

**TAIWAN FINANCIAL HOLDING CO., LTD.
AND ITS SUBSIDIARIES**

Consolidated Financial Statements

**December 31, 2009 and 2008 (audited by the MoA)
(With Independent Auditors' Report Thereon)**

Address: No. 120, Sec. 1, Chungching South Road, Taipei, Taiwan, R.O.C.

REPRESENTATION LETTER

The entities that are required to be included in the combined financial statements of Taiwan Financial Holding Co., Ltd. as of and for the year ended December 31, 2009, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the revised Statement of Financial Accounting Standards No. 7, "Consolidated Financial Statements". In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Taiwan Financial Holding Co., Ltd. and Subsidiaries do not prepare a separate set of combined financial statements.

Very trust yours,

TAIWAN FINANCIAL HOLDING CO., LTD.

By

Susan S. Chang
Chairman

March 26, 2010

Independent Auditors' Report

The Board of Directors

Taiwan Financial Holding Co., Ltd.

We have audited the accompanying consolidated balance sheet of Taiwan Financial Holding Co., Ltd. and its subsidiaries (the Company) as of December 31, 2009, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the year ended December 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of some investee companies. The Company's investment in those investee companies on December 31, 2009, was \$27,530,017 thousand, constituting 0.67% of the related consolidated total, and its equity in earnings of those investee companies was \$1,306,366 thousand, constituting 15.04% of the related consolidated total, for the year ended December 31, 2009. The financial statements of those investee companies were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for those investee companies, is based solely on the reports of the other auditors. The details are as the description of note (13). The consolidated financial statements of the Company for 2008 had been restated based on the amounts audited by Ministry of Audit, which are compared with the consolidated financial statements for 2009, and the difference of the amounts between the Ministry of Audit and our audit is as described in note (4).

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

In our opinion, based on our audit and the reports of the other auditors, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Taiwan Financial Holding Co., Ltd. and its subsidiaries as of December 31, 2009, and the results of their operations and their cash flows for the year ended December 31, 2009, in conformity with the "Regulations Governing the Preparation of Financial Reports by Financial Holding Companies", "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and accounting principles generally accepted in the Republic of China.

March 26, 2010

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

The auditors' report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language auditors' report and financial statements, the Chinese version shall prevail.

**TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS
SUBSIDIARIES**

Consolidated Balance Sheet

December 31, 20092008 (audited by the MoA)
(expressed in thousands of New Taiwan Dollars)

	December 31, 2008				December 31, 2008		
	December 31, 2009	(audited by the MoA)	Percentage change		December 31, 2009	(audited by the MoA)	Percentage change
Assets				Liabilities and Stockholders' Equity			
Cash and cash equivalents (notes 5 and 35)	\$ 72,498,558	80,104,961	(9)	Due to Central Bank and other banks (notes 18 and 35)	\$ 204,950,860	181,489,738	13
Due from Central Bank and call loans to banks (notes 6, 35 and 36)	1,248,000,974	996,241,280	25	Financial liabilities at fair value through profit or loss (notes 19, 33 and 35)	4,210,041	5,804,419	(27)
Financial assets at fair value through profit or loss (notes 7, 33 and 35)	94,008,327	78,655,045	20	Bills and bonds sold under repurchase agreements (note 8)	5,525,570	20,251,220	(73)
Bills and bonds purchased under resell agreements (note 8)	9,402,856	12,321,566	(24)	Payables (notes 20 and 27)	91,773,529	97,501,028	(6)
Receivables, net (notes 9, 10 and 27)	95,050,125	105,973,044	(10)	Deposits (notes 21 and 35)	3,165,389,168	2,932,562,905	8
Loans, net (notes 10, 33 and 35)	2,053,171,504	1,997,536,704	3	Reserves for operation and liabilities (notes 3 and 23)	355,414,596	279,848,256	27
Available-for-sale financial assets, net (notes 11, 31, 33 and 36)	175,919,557	175,527,297	-	Other financial liabilities (notes 24 and 33)	7,192,234	6,429,020	12
Held-to-maturity financial assets, net (notes 12, 31, 33 and 36)	147,700,416	117,196,368	26	Other liabilities (notes 16, 25 and 26)	<u>25,903,318</u>	<u>25,402,994</u>	2
Equity investments using the equity method (note 13)	34,373,422	31,125,626	10	Total liabilities	<u>3,860,359,316</u>	<u>3,549,289,580</u>	9
Other financial assets, net (notes 9, 10, 14, 31 and 33)	78,562,977	77,978,931	1	Stockholders' equity (notes 27 and 28):			
Real estate investments, net (notes 15 and 16)	1,982,445	2,003,965	(1)	Common stock	<u>90,000,000</u>	<u>90,000,000</u>	-
Fixed assets, net (notes 16, 25 and 31)	79,651,798	81,040,624	(2)	Additional paid-in capital	<u>111,494,739</u>	<u>111,495,264</u>	-
Intangible assets	1,121,713	1,451,116	(23)	Retained earnings:			
Other assets, net (notes 17, 31 and 36)	18,498,045	18,298,572	1	Legal reserve	732,150	-	-
				Special reserve	2,928,599	-	-
				Unappropriated retained earnings	<u>8,790,072</u>	<u>7,321,499</u>	20
					<u>12,450,821</u>	<u>7,321,499</u>	70
				Equity adjustments:			
				Unrealized increments on revaluation	16,639,974	16,930,538	(2)
				Cumulative foreign currency translation adjustments	(128,524)	(155,274)	17
				Unrealized gain (loss) on financial instruments	<u>19,126,391</u>	<u>573,492</u>	3,235
					<u>35,637,841</u>	<u>17,348,756</u>	105
				Total stockholders' equity	249,583,401	226,165,519	-
				Commitments and contingencies (note 37)			
Total Assets	<u>\$ 4,109,942,717</u>	<u>3,775,455,099</u>	9	Total Liabilities and Stockholders' Equity	<u>\$ 4,109,942,717</u>	<u>3,775,455,099</u>	9

See accompanying notes to consolidated financial statements.

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Income

**For the periods from January 1 to December 31, 2009 and
January 1 (date of establishment) to December 31, 2008 (audited by the MoA)
(expressed in thousands of New Taiwan Dollars, except for earnings per share)**

	2009	2008 (audited by the MoA)	Percentage change
Interest income	\$ 54,199,940	91,623,988	(41)
Less: interest expenses (notes 9 and 35)	<u>32,521,560</u>	<u>62,776,054</u>	(48)
Net interest income	21,678,380	28,847,934	(25)
Net non-interest income			
Net income on service charges and commissions	3,216,707	3,449,106	(7)
Net insurance business income (notes 3 and 30)	32,530,803	32,980,859	(1)
Gains (losses) on financial assets and liabilities at fair value through profit or loss	30,103,245	(17,567,782)	271
Realized gains (losses) on available-for-sale financial assets	5,644,487	1,621,691	248
Realized gains (losses) on held-to-maturity financial assets (note 13)	(64,468)	-	-
Gains on equity investments recognized using the equity method	2,848,365	902,005	216
Gains (losses) on real estate investments	15,310	(28,210)	154
Foreign exchange gains (losses)	1,564,396	3,829,293	(59)
Asset impairment losses (gains on reversal of impairment) (note 31)	504,665	(4,718,429)	111
Other net non-interest income (losses)			
Self-managed and commissioned sales	45,399,449	49,341,607	(8)
Government grant income	15,000,052	16,132,445	(7)
Gains on disposal of properties, plant, and equipment (note 16)	2,645,425	2,738,530	(3)
Other miscellaneous income	1,995,202	2,956,817	(33)
Self-managed and commissioned cost of sales	(45,033,522)	(48,954,392)	8
Excess interest expenses (notes 9 and 40)	(9,919,818)	(9,504,823)	(4)
Other miscellaneous expenses	<u>(932,863)</u>	<u>(1,440,959)</u>	35
Net income	<u>107,195,815</u>	<u>60,585,692</u>	77
Credit provisions (note 10)	<u>4,431,377</u>	<u>1,598,254</u>	177
Provisions for insurance policy reserves (notes 3 and 32)	<u>76,342,481</u>	<u>33,710,940</u>	126
Operating expenses:			
Personnel expenses (note 26)	11,854,375	11,713,733	1
Depreciation and amortization expenses	1,351,446	1,385,284	(2)
Other business and administrative expenses	<u>4,530,883</u>	<u>5,181,252</u>	(13)
Total operating expenses	<u>17,736,704</u>	<u>18,280,269</u>	(3)
Income before income taxes	8,685,253	6,996,229	24
Income tax expense (benefits) (note 27)	<u>(34,196)</u>	<u>(325,270)</u>	89
Consolidated total income	<u>\$ 8,719,449</u>	<u>7,321,499</u>	19
Attributable to:			
Parent company shareholders	\$ 8,719,449	7,321,499	19
Minority interest	<u>-</u>	<u>-</u>	-
	<u>\$ 8,719,449</u>	<u>7,321,499</u>	19
	Before	After	Before
	income tax	income tax	income tax
Basic earnings per share (note 29)	<u>\$ 0.97</u>	<u>0.97</u>	<u>0.78</u>
	0.81		

See accompanying notes to consolidated financial statements.

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the periods from January 1 to December 31, 2009 and
January 1 (date of establishment) to December 31, 2008 (audited by the MoA)
(expressed in thousands of New Taiwan Dollars)

	Retained earnings				Equity adjustments				
	Common stock	Additional paid-in capital	Legal reserve	Special reserve	Unappropriated retained earnings	Unrealized increments on revaluation	Cumulative foreign currency translation adjustments	Unrealized gains (losses) on financial instruments	Total
Balance as of January 1, 2008 (established through transfer of shares)	\$ 90,000,000	215,854,060	-	-	-	23,603,085	494,451	29,690,022	359,641,618
Capital surplus transferred to capital stock (audited by the MoA)	109,467,296	(109,467,296)	-	-	-	-	-	-	-
Non-cash share capital reduction (audited by the MoA)	(109,467,296)	5,429,052	-	-	-	(6,723,557)	(698,138)	(4,387,274)	(115,847,213)
Adjustments for change in subsidiaries' special reserve	-	(320,552)	-	-	-	-	-	-	(320,552)
Change in unrealized increments on revaluation (audited by the MoA)	-	-	-	-	-	51,010	-	-	51,010
Change in cumulative foreign currency translation adjustments (audited by the MoA)	-	-	-	-	-	-	48,413	-	48,413
Change in unrealized gains (losses) on financial instruments (audited by the MoA)	-	-	-	-	-	-	-	(24,729,256)	(24,729,256)
Consolidated total income for the year end December 31, 2008 (audited by the MoA)	-	-	-	-	7,321,499	-	-	-	7,321,499
Balance as of December 31, 2008	90,000,000	111,495,264	-	-	7,321,499	16,930,538	(155,274)	573,492	226,165,519
Legal reserve	-	-	732,150	-	(732,150)	-	-	-	-
Special reserve	-	-	-	2,928,599	(2,928,599)	-	-	-	-
Cash dividends for government	-	-	-	-	(3,590,127)	-	-	-	(3,590,127)
Change in additional paid-in capital	-	(525)	-	-	-	-	-	-	(525)
Change in unrealized increments on revaluation	-	-	-	-	-	(290,564)	-	-	(290,564)
Change in cumulative foreign currency translation adjustments	-	-	-	-	-	-	26,750	-	26,750
Change in unrealized losses (gains) on financial instruments	-	-	-	-	-	-	-	18,552,899	18,552,899
Consolidated total income for the year end December 31, 2009	-	-	-	-	8,719,449	-	-	-	8,719,449
Balance as of December 31, 2009	<u>\$ 90,000,000</u>	<u>111,494,739</u>	<u>732,150</u>	<u>2,928,599</u>	<u>8,790,072</u>	<u>16,639,974</u>	<u>(128,524)</u>	<u>19,126,391</u>	<u>249,583,401</u>

See accompanying notes to consolidated financial statements.

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

**For the periods from January 1 to December 31, 2009 and
January 1 (date of establishment) to December 31, 2008 (audited by the MoA)
(expressed in thousands of New Taiwan Dollars)**

	2009	2008 (audited by the MoA)
Cash flows from operating activities:		
Consolidated total income	\$ 8,719,449	7,321,499
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	1,377,917	1,387,983
Credit provisions	4,431,377	1,598,254
Adjustments for valuation of available-for-sale assets	(174,594)	2,827,461
Provisions for reserves	76,342,481	33,710,941
(Gain on reversal of) loss on asset impairment	(504,665)	1,823,346
Amortization of discount on long-term bond investment	(2,132,679)	(1,257,483)
Unpaid recognized pension expense	357,056	533,201
(Gain) loss on disposal of financial assets	(4,844,465)	43,559
Gain on disposal of fixed assets and non-operating assets	(2,618,790)	(2,720,854)
Gain on long-term equity investments under equity method exceeding cash dividend received	(1,596,681)	212,823
Reclassification of accumulated depreciation	(921)	(2,443)
Loss on write-off of printed mater	546	1,119
Increase in financial assets at fair value through profit or loss	(15,270,794)	(13,952,336)
Decrease in bills and bonds purchased under resell agreements	3,818,732	940,479
Decrease in receivables	11,171,511	3,614,008
Deferred income tax	(569,158)	(773,967)
(Increase) decrease in other financial assets	(6,474,142)	6,713,382
Decrease (increase) in other assets	45,805	(528,583)
(Decrease) increase in bills and bonds sold under repurchase agreements	(15,625,673)	3,580,928
(Increase) decrease in financial liabilities at fair value through profit or loss	(1,864,263)	4,326,253
(Decrease) increase in payables	(5,889,734)	2,225,977
Increase in other financial liabilities	51,122	136,891
Decrease in other liabilities	(129,793)	(379,328)
Net cash provided by operating activities	<u>48,619,644</u>	<u>51,383,110</u>
Cash flows from investing activities:		
Increase in due from Central Bank	(251,759,695)	(370,276,268)
Decrease in available-for-sale financial assets	23,121,745	318,223
Decrease in debt investments without quoted prices in active markets	1,391,028	915,211
Increase in held-to-maturity financial assets	(28,784,952)	(10,870,399)
Increase in loans	(57,383,618)	(73,897,482)
Increase in real estate investment	(1,484)	(93,912)
Proceeds from sale of fixed assets and non-operating assets	3,845,895	4,366,335
Purchase of fixed assets and non-operating assets	(990,392)	(1,033,962)
Increase in intangible assets	(289,020)	(510,995)
Decrease (increase) in other financial assets	4,972,371	(2,849,787)
Increase in other assets	(2,988,941)	(7,992,902)
Net cash used in investing activities	<u>(308,867,063)</u>	<u>(461,925,938)</u>
Cash flows from financing activities:		
Increase (decrease) in due to Central Bank and other banks	23,461,121	(63,925,017)
Increase in deposits	232,826,263	466,383,659
Decrease in other financial liabilities	(157,918)	(234,074)
(Decrease) increase in other liabilities	(536,237)	623,145
Prepaid dividends	(3,012,708)	(3,590,127)
Net cash provided by financing activities	<u>252,580,521</u>	<u>399,257,586</u>
Exchange effect	60,495	2,096
Net decrease in cash and cash equivalents	(7,606,403)	(11,283,146)
Cash and cash equivalents at beginning of year	80,104,961	91,388,107
Cash and cash equivalents at end of year	<u><u>\$ 72,498,558</u></u>	<u><u>80,104,961</u></u>
Supplemental disclosure of cash flow information:		
Interest paid	<u><u>\$ 50,004,216</u></u>	<u><u>69,937,130</u></u>
Income tax paid	<u><u>\$ 470,811</u></u>	<u><u>916,792</u></u>
Financial and investing activities not affecting cash:		
Unrealized increments on revaluation	<u><u>\$ 37,002,641</u></u>	<u><u>51,496</u></u>
Cumulative foreign currency translation adjustments	<u><u>\$ 54,398</u></u>	<u><u>(41,967)</u></u>
Unrealized loss on financial instruments	<u><u>\$ (597,774)</u></u>	<u><u>(20,112,035)</u></u>
Change in additional paid-in capital	<u><u>\$ (65)</u></u>	<u><u>(320,552)</u></u>

See accompanying notes to consolidated financial statements.

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009 and 2008 (audited by the MoA)
(expressed in thousands of New Taiwan Dollars, unless otherwise specified)

(1) Organization and Business

1) Taiwan Finance Holding Co., Ltd.

On January 1, 2008, Taiwan Financial Holding Co., Ltd. (the Company) was incorporated in accordance with the Act of Taiwan Financial Holding Co., Ltd. and has three investee companies: "Bank of Taiwan" (BOT), "BankTaiwan Life Insurance Co., Ltd." (BTLI) and "BankTaiwan Securities Co., Ltd." (BTS).

The Company engages mainly in investing and managing investee companies. The investing business follows the Financial Holding Company Act.

As of December 31, 2009 and 2008 (audited by the MoA), there were 9,143 and 9,137 employees in the Company and its subsidiaries, respectively.

2) The consolidated subsidiaries' businesses

Bank of Taiwan (BOT) was established on May 20, 1946. BOT became a legal entity in 1985 in accordance with the Banking Act of the Republic of China, and transformed into a corporate entity starting from July 1, 2003. BOT became a public company on September 16, 2004.

BOT merged with the Central Trust of China effective on July 1, 2007. The Central Trust of China was the dissolved company, and BOT was the surviving company. BOT is engaged in the following business:

1. all commercial banking operations allowed under the Banking Law;
2. international banking operations;
3. all kinds of savings and trust business;
4. overseas branch operations authorized by the respective foreign governments; and
5. other operations authorized by the central government authorities.

BankTaiwan Life Insurance Co., Ltd. (BTLI) was the life insurance department of BOT and separated from BOT on January 2, 2008, with net assets \$5 billion yielded by BOT as its owner's equity. Its main businesses are life insurance and related businesses.

BankTaiwan Securities, Co., Ltd. (BTS) was the securities department of BOT and separated from BOT on January 2, 2008, with net assets \$3 billion yielded by BOT as its owner's equity. BTS' main businesses include the following: 1. Securities trading brokerage. 2. Providing margin purchases and short sales for securities transactions. 3. Securities dealing. 4. Operating as futures introducing brokers.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) Summary of Significant Accounting Policies

The financial statements of the Company and its subsidiaries (the Consolidated Companies) have been prepared in the local currency and in Chinese. The financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language financial statements, the Chinese version shall prevail.

The Company prepared the accompanying financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, regulations Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China. Significant accounting policies are as follows:

1) Principles of consolidation

The consolidation of financial statements is made in accordance with the requirements of the "Regulations Governing the Preparation of Financial Reports by Financial Holding Companies" and ROC Statement of Financial Accounting Standards (ROC SFAS) No. 7 "Consolidated Financial Statements". All material inter-company transactions have been eliminated in the consolidated financial statements.

The following entities have been included in the consolidated financial statements:

Name of the investor	Name of the subsidiary	Business	Shareholding percentage	
			December 31, 2009	December 31, 2008
The Company	BOT	Banking	100.00%	100.00%
The Company	BTLI	Life Insurance	100.00%	100.00%
The Company	BTS	Securities	100.00%	100.00%

2) General accounting policies

The Consolidated Companies are government-owned enterprises, and their accounting practices mainly follow the Budget Law, Accounting Act, Account Settlement Law, Uniform Regulations on Accounting Systems for Banks Governed by the MoF, and uniform regulations on accounting systems for banks issued by the MoF. The annual financial statements are audited by the Ministry of Audit (the MoA) to ensure that the Consolidated Companies comply with the budget approved by the Legislative Yuan. The financial statements become final only after such an audit by the MoA.

The financial statements of 2008 were approved by the MoF and MoA, and the beginning balance in 2009 were the same as the approved closing balances in 2008.

3) Use of estimates

The preparation of the accompanying financial statements requires management of the Consolidated Companies to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES**Notes to Consolidated Financial Statements****4) Foreign currency transactions**

The foreign currency transactions of the Consolidated Companies are recorded in New Taiwan Dollars at the rates of exchange in effect when the transactions occurred. Gains or losses resulting from adjustments or settlements of foreign currency assets and liabilities are reflected in the accompanying statements of income. Foreign currency assets and liabilities at the balance sheet date are translated at exchange rates on that date announced by the Central Bank (CBC closing rates). Any exchange differences resulting from long-term equity investments are recorded as cumulative foreign currency translation adjustment, a separate component of stockholders' equity, and exchange differences resulting from other foreign currency assets and liabilities are reflected in the statement of income.

The financial statements of overseas operating entities reported in functional currencies are translated into New Taiwan Dollars at the exchange rates prevailing on the balance sheet date, with the exception of stockholders' equity, which is translated at historical rates. Translation differences resulting from the translation of these financial statements into New Taiwan Dollars are recorded as cumulative translation adjustment, a separate component of stockholders' equity.

5) Asset impairment

The Consolidated Companies adopted Statement of Financial Accounting Standards No. 35 (SFAS No. 35) "Impairment of Assets". In accordance with SFAS No. 35, the Consolidated Companies assess at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the Consolidated Companies estimate the recoverable amount of the asset. The Consolidated Companies recognize impairment loss for an asset whose carrying value is higher than the recoverable amount.

The Consolidated Companies reverse an impairment loss recognized in prior periods for assets other than goodwill if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

The Consolidated Companies assess the cash-generating unit to which goodwill, intangible assets whose useful lives cannot be estimated, and unused intangible assets are allocated on an annual basis and recognize an impairment loss on the carrying value in excess of the recoverable amount.

6) Significant commitments and contingencies

If the amount of loss is most likely to occur and can be reasonably estimated, a loss should be recognized, if a reasonable estimate of the amount of loss is not possible, disclosure should be made to describe the fact that no estimated amount is determinable.

7) Transfer of shares

The Company complies with Interpretation (96) No. 344 issued by the Accounting Research and Development Foundation for transfer of shares.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES**Notes to Consolidated Financial Statements**

If a company is transformed into a holding company through transfer of shares and the nature of the transfer can be categorized as corporate restructuring, the equity of the holding company should equal the original company's book value of net assets. The holding company recognizes paid-in capital including par value as capital stock, the amounts of the stockholders' equity accounts as it relates to assets and liabilities (such as cumulative foreign currency translation adjustments and unrealized increments on revaluation) in the original accounts, and the others as additional paid-in capital.

8) Financial instruments

The Consolidated Companies account for financial assets in accordance with ROC SFAS No. 34 "Financial Instruments: Recognition and Measurement", under which financial assets are classified into one of following categories: measured at fair value through profit or loss, available-for-sale, held-to-maturity, carried at cost, and debt investments without quoted price in active markets.

Financial instruments held by the Consolidated Companies are recorded on the trading date (except for bonds and funds, which are recorded on the settlement date) and initially recognized at fair value plus transaction costs, except for financial instruments held for trading purposes, which are initially recognized at fair value only.

Subsequent to their initial recognition, the financial instruments held by the Consolidated Companies are classified according to the purpose of holding as follows:

1. An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Derivatives that do not meet the criteria for hedge accounting are classified as financial assets or liabilities at fair value through profit or loss. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.
 - (a) Bought and held principally for the purpose of selling them in the near term. Derivatives held by the Consolidated Companies, other than hedging securities, are classified in this category.
 - (b) Financial assets or liabilities may be designated as financial instruments measured at fair value through profit or loss to eliminate measurement mismatches for items that naturally offset each other.
2. Available-for-sale financial assets are recorded at fair value, and any change in market value is adjusted against shareholders' equity. Impairment loss is recognized when there is objective evidence of impairment. If there is objective evidence that the impairment loss recognized has decreased in a subsequent period, the decline in impairment loss is adjusted against shareholders' equity.
3. Held-to-maturity financial assets are recorded at amortized cost. Impairment loss is recognized when there is objective evidence of impairment. If the impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit and loss. The carrying value after the reversal should not exceed the realizable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES**Notes to Consolidated Financial Statements**

4. Financial assets are carried at cost if their fair values are not available. Impairment loss is recognized if there is objective evidence of impairment, and this recognized amount is non-reversible.
5. Debt investments without quoted price in active markets are recorded at amortized cost. Impairment loss is recognized when there is objective evidence of impairment. The carrying value after the reversal should not exceed the realizable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized.

9) Hedge accounting

Financial instruments held by the Consolidated Companies which meet all the criteria for applying hedge accounting are treated with fair value hedge accounting. Gains or losses on a hedging instrument resulting from fair-value revaluation or exchange rate variation are recognized through profit or loss in the current year immediately. Gains or losses on a hedged item arising from the exposures to targeted risks is reflected in the face value of that hedged item and recognized through profit or loss in the current year immediately.

10) Financial derivatives

Derivative financial instruments refer to transactions such as forward contracts, interest swaps, cross currency swaps, asset swaps and options that are engaged in by the Consolidated Companies in foreign exchange, interest rate and capital markets. In addition to their application in hedge accounting, derivative financial instruments are for trading purposes. Derivative financial instruments for trading purposes are involved in creating markets, serving customers and other related arbitrage activities.

Derivative financial instruments for trading purposes are assessed by the fair value method. Any relevant net present value created shall be recognized as current gain or loss. Fair value refers to the formal transaction price fully recognized and agreed by both parties. The fair value generally is the trading price in an active market. If there is no trading price available, the fair value should be estimated by a valuation method or model.

The right of set-off of derivative financial instruments measured by the fair value method is enforceable by law. In net settlement, financial assets are offset with liabilities and disclosed in net amount.

11) Repo and reverse repo transactions involving bill and bond investment or debt

Repo and reverse repo bond transactions are the sale or purchase of a bond coupled with an agreement to repurchase or resell the same or substantially identical bond at a stated price. Such transactions are treated as collateral for financing transactions and not as the sale or purchase of trading securities. The related interest revenue or expenses are recorded on an accrual basis.

12) Pecuniary and securities financing and refinancing

Pecuniary finance represents loans to investors for the purchase of securities and is recorded as receivables from pecuniary finance. Such loans are secured by the securities purchased by the investors. These securities are not reflected in the financial statements of the subsidiary BTS. The investors may redeem the collateral securities upon repayment of the loans.

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Securities finance represents securities lent to investors and is affected by lending to securities investors securities in custody that are received from pecuniary finance or borrowed from securities finance companies when necessary. Such securities finance is not reflected in the financial statements of the subsidiary BTS. The investors' deposits for borrowing securities are held by the subsidiary BTS as collateral and recorded under securities finance margin deposits received. In addition, investors are required to deposit the proceeds from sales of borrowed securities. Such deposits are accounted for as payables for securities financing.

Pecuniary refinancing represents loans from securities finance companies when the subsidiary BTS lacks sufficient funds to perform pecuniary financing. These loans are recorded as refinance borrowings.

