% of their risk limit to aid in early response.</p> <p>To improve its lending operations, Eximbank has strengthened its credit approval process and conducts follow-up measures.</p>
5. Method Applied for Legal Capital Requirement	<p>Eximbank has applied the capital requirement for credit risk based on "Standardized Approach" of the Basel II Capital Accord.</p>

(2) Credit Risk Exposures and Capital Requirement Regulated by Standardized Approach After Mitigation

December 31, 2011

NT\$ Thousand

Type of Exposure	Credit Risk Exposures After Mitigation	Capital Requirement
Sovereign	3,703,585	296,287
Public Sector Entities/ Non-Central Government	194,626	15,570
Banks (Including Multilateral Development Banks)	6,815,351	545,228
Corporate (Including Securities and Insurance Corp.)	51,752,583	4,140,206
Regulatory Retail Portfolios	765,915	61,273
Residential Property		
Rights of Securities Investment		
Other Assets	970,869	77,670
Total	64,202,929	5,136,234

2. Operational Risk Management System and Capital Requirement

(1) Operational Risk Management System

January 1~December 31, 2011

Item	Content
1. Operational Risk Strategy and Procedure	<p>Operational risk strategy at Eximbank includes strengthening internal controls, ensuring that employees abide by regulations, and conducting training. Standard operating procedures are laid out on the bank's internal employee website for workers to refer to and comply. Eximbank has also established guidelines for work delegation and laid these out in table format, clearly assigning responsibility and assisting in everyday operations.</p> <p>Operational risk management includes identifying, measuring and evaluating risk along with monitoring and reporting. It encompasses important products, business activities, and operating procedures, along with establishing operational risk management mechanisms.</p> <p>Operational risk management is objective, consistent, transparent, complete, and comprehensive.</p>
2. Organizational Structure of Operational Risk Management	<p>Operational risk management involves the entire bank. The Board of Directors serves as the highest policymaking body and determines operational risk management standards and important policies. Meanwhile the Department of Risk Management is responsible for evaluating the entire bank's operational risk management strategies and procedures to build management mechanisms. When bank units determine operational management rules, they consider rules related to operational risk management. Each unit adheres to these rules to grasp the operational risks under their control.</p>

Item	Content
3. Scope and Characteristics of the Operational Risk Report and Evaluation System	<p>To manage and mitigate operational risks, Eximbank first relies on its compliance system, internal investigative, and internal auditing systems.</p> <p>If a major loss occurs in any unit that threatens normal operations, data must be gathered and reported to related units and supervisors, so they can formulate response measures. Also Eximbank has established an information protection system and an emergency response plan, so when urgent problems arise, operations can be continued and losses can be kept to a minimum.</p> <p>Based on the regulations of the financial supervisor, Eximbank discloses on its website qualitative and quantitative data associated with its operational risks.</p>
4. Operational Risk Hedging or Risk Mitigation / Strategies and Procedures of Monitoring Tools for Hedging and Risk Mitigation	<p>Eximbank's operational risk management standards include methods for clearly identifying, evaluating, monitoring, controlling, and mitigating risk. It also uses insurance and risk transfer methods to mitigate and manage risk.</p> <p>Based on its guidelines for work delegation, Eximbank has assigned responsibility and authority for each aspect of its business and established a reporting system, so responsibilities assumed by each level of the organization are clear.</p> <p>To avoid litigation risks, each banking unit should abide by the compliance system of the Export-Import Bank of the ROC.</p> <p>Before new products, business activities, procedural changes, or system promotion occur, banking units should ascertain that operational risk evaluations took place.</p> <p>By conducting risk management education and training, Eximbank improves employee knowledge and strengthens the operational risk management environment.</p>
5. Method Applied for Legal Capital Requirement	Eximbank has applied the capital requirement for operational risk based on Basic Indicator Approach of the Basel II Capital Accord.