Securities refinancing represents securities borrowed from securities finance companies when the subsidiary BTS does not have sufficient securities to perform securities financing. For securities refinancing, the subsidiary BTS pays margin deposits to securities finance companies. These margin deposits are recorded as refinance margin deposits. The subsidiary BTS also provides securities investors' proceeds from selling borrowed securities to securities finance companies as collateral and records them under receivables from securities refinance.

13) Loans

Loans are recorded by the amount of outstanding principal, with unearned income excluded. Interest income is recognized revenue on an accrual basis.

Recording of interest receivable of loans would be suspended if either of the following conditions is met:

1. Collection of payment of principal or interest accrued is considered highly unlikely; or,
2. Payment of principal or interest accrued is over 6 months past due.

Interest revenue is recognized upon receipt of interest for the period when recording of accrued interest is suspended.

14) Allowance for doubtful accounts

For the subsidiary BOT, all loans are recorded as the actual amount lent out and reported at their outstanding principal balances net of any provisions for doubtful accounts. Adequate allowance for doubtful accounts is provided by assessing the balance at the end of the accounting period of loans, accounts receivable, non-accrual accounts, and guarantee reserve.

Based on past experience, BOT records allowance for doubtful accounts by assessing country risk and potential risk of the overall claim portfolio. In addition, in accordance with the "Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-Performing and Past-Due Loans", the management evaluates the expected default probabilities of specific claims and records an allowance for doubtful accounts.

The subsidiary BOT classifies all loans at five levels. The sum of the product of the remaining balance at each level and the corresponding percentage is the minimum amount for recording allowance for doubtful accounts.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES**Notes to Consolidated Financial Statements**

For the subsidiary BOT, non-accrual loans and accounts receivable; non-accrual account deemed uncollectible are written off upon approval of the board of directors. The recovery of written-off loans is accounted for under the reversal of the allowance for doubtful accounts.

The subsidiary BTLI assesses the allowance for doubtful accounts according to the expected recovery probabilities of all kinds of loans and receivables and the "Regulations on the Procedures for Insurance Institutions to Evaluate Assets and Deal with Non-Performing and Past-Due Loans" issued by the Ministry of Finance.

15) Investment under equity method

Long-term investments in which the Company and its subsidiaries have more than 20% of the investee's voting shares or are able to exercise significant influence over the investee's operating and financial policies are accounted for by the equity method.

The difference between investment cost and underlying equity in net assets shall be accounted for under Statement of Financial Accounting Standards No. 5 "Long-term Investments under Equity Method". If the differences come from assets that can be depreciated, depleted or amortized, then an investor company shall amortize such differences over the estimated remaining economic lives. If the differences come from discrepancies between the carrying amounts of assets and their fair market values, then an investor company shall offset all unamortized differences when conditions causing such over- or under-valuation are no longer present. When the investment cost exceeds the fair value of identifiable net assets acquired, the excess should be recorded as goodwill. Goodwill shall not be amortized and shall be evaluated on each balance sheet date when there is any indication that goodwill may be impaired. If any such indication exists, the Company estimates the impairment loss on goodwill. When the fair value of identifiable net assets acquired exceeds the cost, the difference should be assigned to non-current assets acquired (except for financial assets not under equity method, assets to be disposed of, deferred tax assets, or prepaid pension or other retirement benefit cost) proportionate to their respective fair values. If these assets are all reduced to zero value, any remaining excess should be recognized as extraordinary gain.

Gain or loss on disposal of long-term equity investment is calculated based on the difference between selling price and book value. The capital surplus arising from long-term equity investment is adjusted to profit and loss based on the percentage sold.

The shares of the Company held by a subsidiary should be calculated in compliance with Statement of Financial Accounting Standards No. 30 "Accounting for Treasury Stock". Unrealized gains or losses from transactions between the Company subsidiaries should be deferred. Deferred gains or losses derived from transactions involving depreciable or amortizable assets are amortized over their useful lives; others should be recognized upon realization.

16) Fixed assets

Land is stated at acquisition cost, which can be revaluated in accordance with related laws. Reserve for land appreciation tax is allocated and recorded as other liabilities. During a land transfer, both land revaluation increments and the reserves for land revaluation increment tax should be transferred with the acquisition cost of such land.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Fixed assets other than land are assessed based on acquisition cost, including capitalization of any interest accrued in obtaining such assets before reaching usable condition. Major additions, improvements and renewals are capitalized, whereas maintenance and repairs are expensed when occurred. Fixed assets without use value or left unused should be reclassified as idle assets, where the cost, cumulative depreciation and cumulative impairment of such assets are all transferred to depreciation and impairment of idle assets.

Depreciation of fixed assets is by the straight-line method over the estimated useful lives of the respective assets. The useful lives of leasehold improvements are the shorter of the lease period or service life. Upon reaching its useful life, if it is still in use, a depreciable asset can have its remaining useful life re-estimated and depreciation expense can continue to be allocated over its residual value.

In compliance with Accounting Research and Development Foundation Interpretation (97) Ji-Mi-Zih 340, the Consolidated Companies have recorded the estimated dismantlement or restoration obligation for a fixed asset while it is not used for producing inventory as the cost of such asset since November 20, 2008. Every single part of the fixed asset that is significant should be depreciated individually.

The Consolidated Companies re-evaluate the remaining useful life, depreciation method and residual value of each fixed asset at the end of each accounting period. Changes in those elements are accounted for as changes in accounting estimate.

The estimated useful lives of fixed assets are as follows:

Land improvement	5 to 15 years
Buildings	8 to 55 years
Machinery and equipment	2 to 20 years
Transportation equipment	2 to 12 years
Miscellaneous equipment	3 to 10 years
Leasehold improvements	5 years

Gains or losses on the disposal of fixed assets are recorded as non-operating income or loss.

17) Intangible assets

The Consolidated Companies adopted SFAS No. 37 "Intangible Assets". In accordance with SFAS No. 37, intangible assets are recorded at cost except for donation from the government, which is measured at fair value. Subsequent to their initial recognition, their book values are their cost plus their incremental value that resulted from revaluation minus accumulated amortization and impairment loss.

Amortization is computed using the straight-line method. The Consolidated Companies should reevaluate the residual value, estimated useful lives, and amortization method at least once every year. Changes in the above factors will be regarded as changes in accounting estimate. The estimated useful lives of major intangible assets are as follows:

Computer software	3 to 5 years
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(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES**Notes to Consolidated Financial Statements**

At the end of each accounting period, the Consolidated Companies evaluate the residual value, the useful life and the method of amortization. Changes in those elements are considered changes in accounting estimate.

18) Other assets — statutory deposits

In accordance with the ROC Insurance Law, the insurance subsidiary should deposit in the Central Bank of China an amount equal to 15% of its issued capital as guarantee for its insurance business. The insurance subsidiary made these deposits in the form of government bonds and financial bills, and such deposits were approved by the Ministry of Finance.

19) Other assets — non-operating assets

The cost of non-operating assets are stated at the lower of net realizable value or book value. The cumulative depreciation and impairment of those non-operating assets are also transferred to non-operating assets. Depreciation expense would continue to be incurred over the remaining estimated useful lives of the non-operating assets.

20) Other assets — collateral assumed

Collateral and assets received are stated at the net realizable value: the amount the Consolidated Companies receive when debtors cannot meet their obligations and the collateral and residuals are auctioned off. Any discrepancy from the initial claim will be reflected as credit loss. Gains or losses on disposition are included in current earnings. The Consolidated Companies recognize impairment loss on collateral on the balance sheet date if the book value of collateral exceeds net fair value.

21) Due to other banks, deposits and remittances

Deposits are recorded at the contracted principal amount or the expected maturity value.

22) Reserve for operations

In accordance with the regulations of the respective authorities, reserve for operations includes provisions for guarantees, losses on breach of contract, etc., and such provisions should be recognized by the banking, insurance and securities subsidiaries.

23) Separate accounts — insurance instruments

The insurance subsidiary is engaged in selling investment-type insurance commodities. The payment of premiums (net of administrative expenses) is recorded in a separate account which should only be used in a way agreed to by the insured. The assets of separate accounts are valued at market price on the balance sheet date, and the Company follows the related rules and financial accounting standards in the ROC to determine the net asset value. In accordance with accounting practices in the insurance industry, the assets, liabilities, revenue and expenses are recorded as "separate account — insurance instrument assets", "separate account — insurance instrument liabilities", "separate account — insurance instrument revenue" and "separate account — insurance instrument expenses", respectively.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES**Notes to Consolidated Financial Statements****24) Pension**

Retirement, relief and severance of employees of the subsidiaries BOT, LBOT, BTS and BTLI were calculated based on service years until December 31, 1981. From January 1, 1982, to April 30, 1997, they were dealt with according to "The Regulations on Employee's Retirement, Relief and Severance for State-run Financial and Insurance Enterprises Owned by the Ministry of Finance". The Consolidated Companies contributed 4% to 8.5% of salaries as prior service cost; in addition, employees contributed 3% of total monthly salaries to a pension fund each month. After May 1, 1997, when the Labor Standards Law was implemented, the length of service with the Consolidated Companies is calculated in accordance with the formula for benefit payments set forth in the Labor Standards Law. For cleaning and maintenance workers, service costs equivalent to 8% to 12% of total monthly salaries are accrued over the workers' careers based on plan benefit formulas. The workers' pension fund is deposited in an account with the Consolidated Companies for the purpose of paying pension benefits to the workers when retiring.

The Labor Pension Act of the R.O.C. ("the Act"), which adopts a defined contribution scheme, is effective from July 1, 2005. In accordance with the Act, employees of the Consolidated Companies may elect to be subject to either the Act, and maintain their service years before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. For employees subject to the Act, the Consolidated Companies shall make monthly contributions to the employees' individual pension accounts of 6% of the employees' monthly wages. The related net pension cost is recorded in current income based on the actual contribution made to the pension funds.

The defined benefit pension plan has used the balance sheet date as the measurement date to complete an actuarial valuation of accumulated payment obligation in excess of pension fund assets at fair value. At the balance sheet date, the Consolidated Companies recognize minimum pension liabilities and, based on the pension plan's actuarial liabilities, record net pension cost, including current service cost and transitional net assets, prior service cost, and pension profit or loss, amortized over the average remaining length of service of employees by the straight-line method.

25) Income tax

The income tax of the Consolidated Companies is calculated in accordance with SFAS No. 22 "Income Taxes". Deferred income tax is determined based on differences between the financial statement and tax basis of assets and liabilities, using enacted tax rates in effect during the years in which the differences are expected to be reversed. The income tax effects due to taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects due to deductible temporary differences, utilization of loss carryforwards, and income tax assets is evaluated, and a valuation allowance is recognized accordingly.

The adjustments of income tax for the prior year are recorded as income tax expenses in the current year.

Since the Consolidated Companies are a government-owned enterprise, income tax should be determined by the Ministry of Audit.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

In accordance with the Financial Holding Company Act, Article 49, the Company has adopted the Company as the taxpayer to file a consolidated corporate income tax return starting from 2008. Other tax matters should be handled by each entity of the Consolidated Companies. When preparing its financial statements, the Company accounts for its income tax in conformity with SFAS No. 22 "Income Taxes". However, the Company also adjusts the related income tax balance in a reasonable and systematic way to reflect the differences computed for purposes of filing a consolidated corporate income tax return with the Company as the taxpayer. The adjustments resulting from using the Company as the taxpayer to file a consolidated corporate income tax return are recorded under receivable from (payable to) affiliated parties.

26) Revenue recognition

1. Interest income from the Company's banking loans is accrued on the unpaid principal balance in accordance with the terms of the loans. No interest revenue is recognized on loans and other credits that are classified as nonperforming loans until the interest is collected. Interest income from bailout and loan extension is recorded as deferred income in accordance with the government authorities' provision. No interest revenue from the foregoing sources is recognized until the interest is collected. Service income is recognized on an accrual basis.

A cash dividend is recognized as revenue on the ex-dividend date, while a stock dividend can only be booked as an increase in shares rather than as revenue in accordance with ROC generally accepted accounting principles.

In accordance with the regulation of "Insurance Act for Government employees", the subsidiary BOT recognizes revenue after the MoF replenishes the deficit, which is belong of the financial balance of government employees' insurance and happened before May 30, 1999.

2. For BTLI, revenue is recognized in accordance with the requirements of ROC Statement of Financial Accounting Standards (ROC SFAS) No. 32 "Accounting for Revenue Recognition" except for "insurance income". The direct written premiums are recognized when the policy becomes effective, and policy-related expenses, such as commission expenses and agency expenses, are recognized on a cash basis. At the end of each balance sheet date, adjustments are made on an accrual basis. The direct written premium for unearned premium reserves for life insurance liabilities, special reserves, and loss provisions are recognized in order to meet the matching principle.
3. For the subsidiary BTS, brokerage commissions, profit or loss from trading securities, and relevant brokerage securities transaction charges are recognized on the dealing date. Interest income or expenses of margin loans, securities financing and refinancing, bonds purchased under agreement to resell and sold under agreement to repurchase, and brokerage commission for introducing futures contracts are recognized during the transaction periods on an accrual basis. Underwriting commissions are recognized when collected, and underwriting transaction fees are recognized when the contract becomes effective.

27) Earnings per share

Earnings per share are calculated by dividing net income after tax by the weighted-average number of shares outstanding in each period.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Reasons for and Effects of Accounting Changes

The "Principles of Preparing Financial Statements of Life and Non-life Insurance Enterprises" were amended by letter No. 09602505891 of the Insurance Bureau, and the "Regulations Governing the Procedures for Life and Non-life Insurance Enterprises to Evaluate Provision for Premium Reserves" were amended by letter No. 09602505761 of the Insurance Bureau. As of December 31, 2008, the effects of those changes on insurance subsidiaries' financial statements were as follows:

	December 31, 2008 (audited by the MoA)	
	After adoption	Before adoption
Unearned premium reserves	369,147	369,147
Special reserves	478,885	1,341,715
Reserves for insufficient premium	862,830	-
Reinsurance premiums expenses	77,780	77,780
Provisions for insurance policy reserves	48,339,542	48,339,542

The effect on the accounts and amounts of the consolidated financial statements of the Consolidated Companies from the above "Principles of Preparing Financial Statements of Life and Non-life Insurance Enterprises" was as follows:

	December 31, 2008 (audited by the MoA)	
	After adoption	Before adoption
Liabilities:		
Reserves for operation and liabilities	1,710,862	1,710,862
Gains or losses:		
Net insurance business income	77,780	77,780
Provisions for insurance policy reserves	48,339,542	48,339,542

For prior years, the subsidiary BTLI recognized premium and interest income regarding overdue premiums only when applicants repaid the premium loans. In order to follow the practice among insurance companies, BTLI recognizes its premium and interest income when the premium loans occur starting from January 1, 2008. For the year ended December 31, 2008, the adoption of this change increased its premium and interest income by \$1,167,444, including premium and interest income of \$1,023,303 belonging to the prior years ended December 31, 2007.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The subsidiary BTLI used to be the insurance department of BOT and now is a wholly owned subsidiary of the Company. Therefore, BTLI is also a government-owned enterprise. Its accounting practice mainly follows the Budget Law, the Account Settlement Law, the Audit Act, and the regulations of related laws. The retained earnings become final only after an audit by the Ministry of Audit.

Starting from January 1, 2009, the Consolidated Companies adopted ROC Statement of Financial Accounting Standards No. 18 "Pension" to reclassify, evaluate and disclose transaction—related pension. As a result, the net income after tax decreased by \$6,794.

(4) Government Audit Adjustments for Fiscal Year Ended December 31, 2008

The Consolidated Companies' accounting records as of and for the year ended December 31, 2008, have been audited by the MoA. The revised items have been adjusted to the beginning balance of financial statements as of and for the year ended June 30, 2009. The revised items adjusted by the MoA are as follows:

Balance sheet	As audited by auditors December 31, 2008	Adjustments — Increase (decrease)	As audited by the MoA, December 31, 2008
Assets			
Financial assets measured at fair value through profit or loss, net	\$ 78,655,609	(564)	78,655,045
Receivables, net	105,651,162	321,882	105,973,044
Other assets	18,313,928	(15,356)	18,298,572
Liabilities			
Payable	97,379,549	121,479	97,501,028
Other liabilities	25,416,064	(13,070)	25,402,994
Stockholders' equity			
Unappropriated retained earnings	7,123,945	197,554	7,321,499

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Income statement	As audited by auditors December 31, 2008	Adjustments — Increase (decrease)	As audited by the MoA, December 31, 2008
Interest income	\$ 91,627,406	(3,418)	91,623,988
Interest expense	63,669,076	(893,022)	62,776,054
Net income on service charges and commissions	3,448,857	249	3,449,106
Gains (losses) on financial assets and liabilities at fair value through profit or loss	(16,583,003)	(984,779)	(17,567,782)
Foreign exchange gains (losses)	2,832,927	996,366	3,829,293
Other net non-interest income (losses)	12,496,089	(1,226,864)	11,269,225
Other business and administrative expenses	5,243,555	(62,303)	5,181,252
Income before income taxes	6,996,786	(557)	6,996,229
Income tax benefits	(127,159)	(198,111)	(325,270)
Net income	7,123,945	197,554	7,321,499

(5) Cash and Cash Equivalents

	December 31, 2009	December 31, 2008 (audited by the MoA)
Cash on hand and petty cash	\$ 9,913,490	9,984,247
Foreign currency on hand	4,272,147	4,966,174
Bank deposits	33,487,100	25,684,230
Notes and checks for clearing	7,075,304	8,921,826
Placement with banks	17,750,517	30,548,484
	<u>\$ 72,498,558</u>	<u>80,104,961</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(6) Due from Central Bank and Call Loans to Banks

	December 31, 2009	December 31, 2008 (audited by the MoA)
Call loans to banks	\$ 127,418,553	101,498,807
Reserves for deposits—A account and reserves for deposits— foreign-currency, etc.	36,996,414	31,407,581
Reserves for deposits—B account	60,246,178	51,025,150
Deposits in Central Bank	1,023,339,829	812,309,742
	\$ 1,248,000,974	996,241,280

- 1) The reserves for deposits is required by the Banking Law and is determined by applying the reserve ratios by the Central Bank to the monthly average balance of each type of deposit. The reserve amount is deposited in the reserve deposit account at the Central Bank. According to the regulations, such reserve for deposits—B account cannot be withdrawn except for monthly adjustments of the reserve for deposits.
- 2) As of December 31, 2009 and 2008 (audited by the MoA), 60% of the deposits collected by BOT on behalf of government institutions from government organizations amounting to \$5,349,549 and \$9,984,742, respectively, were deposited in the Central Bank and can not be withdrawn, according to the regulations.
- 3) BOT, in accordance with the Central Bank's System for allocating and transferring of funds of bank brotherhood, adopted the RTGS (Real-Time Gross Settlement) clearing system. The purchased CDs (certificates of deposit) serve as the security for daily overdrafts. As of December 31, 2009 and 2008 (audited by the MoA), \$20,000,000 in negotiable time certificates were pledged as the security for overdrafts, respectively. The secured credit limit can be modified at any time; those credits not used at the closing day may still serve as liquid reserves.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(7) Financial Assets at Fair Value through Profit or Loss, Net

	December 31, 2009	December 31, 2008 (audited by the MoA)
Financial assets held for trading		
Commercial paper	\$ 1,415,094	2,574,117
Government bonds	1,234,813	1,996,770
Listed stocks, beneficiary certificates and monetary instruments	69,021,805	34,027,325
Treasury bonds	-	8,901,154
Convertible bonds	1,476,616	4,033,869
Corporate and financial bonds	7,186	5,702
Foreign government bonds	3,948,149	6,574,952
Trading securities	187,852	1,863,267
Beneficiary securities	2,249,170	1,313,221
	<u>79,540,685</u>	<u>61,290,377</u>
Derivative financial instruments	<u>3,619,456</u>	<u>6,857,320</u>
Financial assets designated as at fair value through profit or loss:		
Foreign government and financial bonds	<u>10,848,186</u>	<u>10,537,348</u>
Total	<u>\$ 94,008,327</u>	<u>78,685,045</u>

For details of the valuation of financial assets measured at fair value through profit or loss, please see note 33, "Information on Financial Instruments".

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(8) Bills and Bonds Purchased / Sold under and Resell / Repurchase Agreements

The details of bonds and bills purchased / sold under agreements to resell (repurchase) were as follows:

	December 31, 2009	December 31, 2008 (audited by the MoA)
Bills and bonds purchased under resell agreements:		
Government bonds	\$ 368,349	300,000
Negotiable certificates of deposit	-	700,410
Treasury bills	-	591,527
Commercial paper	9,034,507	10,729,629
	\$ 9,402,856	12,321,566
Bills and bonds sold under repurchase agreements:		
Government bonds	\$ 5,525,570	19,128,355
Treasury bills	-	754,219
Commercial paper	-	368,646
	\$ 5,525,570	20,251,220

(9) Receivables, Net

	December 31, 2009	December 31, 2008 (audited by the MoA)
Accounts receivable	\$ 1,204,809	1,318,864
Long-term receivable	40,526,237	43,647,047
Accrued revenue	430,084	379,472
Interest receivable	12,176,504	18,830,946
Insurance receivable	199,260	273,909
Refundable income tax	1,738,887	1,592,181
Notes receivable and acceptance notes receivable	3,423,368	2,788,871
Factoring receivable—without recourse	1,139,497	1,298,819
Margin loans receivable	1,499,116	612,571
Other receivables	32,962,060	35,523,478
Subtotal	95,299,822	106,266,158
Less: allowance for doubtful accounts	249,697	293,114
Total	\$ 95,050,125	105,973,044

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008 (audited by the MoA), BOT paid excess interest expenses (booked in other net non-interest income) amounting to \$7,836,838 and \$7,730,890, respectively, due to executing the government premium savings policy.

As of December 31, 2009 and 2008 (audited by the MoA), BOT, on behalf of the government, had paid excess interest expenses amounting to \$85,846,669 (booked in long-term receivable of \$40,526,237 and other financial assets—short-term advance of \$45,320,432). and \$43,647,047 (booked in long-term receivable of \$43,647,047), respectively.

(10) Discounts and loans—Net

	December 31, 2009	December 31, 2008 (audited by the MoA)
Discounts and import-export negotiations	\$ 4,253,895	3,145,217
Short-term loans and overdrafts	377,901,902	428,121,859
Short-term secured loans and secured overdrafts	79,430,593	84,195,546
Insurance loans	5,433,187	5,774,269
Medium-term loans	615,537,991	560,281,674
Medium-term secured loans	239,204,917	232,219,586
Long-term loans	210,235,964	194,621,930
Long-term secured loans	516,705,042	482,982,969
Nonperforming loans	17,449,665	17,994,258
Subtotal	2,066,153,156	2,009,337,308
Less: allowance for doubtful accounts	12,981,652	11,800,604
Total	<u><u>\$ 2,053,171,504</u></u>	<u><u>1,997,536,704</u></u>

Movements of allowance for doubtful accounts were as follows:

	The year ended December 31, 2009			
	Unrecoverable risk for specific loans	Country risk	Potential risk of total loans mix	Total
Beginning balance	\$ 10,594,127	1,358,073	273,074	12,225,274
Provision (reversal) for doubtful accounts	2,009,941	2,450,625	(29,189)	4,431,377
Write-off	(4,256,086)	(916,377)	-	(5,172,463)
Collected from write-off loans	1,730,900	69,317	-	1,800,217
Foreign exchange translation adjustment	-	(16,496)	-	(16,496)
Ending balance	<u><u>\$ 10,078,882</u></u>	<u><u>2,945,142</u></u>	<u><u>243,885</u></u>	<u><u>13,267,909</u></u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	The year ended December 31, 2008 (audited by the MoA)			
	Unrecoverable risk for specific loans	Country risk	Potential risk of total loans mix	Total
Beginning balance	\$ 12,539,318	897,900	1,065,391	14,502,609
Provision (reversal) for doubtful accounts	907,557	1,482,943	(792,246)	1,598,254
Transfer to BTLI and BTS	(71,863)	-	(71)	(71,934)
Write-off	(4,667,927)	(1,088,268)	-	(5,756,195)
Collected from write-off loans	1,887,042	23,210	-	1,910,252
Foreign exchange translation	-	42,288	-	42,288
Ending balance	\$ 10,594,127	1,358,073	273,074	12,225,274

Details of allowance for doubtful accounts were as follows:

	December 31, 2009	December 31, 2008 (audited by the MoA)
Receivables	\$ 249,697	293,114
Discounts and loans	12,981,652	11,800,604
Other financial assets	36,560	131,556
Total	\$ 13,267,909	12,225,274

Details of bad debt expense were as follows:

	December 31, 2009	December 31, 2008 (audited by the MoA)
Provision for bad debt	\$ 4,431,377	1,598,254

As of December 31, 2009 and 2008 (audited by the MoA), the amount of loans where interest accruals had been ceased of the Consolidated Companies were \$17,486,189 and \$18,125,748, respectively, which was booked in discounts and loans—nonperforming loans and other financial assets—overdue receivables.

Please see note 33, "Information on Financial Instruments", for the valuation of loans granted by the Consolidated Companies.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(11) Available-for-sale Financial Assets, Net

	December 31, 2009	December 31, 2008 (audited by the MoA)
Domestic:		
Negotiable certificates of deposit	\$ 22,004,830	29,426,373
Government bonds	34,746,910	50,647,713
Corporate bonds	8,766,063	8,564,243
Financial bonds	1,828,615	2,157,287
Real estate securitization	9,854	1,683,334
Financial asset securitization	996,661	996,744
Listed stocks and beneficiary certificates	64,267,928	39,060,313
Preferred stocks	1,200,594	1,023,285
Real estate Investment Trust	2,094,666	-
	<u>135,916,121</u>	<u>133,559,292</u>
Foreign:		
Foreign bonds	38,931,558	44,016,736
Real estate securitization	216,502	360,605
Beneficiary certificates	2,453,918	441,235
Less: accumulated impairment	<u>1,598,542</u>	<u>2,850,571</u>
	<u>40,003,436</u>	<u>41,968,005</u>
Total	<u><u>\$ 175,919,557</u></u>	<u><u>175,527,297</u></u>

- 1) Please see note 33, "Information on Financial Instruments", for valuation of available-for-sale financial assets.
- 2) CSBC Corporation, Taiwan (CSBC) completed its privatization by means of an IPO (Initial Public Offer) on December 18, 2008, and the initial price was \$13.4 (dollars) per share. The Consolidated Companies hold 1,612,980 shares of CSBC, the book value of which was \$14,750. After revaluing at fair value, the Consolidated Companies transferred the shares from "financial assets carried at cost—non-current" to "available-for-sale financial assets—non-current" with book value of \$21,614.
- 3) The Consolidated Companies held the following financial instruments: the foreign financial bonds of Kaupthing Bank, Glitnir Bank and Washington Mutual Bank, the foreign corporate bonds of Lehman Brothers Holdings Inc., and the financial asset securitization of E. Sun Bank 2007-1 Collateralized Bond obligations Special Purpose Trust Class B1 Beneficiary Certificates, whose book value amounted to \$2,949,052. As these financial instruments had been impaired, the Consolidated Companies then recognized impairment losses amounting to \$2,895,083 in 2008. The partial foregoing bonds have been sold for the year ended December 31, 2009, and the Consolidated Companies reversed the accumulated impairment of \$1,380,046. Besides, as the foreign collateralized debt obligation (CDO) had been impaired, the Consolidated Companies recognized impairment losses amounting to \$139,068.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(12) Held-to-maturity Financial Assets, Net

	December 31, 2009	December 31, 2008 (audited by the MoA)
Domestic:		
Financial bonds	\$ 21,380,706	16,016,154
Corporate bonds	30,727,185	25,868,376
Negotiable certificates of deposits	300,093	-
Commercial paper	12,788,541	8,704,625
Government bonds	17,386,136	17,862,325
Treasury bonds	998,182	-
Real estate securitization	35,288	38,385
Financial asset securitization	-	25,167
Preferred stocks	291,090	291,090
Structured deposit	1,000,000	2,500,000
	<u>84,907,221</u>	<u>71,306,122</u>
Foreign:		
Foreign bonds	63,072,747	46,394,262
Less: accumulated impairment	(279,552)	(504,016)
	<u>62,793,195</u>	<u>45,890,246</u>
	<u>\$ 147,700,416</u>	<u>117,196,368</u>

- 1) Please see note 33, "Information on Financial Instruments", for valuation of held-to-maturity investment.
- 2) The Consolidated Companies held Collateralized Debt Obligations (CDOs) and recognized impairment losses amounting to \$184,339 for the year ended December 31, 2009.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(13) Investments under Equity Method, Net

	December 31, 2009		December 31, 2008 (audited by the MoA)	
	Percentage of Ownership (%)	Amount	Percentage of Ownership (%)	Amount
Hua Nan Financial Holdings Co., Ltd.	29.36	\$ 27,520,429	29.36	26,349,622
Taiwan Life Insurance Co., Ltd.	24.00	2,766,877	28.46	1,035,486
Kaohsiung Ammonium Sulfate Co., Ltd.	91.86	2,610,549	91.86	2,640,474
Tang Eng Iron Works Co., Ltd.	21.38	1,465,979	21.38	1,090,467
Tai Yi Real-Estate Management Co., Ltd.	30.00	9,588	30.00	9,577
Total		<u>\$ 34,373,422</u>		<u>31,125,626</u>

1) The initial costs of long-term equity investment under the equity method were as follows:

Name of Investee	December 31, 2009	December 31, 2008 (audited by the MoA)
Hua Nan Financial Holdings Co., Ltd.	\$ 8,105,279	8,105,279
Taiwan Life Insurance Co., Ltd.	812,325	812,325
Kaohsiung Ammonium Sulfate Co., Ltd.	1,377,872	1,377,872
Tang Eng Iron Works Co., Ltd.	1,451,462	1,451,462
Tai Yi Real Estate Management Co., Ltd.	3,793	3,793
	<u>\$ 11,750,731</u>	<u>11,750,731</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- 2) The gains or losses on long-term investments under the equity method were as follows:

Name of Investee	The year ended December 31, 2009	The year ended December 31, 2008 (audited by the MoA)
Hua Nan Financial Holdings Co., Ltd.	\$ 1,306,355	2,655,397
Taiwan Life Insurance Co., Ltd.	1,222,077	(1,229,172)
Kaohsiung Ammonium Sulfate Co., Ltd.	(29,925)	(14,163)
Tang-Eng Iron Works Co., Ltd.	349,847	(506,966)
Tai Yi Real-Estate Management Co., Ltd.	11	(3,091)
	<u>\$ 2,848,365</u>	<u>902,005</u>

- The financial statements of the Consolidated Companies' investee companies — Hua Nan Financial Holdings Co., Ltd. under equity method were audited by other auditors, and the related equity in earnings were \$1,306,366 and \$2,652,306 for the years ended December 31, 2009 and 2008 (audited by the MoA), respectively.
 - The financial statements of the Consolidated Companies' some investee companies under equity method were not audited by auditors, and the related equity in losses were \$(29,925) and \$(14,163) for the years ended December 31, 2009 and 2008 (audited by the MoA), respectively.
 - Since Kaohsiung Ammonium Sulfate Co., Ltd. was in the process of liquidation and the liquidators and supervisors were appointed by the Ministry of Economic Affairs, the Consolidated Companies have no control power over such investee.
- 3) Details of the Consolidated Companies' recognition of unrealized increments on revaluation and cumulative translation adjustments under stockholders' equity were as follows:

Name of investee	Unrealized increments on revaluation		Cumulative translation adjustments	
	2009	2008 (audited by the MoA)	2009	2008 (audited by the MoA)
Hua Nan Financial Holdings Co., Ltd.	\$ (64,293)	220,699	(11,481)	(7,097)
Taiwan Life Insurance Co., Ltd.	-	50,332	(1,465)	8,806
Tang Eng Iron Works Co., Ltd.	17,647	1,238	-	-
	<u>\$ (46,646)</u>	<u>272,269</u>	<u>(12,946)</u>	<u>1,709</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- 4) Details of the Consolidated Companies' recognition of additional paid-in capital and unrealized losses or gains on financial instruments under stockholders' equity were as follows:

Name of investee	Additional paid-in capital		Unrealized losses and gains of financial instruments	
	2009	2008 (audited by the MoA)	2009	2008 (audited by the MoA)
Hua Nan Financial Holdings Co., Ltd.	\$ -	-	1,179,422	(1,851,005)
Taiwan Life Insurance Co., Ltd.	(525)	-	511,305	(577,281)
Tang Eng Iron Works Co., Ltd.	-	-	8,018	(7,639)
	<u>\$ (525)</u>	<u>-</u>	<u>1,698,745</u>	<u>(2,435,925)</u>

- 5) Details of the cash dividends distributed to the Consolidated Companies 2009 and 2008 were as follows:

	2009	2008 (audited by the MoA)
Hua Nan Financial Holdings Co., Ltd.	\$ 1,251,684	1,753,059
Taiwan Life Insurance Co., Ltd.	-	219,208
	<u>\$ 1,251,684</u>	<u>1,972,267</u>

(14) Other Financial Assets, Net

	December 31, 2009	December 31, 2008 (audited by the MoA)
Temporary advances	\$ 51,688,589	45,183,149
Financial assets carried at cost	11,092,326	11,092,326
Bond investments with no active market	11,498,430	18,131,561
Less: accumulated impairment—bond investment with no active market	(1,466,075)	(1,318,312)
Overdue receivables	50,628	131,490
Less: allowance for doubtful accounts—overdue receivables	(36,524)	(131,490)
Hedging derivative financial assets	18,409	57,273
Separate account insurance product assets	5,680,906	4,810,896
Bills purchased	11,964	22,104
Less: allowance for doubtful accounts—bills purchased	(36)	(66)
Others	24,360	-
Total	<u>\$ 78,562,977</u>	<u>77,978,931</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- 1) Please see note 33, "Information on Financial Instruments", for valuation of hedging derivative financial assets and bond investments with no active market.
- 2) On December 23, 2008, Mega International Investment Trust Co., Ltd. underwent a capital reduction, and therefore reduced book value of "financial assets carried at cost" by \$544.
- 3) The Consolidated Companies recognized impairment losses of \$567,544 (booked in bond investments with no active market) for the year ended December 31, 2009.

(15) Real Estate Investments, Net

	December 31, 2009	December 31, 2008 (audited by the MoA)
Real estate investments	\$ 2,212,479	2,210,995
Less: accumulated depreciation	<u>230,034</u>	<u>207,030</u>
Total	<u>\$ 1,982,445</u>	<u>2,003,965</u>

(16) Fixed Assets, Net

	December 31, 2009	December 31, 2008 (audited by the MoA)
Cost:		
Land (including revaluation increments)	\$ 67,123,023	68,412,775
Land improvements	15,869	19,345
Buildings (including revaluation increments)	14,666,245	14,141,305
Machinery and equipment	5,638,105	5,464,267
Transportation equipment	1,099,029	1,125,195
Miscellaneous equipment	1,126,938	1,159,066
Leasehold improvements	631,599	565,605
Construction in progress and order parts	262,706	519,462
Prepayment for equipment	206,384	-
Prepayment for land and construction	<u>-</u>	<u>293,665</u>
Subtotal	<u>90,769,898</u>	<u>91,700,685</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2009	December 31, 2008 (audited by the MoA)
Accumulated depreciation:		
Land improvement	\$ 13,084	15,981
Buildings	4,940,296	4,662,184
Machinery and equipment	3,786,114	3,648,307
Transportation equipment	811,230	810,181
Miscellaneous equipment	826,014	861,388
Leasehold improvements	488,778	494,590
Subtotal	10,865,516	10,492,631
Accumulated impairment	252,584	167,430
Net	<u>\$ 79,651,798</u>	<u>81,040,624</u>

On March 17, 2009, BOT assessed individually asset and recognized an impairment loss amounting to \$4,373, a reversal on impairment loss amounting to \$15,776; reduced unrealized increments on revaluation by \$96,521 and reclassification of accumulated impairment amounting to \$36.

BOT has conducted revaluations of lands and buildings many times over past years. As of December 31, 2009 and 2008 (audited by the MoA), revaluation increments of lands were \$62,252,009 and \$63,556,509, respectively, and estimated tax payables on land increments were \$15,411,676 and \$15,599,295 (recorded in other liabilities), respectively.

BTLI revaluated its land and buildings on February 4, 2009, and recognized revaluation increments of assets by \$212,411 based on benchmark of January 2, 2008, after approval by the National Tax Administration on March 12, 2009. The fixed assets, real estate investments, and unrealized revaluation increments increased by \$77,482, \$134,929 and \$212,411, respectively, from such revaluation.

To comply with government policy, the Consolidated Companies sold land, buildings and equipments and recognized gains on disposal of property, plant and equipment of \$2,645,425 and \$2,738,530 for the years ended December 31, 2009 and 2008 (audited by the MoA), respectively.

As of December 31, 2009 and 2008 (audited by the MoA), the Consolidated Companies' did not pledge any fixed assets as a guarantee or collateral.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2009, the part of the land and buildings (including real estate investment) of the Consolidated Companies were leased out. The book value (including revaluation increments) of the rental land was \$31,965,485. Most of the rental buildings have been fully depreciated over their useful lives. The estimated future lease revenue was as follows:

Period	Amount
2010.01.01~2010.12.31	\$ 188,454
2011.01.01~2011.12.31	114,125
2012.01.01~2012.12.31	53,240
2013.01.01~2013.12.31	15,980
2014.01.01~2014.12.31	4,292
	<u>\$ 376,091</u>

(17) Other Assets — Net

	December 31, 2009	December 31, 2008 (audited by the MoA)
Prepayments	\$ 4,925,813	5,554,462
Refundable deposits	1,345,745	1,009,035
Operating guarantee deposits and settlement and clearing funds	86,591	329,954
Temporary advance and amount being transferred	476,684	320,095
Deferred income tax assets, net	2,108,152	1,738,737
Non-operating assets (including revaluation increments)	8,184,756	8,214,018
Brokering transaction debit balance, net	22,487	2,560
Collateral assumed, net	1,076,959	1,076,959
Deferred pension cost	233,278	-
Others	37,580	52,752
Total	<u>\$ 18,498,045</u>	<u>18,298,572</u>

1) Prepayments

	December 31, 2009	December 31, 2008 (audited by the MoA)
Prepaid expense	\$ 726,407	716,942
Prepaid tax	32,950	237,231
Cash dividends paid in advance	3,012,708	3,590,127
Other prepayments	1,153,748	1,010,162
	<u>\$ 4,925,813</u>	<u>5,554,462</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

2) Non-operating assets, net

	December 31, 2009	December 31, 2008 (audited by the MoA)
Land	\$ 8,251,546	8,281,839
Buildings	53,185	53,185
Miscellaneous equipment	92	92
Less: accumulated depreciation—buildings	20,781	19,461
accumulated impairment	99,286	101,637
	<u>\$ 8,184,756</u>	<u>8,214,018</u>

BOT recognized impairment loss of \$78, reversal on impairment loss of \$2,418, and unrealized increments on revaluation of \$11 based on the result of impairment assessment of individual asset.

3) Collateral assumed, net

	December 31, 2009	December 31, 2008 (audited by the MoA)
Collateral assumed	\$ 1,095,788	1,097,616
Less: accumulated impairment	18,829	20,657
	<u>\$ 1,076,959</u>	<u>1,076,959</u>

BOT recognized reversal on impairment losses of \$1,828 for auctioning guarantees on April 22, 2009.

(18) Due to Central Bank and Other Banks

	December 31, 2009	December 31, 2008 (audited by the MoA)
Call loans from bank	\$ 134,600,983	106,418,360
Postal deposits transferred	32,986,964	38,973,586
Deposits from Central Bank	13,140,110	12,453,417
Deposits from other banks	23,705,622	23,533,652
Bank overdrafts	517,181	110,723
	<u>\$ 204,950,860</u>	<u>181,489,738</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	December 31, 2009	December 31, 2008 (audited by the MoA)
Held-for-trading financial liabilities		
Foreign exchange options	\$ 9,079	4,410
Cross currency swaps	3,000,716	4,098,268
Interest rate swaps	952,683	1,003,272
Foreign exchange swaps	247,563	698,469
	<u>\$ 4,210,041</u>	<u>5,804,419</u>

For valuation of financial liabilities at fair value through profit or loss, please refer to note 33.

(20) Payables

	December 31, 2009	December 31, 2008 (audited by the MoA)
Accounts payable	\$ 7,740,672	9,402,405
Receipts under custody	1,687,860	1,469,701
Accrued expense	2,675,344	3,100,694
Income tax payable	306,824	-
Interest payable	12,327,500	19,807,329
Bank acceptances	3,272,781	2,633,560
Due from representative organization	33,023,880	33,863,716
Other payables	30,738,668	27,223,623
	<u>\$ 91,773,529</u>	<u>97,501,028</u>

(21) Deposits

	December 31, 2009	December 31, 2008 (audited by the MoA)
Checking account deposits	\$ 28,731,791	27,300,859
Government deposits	211,783,672	247,717,840
Demand deposits	212,922,098	176,259,848
Time deposits	596,809,868	603,203,837
Savings account deposits	2,114,580,192	1,877,499,880
Remittances	561,547	580,641
	<u>\$ 3,165,389,168</u>	<u>2,932,562,905</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(22) Other loans

As of December 31, 2009 and 2008 (audited by the MoA), the unused limit of the Consolidated Companies' short-term loans were \$17,800,000 and \$17,300,000, respectively.

(23) Reserves for Operation and Liabilities

	December 31, 2009	December 31, 2008 (audited by the MoA)
Reserves for unearned premium	\$ 357,562	369,147
Reserves for life insurance liability	191,242,566	151,432,202
Special reserves for life insurance	499,664	478,885
Reserves for claim outstanding	72,316	75,568
Reserves for operating loss	127,274	131,712
Reserves for default losses	116,154	98,851
Reserves for trading losses	5,880	1,457
Reserves for guarantees	263,603	299,465
Reserves for labor insurance liability	160,359,169	126,108,139
Reserve for insufficient premiums	2,370,408	852,830
Total	<u><u>\$ 355,414,596</u></u>	<u><u>279,848,256</u></u>

(24) Other Financial Liabilities

	December 31, 2009	December 31, 2008 (audited by the MoA)
Appropriated loan funds	\$ 1,270,228	1,428,143
Separate account — insurance liabilities	5,680,906	4,810,896
Hedging derivative financial liabilities	241,100	189,981
	<u><u>\$ 7,192,234</u></u>	<u><u>6,429,020</u></u>

For details of hedging derivative financial liabilities on December 31, 2009 and 2008 (audited by the MoA), please refer to note 33.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(25) Other Liabilities

	December 31, 2009	December 31, 2008 (audited by the MoA)
Advance collections	\$ 789,607	907,042
Guarantee deposits received	4,885,771	3,683,802
Estimated tax payable on land increments	15,411,676	15,599,295
Temporary receipt awaiting transfer	480,964	1,234,024
Accrued pension liabilities	2,996,855	2,639,677
Others	1,338,445	1,339,154
	\$ 25,903,318	25,402,994

(26) Pension

The reconciliation of the plan's funded status and accrued pension liabilities was as follows:

	December 31, 2009		December 31, 2008 (audited by the MoA)	
	Regular Employees	Regular Labor	Regular Employees	Regular Labor
Benefit obligation:				
Vested benefit obligation	\$ (4,896,223)	(374,734)	(4,439,766)	(325,619)
Non-vested benefit obligation	(3,142,515)	(453,749)	(2,923,928)	(430,072)
Accumulated benefit obligation	(8,038,738)	(828,483)	(7,363,694)	(755,691)
Additional benefits based on future salaries	(2,187,400)	(271,777)	(2,070,022)	(259,665)
Projected benefit obligation (PBO)	(10,226,138)	(1,100,260)	(9,433,716)	(1,015,356)
Fair value of plan assets	5,403,114	930,090	4,964,905	854,094
Funding status	(4,823,024)	(170,170)	(4,468,811)	(161,262)
Unrecognized transitional net benefit obligation (assets)	573,254	295,184	641,123	329,478
Unrecognized prior service cost	194,553	(20,067)	215,032	(23,715)
Unrecognized pension loss (gain)	1,400,123	(213,430)	1,292,520	(248,243)
Additional minimum pension liability recognized	(119,417)	(113,861)	(97,481)	(118,318)
Accrued pension liabilities	\$ (2,774,511)	(222,344)	(2,417,617)	(222,060)
Vested benefit	\$ (6,166,899)	(462,072)	(5,622,914)	(404,901)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The components of net pension costs for the year 2009 and 2008 (audited by the MoA) were as follows:

	2009		2008 (audited by the MoA)	
	Regular Employees	Regular Labor	Regular Employees	Regular Labor
Service cost	\$ 789,155	55,703	796,664	61,828
Interest cost	222,155	24,368	222,574	28,896
Expected return on plan assets	(118,168)	(21,028)	(126,813)	(21,871)
Settlement gain	4,056	-	-	-
Amortization and deferred cost	154,517	18,873	132,645	30,413
Net pension costs	\$ 1,051,715	77,916	1,025,070	99,266

The details of pension expenses for 2009 and 2008 (audited by the MoA) as follows:

	2009	2008 (audited by the MoA)
Pension expenses:		
Defined benefit pension plan	\$ 1,129,628	1,124,336
Defined contribution pension plan	29,110	9,639

Actuarial assumptions:

	2009	2008 (audited by the MoA)
Discount rate	2.25% ~ 2.50%	2.50%
Rate of increase in future compensation	2.00% ~ 2.50%	2.00%
Rate of expected return on plan assets	1.50% ~ 2.50%	2.50%

(27) Income Tax

The income tax expenses are summarized below:

	The year ended December 31, 2009	The year ended December 31, 2008 (audited by the MoA)
Current income tax	\$ 557,345	431,449
Deferred income tax benefit	(591,541)	(756,719)
Income tax expense (benefit)	\$ (34,196)	(325,270)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The Consolidated Companies are subject to ROC income tax at a maximum rate of 25%. In accordance with the amendment of "Income Tax Act" announced on May 27, 2009, the maximum income tax rate of the Consolidated Companies will be changed to 20% from 2009. For the years ended December 31, 2009 and 2008 (audited by the MoA), the differences between the "expected" income tax at the statutory income tax rate and the income tax expense in the accompanying financial statements were as follows:

	The year ended December 31, 2009	The year ended December 31, 2008 (audited by the MoA)
Expected income tax expenses	\$ 2,171,313	1,753,976
Tax effect of interest income from short-term notes separately taxable income	(4,167)	(87,720)
Gain on securities transactions exempt from tax	(1,448,122)	(159,190)
Unrealized gain on evaluation of financial instruments	319,725	71,931
Tax-free earnings from OBU	(439,233)	266,234
Investment gains recognized under the equity method	(712,092)	(225,501)
Gain on disposal of land	(658,290)	(680,566)
Impairment loss (reversal gain)	(1,342)	250,170
Adjustment of income taxes estimated in prior years	445,552	-
Tax-free dividends	(241,134)	(621,636)
Allowance for deferred income tax assets	(639,506)	(741,602)
Income tax expenses of overseas branches	516,054	(502,894)
Adjustments of outright purchase and sale of bills	(5,410)	266,351
Repo and reverse repo bond transactions exempt from tax	4,042	2,647
Income basic tax	220,436	100,120
Income tax effect of change in statutory income tax rate	404,157	-
Others	33,821	(17,590)
Income tax benefit	<u>\$ (34,196)</u>	<u>(325,270)</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The major components of deferred income tax benefit were as follows:

	The year ended December 31, 2009	The year ended December 31, 2008 (audited by the MoA)
Pension costs in excess of tax limits	\$ (67,941)	(79,320)
Losses on valuation of foreign and derivative financial instruments	119,156	4,004
Unrealized gains on foreign currency exchange	(535,006)	395,310
Reversal of impairment loss on financial assets	57,481	(455,582)
Loss carryforward	(623,823)	(84,497)
Deferred income tax expenses of overseas branches	309,916	(555,005)
Income tax effect of change in statutory income tax rate	148,451	-
Others	225	18,371
Deferred income tax benefit	<u><u>\$ (591,541)</u></u>	<u><u>(756,719)</u></u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The temporary differences, loss carryforward, and tax effects relating to deferred income tax assets were as follows:

	December 31, 2009		December 31, 2008 (audited by the MoA)	
	Amount	Income tax effect	Amount	Income tax effect
Deferred income tax assets:				
Pension costs in excess of tax limits	\$ 2,763,580	552,716	2,423,880	605,970
Loss carryforward	6,700,705	1,340,141	3,872,884	968,221
Impairment losses on collateral assumed	18,830	3,766	20,656	5,164
Impairment losses on financial assets	2,009,665	401,933	3,403,672	850,918
Losses on valuation of financial assets	-	-	1,360,472	340,118
Unrealized losses on foreign currency exchange	1,094,030	218,806	352	88
Foreign deferred income tax assets — loss carryforward and exchange effect	2,413,780	482,756	-	984,262
Others	56,370	11,274	30,960	7,740
Subtotal		3,011,392		3,762,481
Allowance for deferred income tax assets		(753,214)		(1,624,342)
		<u>\$ 2,258,178</u>		<u>\$ 2,138,139</u>
Deferred income tax liabilities:				
Unrealized gains on foreign currency exchange	240	48	1,581,592	395,398
Unrealized gains or losses on foreign and derivative financial instruments	723,970	144,794	16,016	4,004
Unrealized gains or losses on exchange difference and financial instruments — deferred tax liability — foreign	20,736	5,184	-	-
		<u>\$ 150,026</u>		<u>\$ 399,402</u>
Deferred income tax assets — net		<u>\$ 2,108,152</u>		<u>\$ 1,738,737</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

According to income tax law, loss of a company could be used to offset taxable income in next ten years. On December 31, 2009, the amount of loss which could be used to offset taxable income was as follows:

Fiscal years	December 31, 2009	Last year offsetable
2009, estimated amount	\$ <u>6,343,013</u>	2019

BOT's income tax returns for all years through 2007 have been examined by the tax authorities, and that of Consolidated Companies for 2008 have been audited by the MoA.

Beginning 2008, the Company and its subsidiary BOT adopted a combined income tax declaration to report their tax. The subsidiaries BTLI and BTS join in adoption in 2009. As of December 31, 2009 and 2008 (audited by the MoA), the details of receivables and payables resulting from income tax were as follows:

The year ended December 31, 2009				
	Tax receivables from affiliated parties (booked in accounts receivable)	Tax payables to affiliated parties (booked in accounts payable)	Income tax receivables from National Tax Administration (booked in accounts receivable)	Income tax payables to National Tax Administration (booked in accounts payable)
2008	\$ -	740,542	740,551	-
The year ended December 31, 2009	25,351	552,484	527,211	-
	\$ <u>25,351</u>	<u>1,293,026</u>	<u>1,267,762</u>	<u>-</u>

The year ended December 31, 2008 (audited by the MoA)				
	Receivables from affiliated parties (booked in accounts receivable)	Payables to affiliated parties (booked in accounts payable)	Income tax receivables from National Tax Administration (booked in accounts payable)	Income tax payables to National Tax Administration (booked in accounts payable)
The year ended December 31, 2008	\$ -	740,542	740,551	-

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The reconciliation of the balances of current income tax expense, deferred income tax expense, deferred income tax assets, and income tax receivables under the provisions of SFAS No. 22 "Income Taxes" to the related balances computed for filing combined corporate income tax returns with the Company as the taxpayer was as follows:

	The year ended December 31, 2009			
	Current income tax expense	Deferred inco	Deferred income tax assets, net	Current income tax receivables
Amount computed under SFAS No. 22	\$ 557,345	(591,541)	2,108,152	1,267,762
Difference adjustments	-	-	-	-
Amount computed for filing combined corporate income tax return	<u>\$ 557,345</u>	<u>(591,541)</u>	<u>2,108,152</u>	<u>1,267,762</u>

	The year ended December 31, 2008 (audited by the MoA)			
	Current income tax expense	Deferred inco	Deferred inco	Current inco
Amount computed under SFAS No. 22	\$ 431,449	(756,719)	1,738,737	740,551
Difference adjustments	-	-	-	-
Amount computed for filling combined corporate income tax returns	<u>\$ 431,449</u>	<u>(756,719)</u>	<u>1,738,737</u>	<u>740,551</u>

As of December 31, 2009 and 2008 (audited by the MoA), unappropriated retained earnings were as follows:

	December 31, 2009	December 31, 2008 (audited by the MoA)
1998 and after	<u>\$ 8,790,072</u>	<u>7,321,499</u>

(28) Stockholders' Equity

1) Common stock

On January 1, 2008, the Company was incorporated through transfer of shares and issued 9,000,000 shares of common stock with a par value of \$10. As of December 31, 2009, the Company had authorized and issued \$90,000,000 of common stock.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

2) Additional paid-in capital

The Company reorganized the group members in accordance with the amendment of the Act of Taiwan Financial Holding Co. Ltd. approved by the Legislative Yuan on November 7, 2008. On December 20, 2008, the Company underwent a non-cash share capital reduction and increased share capital by converting the additional paid-in capital of \$109,467,296 to increase its share capital at the same time. The share capital of the Company remained \$90,000,000 after the capital reduction and increase. The change in additional paid-in capital for the years ended December 31, 2009 and 2008 (audited by the MoA) were as follows:

	Capital surplus	
	The year ended December 31, 2009	The year ended December 31, 2008 (audited by the MoA)
Beginning balance	\$ 111,495,264	215,854,060
Adjustment for the change in the subsidiaries' special reserve	-	(320,552)
Recognition of change in the subsidiaries' additional paid-in capital under equity method	(525)	-
Converted to increase share capital	-	(109,467,296)
Adjustment for non-cash share capital reduction	-	5,429,052
Ending balance on June 30, 2009	<u><u>\$ 111,494,739</u></u>	<u><u>111,495,264</u></u>

3) Distribution of unappropriated earnings

The articles of incorporation of the Company stipulate that net income should be distributed as follows:

1. to offset prior years' deficit;
2. to appropriate 10% as legal reserve;
3. to appropriate 40~60% and the same amount of unrealized loss on financial instruments under stockholders' equity as special reserve;
4. to appropriate dividends.