(2) Operational Risk-Based Capital Requirement

December 31, 2011

NT\$ Thousand

FY	Gross Profit	Capital Requirement
2009	1,070,062	
2010	847,873	
2011	936,932	
Total	2,854,867	142,743

3. Market Risk Management System and Capital Requirement

(1) Market Risk Management System

January 1~December 31, 2011

Item	Content
1. Market Risk Strategy and Procedure	<p>Eximbank is an export credit institution and policy bank. Much of its financial operations center on hedging risk. It wants to keep its exposure to market risks small while adopting prudent market risk management policies. It carefully evaluates trade content while managing risk.</p> <p>Eximbank recognizes, evaluates, weighs, monitors, and reports any market risk.</p> <p>For each of its financial products, Eximbank must recognize the potential market risks. This serves as the foundation to weigh the risks it is exposed to. The bank also must build effective evaluation mechanisms and include risk monitoring as part of its day-to-day operations. Monitoring includes having each unit carefully look at every transaction it undertakes while considering how it affects the overall picture. The transaction's objective, model, position, and potential effects on income must adhere to authorized limitations.</p> <p>Market risk management is independent, objective, consistent, transparent, comprehensive, and timely.</p>
2. Organizational Structure of Market Risk Management	<p>The Board of Directors is the supreme decision-making level of Eximbank's market risk management and undertakes ultimate responsibility of market risk.</p> <p>The Department of Risk Management is responsible for gathering market risk information and passing its findings on to the Board of Directors.</p> <p>Meanwhile, the Department of Finance, which also oversees the Offshore Banking Branch, controls operational risks, emphasizes further monitoring on limits and conducts position management.</p>
3. Scope and Characteristics of the Market Risk Report and Evaluation System	<p>Eximbank's market risk system is part of its funding system. It provides timely control over transaction position amounts. Also to understand changes in exchange market transaction positions and foreign exchange gains or losses, Eximbank established a daily control mechanism.</p> <p>When any unit undertakes a transaction, based on governing regulations it reports to the supervising authority. It also ensures that the information is accurate and valid. If limits are surpassed, major market changes occur, or abnormal situations arise, relevant units must provide prompt reports.</p> <p>To effectively manage market risks, Eximbank regularly reports on how it controls market exposures, positions and amounts to the Board of Directors. The information serves as a reference for policymaking.</p> <p>Based on the regulations of the financial supervisor, Eximbank discloses on its website qualitative and quantitative data associated with its market risks.</p>



▶▶▶ Eximbank's hiking society held an educational hiking journey in Xinbeitou. (Photo taken on Dec. 17, 2011)

Item	Content
4. Market Risk Hedging or Risk Mitigation / Strategies and Procedures of Monitoring Tools for Hedging and Risk Mitigation	To lower market risk, Eximbank has established various transaction limits and stop-loss mechanisms. When major events occur in domestic or global financial markets during working hours, if the events could affect the bank's profits or losses, department managers should immediately report to the responsible executive vice president. An immediate response can then be made. Before staff commit to a transaction, they should consult relevant departments and conduct careful evaluations.
5. Method Applied for Legal Capital Requirement	Eximbank has applied the capital requirement for market risk based on "Standardized Approach" of the Basel II Capital Accord.

(2) Market Risk-Based Capital Requirement

December 31, 2011

NT\$ Thousand

Risk	Capital Requirement
Interest Rate Risk	
Equity Position Risk	
Foreign Exchange Risk	1,744
Commodity Risk	
Total	1,744

4. Liquidity risk

(1) Duration analysis of assets and liabilities as Follows:

Term structure analysis of NTD-denominated assets and liabilities (Main Assets and Liabilities)

December 31, 2011

NT\$ Thousand

	Total	Amount for term to maturity				
		Within 1 month	1 month ~ 3 months	3 months ~ 6 months	6 months ~ 12 months	Over 1 year
Inflow of major matured funds	47,846,342	4,993,282	2,733,064	3,263,582	3,928,605	32,927,809
Outflow of maior matured funds	34,435,242	9,222,157	1,330,429	2,630,508	2,504,788	18,747,360
Gap	13,411,100	-4,228,875	1,402,635	633,074	1,423,817	14,180,449

Note: This table contains only the amount of main assets and liabilities in NT dollars (excluding foreign currency) of the Eximbank's head office and domestic branches. The assets include due from banks, securities and loans; while liabilities include commercial paper payable, call loans from banks, financial debentures payable, borrowed funds from other banks and funds appropriated for loans.