The remaining balance plus prior year's accumulated unappropriated earnings will be distributed under the applicable laws and regulations.

According to the Company's articles of incorporation, cash dividend cannot be distributed in excess of 15% of total capital unless the legal reserve reaches the total amount of capital.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(29) Earnings per Share

	The year ended December 31, 2009		The year ended December 31, 2008 (audited by the MoA)	
	Pretax	After tax	Pretax	After tax
Net income (for common stockholders)	<u>\$ 8,685,253</u>	<u>8,719,449</u>	<u>6,996,229</u>	<u>7,321,499</u>
Weighted average outstanding shares (shares in thousands)	<u>9,000,000</u>	<u>9,000,000</u>	<u>9,000,000</u>	<u>9,000,000</u>
Primary earnings per share (in Dollars)	<u>\$ 0.97</u>	<u>0.97</u>	<u>0.78</u>	<u>0.81</u>

(30) Net Insurance Business Income

	The year ended December 31, 2009	The year ended December 31, 2008 (audited by the MoA)
Gross written premiums	\$ 60,671,528	63,414,889
Reinsurance claims recovery	25,376	56,419
Investment-type insurance policy revenue	<u>483,058</u>	<u>4,756,856</u>
Insurance business income	<u>61,179,962</u>	<u>68,228,164</u>
Re-insurance expense	77,532	77,780
Direst business expense	333,549	342,373
Insurance payments	27,711,522	30,023,342
Stability fund	43,498	46,954
Investment-type insurance policy expense	<u>483,058</u>	<u>4,756,856</u>
Insurance business expense	<u>28,649,159</u>	<u>35,247,305</u>
Net insurance income	<u>\$ 32,530,803</u>	<u>32,980,859</u>

(31) Asset Impairment Loss (Gain on Reversal of Impairment)

	The year ended December 31, 2009	The year ended December 31, 2008 (audited by the MoA)
Available-for-sale financial assets	\$ (1,240,978)	2,895,083
Held-to-maturity financial assets	184,339	504,016
Other financial assets	567,544	1,318,312
Fixed assets	(11,402)	37,018
Other assets	<u>(4,168)</u>	<u>(36,000)</u>
	<u>\$ (504,665)</u>	<u>4,718,429</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(32) Provisions Recovery for Insurance Policy Reserves

	2009	2008 (audited by the MoA)
Provision for policyholders' reserve	\$ 74,817,376	33,694,367
Provision (recovery) for special reserve	(27,107)	(89,769)
Provision (recovery) for claim reserve	(3,252)	(19,490)
Provision for insufficient premium reserve	1,555,464	125,832
	\$ 76,342,481	33,710,940

(33) Information on Financial Instruments

1) Information on fair value of financial instruments

	December 31, 2009		December 31, 2008 (audited by the MoA)	
	Book Value	Fair Value	Book Value	Fair Value
Financial Assets:				
Financial assets measured at fair value through profit or loss	\$ 94,008,327	94,008,327	78,655,045	78,655,045
Loans	2,053,171,504	2,053,171,504	1,997,536,704	1,997,536,704
Available-for-sale financial assets	175,919,557	175,919,557	175,527,297	175,527,297
Held-to-maturity financial assets	147,700,416	147,700,416	117,196,368	117,196,368
Other financial assets	78,562,977	78,562,977	77,978,931	77,978,931
Financial Liabilities:				
Financial liabilities measured at fair value through profit or loss	4,210,041	4,210,041	5,804,419	5,804,419
Other financial liabilities	7,192,234	7,192,234	6,429,020	6,429,020

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- 2) The derivative financial instruments hold by the Company and the subsidiaries were as follows:

	December 31, 2009		December 31, 2008 (audited by the MoA)	
	Book value	Notional amount	Book value	Notional amount
Derivative financial assets:				
Buy side foreign exchange option	\$ 9,111	7,736,913	3,709	683,035
Cross currency swaps	3,127,004	313,995,981	6,046,487	163,750,226
Interest rate swaps	138,290	6,174,282	701,829	7,521,894
Foreign exchange forward transaction	343,360	27,907,555	98,251	4,722,827
Commercial paper with fixed rate	1,691	700,000	7,044	1,700,000
Derivative financial liabilities:				
Sell side foreign exchange option	9,079	7,732,101	4,410	683,035
Cross currency swaps	3,000,716	328,099,484	4,098,268	136,322,479
Interest rate swaps	952,683	15,634,186	1,003,272	12,375,055
Foreign exchange forward transaction	247,563	18,265,443	698,469	43,111,742

- 3) Methods and assumptions used by the Consolidated Companies for fair value evaluation of financial instruments were as follows:
1. Since these instruments have short-term maturities, the book value is a reasonable basis to estimate the fair value. This method is applied to cash and cash equivalents, due from Central Bank and call loans to banks, bills and bonds purchased under resell agreements, receivables, other financial assets, due to Central Bank and other banks, bills and bonds sold under repurchase agreements, payables, deposits and other liabilities.
 2. When the financial assets have a public quotation from an active market, the market price is considered the fair value. If a quoted market price is unavailable, then the fair value is determined based on a valuation model. The estimates and assumptions of the valuation model adopted by the Consolidated Companies are identical to those adopted by other market participants.
 3. The interest on discounts and loans is calculated by a floating rate; therefore, the book value is the fair value.
 4. Most deposits mature within one year. If it matures in more than one year, the interest is calculated by a floating rate. Thus the book value is the fair value.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

5. The fair value of each forward contract is determined by the discounted cash flow using Reuters forward rate upon maturity. The fair value of interest rate swaps and cross currency swaps is calculated either by the quotation from the counterparty or by the price from Bloomberg, while the Black Scholes model is applied to evaluate the fair value of options.
- 4) The fair values of the financial instruments of the Consolidated Companies which were based on the quoted market price or a valuation model were as follows:

	December 31, 2009		December 31, 2008 (audited by the MoA)	
	Quoted market price	Valuation model	Quoted market price	Valuation model
Financial assets:				
Financial assets measured at fair value through profit or loss	\$ 71,921,086	22,087,241	41,891,231	36,763,814
Discount and loans	-	2,053,171,504	-	1,997,536,704
Available-for-sale financial assets	102,669,349	73,250,208	92,846,081	82,681,216
Held-to-maturity investments	-	147,700,416	-	117,196,368
Other financial assets	-	78,562,977	-	77,978,931
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss	-	4,210,041	-	5,804,419
Other financial liabilities	-	7,192,234	-	6,429,020

For the year ended December 31, 2009 and 2008 (audited by the MoA), the Consolidated Companies recognized gain (loss) on valuation of \$2,071,190 and \$(1,871,720), respectively, based on a valuation model.

5) Financial risk information

1. Market risk – BOT

Market risk (also called "price risk") means changes such as in interest rates, exchange rates, and the prices of equity securities and instruments which may result in a loss for BOT, either on or off the balance sheet.

In order to establish and effectively operate the Market Risk Control Mechanism, all subsidiaries, in accordance with their cash capital and operating condition, implement appropriate market risk control in daily operations and management procedures, such as

- Identifying, evaluating and analyzing (qualification/non-qualification) risks and adopting appropriate methods (including risk hedging, risk sharing, risk reduction, and risk bearing).
- Each unit following the Market Risk Management Guidelines for position management, actively monitoring various limits, and reporting to the responsible unit or the risk management department.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- (c) Verifying the position data and profit or loss status with the accounting department to ensure the consistency and completeness of data, and setting up a separate risk management unit to help control BOT's overall market risk.

BOT utilizes the standard method for calculating market risk capital to meet the requirement of the competent authority. In the future, the Bank will adopt a market risk management system and use VAR to enhance risk gain or loss analysis and overall reporting ability. Furthermore, BOT will amend relevant policies and standards in accordance with the request of management agencies and BASEL II.

2. Credit risk

- (a) The possibility of a loss occurring due to the failure of a counterparty or third party to meet contractual debt obligations

Commodities owned and issued by the Consolidated Companies may cause a loss when the contractual debt obligations are not met. Therefore, the Consolidated Companies always conducts credit evaluations in accordance with the Credit Policy and Regulation in handling credit business such as loans, commitments and guarantees. The details were as follows:

				(In millions of NTD)
December 31, 2009				
Item	Secured amount	Total amount	Percentage of total amount	
Loan (note 1)	\$ 931,101	2,066,153	45.06	
Acceptances	337	3,266	10.32	
Guarantees on loans	7,011	50,051	14.01	
December 31, 2008 (audited by the MoA)				
Item	Secured amount	Total amount	Percentage of total amount	
Loan (note 1)	\$ 886,215	2,009,337	44.10	
Acceptances	133	2,623	5.07	
Guarantees on loans	7,976	60,186	13.25	

Note 1: Amounts of loans exclude advances and off-balance-sheet items.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Collateral which the Consolidated Companies requires may include a deposit receipt, inventories, machinery and equipment, marketable securities, other property, and guarantees. If the customers default, the Consolidated Companies will, as required by circumstances, foreclose the collateral or execute other rights arising out of the guarantees given. Since most of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash demands. The maximum potential amount of future payments represents the notional amounts that could be lost under the guarantees if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from collateral held or pledged.

(b) Credit risk—disclosure of the greatest credit exposure

The book value and greatest credit exposure of various commodities owned by the Company are disclosed below:

Items	(In millions of NTD)	
	December 31, 2009	Greatest credit exposure (notes 2 and 3)
Book value		
Financial assets measured at fair value through profit or loss	\$ 94,008	92,773
Available-for-sale financial assets	175,920	119,168
Held-to-maturity financial assets	147,700	130,314
Loans and advances (note 1)	2,117,842	1,868,265
Hedging derivatives	18	18
Debt investments without quoted price in active markets	10,032	10,032
Financial assets carried at cost	11,092	11,092

Note 1: The aforementioned "loans and advances" refer to the outstanding amounts of discounts; overdrafts; treasury overdrafts; guarantee overdrafts; short-term, medium-term and long-term secured/unsecured loans; import bill advances/export bill purchases; overdue receivables; acceptance receivables; guarantee payment receivables; short-term loans and nonperforming loans.

Note 2: In the amounts of greatest credit exposure, held-for-trading financial assets exclude government bonds amounting to \$1,235 million; available-for-sale financial assets exclude government bonds amounting to \$34,747 million and negotiable certificates of deposit amounting to \$22,005 million; held-to-maturity financial assets exclude government bonds amounting to \$17,386 million; loans and advances exclude Central Government loans amounting to \$236,700 million and Central Government short-term advance amounting to \$12,877 million.

Note 3: The amount of greatest credit exposure is the fair value at the balance sheet date.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Items	December 31, 2008 (audited by the MoA)	
	Book value	Greatest credit exposure (notes 2 and 3)
Financial assets measured at fair value through profit or loss	\$ 78,655	76,688
Available-for-sale financial assets	175,527	95,453
Held-to-maturity financial assets	117,196	99,334
Loans and advances (note 1)	2,054,520	1,874,796
Hedging derivatives	57	57
Debt investments without quoted price in active markets	18,132	18,132
Financial assets carried at cost	11,092	11,092

Note 1: The aforementioned "loans and advances" refer to the outstanding amounts of discounts; overdrafts; treasury overdrafts; guarantee overdrafts; short-term, medium-term and long-term secured/unsecured loans; import bill advances/export bill purchases; overdue receivables; acceptance receivables; guarantee payment receivables; short-term loans and nonperforming loans.

Note 2: In the amounts of greatest credit exposure, held-for-trading financial assets exclude government bonds amounting to \$1,967 million; available-for-sale financial assets exclude government bonds amounting to \$50,648 million and negotiable certificates of deposit amounting to \$29,426 million; held-to-maturity financial assets exclude government bonds amounting to \$17,862 million; loans and advances exclude Central Government loans amounting to \$176,559 million and Central Government short-term advance amounting to \$3,165 million.

Note 3: The amount of greatest credit exposure is the fair value at the balance sheet date.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Disclosure of obvious concentration of credit risk

When transactions involving a commodity are concentrated in a single industry or location, the ability to fulfill the contract may be affected by economic or other factors; thus, concentration of credit risk occurs. The concentration of credit risk of the Consolidated Companies is disclosed below:

- a) The details of loans to various industries and the greatest credit exposure for the year ended December 31, 2009 and 2008 (audited by the MoA), were as follows:

(In millions of NTD)			
December 31, 2009			
Industry type	Book value (note 1)	Percentage of total loans (%)	Greatest credit exposure (note 2)
Individuals	\$ 648,708	31.40	648,708
Government agencies	480,108	23.24	243,408
Manufacturing	347,508	16.82	347,508
Shipping, warehousing and communications	112,756	5.46	112,756
Utilities	126,569	6.13	126,569
Others	350,504	16.95	350,504
Total	<u>\$ 2,066,153</u>	<u>100.00</u>	<u>1,829,453</u>

Note 1: The book value means the outstanding amounts of discounts; overdrafts; treasury overdrafts; guarantee overdrafts; short-term, medium-term and long-term secured/unsecured loans; import bill advances/export bill purchases and nonperforming loans.

Note 2: The greatest credit exposure is the remaining amount when loans amounting to \$236,700 million to the Central Government are deducted from book value.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Industry type	December 31, 2008 (audited by the MoA)		
	Book value (note 1)	Percentage of total loans (%)	Greatest credit exposure (note 2)
Individuals	\$ 617,200	30.72	617,200
Government agencies	412,429	20.53	235,870
Manufacturing	358,895	17.86	358,895
Shipping, warehousing and communications	97,960	4.88	97,960
Utilities	100,288	4.99	100,288
Others	422,565	21.02	422,565
Total	\$ 2,009,337	100.00	1,832,778

Note 1: The book value means the outstanding amounts of discounts; overdrafts; treasury overdrafts; guarantee overdrafts; short-term, medium-term and long-term secured/unsecured loans; import bill advances/export bill purchases and nonperforming loans.

Note 2: The greatest credit exposure is the remaining amount when loans amounting to \$176,559 million to the Central Government are deducted from book value.

- b) The details of loans to various areas and the greatest credit exposure for the year ended December 31, 2009 and 2008 (audited by the MoA), were as follows:

Areas type	(In millions of NTD) December 31, 2009		
	Book value (note 1)	Percentage of total loans (%)	Greatest credit exposure (note 2)
Domestic	\$ 1,954,835	94.61	1,718,135
Foreign	111,318	5.39	111,318
Total	\$ 2,066,153	100.00	1,829,453

Note 1: The book value means the outstanding amounts of discounts; overdrafts; treasury overdrafts; guarantee overdrafts; short-term, medium-term and long-term secured/unsecured loans; import bill advances/export bill purchases and nonperforming loans.

Note 2: The greatest credit exposure is the remaining amount when loans amounting to \$236,700 million to the Central Government are deducted from book value.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Areas type	December 31, 2008 (audited by the MoA)		
	Book value (note 1)	Percentage of total loans (%)	Greatest credit exposure (note 2)
Domestic	\$ 1,886,552	93.89	1,709,993
Foreign	122,785	6.11	122,785
Total	<u>\$ 2,009,337</u>	<u>100.00</u>	<u>1,832,778</u>

Note 1: The book value means the outstanding amounts of discounts; overdrafts; treasury overdrafts; guarantee overdrafts; short-term, medium-term and long-term secured/unsecured loans; import bill advances/export bill purchases and nonperforming loans.

Note 2: The greatest credit exposure is the remaining amount when loans amounting to \$176,559 million to the Central Government are deducted from book value.

- (d) Off-balance sheet credit risk (including loan commitments, net settlement, and offset rights)

BOT does not have any loan commitments, net settlement, and offset rights which were subject to SFAS No. 34.

3. Liquidity risk

Liquidity risk includes market liquidity risk and capital liquidity risk (financial risk). Market liquidity risk is the risk of facing market price movement in processing or offsetting assets caused by a low-volume market. Capital liquidity risk, on the other hand, is the risk of default at the maturity due to inability to sell assets or obtain sufficient capital. The Consolidated Companies have different policies in accordance with capital demands for different kinds of business aiming to effectively monitor market liquidity risk. The finance department is in charge of the overview of capital and conducts a daily review to respond to system risk and capital demand in abnormal conditions.

In addition to all of the above, the attention and support from senior management are important to the success of the risk management system. Under the authorization of the senior management, the Consolidated Companies are gradually implementing the risk management system.

The Consolidated Companies control the trading risk of commodities by means of the aforementioned position limits, setting stop-loss points and operation guidelines at the management level. In addition, the Consolidated Companies utilize financial tools of the money market and foreign exchange market, together with appropriate liquid assets to plan for future cash demand.

The Consolidated Company's capital and working capital are sufficient to perform all contract obligations, so there is no liquidity risk.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The analysis of maturity of the subsidiary BOT as of December 31, 2009 and 2008 (audited by the MoA), is as follows:

	December 31, 2009				
	1~30 days	31~90 days	91 days~ one year	Over one year	Total
Asset					
Cash and cash equivalents	\$ 21,232,126	-	-	-	21,232,126
Due from Central Bank and call loans to banks	439,195,691	543,220,594	204,605,678	66,911,455	1,253,933,418
Financial assets measured at fair value through profit or loss, net	3,605,261	2,348,790	2,985,820	12,629,535	21,569,406
Bonds and bills purchased under resell agreements	368,349	-	-	-	368,349
Available-for-sale financial assets, net	9,062,431	27,631,981	18,237,940	87,077,361	142,009,713
Held-to-maturity financial assets, net	-	-	500,915	383,931	884,846
Hedging derivative assets	18,409	-	-	-	18,409
Financial assets carried at cost	-	-	-	11,092,326	11,092,326
Debt investments without quoted price in active markets	-	-	-	5,647,345	5,647,345
Investments under equity method, net	-	-	-	29,815,579	29,815,579
Receivables, net	17,141,571	982,430	579,926	16,847,920	35,551,847
Loans and discounts, net	151,992,079	200,172,038	319,143,569	1,365,781,562	2,037,089,248
Non-performing loans	19,242	-	-	17,435,901	17,455,143
Total assets	\$ 642,635,159	774,355,833	546,053,848	1,613,622,915	3,576,667,755
Liabilities					
Due to Central Bank and other banks	\$ 67,300,788	63,105,008	18,556,158	23,001,942	171,963,896
Payables	14,824,559	376,211	449,921	41,489,214	57,139,905
Financial liabilities measured at fair value through profit or loss	711,381	-	-	3,823,926	4,535,307
Bonds and bills sold under repurchase agreements	3,950,922	1,536,012	-	-	5,486,934
Hedging derivative liabilities	59,661	-	181,440	-	241,101
Other financial liabilities	-	-	-	1,270,227	1,270,227
Deposits and remittances	335,778,023	364,953,943	1,151,021,538	1,370,905,433	3,222,658,937
Total liabilities	\$ 422,625,334	429,971,174	1,170,209,057	1,440,490,742	3,463,296,307
Gaps	\$ 220,009,825	344,384,659	(624,155,209)	173,132,173	113,371,448

Note: The table contains the amounts for the bank departments of BOT only.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2008 (audited by the MoA)				
	1~30 days	31~91 days	91 days~ one year	Over one year	Total
Asset					
Cash and cash equivalents	\$ 23,869,742	-	-	-	23,869,742
Due from Central Bank and call loans to banks	384,662,149	344,064,815	236,423,404	49,398,761	1,014,549,129
Financial assets measured at fair value through profit or loss, net	4,233,728	2,880,038	10,187,697	15,876,796	33,178,259
Bonds and bills purchased under resell agreements	298,262	-	-	-	298,262
Available-for-sale financial assets, net	20,949,001	27,568,168	28,876,837	78,412,592	155,806,598
Held-to-maturity financial assets, net	18,999	-	28,467	1,388,695	1,436,161
Hedging derivative assets	57,273	-	-	-	57,273
Financial assets carried at cost	-	-	-	11,092,326	11,092,326
Debt investments without quoted price in active markets	-	-	-	10,971,588	10,971,588
Investments under equity method, net	-	-	-	26,959,682	26,959,682
Receivable, net	18,560,139	1,007,553	604,434	23,011,865	43,183,991
Loans and discounts, net	163,240,333	222,569,908	385,494,873	1,207,335,288	1,978,640,402
Non-performing loans	-	-	-	18,088,711	18,088,711
Total assets	\$ 615,889,626	598,090,482	661,615,712	1,442,536,304	3,318,132,124
Liabilities					
Due to Central Bank and other banks	\$ 70,434,033	56,734,488	15,347,631	-	142,516,152
Payables	16,887,991	606,795	245,849	44,532,761	62,273,396
Financial liabilities measured at fair value through profit or loss	695,196	-	-	5,291,489	5,986,685
Bonds and bills sold under repurchase agreements	14,617,440	4,595,808	4,592	-	19,217,840
Hedging derivative liabilities	8,292	5,677	40,389	135,622	189,980
Other financial liabilities	-	-	-	1,428,143	1,428,143
Deposits and remittances	374,398,348	337,140,065	1,099,384,598	1,175,960,263	2,986,883,274
Total liabilities	\$ 477,041,300	399,082,833	1,115,023,059	1,227,348,278	3,218,495,470
Gaps	\$ 138,848,326	199,007,649	(453,407,347)	215,188,026	99,636,654

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

4. Cash flow risk and fair value risk of interest rate change

Floating assets and floating liabilities of the Consolidated Companies may change due to movement in future cash flow caused by movement of market rate, and hence create risk.

(a) Information on expected final maturity and expected repricing date

As of December 31, 2009 and 2008, the expected repricing date and expected final maturity would not be affected by the contract effective date. The following table shows the interest risk of the Consolidated Companies. Non-derivative assets and liabilities are listed at book value without deducting any allowance or adjustment. Derivative assets and liabilities are listed at book value. The book value is further categorized by the earlier of the maturity date or repricing date. The book values of commodities owned or issued by BOT, categorized by different maturity or repricing dates (the earlier date of the two dates), were as follows:

(In millions of NTD)					
	December 31, 2009				
	1~30 days	31~90 days	91 days~ one year	Over one year	Total
Assets					
Current financial assets:					
Financial assets measured at fair value through profit or loss — current	\$ 3,605	2,349	2,986	12,629	21,569
Bonds and bills purchased under resell agreements	368	-	-	-	368
Available-for-sale financial assets — current	9,062	27,632	18,238	22,190	77,122
Held-to-maturity financial assets — current	-	-	501	-	501
Hedging derivative assets — current	18	-	-	-	18
	13,053	29,981	21,725	34,819	99,578
Due from and call loans to banks	410,411	543,221	204,606	66,911	1,225,149
Loans and discounts	151,992	200,172	319,144	1,365,782	2,037,090
Long-term investments					
Investment under equity method	-	-	-	29,816	29,816
Available-for-sale financial assets — noncurrent	-	-	-	64,888	64,888
Held-to-maturity financial assets — noncurrent	-	-	-	384	384
Financial assets carried at cost	-	-	-	11,092	11,092
Debt investment without quoted price in active market — noncurrent	-	-	-	5,647	5,647
	-	-	-	111,827	111,827
Other assets	18,826	2,271	522	228,816	250,435
Total assets	\$ 594,282	775,645	545,997	1,808,155	3,724,079

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2009				
	1~30 days	31~90 days	91 days~ one year	Over one year	Total
Liabilities					
Current financial liabilities					
Financial liabilities measured at fair value through profit or loss—current	\$ 711	-	-	3,824	4,535
Bonds and bills sold under repurchase agreements	3,951	1,536	-	-	5,487
Hedging derivative liabilities —current	60	-	181	-	241
Other financial liabilities— current—appropriation for loans	-	-	-	49	49
	4,722	1,536	181	3,873	10,312
Deposits	335,132	364,954	1,151,022	1,370,904	3,222,012
Remittances	66,213	62,340	5,888	677	135,118
Long-term liabilities	-	-	-	19,284	19,284
Noncurrent liabilities	-	-	-	1,222	1,222
Other liabilities	15,209	5,811	24,592	82,533	128,145
Total liabilities	\$ 421,276	434,641	1,181,683	1,478,493	3,516,093
Stockholders' equity	\$ 173,006	341,004	(635,686)	329,662	207,986

Note: The table contains the amounts for the bank departments of BOT only.

	December 31, 2008 (audited by the MoA)				
	1~30 days	31~90 days	91 days~ one year	Over one year	Total
Assets					
Current financial assets:					
Financial assets measured at fair value through profit or loss—current	\$ 4,234	2,880	10,187	15,877	33,178
Bonds and bills purchased under resell agreements	298	-	-	-	298
Available-for-sale financial assets—current	20,949	27,568	28,877	13,644	91,038
Held-to-maturity financial assets—current	19	-	29	-	48
Hedging derivative assets—current	57	-	-	-	57
	25,557	30,448	39,093	29,521	124,619
Due from and call loans to banks	384,662	344,065	236,423	49,399	1,014,549
Loans and discounts	163,240	222,570	385,495	1,207,335	1,978,640

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2008 (audited by the MoA)				Total
	1~30 days	31~90 days	91 days~ one year	Over one year	
Long-term investments					
Investment under equity method	\$ -	-	-	26,960	26,960
Available-for-sale financial assets — noncurrent	-	-	-	64,769	64,769
Held-to-maturity financial assets — noncurrent	-	-	-	1,389	1,389
Financial assets carried at cost	-	-	-	11,092	11,092
Debt investment without quoted price in active market — noncurrent	-	-	-	10,971	10,971
	-	-	-	115,181	115,181
Other assets	81,901	28,600	12,513	136,719	259,733
Total assets	\$ 655,360	625,683	673,524	1,538,155	3,492,722
Liabilities					
Current financial liabilities					
Financial liabilities measured at fair value through profit or loss — current	\$ 695	-	-	5,291	5,986
Bonds and bills sold under repurchase agreements	14,617	4,596	5	-	19,218
Hedging derivative liabilities — current	8	6	40	136	190
Other financial liabilities — current — appropriation for loans	-	-	-	37	37
	15,320	4,602	45	5,464	25,431
Deposits	373,818	337,140	1,099,385	1,175,960	2,986,303
Remittances	38,037	66,005	2,487	-	106,529
Long-term liabilities	-	-	-	19,172	19,172
Noncurrent liabilities	-	-	-	1,391	1,391
Other liabilities	68,286	30,209	35,361	-	133,856
Total liabilities	\$ 495,461	437,956	1,137,278	1,201,987	3,272,682
Stockholders' equity	\$ 159,899	187,727	(463,754)	336,168	220,040

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Effective interest rate (excluding financial assets for trading purposes)

The effective interest rates, classified by currencies, of the commodities owned or issued by the BOT as of December 31, 2009 and 2008, were as follows:

Item	December 31, 2009	
	NTD	USD
Available-for-sale financial assets:		
Government bonds	0.7909%~6.9602%	5.7500%~9.6250%
Financial bonds	2.1100%~2.3000%	0.2634%~6.5000%
Corporate bonds	3.0500%~7.9400%	0.3506%~8.8800%
Negotiable certificates of deposit of Central Bank	0.5700%~0.7100%	-
Taipei City Government bonds	1.2000%~4.6190%	-
Beneficiary certificates — financial assets securitization	2.4600%	-
Beneficiary certificates — real estate investment trust	2.6800%	-
Foreign organization bonds	2.6000%	0.7010%
Real estate investment trust	-	5.5000%~5.7500%
Held-to-maturity financial assets:		
Government bonds	1.5712%~6.0701%	-
Corporate bonds	1.8911%~1.9493%	-
Beneficiary certificates — financial assets securitization	2.4000%	-
Debt investment without quoted price in active markets:		
Beneficiary certificates — real state investment trust	- %	0.4731%~1.7313%
Loans and discounts:		
Short-term loans	0.1250%~18.0000%	0.3277%~6.8500%
Medium-term loans	0.00125%~18.0000%	0.3895%~7.2570%
Long-term loans	0.00001%~10.0000%	0.5756%~7.5000%
Liabilities:		
Short-term loans	- %	0.3100%~1.5000%
Hedging derivative instrument:		
IRS	-	0.6869%~10.9300%

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Item	December 31, 2008 (audited by the MoA)	
	NTD	USD
Available-for-sale financial assets:		
Government bonds	1.7067%~6.9611%	9.1250%~10.3750%
Financial bonds	2.1100%~2.3000%	1.2750%~6.5000%
Corporate bonds	1.9600%~3.0500%	1.0000%~8.8750%
Negotiable certificates of deposit of Central Bank	1.0200%~2.3100%	-
Taipei City Government bonds	4.6190%	-
Beneficiary certificates — real estate investment trust	2.6800%	5.5000%~5.7500%
Foreign organization bonds	-	2.7313%
Beneficiary certificates — financial assets securitization	2.4600%	-
Held-to-maturity financial assets:		
Government bonds	1.5716%~6.0701%	-
Corporate bonds	1.8911%~1.9493%	-
Beneficiary certificates — financial assets securitization	2.0699%	-
Beneficiary certificates — real estate investment trust	2.4000%	-
Debt investment without quoted price in active markets:		
Financial bonds	-	5.4700%~6.2600%
Beneficiary certificates — real estate investment trust	-	0.8113%~2.2450%
Loans and discounts:		
Short-term loans	1.2150%~18.0000%	0.6850%~8.0000%
Medium-term loans	1.0050%~18.0000%	0.6000%~7.5000%
Long-term loans	1.0220%~10.4960%	1.0000%~7.7500%
Liabilities:		
Short-term loans	-	0.1000%~5.2600%
Hedging derivative instrument:		
IRS	-	2.0150%~14.3938%

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

5. Fair-value hedge and cash flow hedge

- (a) Fair value hedge, cash flow hedge, and hedge of a net investment in a foreign entity should disclose the following:

- a) Description of hedging:

Currently the New York, LA, Tokyo, and Singapore branches of BOT adopt fair value hedge accounting and hold IRSs as designated hedging instruments to hedge the exposure to interest risk on investment in fixed-rate bonds; the hedging strategies were as follows:

- a. When the interest rate trends up, the Consolidated Companies adopt fair value hedging to avoid effects on income by swapping a fixed rate for a floating rate on fixed-rate bonds.
 - b. When the interest rate trends down, the Consolidated Companies adopt cash flow hedging to avoid effects on income by swapping a floating rate for a fixed rate on floating-rate notes.
- b) Description and balance sheet fair value of financial commodities designated as hedging instruments:

		December 31, 2009		
Hedged item	Designated hedging instruments	Original amount	Fair value	
Foreign bonds	Swap	\$ 2,018,501	18,409	
Foreign bonds	Swap	3,784,114	(241,100)	

		December 31, 2008		
Hedged item	Designated hedging instruments	Original amount	Fair value	
Foreign bonds	Swap	\$ 4,381,049	57,273	
Foreign bonds	Swap	3,176,486	(189,981)	

- c) Nature of hedged risk:

The hedged items of the hedge accounting adopted by the Consolidated Companies are fixed-rate bond investments. Thus, IRSs are used to hedge interest risk (adopting interest fair value hedging—swapping a fixed rate for a floating rate).

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(34) Disclosure of Risk Management Policy

1) The Company

The risk management organization of the Company includes the board of directors, risk management committee, and risk administrative office.

The responsibility of each risk management level is as follows:

1. The board of directors is the highest decision-making unit, and it has the final responsibility for the Company's overall risk. According to the overall operating strategies and management environments, the board of directors approves the risk management policies, supervises the operating effectiveness of the risk management system, fully controls the risk situation, and ensures having sufficient capital for dealing with all risks.
2. The Company set up the risk management committee under the board of directors to execute the risk management policies approved by the board of directors and coordinate the related risk management matters within the group.
3. The risk administrative office is the independent risk management unit and is responsible for the implementation of overall risk management. For all risk management decisions and assignments of the board of directors and risk management committee, the risk administrative office must supervise and follow up the execution by the related units, and present the risk management report to the board of directors and risk management committee. If it finds significant exposure that endangers the financial situation, operations, or legal compliance, the risk administrative office should report to the board of directors immediately.

2) BOT

The major financial assets of BOT are loans, receivables, and securities investments. The related risk and management policy are as follows:

1. Credit risk management: including stratified authorization, management of large exposure, concentration management, and a re-assessment system

(a) Carrying out stratified authorization

A system of graded delegation of authority is used in loan cases and the disposition of NPLs. Each authority level has its own credit assessment committee and loan collection assessment committee. The review of loan cases is carried out strictly in accordance with the limits of authorization so as to assure the quality of loans.

(b) Management of large exposure and excessive concentration

- a) In accordance with the Banking Law, loans to BOT's responsible person, BOT's employees, and persons having a material interest in BOT are controlled in accordance with stipulated quotas. The Bank has established rules for credit risk management of loans to enterprise groups and ratios for loan risk exposure to different industries, and it controls credit quotas for trading partners, issuers, and guarantors in accordance with their external credit ratings.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- b) BOT's Treasury Department, OBU, and foreign branches set up policies based on external credit evaluation for loan quota management in money market, foreign exchange, and negotiable security trading.
 - c) Each year, to spread the risk from different countries, a national risk quota, in accordance with the ranking in Euromoney Magazine, is allocated to the Finance Department, OBU, and foreign branches. The business recorded by BOT includes loan assets, transaction assets, and off-balance-sheet positions.
 - (c) Re-assessment evaluates the quality of loan assets. BOT has a re-assessment policy for credit review. After loans are extended, they are reviewed during the loan period in accordance with their review ratings. For important loans, follow-up evaluation is carried out, and reserves against bad loans are allocated for loan assets at the end of every month in order to reinforce BOT's operating system.
2. Market risk management
- (a) Daily evaluation

To control risk, each trading unit carries out a daily assessment of foreign trading against trading objectives in accordance with market prices. The major source for evaluation is the public appraisal of negotiable securities in external information systems such as Bloomberg and Reuters.
 - (b) Limit management
 - a) For the trades involving all securities, foreign-exchange positions, and derivatives, BOT regulates the authorized trading amount, kinds of sales/purchases, invested objects, and gain or loss limits to control risk effectively.
 - b) In the management of New Taiwan Dollar funds, interest rate risk is controlled by predictions of long-term interest rate trends, by setting short dealing interest rates prior to the beginning of business each day, and by establishing add-or-subtract authorization for personnel at different levels. In the management of foreign currency funds, trading position quotas are set for different currencies and for bank-wide foreign exchange positions, and stop loss limits are set for positions held for trading purposes and for non-hedging unleveled net positions for derivative products.
3. Interest rate and liquidity risk management
- (a) BOT has set up an Assets and Liabilities Management Committee to strengthen the structure of assets and liabilities. Under the leadership of the president, the Committee is divided into Management, Finance, and Capital subcommittees; and this Committee is responsible for setting guidelines for assets and liabilities management, liquidity position management, management of interest rate risk, and the review of the deposit and loan structure.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- (b) Setting up management policy for liquidity and interest rate risk; setting up guidelines for liquidity risk management.
 - a) Management of interest-rate sensitivity gap: The ratio of New Taiwan Dollar interest-rate-sensitive assets to liabilities shall fall between 80% and 140%. The ratio of New Taiwan Dollar capital gap to owner's equity shall be maintained between positive/negative 100%. The different positions in the foreign currencies resulting from changes in the interest rate shall not exceed total assets in each currency by 35%.
 - b) Management of liquidity risk
 - a. Maintaining liquidity ratio: According to the Central Bank's "Liquidity Guidelines for Financial Institutions," Bank of Taiwan shall maintain a liquidity ratio for all deposits of over 10%.
 - b. Short-term gap analysis: 1~10-day and 11~30-day gaps are calculated; the period gap is greater than zero.
 - c. Foreign currency gap management: The ratio of accumulated capital liquidity gap for one month and for one year to total assets of the four major foreign currencies of Bank of Taiwan (U.S. Dollar, HK Dollar, JP Yen and Euro) should not exceed 50% and 40%, respectively.
 - d. Capital management: Full use is made of the Assets and Liabilities Management Information System on a regular basis to analyze maturity gaps of assets and liabilities and changes in maturity structure. The appropriate allocation and utilization of funds, and the adjustment of the capital structure are carried out in accordance with the capital situation. In the management of New Taiwan Dollar funds, in addition to maintaining an appropriate level of cash on hand and of securities that can be converted quickly into cash, the Bank has set policies for the reporting of New Taiwan Dollar funds to provide for the timely reporting of receipts or disbursements of large amounts of funds. The Bank also carries out gap analysis of the maturity amount of purchased bills, bonds, and call loans so as to lower liquidity risk. In the management of foreign currencies, the Bank uses the maturity method to carry out funds gap analysis of the actual funds to be received or paid out within the next year.
- 4. The policy of reduction of credit risk in terms of pledges and guarantees

In its consideration of credit control and business promotion, BOT attempts to decrease the burden of credit risk by increasing collateral or strengthening the guarantee, based on BOT's credit and pledge policy. Collateral and guarantees include mortgages on real estate or property (i.e., land, building, machinery, car, ship, aircraft, etc.), pledges of securities or other rights (i.e., certificates of deposit; various bonds, stocks, or other securities), guarantees provided by government agencies, banks, or credit guarantee institutions authorized by the government, and any other guarantee or collateral approved by BOT.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

3) BTLI

BTLI manages all risk arising from the related operation including market risk, insurance risk and process risk. The main principle of risk management should use the RBC to supervise each risk based on BTLI's business scale, market risk, insurance risk and process risk. BTLI should also set up a systems approach for risk assessment and monitoring in order to assess, supervise and manage each risk.

BTLI effectively identifies, assesses, monitors and manages the risk of each business based upon the nature of the business and matters arising from risk. In order to achieve risk management and reasonable earnings, BTLI controls the risk within its tolerance. The board of directors, being the highest decision-making unit, is responsible for managing overall risk. And the Risk Management Committee is responsible for executing all risk management policies approved by the board of directors and coordinating cross-department risk management matters.

4) BTS

For the requirements of business, BTS has set up an overall risk management system to effectively control all kinds of risk. The system can assure the achievement of BTS's long-term and steady management, profit growth, and strategy. At the same time, it formed a department with sole responsibility for risk control under the secretary unit of the risk management committee to handle these affairs and to exercise authority independently except over the operating unit and trade activities. The formation of the risk management organization by BTS includes the board of directors, the risk management committee, the administrative office, and all business units to execute the risk management decisions made by the board of directors and coordinate the related risk management matters across departments.

All risks of the business on or off the balance sheet should be subsumed under risk management, including market risk, credit risk, liquidity risk, operating risk, and other risk (for example legal risk, strategy risk, and reputation risk).

The related management systems of all kinds of risk are as follows:

1. BTS should effectively identify, measure, supervise, and control all risks when engaging in business. BTS should control the risk to a tolerable degree to reach the target of risk management and compensation rationalization.
2. Establish a risk indicator and warning system to implement the appropriate risk monitoring.
3. Establish a communication system. The complete risk information should be periodically given to senior management, conveyed to subordinates, and communicated across departments, and be available to the public according to the regulations.
4. Before developing new business or merchandise, changing the operating procedure, or developing the information system or operation, BTS should estimate the risk in advance and prepare the appropriate operating procedure and control method for the related risk.
5. Educate the professional risk management staff and provide education and training in risk management to the personnel of the operating unit to strengthen BTS's risk management culture.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(35) Related-Party Transactions

1) Name of related party and relationship

Name of related-party	Relationship with the Company
Hua Nan Financial Holdings Co., Ltd.	Investee company of BOT under the equity method
Taiwan Life Insurance Co., Ltd.	Investee company of BOT under the equity method
Tang-Eng Iron Works Co., Ltd.	Investee company of BOT under the equity method
Kaohsiung Ammonium Sulfate Co., Ltd.	Investee company of BOT under the equity method
Tai Yi Real-Estate Management Co., Ltd.	Investee company of BOT under the equity method
Other related parties	The relatives of main management

2) Significant related-party transactions

1. Placement with banks

	December 31, 2009		December 31, 2008 (audited by the MoA)	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	<u>\$ 8,223</u>	<u>-</u>	<u>6,666</u>	<u>-</u>

2. Deposits of banks

	December 31, 2009		December 31, 2008 (audited by the MoA)	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	<u>\$ 319,870</u>	<u>1.35</u>	<u>127,896</u>	<u>0.54</u>

Interest rates of related-party transactions are the same as those with other banks.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

3. Call loans to banks (included in due from banks)

		2009			
		Highest balance	Ending balance	Annual interest rate (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	\$	15,509,363	<u>3,705,240</u>	0.095~2.75	<u>36,017</u>

		2008 (audited by the MoA)			
		Highest balance	Ending balance	Annual interest rate (%)	Interest income
Hua Nan Financial Holdings Co., Ltd.	\$	9,378,606	<u>3,769,010</u>	0.10~5.50	<u>87,323</u>

Interest rates of related-party transactions are the same as those with other banks.

Interest rates of related-party transactions of the company and the subsidiaries are the same as general accounts.

4. Deposits

		December 31, 2009		December 31, 2008 (audited by the MoA)	
		Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	\$	49,547	-	51,992	-
Kaohsiung Ammonium Sulfate Co., Ltd.		1,370,890	0.04	1,405,318	0.05
Total		<u>\$ 1,420,437</u>	<u>0.04</u>	<u>1,457,310</u>	<u>0.05</u>

Apart from an interest rates of related-party transactions are the same as general accounts.

5. Mortgage loans for real estate (in discounts and loans)

Mortgage loans for real estate for the Consolidated Companies' directors, supervisors, and staff and their spouses and close relatives for the year ended December 31, 2009:

	December 31, 2009	December 31, 2008 (audited by the MoA)
Mortgage loans for real estate	<u>\$ 57,541</u>	<u>25,237</u>
Interest receivable	<u>\$ 44</u>	<u>247</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The interest range was 0.79% to 2.01% and 2.10% to 6.55% for the year ended December 31, 2009 and 2008 (audited by the MoA), respectively.

6. Loans

December 31, 2009							
Category	Amount or name of related party	Highest balance in current period	Ending balance	Status of performance		Type of collateral	Differences in transaction terms between related and non-related parties
				Performing loans	Non-performing loans		
Consumer loans	40	24,271	19,957	19,957	-	None	None
House mortgages	93	435,984	407,129	407,129	-	Land and building	None
Other loans	Tang-Eng Iron Works Co., Ltd.	50,000	50,000	50,000	-	Land and building	None
"	Tang-Eng Iron Works Co., Ltd.	867,590	607,284	607,284	-	"	None
"	Tang-Eng Iron Works Co., Ltd.	500,000	500,000	500,000	-	"	None
"	Tang-Eng Iron Works Co., Ltd.	1,000,000	830,000	830,000	-	"	None
"	Tang-Eng Iron Works Co., Ltd.	387,971	387,971	387,971	-	"	None
Call loans to banks	Hua Nan Financial Holdings Co., Ltd.	6,613,800	5,000	5,000	-	None	None

December 31, 2008 (audited by the MoA)							
Category	Amount or name of related party	Highest balance in current period	Ending balance	Status of performance		Type of collateral	Differences in transaction terms between related and non-related parties
				Performing loans	Non-performing loans		
Consumer loans	53	38,322	27,473	27,473	-	None	None
House mortgages	89	368,421	308,317	308,276	41	Land and building	None
Other loans	Tang-Eng Iron Works Co., Ltd.	500,000	500,000	500,000	-	Land and building	None
"	Tang-Eng Iron Works Co., Ltd.	500,000	500,000	500,000	-	"	None
"	Tang-Eng Iron Works Co., Ltd.	1,000,000	1,000,000	1,000,000	-	"	None
"	Tang-Eng Iron Works Co., Ltd.	122,105	122,105	122,105	-	"	None
Call loans to banks	Hua Nan Financial Holding Co., Ltd.	14,215,452	10,000	10,000	-	None	None

Note 1: The consumer loans to staff and mortgage loans to staff can be lumped together for disclosure of other loans is sorted by interested parties.

Note 2: Collateral is classified by real estate, short-term notes, government bonds, secured or non-secured bonds, TSEL and OTC stocks, non-TSEC and non-OTC stocks, and others.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

7. Derivative instruments:

December 31, 2009						
Name of related party	Title of derivative instruments	Contract period	Nominal amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	AEBH410927 forward	2004.11.30~2010.01.14	151,254	(798)	Valuation adjustment of financial liabilities at fair value through profit or loss — current — held for trading — forward	(798)
Taiwan Life Insurance Co., Ltd.	AEBH411027 forward	2004.12.31~2010.01.14	149,636	(790)	"	(790)
Taiwan Life Insurance Co., Ltd.	AEBH510877 forward	2005.11.25~2010.01.14	155,018	(818)	"	(818)
Taiwan Life Insurance Co., Ltd.	BHSW610021 swap	2006.03.07~2010.01.29	387,672	(1,737)	Valuation adjustment of financial liabilities at fair value through profit or loss — current — held for trading — swap	(1,737)
Taiwan Life Insurance Co., Ltd.	BHSW710114 swap	2007.10.04~2010.01.14	323,430	(1,707)	"	(1,707)
Taiwan Life Insurance Co., Ltd.	BHSW810164 swap	2008.08.18~2010.01.14	970,290	(5,121)	"	(5,121)
Taiwan Life Insurance Co., Ltd.	BHSW810190 swap	2008.09.18~2010.01.29	646,120	(2,896)	"	(2,896)
Taiwan Life Insurance Co., Ltd.	BHSW810239 swap	2008.11.06~2010.01.29	161,530	(724)	"	(724)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009						
Name of related party	Title of derivative instruments	Contract period	Nominal amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	BHSW910001 swap	2009.01.05~2010.01.11	2,908,170	(12,503)	Valuation adjustment of financial liabilities at fair value through profit or loss — current — held for trading — swap	(12,503)
Taiwan Life Insurance Co., Ltd.	BHSW910020 swap	2009.02.09~2010.01.29	151,466	(679)	"	(679)
Taiwan Life Insurance Co., Ltd.	BHSW910022 swap	2009.02.18~2010.01.29	258,448	(1,158)	"	(1,158)
Taiwan Life Insurance Co., Ltd.	BHSW910064 swap	2009.04.09~2010.01.29	323,060	(1,448)	"	(1,448)
Taiwan Life Insurance Co., Ltd.	BHSW910108 swap	2009.05.06~2010.01.14	323,430	(1,707)	"	(1,707)
Taiwan Life Insurance Co., Ltd.	BHSW910180 swap	2009.07.06~2010.01.14	970,290	(5,121)	"	(5,121)
Taiwan Life Insurance Co., Ltd.	BHSW910338 swap	2009.12.16~2010.01.19	647,860	(4,488)	"	(4,488)
Taiwan Life Insurance Co., Ltd.	BHSW910339 swap	2009.12.17~2010.01.21	1,292,480	(5,795)	"	(5,795)
Taiwan Life Insurance Co., Ltd.	BHSW910340 swap	2009.12.18~2010.01.22	1,296,920	(10,264)	"	(10,264)
Taiwan Life Insurance Co., Ltd.	BHSW910342 swap	2009.12.21~2010.01.25	648,060	(4,776)	"	(4,776)
Taiwan Life Insurance Co., Ltd.	BHSW910343 swap	2009.12.21~2010.01.25	972,090	(7,164)	"	(7,164)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009						
Name of related party	Title of derivative instruments	Contract period	Nominal amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Wu Tsang Tai	AEAF910685 swap	2009.10.16~ 2010.04.14	609,630	(10,099)	Valuation adjustment of financial liabilities at fair value through profit or loss — current — held for trading — forward	(10,099)
Chen Yi Hong	0912290160 swap	2009.12.30~ 2010.01.20	53,867	155	Financial assets at fair value through profit or loss — current — held for trading foreign exchange option	(175)
Chen Yi Hong	0912290160 swap	2009.12.30~ 2010.01.20	-	-	Valuation adjustment of financial assets at fair value through profit — current — held for trading — foreign exchange option	155

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008 (audited by the MoA)						
Name of related party	Title of derivative instruments	Contract period	Nominal amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	AEBH410927 forward	2004.11.30~2009.02.05	153,719	(516)	Valuation adjustment of financial liabilities at fair value through profit or loss — current — held for trading — forward	(516)
Taiwan Life Insurance Co., Ltd.	AEBH411027 forward	2004.12.31~2009.02.05	152,074	(511)	"	(511)
Taiwan Life Insurance Co., Ltd.	AEBH510877 forward	2005.11.25~2009.02.06	159,485	(2,471)	"	(2,471)
Taiwan Life Insurance Co., Ltd.	BHSW510056 swap	2005.12.08~2009.02.10	328,190	(649)	Valuation adjustment of financial liabilities at fair value through profit or loss — current — held for trading — swap	(649)
Taiwan Life Insurance Co., Ltd.	BHSW610016 swap	2006.01.25~2009.02.10	656,380	(1,299)	"	(1,299)
Taiwan Life Insurance Co., Ltd.	BHSW610017 swap	2006.01.26~2009.02.10	328,190	(649)	"	(649)
Taiwan Life Insurance Co., Ltd.	BHSW610021 swap	2006.03.07~2009.01.08	361,980	31,296	Valuation adjustment of financial assets at fair value through profit or loss — current — held for trading — forward	31,296
Taiwan Life Insurance Co., Ltd.	BHSW710031 swap	2007.04.25~2009.01.23	1,119,125	27,681	"	27,681

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008 (audited by the MoA)						
Name of related party	Title of derivative instruments	Contract period	Nominal amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	BHSW710114 swap	2007.10.04~2009.02.05	328,700	(1,104)	Valuation adjustment of financial liabilities at fair value through profit or loss — current — held for trading — swap	(1,104)
Taiwan Life Insurance Co., Ltd.	BHSW810010 swap	2008.01.21~2009.01.23	955,890	27,085	Valuation adjustment of financial assets at fair value through profit or loss — current — held for trading — forward	27,085
Taiwan Life Insurance Co., Ltd.	BHSW810164 swap	2008.08.18~2009.02.06	985,110	(2,338)	Valuation adjustment of financial liabilities at fair value through profit or loss — current — held for trading — swap	(2,338)
Taiwan Life Insurance Co., Ltd.	BHSW810190 swap	2008.09.18~2009.02.23	631,360	23,362	Valuation adjustment of financial assets at fair value through profit or loss — current — held for trading — forward	23,362

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008 (audited by the MoA)						
Name of related party	Title of derivative instruments	Contract period	Nominal amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	BHSW810193 swap	2008.09.19~2009.02.06	656,740	(1,559)	Valuation adjustment of financial liabilities at fair value through profit or loss—current—held for trading—swap	(1,559)
Taiwan Life Insurance Co., Ltd.	BHSW810194 swap	2008.09.19~2009.09.23	1,553,250	65,533	Valuation adjustment of financial assets at fair value through profit or loss—current—held for trading—forward	65,533
Taiwan Life Insurance Co., Ltd.	BHSW810239 swap	2008.11.06~2009.02.09	164,095	(318)	Valuation adjustment of financial liabilities at fair value through profit or loss—current—held for trading—swap	(318)
Taiwan Life Insurance Co., Ltd.	BHSW810259 swap	2008.12.04~2009.01.08	67,050	(1,503)	„	(1,503)
Taiwan Life Insurance Co., Ltd.	BHSW820003 swap	2008.09.19~2009.09.23	1,560,750	(58,095)	„	(58,095)
Chen Yi Hong	0812220020 foreign exchange option	2008.12.23~2009.01.06	59	-	Financial assets at fair value through profit or loss—current—held for trading—foreign exchange option	-

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008 (audited by the MoA)						
Name of related party	Title of derivative instruments	Contract period	Nominal amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Huang Rong Song	0812310020 foreign exchange option	2008.12.31~2009.01.15	3,277	9	Financial assets at fair value through profit or loss — current — held for trading — foreign exchange option	6
					Valuation adjustment of financial assets at fair value through profit or loss — current — held for trading — foreign exchange option	9

Note 1: The disclosure of the derivative instruments is by related party.

Note 2: Derivative financial instruments are assessed by the fair value method. Any relevant net present value created shall be recognized as current valuation adjustment.

Note 3: The ending balances of financial assets / liabilities at fair value through profit or loss and hedging derivative assets / liabilities are shown in the balance sheet item amount column.

3) Main management's remuneration

The related information about the salaries and rewards for the Company's main management in 2009 and 2008 (audited by the MoA) is as follows:

	2009	2008 (audited by the MoA)
Salaries	\$ 3,427	2,757
Bonus	1,647	750
Business expense	3,718	3,932

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

4) Information on related party transactions amounting to more than \$100,000 thousand

1. BOT

Since the related-party transactions had been offset when the Company prepared the consolidated financial statements, only one of the Consolidated parties needs to disclose its related-party information.