- ▶▶▶ A dance group from Eximbank performed "Aloha to Love and Beauty" at a Ministry of Finance assembly to honor outstanding members of the finance community. (Photo taken on Dec. 20, 2011)

Term structure analysis of USD-denominated assets and liabilities (Main Assets and Liabilities)

December 31, 2011

US\$ Thousand

	Total	Dollars amount for term to maturity				
		Within 1 month	1 month ~ 3 months	3 months ~ 6 months	6 months ~ 12 months	Over 1 year
Inflow of major matured funds	1,378,517	55,659	123,361	61,032	117,180	1,021,285
Outflow of major matured funds	1,203,089	490,946	110,535	15,953	32,447	553,208
Gap	175,428	-435,287	12,826	45,079	84,733	468,077

Note: This table contains only the amount of main assets and liabilities in US dollars of the Eximbank's head office, domestic branches, and Offshore Banking Branch. The assets include due from banks and loans ; while liabilities include call loans from banks, and borrowed funds from the Central Bank.

(2) The Management of Asset Liquidity and Funding Gap

The Eximbank seeks to diversify the sources of fund and enhance funding stability. The Eximbank also refrains from over-concentration on the use of remaining fund and aim at liquid, quality and earning instruments. As to the liquidity risk control, the Eximbank not only complies with related requirements of Central Bank of the Republic of China (Taiwan), but also regulates the ratio of funding liquidity gap over the Eximbank's net worth in its internal guideline to ensure adequate liquidity.



▶▶▶ Eximbank planned a hiking activity at HeMeiShan Mountain Trail in New Taipei's Xindian District. (Photo taken on Oct. 29, 2011)

07

VII. Head Office and Branches

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Taichung Branch

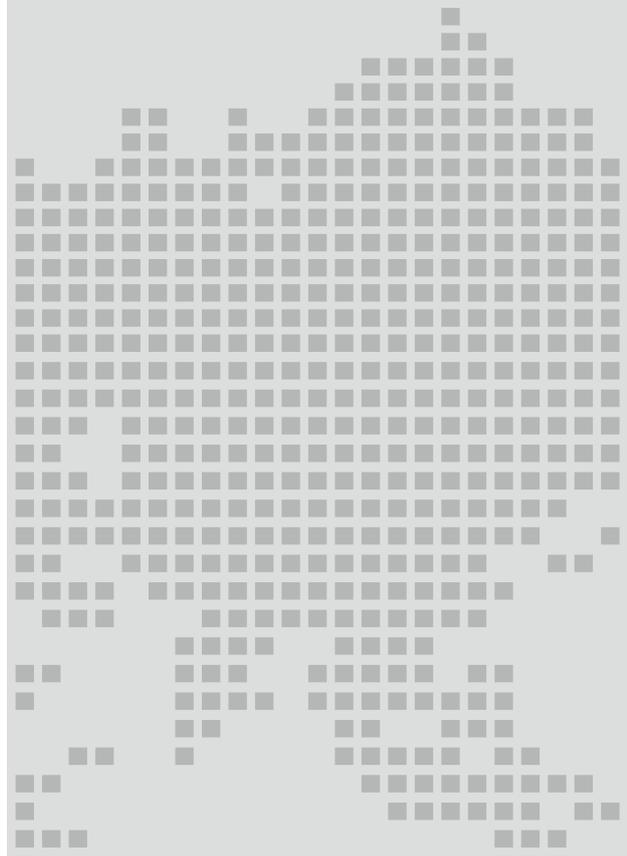
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