(a) Name of related-party and relationship

Name of related party	Relationship with Bank of Taiwan
Taiwan Financial Holding Co., Ltd.(the Company)	Parent Company
BankTaiwan Life Insurance Co., Ltd. (BTLI)	Subsidiary held completely by the Company
BankTaiwan Securities Co., Ltd. (BTS)	Subsidiary held completely by the Company
Hua Nan Financial Holdings Co., Ltd	Investee company of BOT under the equity method
Taiwan Life Insurance Co., Ltd.	Investee company of BOT under the equity method
Tang-Eng Iron Works Co., Ltd.	Investee company of BOT under the equity method
Kaohsiung Ammonium Sulfate Co., Ltd.	Investee company of BOT under the equity method
Others	Directors, supervisors, managers, and their relatives

(b) Significant related-party transactions

a) Receivables

	December 31, 2009	December 31, 2008 (audited by the MoA)
The Company	\$ 595,182	-
BTLI	76,626	102,804
	<u>\$ 671,808</u>	<u>102,804</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

b) Deposits of banks

	December 31, 2009	December 31, 2008 (audited by the MoA)
Hua Nan Financial Holdings Co., Ltd.	<u>\$ 319,870</u>	<u>127,896</u>

Interest rates of related-party transactions are the same as those with other banks.

c) Call loans from banks (included in due to banks)

		2009		
	Highest balance	Ending balance	Interest rate (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$ 15,509,363	<u>3,705,240</u>	0.095~2.75	<u>36,017</u>

		2008 (audited by the MoA)		
	Highest balance	Ending balance	Interest rate (%)	Interest expense
Hua Nan Financial Holding Co., Ltd.	\$ 9,378,606	<u>3,769,010</u>	0.10~5.50	<u>87,233</u>

Interest rates of related-party transactions are the same as those with other banks.

d) Bonds and bills purchased under resell agreements

	Target	December 31, 2009	December 31, 2008 (audited by the MoA)
BTS	Bonds	<u>\$ -</u>	<u>900,023</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

e) Deposits

	December 31, 2009	December 31, 2008 (audited by the MoA)
Kaohsiung Ammonium Sulfate Co., Ltd.	\$ 1,370,890	1,405,318
BTS	733,668	319,376
the Company	1,406,913	348,555
BTLI	22,527,356	14,678,852
Total	<u>\$ 26,038,827</u>	<u>16,752,101</u>

Except for a favorable interest rate for the limited amounts of staff savings deposits, interest rates of related-party transactions are the same as general accounts.

f) Account payable

	December 31, 2009	December 31, 2008 (audited by the MoA)
The Company	<u>\$ 34,921</u>	<u>131,292</u>

g) Interest expense

	December 31, 2009	December 31, 2008 (audited by the MoA)
BTLI	<u>\$ 95,870</u>	<u>408,968</u>

h) Fee revenue

	December 31, 2009	December 31, 2008 (audited by the MoA)
BTLI	<u>\$ 610,591</u>	<u>929,393</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

i) Loans

Subsidiary – BOT

December 31, 2009							
Category	Amount or name of related party	Highest balance in current period	Ending balance	Status of performance		Type of collateral	Differences in transaction terms between related and nonrelated parties
				Performing loans	Non-performing loans		
Consumer loans	40	24,271	19,957	19,957	-	None	None
House mortgages	93	435,984	407,129	407,129	41	Land and building	None
Other loans	Tang-Eng Iron Works Co., Ltd.	50,000	50,000	50,000	-	Land and building	None
"	Tang-Eng Iron Works Co., Ltd.	867,590	607,284	607,284	-	Land and building	None
"	Tang-Eng Iron Works Co., Ltd.	500,000	500,000	500,000	-	Land and building	None
"	Tang-Eng Iron Works Co., Ltd.	1,000,000	830,000	830,000	-	Land and building	None
"	Tang-Eng Iron Works Co., Ltd.	387,971	387,971	387,971	-	Land and building	None
"	BankTaiwan Securities Co., Ltd.	521,000	-	-	-	Land and building	None
"	Taiwan Financial Holding Co., Ltd.	2,000,000	2,000,000	2,000,000	-	Letter of guarantee	None
Call loans to banks	Hua Nan Financial Holdings Co., Ltd.	6,613,800	5,000	5,000	-	None	None

December 31, 2008 (audited by the MoA)							
Category	Amount or name of related party	Highest balance in current period	Ending balance	Status of performance		Type of collateral	Differences in transaction terms between related and nonrelated parties
				Performing loans	Non-performing loans		
Consumer loans	53	38,322	27,473	27,473	-	None	None
House mortgages	89	368,421	308,371	308,276	41	Land and building	None
Other loans	Tang-Eng Iron Works Co., Ltd.	500,000	500,000	500,000	-	Land and building	None
"	Tang-Eng Iron Works Co., Ltd.	500,000	500,000	500,000	-	Land and building	None
"	Tang-Eng Iron Works Co., Ltd.	1,000,000	1,000,000	1,000,000	-	Land and building	None
"	Tang-Eng Iron Works Co., Ltd.	122,105	122,105	122,105	-	Land and building	None
"	BankTaiwan Securities Co., Ltd.	3,000,000	-	-	-	Land and building	None
Call loans to banks	Hua Nan Financial Holdings Co., Ltd.	14,215,452	10,000	10,000	-	None	None

Note 1: The consumer loans to staff and mortgage loans to staff can be lumped together for disclosure. The disclosure of other loan is sorted by interested parties.

Note 2: Collateral is classified by real estate, short-term notes, government bonds, secured or non-secured bonds, TSEC and OTC stocks, and others.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

j) Derivative instruments

December 31, 2009						
Name of related party	Title of derivative instruments	Contract period	Nominal account	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	AEBH410927 forward	2004.11.30~2010.01.14	151,254	(798)	Valuation adjustment of financial liabilities at fair value through profit or loss—current—held for trading—forward	(798)
Taiwan Life Insurance Co., Ltd.	AEBH411027 forward	2004.12.31~2010.01.14	149,636	(790)	"	(790)
Taiwan Life Insurance Co., Ltd.	AEBH510877 forward	2005.11.25~2010.01.14	155,018	(818)	"	(818)
Taiwan Life Insurance Co., Ltd.	BHSW610021 swap	2006.03.07~2010.01.29	387,672	(1,737)	Valuation adjustment of financial liabilities at fair value through profit or loss—current—held for trading—swap	(1,737)
Taiwan Life Insurance Co., Ltd.	BHSW710114 swap	2007.10.04~2010.01.14	323,430	(1,707)	"	(1,707)
Taiwan Life Insurance Co., Ltd.	BHSW810164 swap	2008.08.18~2010.01.14	970,290	(5,121)	"	(5,121)
Taiwan Life Insurance Co., Ltd.	BHSW810190 swap	2008.09.18~2010.01.29	646,120	(2,896)	"	(2,896)
Taiwan Life Insurance Co., Ltd.	BHSW810239 swap	2008.11.06~2010.01.29	161,530	(724)	"	(724)
Taiwan Life Insurance Co., Ltd.	BHSW910001 swap	2009.01.05~2010.01.11	2,908,170	(12,503)	"	(12,503)
Taiwan Life Insurance Co., Ltd.	BHSW910020 swap	2009.02.09~2010.01.29	151,466	(679)	"	(679)
Taiwan Life Insurance Co., Ltd.	BHSW910022 swap	2009.02.18~2010.01.29	258,448	(1,158)	"	(1,158)
Taiwan Life Insurance Co., Ltd.	BHSW910064 swap	2009.04.09~2010.01.29	323,060	(1,448)	"	(1,448)
Taiwan Life Insurance Co., Ltd.	BHSW910108 swap	2009.05.06~2010.01.14	323,430	(1,707)	"	(1,707)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009						
Name of related party	Title of derivative instruments	Contract period	Nominal account	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	BHSW910180 swap	2009.07.06~2010.01.14	970,290	(5,121)	Valuation adjustment of financial liabilities at fair value through profit or loss—current—held for trading—swap	(5,121)
Taiwan Life Insurance Co., Ltd.	BHSW910338 swap	2009.12.16~2010.01.19	647,860	(4,488)	"	(4,488)
Taiwan Life Insurance Co., Ltd.	BHSW910339 swap	2009.12.17~2010.01.19	1,292,480	(5,795)	"	(5,795)
Taiwan Life Insurance Co., Ltd.	BHSW910340 swap	2009.12.18~2010.01.22	1,296,920	(10,264)	"	(10,264)
Taiwan Life Insurance Co., Ltd.	BHSW910342 swap	2009.12.21~2010.01.25	648,060	(4,776)	"	(4,776)
Taiwan Life Insurance Co., Ltd.	BHSW910343 swap	2009.12.21~2010.01.25	972,090	(7,164)	"	(7,164)
BankTaiwan Life Insurance Co., Ltd.	CLSW810104 swap	2008.04.30~2010.02.22	654,200	(11,043)	"	(11,043)
BankTaiwan Life Insurance Co., Ltd.	CLSW810108 swap	2008.05.07~2010.05.13	161,400	(728)	"	(728)
BankTaiwan Life Insurance Co., Ltd.	CLSW810109 swap	2008.05.07~2010.05.13	1,194,360	(5,385)	"	(5,385)
BankTaiwan Life Insurance Co., Ltd.	CLSW810130 swap	2008.06.30~2010.02.22	1,635,500	(27,608)	"	(27,608)
BankTaiwan Life Insurance Co., Ltd.	CLSW810207 swap	2008.09.26~2010.05.13	1,936,800	(8,732)	"	(8,732)
BankTaiwan Life Insurance Co., Ltd.	CLSW810208 swap	2008.09.26~2010.05.13	645,600	(2,911)	"	(2,911)
BankTaiwan Life Insurance Co., Ltd.	CLSW810211 swap	2008.09.30~2010.05.13	129,120	(582)	"	(582)
BankTaiwan Life Insurance Co., Ltd.	CLSW810212 swap	2008.09.30~2010.05.13	968,400	(4,366)	"	(4,366)
BankTaiwan Life Insurance Co., Ltd.	CLSW810225 swap	2008.10.16~2010.02.22	2,943,900	(49,695)	"	(49,695)
BankTaiwan Life Insurance Co., Ltd.	CLSW810230 swap	2008.10.24~2010.06.09	1,174,320	(17,951)	"	(17,951)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009						
Name of related party	Title of derivative instruments	Contract period	Nominal account	Current valuation adjustment	Balance sheet item	
					Item	Amount
BankTaiwan Life Insurance Co., Ltd.	CLSW810241 swap	2008.11.13~2010.02.22	654,200	(11,043)	Valuation adjustment of financial liabilities at fair value through profit or loss—current—held for trading—swap	(11,043)
BankTaiwan Life Insurance Co., Ltd.	CLSW810242 swap	2008.11.13~2010.02.22	1,635,500	(27,608)	"	(27,608)
BankTaiwan Life Insurance Co., Ltd.	CLSW810247 swap	2008.11.20~2010.06.22	1,294,080	(9,521)	"	(9,521)
BankTaiwan Life Insurance Co., Ltd.	CLSW810248 swap	2008.11.21~2010.06.22	1,617,600	(11,901)	"	(11,901)
BankTaiwan Life Insurance Co., Ltd.	CLSW810249 swap	2008.11.24~2010.11.29	320,200	(694)	"	(694)
BankTaiwan Life Insurance Co., Ltd.	CLSW810253 swap	2008.11.28~2010.11.30	320,000	(505)	"	(505)
BankTaiwan Life Insurance Co., Ltd.	CLSW810265 swap	2008.12.15~2010.02.22	327,100	(5,522)	"	(5,522)
BankTaiwan Life Insurance Co., Ltd.	CLSW810273 swap	2008.12.22~2010.06.22	161,760	(1,190)	"	(1,190)
BankTaiwan Life Insurance Co., Ltd.	CLSW810276 swap	2008.12.29~2010.11.30	320,000	(505)	"	(505)
BankTaiwan Life Insurance Co., Ltd.	CLSW810279 swap	2008.12.31~2010.01.29	672,000	(1,061)	"	(1,061)
BankTaiwan Life Insurance Co., Ltd.	CLSW910009 swap	2009.01.23~2010.01.29	324,700	(3,087)	"	(3,087)
BankTaiwan Life Insurance Co., Ltd.	CLSW910010 swap	2009.01.23~2010.01.29	324,700	(3,087)	"	(3,087)
BankTaiwan Life Insurance Co., Ltd.	CLSW910011 swap	2009.01.23~2010.01.29	324,700	(3,087)	"	(3,087)
BankTaiwan Life Insurance Co., Ltd.	CLSW910012 swap	2009.01.23~2010.01.29	324,700	(3,087)	"	(3,087)
BankTaiwan Life Insurance Co., Ltd.	CLSW910014 swap	2009.01.23~2010.01.29	649,400	(6,175)	"	(6,175)
BankTaiwan Life Insurance Co., Ltd.	CLSW910017 swap	2009.02.04~2010.03.08	514,720	(191)	"	(191)

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009						
Name of related party	Title of derivative instruments	Contract period	Nominal account	Current valuation adjustment	Balance sheet item	
					Item	Amount
BankTaiwan Life Insurance Co., Ltd.	CLSW910033 swap	2009.03.18~2010.06.22	323,520	(2,380)	Valuation adjustment of financial liabilities at fair value through profit or loss—current—held for trading—swap	(2,380)
BankTaiwan Life Insurance Co., Ltd.	CLSW910101 swap	2009.05.04~2010.05.06	162,050	(1,358)	"	(1,358)
BankTaiwan Life Insurance Co., Ltd.	CLSW910106 swap	2009.05.05~2010.01.07	646,000	(2,493)	"	(2,493)
BankTaiwan Life Insurance Co., Ltd.	CLSW910110 swap	2009.05.07~2010.05.13	1,291,200	(5,821)	"	(5,821)
BankTaiwan Life Insurance Co., Ltd.	CLSW910117 swap	2009.05.14~2010.02.22	654,200	(11,043)	"	(11,043)
BankTaiwan Life Insurance Co., Ltd.	CLSW910131 swap	2009.05.22~2010.11.29	640,400	(1,388)	"	(1,388)
BankTaiwan Life Insurance Co., Ltd.	CLSW910139 swap	2009.05.25~2010.11.30	640,000	(1,011)	"	(1,011)
BankTaiwan Life Insurance Co., Ltd.	CLSW910155 swap	2009.06.08~2010.03.10	2,942,730	(48,496)	"	(48,496)
BankTaiwan Life Insurance Co., Ltd.	CLSW910158 swap	2009.06.11~2010.09.15	1,941,000	(19,118)	"	(19,118)
BankTaiwan Life Insurance Co., Ltd.	CLSW910161 swap	2009.06.15~2010.03.17	976,230	(11,521)	"	(11,521)
BankTaiwan Life Insurance Co., Ltd.	CLSW910165 swap	2009.06.18~2010.06.22	647,040	(4,760)	"	(4,760)
BankTaiwan Life Insurance Co., Ltd.	CLSW910174 swap	2009.06.29~2010.01.04	327,560	(5,800)	"	(5,800)
BankTaiwan Life Insurance Co., Ltd.	CLSW910201 swap	2009.07.29~2010.01.29	194,820	(1,852)	Adjustment of valuation adjustment of financial liabilities at fair value through profit or loss—current—held for trading—swap	(1,852)
BankTaiwan Life Insurance Co., Ltd.	CLSW910207 swap	2009.08.04~2010.05.06	324,100	(2,717)	"	(2,717)

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009						
Name of related party	Title of derivative instruments	Contract period	Nominal account	Current valuation adjustment	Balance sheet item	
					Item	Amount
BankTaiwan Life Insurance Co., Ltd.	CLSW910228 swap	2009.08.26~2010.05.28	1,635,700	(29,315)	Adjustment of valuation adjustment of financial liabilities at fair value through profit or loss—current—held for trading—swap	(29,315)
BankTaiwan Life Insurance Co., Ltd.	CLSW910259 swap	2009.09.28~2010.09.30	1,286,200	(5,619)	"	(5,619)
BankTaiwan Life Insurance Co., Ltd.	CLSW910267 swap	2009.10.13~2010.03.15	322,630	(1,060)	"	(1,060)
BankTaiwan Life Insurance Co., Ltd.	CLSW910287 swap	2009.10.19~2010.01.21	323,300	(1,629)	"	(1,629)
BankTaiwan Life Insurance Co., Ltd.	CLSW910298 swap	2009.10.23~2010.01.27	1,943,400	(13,637)	"	(13,637)
BankTaiwan Life Insurance Co., Ltd.	CLSW910313 swap	2009.11.04~2010.05.06	324,100	(2,717)	"	(2,717)
BankTaiwan Life Insurance Co., Ltd.	CLSW910315 swap	2009.11.05~2010.05.10	649,020	(6,293)	"	(6,293)
Wu Tsang Tai	AEAF910685 swap	2009.10.16~2010.04.14	609,630	(10,099)	Valuation adjustment of financial liabilities at fair value through profit or loss—current—held for trading—forward	(10,099)
Chen Yi Hong	0912290160 swap	2009.12.30~2010.01.20	53,867	155	Valuation adjustment of financial liabilities at fair value through profit or loss—current—held for trading—the exchange rate option	(175)
Chen Yi Hong	0912290160 swap	2009.12.30~2010.01.20	-	-	Adjustment of valuation adjustment of financial liabilities at fair value through profit or loss—current—held for trading—the exchange rate option	155

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008 (audited by the MoA)						
Name of related party	Title of derivative instruments	Contract period	Nominal amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	AEBH410927 forward	2004.11.30~2009.02.05	153,719	(516)	Valuation adjustment of financial liabilities at fair value through profit or loss—current—held for trading—forward	(516)
Taiwan Life Insurance Co., Ltd.	AEBH411027 forward	2004.12.31~2009.02.05	152,074	(511)	"	(511)
Taiwan Life Insurance Co., Ltd.	AEBH510877 forward	2005.11.25~2009.02.06	159,485	(2,471)	"	(2,471)
Taiwan Life Insurance Co., Ltd.	BHSW510056 swap	2005.12.08~2009.02.10	328,190	(649)	Valuation adjustment of financial liabilities at fair value through profit or loss—current—held for trading—swap	(649)
Taiwan Life Insurance Co., Ltd.	BHSW610016 swap	2006.01.25~2009.02.10	656,380	(1,299)	"	(1,299)
Taiwan Life Insurance Co., Ltd.	BHSW610017 swap	2006.01.26~2009.02.10	328,190	(649)	"	(649)
Taiwan Life Insurance Co., Ltd.	BHSW610021 swap	2006.03.07~2009.01.08	361,980	31,296	Valuation adjustment of financial assets at fair value through profit or loss—current—held for trading—swap	31,296
Taiwan Life Insurance Co., Ltd.	BHSW710031 swap	2007.04.25~2009.01.23	1,119,125	27,681	"	27,681
Taiwan Life Insurance Co., Ltd.	BHSW710114 swap	2007.10.04~2009.02.05	328,700	(1,104)	Valuation adjustment of financial liabilities at fair value through profit or loss—current—held for trading—swap	(1,104)
Taiwan Life Insurance Co., Ltd.	BHSW810010 swap	2008.01.21~2009.01.23	955,890	27,085	Valuation adjustment of financial assets at fair value through profit or loss—current—held for trading—swap	27,085

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008 (audited by the MoA)						
Name of related party	Title of derivative instruments	Contract period	Nominal amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	BHSW810164 swap	2008.08.18~2009.02.06	985,110	(2,338)	Valuation adjustment of financial liabilities at fair value through profit or loss—current—held for trading—swap	(2,338)
Taiwan Life Insurance Co., Ltd.	BHSW810190 swap	2008.09.18~2009.02.23	631,360	23,362	Valuation adjustment of financial assets at fair value through profit or loss—current—held for trading—swap	23,362
Taiwan Life Insurance Co., Ltd.	BHSW810193 swap	2008.09.19~2009.02.06	656,740	(1,559)	Valuation adjustment of financial liabilities at fair value through profit or loss—current—held for trading—swap	(1,559)
Taiwan Life Insurance Co., Ltd.	BHSW810194 swap	2008.09.19~2009.09.23	1,553,250	65,533	Valuation adjustment of financial assets at fair value through profit or loss—current—held for trading—swap	65,533
Taiwan Life Insurance Co., Ltd.	BHSW810239 swap	2008.11.06~2009.02.09	164,095	(318)	Valuation adjustment of financial liabilities at fair value through profit or loss—current—held for trading—swap	(318)
Taiwan Life Insurance Co., Ltd.	BHSW810259 swap	2008.12.04~2009.01.08	67,050	(1,503)	"	(1,503)
Taiwan Life Insurance Co., Ltd.	BHSW820003 swap	2008.09.19~2009.09.23	1,560,750	(58,095)	"	(58,095)
Chen Yi Hong	0812220020 foreign exchange option	2008.12.23~2009.01.06	59	-	Valuation adjustment of financial assets at fair value through profit or loss—current—held for trading—foreign exchange option	-

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008 (audited by the MoA)						
Name of related party	Title of derivative instruments	Contract period	Nominal amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Huang Rong Song	0812310020 foreign exchange option	2008.12.31~2009.01.15	3,277	9	Valuation adjustment of financial assets at fair value through profit or loss — current — held for trading — foreign exchange option	6
					Valuation adjustment of financial assets at fair value through profit or loss — current — held for trading — foreign exchange option	9
BankTaiwan Life Insurance Co., Ltd.	AECL810370 forward	2008.05.06~2009.11.10	408,067	42,371	Valuation adjustment of financial assets at fair value through profit or loss — current — held for trading — forward	42,371
BankTaiwan Life Insurance Co., Ltd.	AECL810569 forward	2008.08.01~2009.02.05	468,417	(43,208)	Valuation adjustment of financial liabilities at fair value through profit or loss — current — held for trading — forward	(43,208)
BankTaiwan Life Insurance Co., Ltd.	CLSW710062 swap	2007.08.02~2009.02.04	508,800	15,348	Valuation adjustment of financial assets at fair value through profit or loss — current — held for trading — swap	15,348
BankTaiwan Life Insurance Co., Ltd.	CLSW710066 swap	2007.08.08~2009.02.12	95,058	3,193	"	3,193
BankTaiwan Life Insurance Co., Ltd.	CLSW710070 swap	2007.08.14~2009.01.15	381,912	11,330	"	11,330
BankTaiwan Life Insurance Co., Ltd.	CLSW710075 swap	2007.08.29~2009.01.23	383,040	10,150	"	10,150

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008 (audited by the MoA)						
Name of related party	Title of derivative instruments	Contract period	Nominal amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
BankTaiwan Life Insurance Co., Ltd.	CLSW810005 swap	2008.01.17~2009.01.22	317,900	9,764	Valuation adjustment of financial assets at fair value through profit or loss — current — held for trading — swap	9,764
BankTaiwan Life Insurance Co., Ltd.	CLSW810009 swap	2008.01.18~2009.01.22	318,340	9,324	"	9,324
BankTaiwan Life Insurance Co., Ltd.	CLSW810011 swap	2008.01.22~2009.01.23	319,290	8,369	"	8,369
BankTaiwan Life Insurance Co., Ltd.	CLSW810012 swap	2008.01.22~2009.01.23	640,410	14,908	"	14,908
BankTaiwan Life Insurance Co., Ltd.	CLSW810013 swap	2008.01.23~2009.01.23	320,905	6,755	"	6,755
BankTaiwan Life Insurance Co., Ltd.	CLSW810015 swap	2008.01.24~2009.01.23	319,980	7,679	"	7,679
BankTaiwan Life Insurance Co., Ltd.	CLSW810016 swap	2008.01.28~2009.01.23	319,755	7,904	"	7,904
BankTaiwan Life Insurance Co., Ltd.	CLSW810104 swap	2008.04.30~2009.02.17	665,360	(10,442)	Valuation adjustment of financial liabilities at fair value through profit or loss — current — held for trading — swap	(10,442)
BankTaiwan Life Insurance Co., Ltd.	CLSW810108 swap	2008.05.07~2009.01.12	167,075	(3,215)	"	(3,215)
BankTaiwan Life Insurance Co., Ltd.	CLSW810109 swap	2008.05.07~2009.01.12	1,236,355	(23,791)	"	(23,791)
BankTaiwan Life Insurance Co., Ltd.	CLSW810130 swap	2008.06.30~2009.02.17	1,663,400	(26,106)	"	(26,106)
BankTaiwan Life Insurance Co., Ltd.	CLSW810207 swap	2008.09.26~2009.02.12	2,001,000	(35,871)	"	(35,871)
BankTaiwan Life Insurance Co., Ltd.	CLSW810208 swap	2008.09.26~2009.02.12	667,000	(11,957)	"	(11,957)
BankTaiwan Life Insurance Co., Ltd.	CLSW810211 swap	2008.09.30~2009.02.12	566,950	(10,164)	"	(10,164)

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008 (audited by the MoA)						
Name of related party	Title of derivative instruments	Contract period	Nominal amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
BankTaiwan Life Insurance Co., Ltd.	CLSW810212 swap	2008.09.30~2009.02.12	1,000,500	(17,936)	Valuation adjustment of financial liabilities at fair value through profit or loss—current—held for trading—swap	(17,936)
BankTaiwan Life Insurance Co., Ltd.	CLSW810225 swap	2008.10.16~2009.02.17	2,994,120	(46,990)	"	(46,990)
BankTaiwan Life Insurance Co., Ltd.	CLSW810230 swap	2008.10.24~2009.01.08	1,205,604	(25,763)	"	(25,763)
BankTaiwan Life Insurance Co., Ltd.	CLSW810241 swap	2008.11.13~2009.02.17	665,360	(10,442)	"	(10,442)
BankTaiwan Life Insurance Co., Ltd.	CLSW810242 swap	2008.11.13~2009.02.17	1,663,400	(26,106)	"	(26,106)
BankTaiwan Life Insurance Co., Ltd.	CLSW810247 swap	2008.11.20~2009.01.22	1,297,200	13,466	Valuation adjustment of financial assets at fair value through profit or loss—current—held for trading—swap	13,466
BankTaiwan Life Insurance Co., Ltd.	CLSW810248 swap	2008.11.21~2009.01.22	1,621,500	16,833	"	16,833
BankTaiwan Life Insurance Co., Ltd.	CLSW810249 swap	2008.11.24~2009.02.24	325,000	2,362	"	2,362
BankTaiwan Life Insurance Co., Ltd.	CLSW810253 swap	2008.11.28~2009.02.27	329,230	(1,900)	Valuation adjustment of financial liabilities at fair value through profit or loss—current—held for trading—swap	(1,900)
BankTaiwan Life Insurance Co., Ltd.	CLSW810265 swap	2008.12.15~2009.02.17	332,680	(5,221)	"	(5,221)
BankTaiwan Life Insurance Co., Ltd.	CLSW810266 swap	2008.12.17~2009.01.20	99,474	(1,170)	"	(1,170)
BankTaiwan Life Insurance Co., Ltd.	CLSW810267 swap	2008.12.18~2009.01.20	330,710	(3,030)	"	(3,030)

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008 (audited by the MoA)						
Name of related party	Title of derivative instruments	Contract period	Nominal amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
BankTaiwan Life Insurance Co., Ltd.	CLSW810273 swap	2008.12.22~2009.01.22	324,300	3,367	Valuation adjustment of financial assets at fair value through profit or loss — current — held for trading — swap	3,367
BankTaiwan Life Insurance Co., Ltd.	CLSW810276 swap	2008.12.29~2009.02.27	328,710	(1,380)	Valuation adjustment of financial liabilities at fair value through profit or loss — current — held for trading — swap	(1,380)
BankTaiwan Life Insurance Co., Ltd.	CLSW810279 swap	2008.12.31~2009.02.27	691,383	(3,989)	“	(3,989)

Note 1: The disclosure of the derivative instruments is by related party.

Note 2: Derivative financial instruments are assessed by the fair value method. Any relevant net present value created shall be recognized as current valuation adjustment.

Note 3: The ending balance of financial assets/liabilities at fair value through profit or loss and hedging derivative assets/liabilities are shown in the balance sheet item amount column.

- k) The expense of shared assets were allocated to BOT, BTLI, BTS, the Company as follows:

	2009		2008 (audited by the MoA)	
	Amount	Percentage of account balance	Amount	Percentage of account balance
The Company	\$ 4,498	0.02	792	0.01
BTLI	44,226	0.15	37,918	0.32
BTS	61,813	0.21	52,499	0.44
Total	<u>\$ 110,537</u>	<u>0.38</u>	<u>91,209</u>	<u>0.77</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Total amount of the major management's salaries and bonus

The related information about the salaries and bonus for BOT's major management in 2009 and 2008 (audited by the MoA) is as follows:

	2009	2008 (audited by the MoA)
Salaries	\$ 21,062	23,162
Bonus	7,839	9,070
Business expenses	1,954	1,187

2. BTLI

(a) Name of related party and relationship

Name of related-party	Relationship with BTLI
Taiwan Financial Holding Co., Ltd.(the Company)	Parent Company
BOT	100%-owned subsidiary of the Company under the equity method
BTS	100%-owned subsidiary of the Company under the equity method
Other related parties	The relatives of main management

(b) Significant related-party transactions

a) Split-off information

In accordance with Accounting Research and Development Foundation Interpretation (91) No. 128, BOT split off its Department of Life Insurance and transferred capital of \$5 billion to set up BankTaiwan Life Insurance on January 2, 2008. As of the split-off date, the assets and liabilities yielded were follows:

	Amount
Cash and cash equivalents	\$ 30,381,161
Financial assets measured at fair value through profit or loss — current	610,198
Available-for-sale financial assets — current	18,999,886
Held-to-maturity financial assets — current	4,935,069
Bond investments with non-active market — current	655,003
Notes receivable, net	269,187
Other receivables	2,611,471
Prepaid expense and other prepayment	42,110

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	Amount
Bonds and bills purchased under resell agreements	\$ 13,387,011
Loans	7,460,787
Available-for-sale financial assets — non-current	1,360,232
Held-to-maturity financial assets — non-current	58,812,846
Bond investments with non-active market — non-current	7,276,634
Investments under equity method, net	4,517,603
Real estate investments, net	1,796,793
Fixed assets, net	776,945
Goodwill and intangible assets	4,886
Other assets	3,309,149
Financial liabilities measured at fair value through profit or loss — current	(40,248)
Commission payable	(63,902)
Due from representative organization	(33,575,145)
Other payables	(796,354)
Advance collections	(25,886)
Reserve for operations and other liabilities	(114,653,736)
Other liabilities	(3,032,124)
The amounts of fixed assets, available-for-sale financial assets, and investments under equity method under stockholders' equity:	
Additional paid-in capital	(360,065)
Unrealized increments on revaluation	(170,455)
Cumulative foreign currency translation adjustments	3,348
Unrealized gain on financial instruments	507,596
Issue of new shares	<u><u>\$ 5,000,000</u></u>

Part of the information systems and equipment were shared with BOT in 2008. But BTLI did not pay any expense to BOT.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

b) Mortgage loans for real estate (in discounts and loans)

Mortgage loans for real estate for the Consolidated Companies' directors, supervisors, and staff and their spouses and close relatives for 2009 and 2008 (audited by the MoA)

	December 31, 2009	December 31, 2008 (audited by the MoA)
Mortgage loans for real estate	\$ 57,541	25,237
Interest receivable	\$ 44	247

For the years December 31, 2009 and 2008 (audited by the MoA), the annual interest rates ranged from 0.79% to 2.01% and 2.10% to 6.55%, respectively.

(c) Total amount of the major management's salaries and bonus

The related information about the salaries and bonus for BTLI's major management in 2009 and 2008 (audited by the MoA) is as follows:

	2009	2008 (audited by the MoA)
Salaries	\$ 8,766	7,385
Bonus	1,951	120
Business expenses	772	760

3. BTS

(a) Name of related party and relationship

Name of related party	Relationship with TBS
Taiwan Financial Holding Co., Ltd.(the Company)	Parent Company
BOT	100%-owned subsidiary of the Company under the equity method
BTLI	100%-owned subsidiary of the Company under the equity method
	The main management of BTS

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Significant related-party transactions — Split-off information

In accordance with Accounting Research and Development Foundation Interpretation (91) No. 128, BOT split off its Department of Securities and transferred capital of \$3 billion to set up BankTaiwan Securities on January 2, 2008. As of the split-off date, the assets and liabilities were as follows:

	Amount
Cash and cash equivalents	\$ 37
Margin loans receivable	1,762,328
Accounts receivable	27,844
Advance payment	1,000
Other receivables	2,027,388
Available-for-sale financial assets	235,904
Fixed assets, net	406,846
Goodwill and intangible assets	5,993
Operating guarantee deposits	56,481
Guarantee deposits	713
Net brokering accounts — debit	5,896
Deposits received from securities borrowers	(2,152)
Guaranteed price payable by other securities lenders	(2,344)
Collections for customers	(3,536)
Other payables	(1,256,966)
Reserves for default losses	(87,326)
Other liabilities	(92,726)
The amounts of fixed assets, available-for-sale financial assets, and investments under equity method under stockholders' equity:	
Unrealized increments on revaluation	(96,713)
Unrealized gain on financial instruments	11,333
Issue of new shares	<u><u>\$ 3,000,000</u></u>

Part of the information systems and equipment were shared with BOT in 2008. But BTS did not pay any expense to BOT.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Total amount of the major management's salaries and bonus

The related information about the salaries and bonus for BTS's major management in 2009 and 2008 (audited by the MoA) is as follows:

	2009	2008 (audited by the MoA)
Salaries	\$ 7,272	5,765
Bonus	252	-
Business expenses	-	400

5) Total amount of the major management's salaries and bonus

The related information about the salaries and bonus for the Consolidated Companies' major management in 2009 and 2008 (audited by the MoA) is as follows:

	2009	2008 (audited by the MoA)
Salaries	\$ 40,527	39,069
Bonus	11,689	9,940
Business expenses	6,444	6,279

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(36) Pledged Assets

Pledged assets	Purpose of pledge	Book value	
		December 31, 2009	December 31, 2008 (audited by the MoA)
Available-for-sale financial assets — bonds	Guarantee deposit for provisional attachments or taxation appeals	\$ 944,900	704,900
Available-for-sale financial assets — bonds	Operating deposit for securities trading	150,000	110,000
Available-for-sale financial assets — bonds	Operating deposit for trust business	-	25,000
Available-for-sale financial assets — bonds	Guarantee deposit for trust business compensation reserve	50,000	50,000
Due to Central Bank — deposits in	Negotiable certificates of deposit (accounted for as cash)	20,000,000	20,000,000
Held-to-maturity financial assets — bonds	Guarantee deposit for provisional attachments or taxation appeals	7,200	11,800
Other assets — refundable deposits	Operating deposit	1,114,453	778,098
Other assets — refundable deposits	Public tender deposit	100,000	100,000
Other assets — refundable deposits	Rental deposit	21,925	1,362
Total		<u>\$ 22,388,478</u>	<u>21,781,160</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(37) Commitments and Contingencies

- 1) As of December 31, 2009 and 2008 (audited by the MoA), the significant commitments of the Consolidated Companies were as follows:

	December 31, 2009	December 31, 2008 (audited by the MoA)
Trust liabilities	\$ 427,512,415	326,853,165
Guarantee payable	5,341,296	3,311,690
Collateral deposit	7,351,552	9,798,384
Guarantee note payable	490,802	612,200
Traveler's checks held on consignment	1,268,468	1,002,150
Collections for customers	60,460,069	76,508,546
Loans under custody on consignment	454,629,493	435,814,005
Book entry for government bonds under management	340,648,800	328,458,300
Depository for short-term marketable securities under management	109,033,863	161,692,509
sales of goods	2,023,084	2,134,836
Insurance for issuance of New Taiwan Dollars	1,124,848,281	1,056,400,700
Guarantee receivables	50,050,996	60,185,649
L/C receivables	38,357,884	40,915,854
Marketable securities held as custodian	1,422,552,994	1,712,961,756
Total	<u>\$ 4,044,569,997</u>	<u>4,216,649,744</u>

- 2) Construction in progress and significant purchase agreements:

BOT—the details of construction in progress and significant purchase agreements are as follows:

Name of contract	December 31, 2009		December 31, 2008 (audited by the MoA)	
	Contract amount	Amount not paid	Contract amount	Amount not paid
Construction of Nan Zih Branch	\$ -	-	256,684	5,185
Construction of An Nan Branch	-	-	150,415	4,469
Construction of Yi Lan Branch	288,600	158,540	288,600	285,724
Construction of Dong Gang Branch	114,670	62,710	110,300	110,300
Total	<u>\$ 403,270</u>	<u>221,250</u>	<u>805,999</u>	<u>405,678</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

3) Operating leases

All subsidiaries have entered into operating leases for their branches. As of December 31, 2009, the minimum payments on lease contract commitments for the next five years were as follows:

Period	Amount
2010.1.1~2010.12.31	\$ 406,747
2011.1.1~2011.12.31	270,940
2012.1.1~2012.12.31	197,024
2013.1.1~2013.12.31	99,424
2014.1.1~2014.12.31	30,783
	<u>\$ 1,004,918</u>

- 4) BTS had several proxy delivery agreements with certain securities companies. In accordance with these agreements, the companies have agreed to be BTS's first and second proxy. If BTS is unable to fulfill its obligations to the TSE, the proxies must then act pursuant to said obligations and responsibilities.

5) Balance sheet and details of asset management:

Trust assets	December 31, 2009	December 31, 2008 (audited by the MoA)
Deposits		
Deposits in the BOT	\$ 26,958,946	21,522,395
Deposits in other banks	2,542,790	6,205
Short-term investment		
Investment in funds	137,815,289	104,949,846
Investment in bonds	160,602,367	166,124,289
Common stock investment	55,576,372	13,516,434
Receivables		
Interest receivable	2,040,720	3,148,851
Cash dividend receivable	15	969
Receivables from trading securities	387,657	256,145
Prepaid expense	3,370	503
Real estate		
Land	1,018,300	933,396
Buildings	283,971	16,888
Construction in progress	1,241,991	1,271,795
Marketable securities held as custodian	39,040,627	15,105,449
Total	<u>\$ 427,512,415</u>	<u>326,853,165</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Trust liabilities	December 31, 2009	December 31, 2008 (audited by the MoA)
Short-term loans		
Long-term secured loans	\$ -	35,679
Long-term loans	986,818	1,089,734
Payables		
Payables from trading securities	424,105	225,661
Other payables	49	15
Payables from management fee	2,645	1,605
Payables from supervision fee	204	229
Tax payable	398	597
Pledge securities	39,040,627	15,105,449
Trust capital		
Money trust	309,051,531	260,695,393
Marketable securities trust	17,626,986	2,553,204
Real estate investment trust	1,727,133	1,204,226
Other reserve and accumulated income		
Accumulated loss	31,366,725	28,099,557
Foreign currency translation	12,639,631	13,307,961
Deferred unrealized income	10,262,657	(5,156,413)
Net income	4,382,906	9,690,268
Total	<u>\$ 427,512,415</u>	<u>326,853,165</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Property list	December 31, 2009	December 31, 2008 (audited by the MoA)
Deposits		
Deposits in the BOT	\$ 26,958,946	21,522,395
Deposits in other banks	2,542,790	6,205
Short-term investment		
Investment in funds	137,815,289	104,949,846
Investment in bonds	160,602,367	166,124,289
Common stock investment	55,576,372	13,516,434
Real estate		
Land	1,018,300	933,396
Buildings	283,971	16,888
Construction in progress	1,241,991	1,271,795
Pledge securities	39,040,627	15,105,449
Trust capital	<u>\$ 425,080,653</u>	<u>323,446,697</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Trust income statement	2009	2008 (audited by the MoA)
Trust revenue:		
Interest revenue	\$ 7,249,334	9,427,798
Realized capital gain	873,644	2,462
Unrealized capital gain	44,099	-
Realized exchange gain	84,630	-
Cash dividend revenue	1,007,524	1,666,480
Income from beneficiary certificates	1,765	1,356
	<u>9,260,996</u>	<u>11,098,096</u>
Trust expense:		
Capital management fee	479,397	39,175
Tax expense	1,658	6,659
Other expenses of capital	51,738	115,809
Supervisor fee	216	216
Storage fee	11,457	34,023
Interest expense	-	9,575
Commission fee	93	36
Realized capital loss-bond	4,330,088	1,196,953
Unrealized capital loss	-	3,751
Income tax expense	515	337
Real estate tax	2,928	1,294
	<u>4,878,090</u>	<u>1,407,828</u>
Net income	<u><u>\$ 4,382,906</u></u>	<u><u>9,690,268</u></u>

(38) Significant Disaster Loss: None.

(39) Significant Subsequent Events: None.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(40) Others

- 1) A summary of personnel costs and depreciation, depletion, and amortization expenses, categorized by function, for the year ended December 31, 2009 and 2008 (audited by the MoA), is as follows:

Function Nature	2009			2008 (audited by the MoA)		
	Cost of goods sold	Operating expenses	Total	Cost of goods sold	Operating expenses	Total
Personnel costs						
Salaries	291,822	10,228,832	10,520,654	211,916	10,049,171	10,261,087
Labor and health insurance	18,656	507,733	526,389	13,561	492,795	506,356
Pension	36,525	1,122,213	1,158,738	29,726	1,124,777	1,154,503
Other employment	17,489	187,324	204,813	22,923	228,693	251,616
Depreciation	23,631	1,354,286	1,377,917	22,467	956,566	979,033
Amortization	-	406,002	406,002	-	408,950	408,950

- 2) Cross-selling with subsidiaries

1. Cross-selling:

Please see Note 35.

2. Integrate business activities:

The Company established six business groups consisting of corporate finance, financial market, consumer finance, wealth management, investment and insurance. By promoting sales cooperation aggressively, the Company is expecting to make it more effective and efficient.

3. Cross utilization of information:

In support of government's policy for financial holding company and its subsidiaries, the company and its subsidiaries concluded and signed "Agreement of Privacy Exchange" on January 8, 2009, to cope with the change of duties in the company and to enhance the protection of privacy. The related information is disclosed on the web sites of any subsidiaries.

4. Locations and business utilities:

The company applied to government for "Location set up for operating other business" and had been approved. By 2009, the company had 146 branches, providing securities services; 162 branches and 6 simple-functioned branches, providing insurance services. They provide securities and insurances services in banks.

5. Allocation on revenues, costs, expenses, profits and losses:

Allocation of Revenue, Cost and Expense is calculated based on the proportion of actual sales among subsidiaries.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

3) Capital adequacy ratios

Unit: Thousand NTD, %

December 31, 2009				
Entity	Item	Ownership interest	Eligible capital	Legal capital
The Company		-	249,556,062	254,163,438
Bank of Taiwan		100.00	179,926,649	121,023,652
BankTaiwan Life Insurance		100.00	7,183,845	634,229
BankTaiwan Securities		100.00	2,869,108	5,689,758
Less: deductible item			(251,104,337)	(251,104,337)
Subtotal			188,431,327	130,406,740
Consolidated capital adequacy ratio				144.50

Unit: Thousand NTD, %

Unit: Thousand NTD, %

December 31, 2008				
Entity	Item	Ownership interest	Eligible capital	Legal capital
The Company		-	225,959,751	230,123,809
Bank of Taiwan		100.00	172,902,518	118,957,766
BankTaiwan Life Insurance		100.00	3,840,391	5,201,664
BankTaiwan Securities		100.00	2,696,758	269,138
Less: deductible item			(225,992,607)	(225,992,607)
Subtotal			179,406,811	128,559,770
Consolidated capital adequacy ratio				139.55

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

4) Eligible capital

Unit: Thousand NTD

December 31, 2009	
Item	Amount
Common stock	90,000,000
Additional paid-in capital	111,494,739
Legal reserve	732,150
Special reserve	2,928,599
Accumulated profit	8,790,072
Equity adjustments	35,637,841
Less: goodwill	-
Less: deferred assets	27,339
Less: treasury stock	-
Consolidated eligible capital	249,556,062

Unit: Thousand NTD

December 31, 2008 (audited by the MoA)	
Item	Amount
Common stock	90,000,000
Additional paid-in capital	111,495,264
Legal reserve	-
Special reserve	-
Accumulated profit	7,321,499
Equity adjustments	17,348,756
Less: goodwill	-
Less: deferred assets	8,214
Less: treasury stock	-
Consolidated eligible capital	226,157,305

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- 5) Disclosures of total amounts or ratios with respect to credit extensions, endorsements, or other transactions undertaken by a financial holding company and its subsidiaries for the same individual, the same related individual, or the same affiliated enterprises in accordance with Article 46 of the "Financial Holding Company Act":

Unit: Million NTD, %

December 31, 2009		
Name	Total amount of credit extensions, endorsements, or other transactions	% of net asset value
The same individual		
National Treasury Agency, Ministry of Finance, R.O.C.	241,511	96.77
Taiwan Power Company	139,776	56.00
Taiwan High Speed Rail Corporation	44,859	17.97
CPC Corporation, Taiwan	35,263	14.13
Taiwan Railway Administration	32,541	13.04
Taichung County Government	30,116	12.07
Taipei County Government	27,903	11.18
Central Bank of the Republic of China (Taiwan)	22,000	8.81
Central Deposit Insurance Corp.	21,200	8.49
Chi Mei Optoelectronics Corporation	19,900	7.97
Yilan County Government	17,580	7.04
Yunlin County Government	17,465	7.00
AU Optronics Corp.	16,780	6.72
Central Deposit Insurance Corp.	16,400	6.57
Nan Ya Plastics Corporation	15,074	6.04
Tainan City Government	14,142	5.67
Hsinchu County Government	13,089	5.24
Tainan County Government	13,010	5.21
Taiwan Water Corp.	12,940	5.18
Fredie Mac	12,748	5.11
Related to high speed railway construction funds	12,058	4.83
Taoyuan County Government	11,759	4.71
Daragon Steel Corporation	11,359	4.55
Chiayi County Government	11,328	4.54
Hua Nan Financial Holdings Co., Ltd.	11,052	4.43
EVA Airways Corporation	10,687	4.28
Nantou County Government	10,440	4.18

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009		
Name	Total amount of credit extensions, endorsements, or other transactions	% of net asset value
Taiwan Area National Freeway Bureau, MOTC	10,200	4.09
Yang Ming Marine Transport Corp.	10,159	4.07
China Airlines Ltd.	10,041	4.02
Tainwa Business Bank	9,705	3.89
Promos Technologies Inc.	9,553	3.83
Miaoli County Government	9,282	3.72
Wintek Corporation	8,764	3.51
Hsinchu City Government	8,628	3.46
Formosa Chemicals & Fibre Corp.	8,469	3.39
R.S.E.A. Engineering Corporaiton	8,417	3.37
Formosa Petrochemical Corporation	8,396	3.36
Kaohsiung County Government	8,323	3.33
Far Eastern Textile Ltd.	7,220	2.89
China Steel Corporation	6,831	2.74
Pingtung County Government	6,493	2.60
Southern Taiwan Science Park Administration	6,310	2.53
Cathay Financial Holding Co., Ltd.	6,268	2.51
Shin Kong Financial Holding Co., Ltd.	5,979	2.40
Fannie Mae	5,953	2.39
Shin Kong Financial Holding Co., Ltd.	5,938	2.38
KFW Bankengruppe	5,915	2.37
Construction and Planning Agency, Ministry of the Interior	5,900	2.36
Kommunalbanken	5,881	2.36
Prince Housing and Development Corp.	5,608	2.25
Chi Mei Corporation	5,511	2.21
Export processing zone adminstration, MOEA	5,472	2.19
Evergreen Marine Corporation	5,413	2.17
Central Taiwan Science Park Administration	5,150	2.06
Inotera Memories, Inc	5,129	2.06
Powerchip Semiconductor Corp.	5,079	2.03
SAC PEI Taiwan Holdings	4,725	1.89

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009		
Name	Total amount of credit extensions, endorsements, or other transactions	% of net asset value
Mega International Commercial Bank	4,569	1.83
Asian Development Bank	4,427	1.77
CSBC Corporation, Taiwan	4,379	1.75
Taipei City Department of Transportation	4,286	1.72
Hualien County Government	4,081	1.64
Changhua County Government	4,073	1.63
Noride Investment Bank	4,006	1.61
Tang Eng Iron Works Co., Ltd.	3,885	1.56
Uni-President Enterprises Corp.	3,812	1.53
Kaohsiung City Government	3,810	1.53
European Investment Bank	3,631	1.45
Nanya Technology Corporation	3,604	1.44
Chunghwa Picture Tubes, Ltd.	3,596	1.44
Taipei Financial Center Corporation	3,552	1.42
Tatung Company	3,493	1.40
Rich Development Construction Co., Ltd.	3,483	1.40
Taipei Public Transportation Office	3,400	1.36
Taitung County Government	3,370	1.35
International Bank for Reconstruction and Development	3,333	1.34
Taiwan Asset Management Corporation	3,247	1.30
First Financial Holding Co., Ltd.	3,242	1.30
Polaris Securities International Investment Trust Co., Ltd.	3,237	1.30
Taiwan Mobile	3,084	1.24
Taichung City Government	3,053	1.22
Chia Hsin Food and Synthetic Fiber Co., Ltd.	3,033	1.22
The same related individual		
Mr./Ms. Liao and related individual	3,626	1.45
Mr./Ms. Wang and related individual	4,981	2.00
The same affiliated enterprises		
Formosa Plastic Group	57,757	23.14
Chi Mei Corporation and its affiliates	30,680	12.29
China Steel Corporation Group	25,602	10.26

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009		
Name	Total amount of credit extensions, endorsements, or other transactions	% of net asset value
Ever green Group	23,179	9.29
BenQ Group and its affiliates	19,521	7.82
Uni-President Enterprises Corp. and its affiliates	15,681	6.28
Yuanta Financial Holding Co., Ltd and its affiliates	13,989	5.60
Far Eastern Group	13,923	5.58
Shin Kong Financial Holding Co., Ltd. and its affiliates	12,694	5.09
Huanan Financial Holding Co., Ltd. and its affiliates	12,241	4.90
Tainan Spinning Co., Ltd. and its affiliates	10,481	4.20
Yang Ming Marine Transport Corp. and its affiliates	10,159	4.07
China Airlines Group	9,807	3.93
Promos Technologies Inc. and its affiliates	9,553	3.83
Wintek Corporation and its affiliates	9,459	3.79
Cathay Financial Group	8,418	3.37
Tatung Company and its affiliates	8,137	3.26
Fubon Financial Holding Co., Ltd. and its affiliates	7,563	3.03
Taiwan Cement Corporation and its affiliates	7,291	2.92
Mega Financial Holding Company and its affiliates	7,068	2.83
Powerchip Semiconductor Corp. and its affiliates	6,819	2.73
E United Group	6,111	2.45
First Financial Holding Co.,Ltd. and its affiliates	5,695	2.28
Chinatrust Financial Holding Company Group	5,408	2.17
LEALEA GROUP	5,404	2.17
Yuen Foong Yu Group	5,297	2.12
Taishin Financial Holding and its affiliates	5,122	2.05
Core Pacific Group and its affiliates	4,181	1.68
Tang Eng Iron Works Co., Ltd. and its affiliates	4,071	1.63
Chailease Group and its affiliates	4,020	1.61
Ruentex Group and it affiliates	3,944	1.58
The MiTAC-SYNNEX Group	3,866	1.55
E.SUN Financial Holding Co., Ltd. and its affiliates	3,570	1.43
Advanced Semiconductor Engineering Group and its affiliates	3,519	1.41

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009		
Name	Total amount of credit extensions, endorsements, or other transactions	% of net asset value
Taiwan Cogeneration Corporation and its affiliates	3,507	1.41
Chunghwa Telecom Co., Ltd. and its affiliates	3,410	1.37
Walsin Lihwa Corp. and its affiliates	3,133	1.26
Inventec Corporation and its affiliates	3,098	1.24
China Development Financial Holding Corporation and its affiliates	3,045	1.22
Total	<u>1,560,408</u>	

December 31, 2008 (audited by the MoA)		
Name	Total amount of credit extensions, endorsements, or other transactions	% of net asset value
The same individual		
Ministry of Finance, R.O.C.	189,627	83.84
Taiwan Power Company	100,901	44.61
Bureau of Labor Insurance	40,848	18.06
Central Bank of the Republic of China (Taiwan)	29,400	13.00
Related to high speed railway construction funds	29,197	12.91
Taipei County Government	28,641	12.66
Taichung County Government	26,641	11.78
Bureau of National Health Insurance	24,500	10.83
Chi Mei Optoelectronics Corporation	22,316	9.87
CPC Corporation, Taiwan	21,653	9.57
Central Deposit Insurance Corp.	21,450	9.48
Taiwan Railway Administration	19,293	8.53
Tainan County Government	16,335	7.22
Yilan County Government	16,250	7.19
Taiwan Water Corp.	15,075	6.67
AU Optronics Corp.	14,052	6.21
Daragon Steel Corporation	13,496	5.97
Nan Ya Plastics Corporation	13,365	5.91
Yunlin County Government	12,215	5.40

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008 (audited by the MoA)		
Name	Total amount of credit extensions, endorsements, or other transactions	% of net asset value
Central Taiwan Science Park Administration	12,040	5.32
Taoyuan County Government	11,337	5.01
Tainan City Government	10,922	4.83
EVA Airways Corporation	10,710	4.74
Hsinchu County Government	10,686	4.72
Hsinchu City Government	10,496	4.64
Chiayi County Government	10,413	4.60
Science Park Administration	10,347	4.57
China Airlines Ltd.	9,858	4.36
Promos Technologies Inc.	9,564	4.23
Formosa Petrochemical Corporation	9,235	4.08
Wintek Corporation	9,169	4.05
Chi Mei Optoelectronics Corporation	9,149	4.05
Formosa Chemicals & Fibre Corp.	8,859	3.92
Southern Taiwan Science Park Administration	8,840	3.91
R.S.E.A. Engineering Corporation	8,116	3.59
Miaoli County Government	8,103	3.58
Nantou County Government	7,477	3.31
China Steel Corporation	7,032	3.11
Kaohsiung County Government	6,800	3.01
Construction and Planning Agency, Ministry of the Interior	6,400	2.83
Prince Housing and Development Corp.	6,288	2.78
Taipei City Government Department of Transportation	6,074	2.69
Yang Ming Marine Transport Corp.	6,009	2.66
Pingtung County Government	5,389	2.38
Kaohsiung Rapid Transit Corp.	5,370	2.37
Powerchip Semiconductor Corp.	5,190	2.29
S.A.C. Pei Taiwan Holdings	4,725	2.09
China Shipbuilding Corporation	4,679	2.07
Taiwan Asset Management Corporation	4,625	2.04
Fubon Financial Holding Co., Ltd.	4,240	1.87

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008 (audited by the MoA)		
Name	Total amount of credit extensions, endorsements, or other transactions	% of net asset value
Chunghwa Picture Tubes, Ltd.	4,083	1.81
Far Eastern Textile Ltd.	3,953	1.75
Qisda Corporation	3,892	1.72
Rich Development Construction Co., Ltd.	3,894	1.72
Chailease Finance Co., Ltd.	3,620	1.60
Formosa Plastics Corporation	3,591	1.59
Hualien County Government	3,600	1.59
Ho Ping Power Company	3,450	1.53
Taitung County Government	3,424	1.51
Chung Hung Steel Corporation	3,352	1.48
Evergreen Marine Corporation	3,084	1.36
Young Ching Corp.	3,000	1.33
Huang Hsiang Construction Corporation	3,003	1.33
The same related individual		
Mr./Ms. Wu and related individual	7,090	3.13
Mr./Ms. Liao and related individual	6,340	2.80
Mr./Ms. Wang and related individual	4,836	2.14
Mr./Ms. Lee and related individual	4,489	1.98
Mr./Ms. Shiao and related individual	3,773	1.67
Mr./Ms. Lin and related individual	3,202	1.42
Mr./Ms. Zeng and related individual	3,202	1.42
Mr./Ms. Shyue and related individual	3,067	1.36
The same affiliated enterprises		
Taiwan Power Co., Ltd. and its affiliates	100,901	44.61
Ya Suo Development Corp. and its affiliates	36,155	15.99
Chi Lin Technology Co., Ltd. and its affiliates	33,212	14.68
GIO Optoelectronics Corp. and its affiliates	31,505	13.93
CPC Corporation, Taiwan and its affiliates	31,299	13.84
Chi Mei Optoelectronics Corporation and its affiliates	24,537	10.85
CPC Corporation, Taiwan and its affiliates	23,955	10.59
Chi Mei Energy Corp. and its affiliates	22,645	10.01

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008 (audited by the MoA)		
Name	Total amount of credit extensions, endorsements, or other transactions	% of net asset value
Chi Mei Lighting Technology Corporation and its affiliates	22,597	9.99
Chi Hsin Electronics Corp. and its affiliates	22,516	9.96
Contrel Technology Co., Ltd. and its affiliates	22,416	9.91
Chi Mei Electronics Corporation and its affiliates	22,316	9.87
Himax Technologies Limited and its affiliates	22,316	9.87
Infochamp Systems Corp. and its affiliates	20,529	9.08
Dragon Steel Corporation and its affiliates	20,529	9.08
EVA Airways Corporation and its affiliates	19,473	8.61
Evergreen Marine Corporation and its affiliates	19,362	8.56
Taiwan Railways Administration and its affiliates	19,293	8.53
Qisda Corporation and its affiliates	18,239	8.06
Darfon Electronics Corp. and its affiliates	18,239	8.06
AU Optronics Corp. and its affiliates	18,239	8.06
Formosa Tafeeta Co., Ltd. and its affiliates	17,278	7.64
Nan Ya Plastics Corporation and its affiliates	16,767	7.41
Taipei Port Container Terminal and its affiliates	16,591	7.34
Taiwan Water Corp. and its affiliates	15,075	6.67
Lextar Electronics Corporation and its affiliates	14,052	6.21
Nan Ya Plastics (Hong Kong) Corporation and its affiliates	13,365	5.91
Formosa Petrochemical Corporation and its affiliates	12,625	5.58
Evergreen Aviation Technologies Corporation and its affiliates	12,615	5.58
Kaohsiung Rapid Transit Corp. and its affiliates	12,403	5.48
Promos Technologies Inc. and its affiliates	12,189	5.39
Evergreen Sky Catering Corp. and its affiliates	11,360	5.02
Hsin Tao Power Corporation and its affiliates	11,013	4.87
Golden Win Steel Industrial Corp. and its affiliates	10,750	4.75
Uni President Development Co., Ltd. and its affiliates	10,583	4.68
Ye Long Enterprises Corp. and its affiliates	10,384	4.59
Chi Mei Materials Technology Corporation and its affiliates	9,973	4.41

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008 (audited by the MoA)		
Name	Total amount of credit extensions, endorsements, or other transactions	% of net asset value
Chi Mei Corporation and its affiliates	9,973	4.41
China Airlines Ltd. and its affiliates	9,922	4.39
China Pacific Laundry Services Ltd. and its affiliates	9,922	4.39
Chi Mei- Asahi Corp. and its affiliates	9,349	4.13
Wintek Corporation and its affiliates	9,169	4.05
Mactech Corporation and its affiliates	9,169	4.05
United Win (H.K.) Technology Limited and its affiliates	9,169	4.05
Masstop Asia Pacific Limited and its affiliates	9,169	4.05
Formosa Chemicals & Fibre Corp. and its affiliates	8,866	3.92
R.S.E.A. Engineering Corporation and its affiliates	8,116	3.59
China Steel Machinery Corporation and its affiliates	7,532	3.33
Tatung Co. and its affiliates	7,503	3.32
My-Funding Corp. and its affiliates	7,474	3.30
Ta Chen Construction & Engineering Corp. and its affiliates	7,462	3.30
Forward Electronics Co., Ltd. and its affiliates	7,403	3.27
Thintech Materials Technology Co., Ltd. and its affiliates	7,396	3.27
Grand Pacific Credit Company Ltd. and its affiliates	7,349	3.25
Uni-President Enterprises Corp. and its affiliates	7,245	3.20
Far Eastern Dept. Store, Ltd. and its affiliates	7,234	3.20
China Steel Chemical Corporation and its affiliates	7,032	3.11
China Ecotek Corporation and its affiliates	7,032	3.11
China Steel Express Corporation and its affiliates	7,032	3.11
CSE Transport Corp. and its affiliates	7,032	3.11
Taiwan Cement Co., Ltd. and its affiliates	6,985	3.09
Hoping Industrial Port Corporation and its affiliates	6,407	2.83
Prince Housing and Development Corp. and its affiliates	6,288	2.78
Far Eastern General Construction Inc. and its affiliates	6,156	2.72
Yang Ming Marine Transport Corp. and its affiliates	6,009	2.66
Taiwan Prosperity Chemical Corporation and its affiliates	5,945	2.63
Yuen Foong Yu Paper Mfg. Co., Ltd. and its affiliates	5,839	2.58
KGI Securities Finance Co., Ltd. and its affiliates	5,706	2.52

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008 (audited by the MoA)		
Name	Total amount of credit extensions, endorsements, or other transactions	% of net asset value
Fubon Securites Co., Ltd. and its affiliates	5,343	2.36
Powerchip Semiconductor Corp. and its affiliates	5,290	2.34
Yuanta Securities Finance Corp. and its affiliates	4,854	2.15
Daxon Technology Inc. and its affiliates	4,778	2.11
BES Engineering Corporation and its affiliates	4,744	2.10
China Shipbuilding Corporation and its affiliates	4,679	2.07
Far Eastern Textile Ltd. and its affiliates	4,652	2.06
Taiwan Asset Management Corporation and its affiliates	4,625	2.04
Li Sing Asset Management Corp. and its affiliates	4,625	2.04
Fubon Financial Holding Co., Ltd. and its affiliates	4,240	1.87
Fubon Asset Management Co., Ltd and its affiliates	4,240	1.87
Green Forest Development Enterprise Co., Ltd. and its affiliates	4,187	1.85
Rich Development Construction Co., Ltd. and its affiliates	4,187	1.85
Chailease Finance Co., Ltd. and its affiliates	4,050	1.79
Kai Yuan International Investment Co., Ltd. and its affiliates	3,953	1.75
An Ho Garment Co., Ltd. and its affiliates	3,953	1.75
Yuan Tong Investment Corp. and its affiliates	3,953	1.75
Shin Sheng Corp. and its affiliates	3,750	1.66
Chailease Consumer Finance Co., Ltd. and its affiliates	3,720	1.64
China Man-made Fiber Corp. and its affiliates	3,714	1.64
Taiwan Cogeneration Corporation and its affiliates	3,649	1.61
Young Ching Corp. and its affiliates	3,614	1.60
Formosa Plastics Corporation and its affiliates	3,596	1.59
President Fair Development Corp. and its affiliates	3,583	1.58
China Petrochemical Development Corporation and its affiliates	3,566	1.58
TCEC Corporation and its affiliates	3,550	1.57
Tang Eng Iron Works Co., Ltd. and its affiliates	3,433	1.52
President Tokyo Corporation and its affiliates	3,369	1.49
Hong Li Steel Corporation and its affiliates	3,352	1.48
Yun Hong Investment Corp. and its affiliates	3,352	1.48

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008 (audited by the MoA)		
Name	Total amount of credit extensions, endorsements, or other transactions	% of net asset value
Chunghwa Picture Tubes, Ltd. and its affiliates	3,250	1.44
President Securities Corp. and its affiliates	3,239	1.43
Yieh United Steel Corporation and its affiliates	3,183	1.41
President Packaging Industrial Corp. and its affiliates	3,148	1.39
Evergreen International Storage and Transport Corporation and its affiliates	3,084	1.36
Uni-President Glass Industrial Co., Ltd. and its affiliates	3,075	1.36
Hsin Kuang Development Co., Ltd. and its affiliates	3,058	1.35
Hsin Kuang textile Co., Ltd. and its affiliates	3,055	1.35
Pan Asian Plastics Corp. and its affiliates	3,055	1.35
Taishin Securities Co., Ltd. and its affiliates	3,055	1.35
Hannstar Display Corporation and its affiliates	3,038	1.34
Huang Hsiang Construction Corporation and its affiliates	3,003	1.33
Total	2,159,367	

Note 1: Taiwan High Speed Rail Corporation is included.

2. This form discloses total amounts which reach the lower of 5% of net worth or \$3 billion with respect to credit extensions, endorsements, or other transactions undertaken by a financial holding company and its subsidiaries for the same individual, the same related individual, or the same affiliated enterprises.
3. Credit extensions mean loans, discounts, overdrafts, acceptances, guarantees, and other business items designated by the central competent authority-in-charge.
4. Endorsements mean endorsements and guarantees of bills corporations.
5. Other transactions mean the following transactions with the same individual, the same related individual, or the same affiliated enterprises:
 - (1) Invest or purchase securities whose issuers are these related parties.
 - (2) Purchase these related parties' real estate or other assets.
 - (3) Sell securities, real estate, or other assets to these related parties.
 - (4) Sign contracts to give money or supply labor.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- (5) Act as an agent or broker of the financial holding company or its subsidiaries, or supply services on a commission or expenses basis.
- (6) Conducting the above transactions with third parties that are stakeholders in these related parties, or transactions in which these related parties participate with third parties.
- (7) The amounts of negotiable certificates issued by a bank subsidiary are not included in the calculation.
- (8) The amounts of financial institutions' repurchase agreements are not included in the calculation.
- 6) The disclosures according to Statement of Financial Accounting Standards No 28:

1. Loan quality, concentration of credit risk, and policies on allowance for bad debts arising from loans and advances to customers

(a) Loan quality

Type / Item		December 31, 2009					
		Amount of overdue loans	Total amount of loans	Ratio	Allowance for bad debt	Coverage ratio	
Enterprise	Secured	7,939,804	396,848,583	2.00 %	3,416,979	43.04 %	
	Non-secured	3,894,704	1,058,732,903	0.37 %	5,160,216	132.49 %	
Consumer finance	House mortgage	5,405,299	387,386,494	1.40 %	2,222,364	41.11 %	
	Cash card	-	-	-	-	-	
	Micro credit	318,275	14,571,752	2.18 %	320,349	100.65 %	
	Others	Secured	890,546	61,991,947	1.44 %	382,449	42.95 %
		Non-secured	2,683,845	139,215,979	1.93 %	1,351,233	50.35 %
	Total		21,132,473	2,058,747,658	1.03 %	12,853,590	60.82 %
		Overdue receivables	Account receivable	Ratio	Allowance bad debt	Cover ratio	
Credit card business		5,730	1,134,820	0.50 %	10,635	185.60 %	
Factoring receivables — non-recourse		-	1,139,497	- %	3,418	-	

Type / Item		December 31, 2008 (audited by the MoA)					
		Amount of overdue loans	Total amount of loans	Ratio	Allowance for bad debt	Coverage ratio	
Enterprise	Secured	5,993,948	391,147,404	1.53 %	2,620,426	43.72 %	
	Non-secured	4,912,250	1,042,827,253	0.47 %	4,488,539	91.37 %	
Consumer finance	House mortgage	6,386,009	361,339,108	1.77 %	2,378,736	37.25 %	
	Cash card	-	-	-	-	-	
	Micro credit	436,734	17,820,177	2.45 %	396,861	90.87 %	
	Others	Secured	1,052,522	58,142,221	1.81 %	424,656	40.35 %
		Non-secured	2,476,296	128,466,677	1.93 %	1,363,376	55.06 %
			Total	21,257,759	1,999,742,840	1.06 %	11,672,594
		Overdue receivables	Account receivable	Ratio	Allowance bad debt	Cover ratio	
Credit card business		8,693	1,158,361	0.75 %	14,606	168.02 %	
Factoring receivables — non-recourse		-	1,298,819	- %	3,896	-	

Note 1: For loan business: Overdue loans represent the amounts of reported overdue loans pursuant to the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" issued by the FSC. For credit card business: Overdue receivables are regulated by the Banking Bureau letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: For loan business: NPL Ratio = NPL/Total Loans. For credit card business: Delinquency Ratio = Overdue receivables/Accounts receivable.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 3: For loan business: Coverage Ratio = LLR/NPL. For credit card business: Coverage Ratio = Allowance for credit losses/Overdue receivables.

Note 4: Household mortgage means the purpose of financing is to purchase, build, or fix up a dwelling, and the dwelling owned by the borrower, spouse, or children fully secures the loan.

Note 5: Micro credit is regulated by the Banking Bureau letter dated December 19, 2005 (Ref. No. 09440010950)

Note 6: Others in consumer finance refer to secured or non-secured loans excluding mortgage, cash card, micro credit, and credit card.

Note 7: Account receivables—factoring with no recourse: As required by the Banking Bureau letter dated July 19, 2005 (Ref. No. 094000494), provision for bad debt is recognized once no compensation is received from the factoring or insurance company.

Note 8: Account receivable of credit card business in including overdue receivable, account receivable and other receivable.

(b) The amounts of excluded NPL and excluded overdue receivables

(Expressed in thousand of New Taiwan Dollars)

	December 31, 2009		December 31, 2008 (audited by the MoA)	
	Excluded NPL	Excluded overdue receivables	Excluded NPL	Excluded overdue receivables
As a result of debt consultation and loans agreement	8,495	-	10,758	-
As a result of debt solvency and restart plan	136,769	2,104	20,044	-
Total	145,264	2,104	30,802	-

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Concentration of credit extensions

Unit: Million, %

December 31, 2009			
Rank (Note 1)	Group Name (Note 2)	Credit Extensions Balance (Note 3)	% of Net Asset Value
1	Taiwan High Speed Rail – transportation and Storage	42,358	16.97%
2	Formosa Plastics – plastic products manufacturing	40,356	16.17%
3	Chimei – optoelectronic materials and components manufacturing	29,453	11.80%
4	Evergreen – transportation and storage	22,344	8.95%
5	China Steel – basic metal manufacturing	19,981	8.01%
6	BenQ – optoelectronic materials and components manufacturing	18,684	7.49%
7	Uni President – retail trade	13,932	5.58%
8	Yuanta Financial Holdings – financial intermediation	10,821	4.34%
9	Tainan Spinning – textiles mills	10,508	4.21%
10	Far Eastern – textiles mills	9,774	3.92%

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008 (audited by the MoA)			
Rank	Group Name	Credit extensions balance	% of net asst value
1	Formosa Plastics — plastic products manufacturing	45,311	20.03%
2	Taiwan High Speed Rail — transportation and storage	43,097	19.06%
3	Chimei — optoelectronic materials and components manufacturing	36,995	16.36%
4	China Steel — basic metal manufacturing	31,672	14.00%
5	Evergreen — transportation and storage	21,687	9.59%
6	BenQ — optoelectronic materials and components manufacturing	19,683	8.70%
7	Uni-President — retail trade	15,518	6.86%
8	ProMOS Technologies — semi-conductors manufacturing	12,189	5.39%
9	Tainan Spinning — textiles mills	11,058	4.89%
10	Yuanta Financial Holdings — financial intermediation	10,699	4.73%

Note 1: Top ten borrowers (excluding government or state-owned utilities) according to total credit extensions. Arrange according to the total amt of credit extensions, please list the name of top ten corporations, not belong to government or public ones. If the creditor belongs to a group corporation, show the subtotaed amount of the group corporation, and disclose by using "Code" plus "Industry category"; if the creditor is a group corporation, disclose the category that expose most. The rule of disclosing industry category should follow Directorate-General of Budget, Accounting and Statistics; standard.

Note 2: Groups are regulated in the Supplementary Provisions to the Taiwan Stock Exchange Corporation Criteria for Review of Securities Listings, Article 6.

Note 3: Total credit extensions comprise loans (including import bills negotiated, export bills negotiated, overdrafts, short-term loans, short-term secured loans, receivables from pecuniary finance, medium-term loans, medium-term secured loans, long-term loans, long-term secured loans, and overdue receivables), exchange bills negotiated, factoring receivable without recourse, acceptances receivable, and guarantees issued.

- Information on concentration of credit risk of assets, liabilities, and off-balance-sheet items: Please see note 32.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

3. The average amount of assets and liabilities, as well as the current rate, is disclosed as follows:

Subsidiary – BOT

	December 31, 2009		December 31, 2008 (audited by the MoA)	
	Average	Average interest rate (%)	Average	Average interest rate (%)
Interest-earning assets:				
Call loans and placement with banks	\$ 158,243,672	1.25	158,137,960	2.28
Placement with Central Bank	1,125,584,864	0.72	640,658,855	2.02
Financial assets	163,700,926	2.44	187,821,011	3.25
Negotiation, discounts and total loans	1,980,430,190	1.68	1,974,798,106	3.12
Interest-bearing liabilities:				
Deposit of Central Bank	10,502,497	-	12,984,027	-
Deposits and call loans from banks	185,364,481	0.51	217,817,458	2.07
Demand deposit	217,120,068	0.10	179,240,450	0.54
Demand savings	608,085,352	0.64	378,091,857	1.36
Time savings	1,506,283,864	1.84	1,338,061,939	3.13
Time deposits	618,302,478	1.25	536,787,854	2.98
Government deposits	219,369,234	0.34	230,896,009	0.81

Note: Average is calculated by daily average of interest-earning assets and interest-bearing liabilities from January to current month.

4. Ratios of interest-rate-sensitive assets to liabilities and of interest-rate-sensitive spread to net equity

Balance sheet interest rate sensitivity – for NTD

Subsidiary – BOT

December 31, 2009

Unit: Thousand NTD, %

	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest-rate-sensitive assets	\$ 1,649,857,006	1,177,829,812	113,479,353	-	2,941,166,171
Interest-rate-sensitive liabilities	363,226,669	2,384,891,335	223,120,808	-	2,971,238,812
Interest rate sensitivity gap	1,286,630,337	(1,207,061,523)	(109,641,455)	-	(30,072,641)
Net worth					242,387,244
Ratio of interest-rate-sensitive assets to liabilities					98.99
Ratio of interest rate sensitivity gap to net worth					(12.41)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008

	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest rate-sensitive assets	\$ 1,355,929,976	1,210,165,619	96,956,678	-	2,663,052,273
Interest-rate-sensitive liabilities	343,727,421	2,023,111,444	350,447,148	-	2,717,286,013
Interest rate sensitivity gap	1,012,202,555	(812,945,825)	(253,490,470)	-	(54,233,740)
Net worth					230,669,037
Ratio of interest-rate-sensitive assets to liabilities					98.00
Ratio of interest rate sensitivity gap to net worth					(23.51)

Note 1: The above amounts include only New Taiwan Dollar amounts held by the Bank subsidiary's onshore branches (i.e., excluding foreign currency).

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

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

Note 4: Ratio of interest-rate-sensitive assets to liabilities = Interest-rate-sensitive assets/Interest-rate-sensitive liabilities (only interest-rate-sensitive assets and liabilities within one year, in New Taiwan Dollars).

Note 5: Ratio of interest rate sensitivity gap to net value = Interest rate sensitivity gap / net value.

Balance sheet interest rate sensitivity — for USD

Subsidiary — BOT

December 31, 2009

Unit: Thousand USD, %

	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest-rate-sensitive assets	\$ 13,795,679	2,977,295	2,019,735	623,257	19,415,966
Interest-rate-sensitive liabilities	14,548,326	3,274,131	1,566,794	64,430	19,453,681
Interest rate sensitivity gap	(752,647)	(296,836)	452,941	558,827	(37,715)
Net worth					(35,154)
Ratio of interest-rate-sensitive assets to liabilities					99.81
Ratio of interest rate sensitivity gap to net worth					107.29

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008

	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest-rate-sensitive assets	\$ 11,447,791	1,914,005	1,277,147	895,286	15,534,229
Interest-rate-sensitive liabilities	11,136,518	2,873,090	1,547,171	130,058	15,686,837
Interest rate sensitivity gap	311,273	(959,085)	(270,024)	765,228	(152,608)
Net worth					(154,569)
Ratio of interest-rate-sensitive assets to liabilities					99.03
Ratio of interest rate sensitivity gap to net worth					98.73

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

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

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

Note 4: Ratio of interest-rate-sensitive assets to liabilities = Interest-rate sensitive assets/Interest-rate-sensitive liabilities (only interest-rate-sensitive assets and liabilities within 180 days, in U.S. Dollars).

Note 5: Ratio of interest rate sensitivity gap to net value = interest rate sensitivity gap / net value.

5. Profitability

(a) The Company

Unit: %

Item		December 31, 2009	December 31, 2008 (audited by the MoA)
Return on total assets	Before income tax	3.58	3.18
	After income tax	3.59	3.18
Return on net worth	Before income tax	3.66	3.24
	After income tax	3.67	3.24
Profit margin		99.14	99.55

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) The company and subsidiary

Unit: %

Item		December 31, 2009	December 31, 2008 (audited by the MoA)
Return on total assets	Before income tax	0.28	0.19
	After income tax	0.21	0.19
Return on net worth	Before income tax	3.65	3.09
	After income tax	3.67	3.24
Profit margin		8.13	12.08

(c) Subsidiary – BOT

Unit: %

Item		December 31, 2009	December 31, 2008 (audited by the MoA)
Return on total assets	Before income tax	0.23	0.25
	After income tax	0.22	0.24
Return on net worth	Before income tax	3.70	3.60
	After income tax	3.50	3.53
Profit margin		26.98	30.15

(d) Subsidiary – BTLI

Unit: %

Item		December 31, 2009	December 31, 2008 (audited by the MoA)
Return on total assets	Before income tax	-	(0.73)
	After income tax	0.24	(0.49)
Return on net worth	Before income tax	0.08	-
	After income tax	15.56	-
Profit margin		1.23	(2.49)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(e) Subsidiary—BTS

Unit: %

Item		December 31, 2009	December 31, 2008 (audited by the MoA)
Return on total assets	Before income tax	4.17	(2.55)
	After income tax	3.57	(2.55)
Return on net worth	Before income tax	6.01	(4.44)
	After income tax	5.14	(4.44)
Profit margin		32.14	(23.40)

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

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

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

Note 4: Income before (after) income tax is the income in the six months ended June 30, 2008.

6. Major foreign currency position, net

Subsidiary—BOT

(expressed in thousands of New Taiwan Dollars)

December 31, 2009			December 31, 2008 (audited by the MoA)		
Currency	Amount in functional currency	Amount in New Taiwan Dollars	Currency	Amount in functional currency	Amount in New Taiwan Dollars
JPY	3,017,016	1,049,922	JPY	3,041,756	1,102,637
USD	30,912	994,625	USD	27,363	896,795
GBP	18,407	952,301	GBP	18,676	883,732
CNY	113,771	536,191	CNY	112,184	538,023
SGD	15,099	346,128	SGD	14,718	335,141

Note 1: The major foreign currencies are the top five amounts after all functional currencies are converted to New Taiwan Dollars.

Note 2: The major foreign currency net position is the absolute value of each foreign currency net position.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

7. Duration analysis of assets and liabilities

Term Structure Analysis of NTD-denominated Assets and Liabilities

Subsidiary – BOT

December 31, 2009

Unit: Thousand NTD

	Total	Amount for each remaining period to maturity				
		Day 1 to day 30	Day 31 to day 90	Day 91 to day 180	Day 181 to 1 year	Over 1 year
Main capital inflow on maturity	\$ 3,708,126,774	740,472,473	486,333,797	282,170,650	273,016,215	1,926,133,639
Main capital outflow on maturity	4,283,223,732	503,243,869	494,657,653	493,963,038	1,112,494,845	1,678,864,327
Interval gap	(575,096,958)	237,228,604	(8,323,856)	(211,792,388)	(839,478,630)	247,269,312

December 31, 2008

	Total	Amount for each remaining period to maturity				
		Day 1 to day 30	Day 31 to day 90	Day 91 to day 180	Day 181 to 1 year	Over 1 year
Main capital inflow on maturity	\$ 3,283,298,908	559,060,939	519,085,732	413,278,448	348,120,707	1,443,753,082
Main capital outflow on maturity	3,611,239,759	410,912,286	411,965,424	424,200,921	937,159,046	1,427,002,082
Interval gap	(327,940,851)	148,148,653	107,120,308	(10,922,473)	(589,038,339)	16,751,000

Note: The table includes only assets and liabilities denominated in NTD held in head office and domestic and overseas branches; assets and liabilities denominated in foreign currencies are excluded.

Term Structure Analysis of USD-denominated Assets and Liabilities

Subsidiary – BOT

December 31, 2009

Unit: Thousand USD

	Total	Amount for each remaining period to maturity				
		Day 1 to day 30	Day 31 to day 90	Day 91 to day 180	Day 181 to 1 year	Over 1 year
Main capital inflow on maturity	\$ 16,390,375	6,302,312	4,369,693	2,635,455	1,962,368	1,120,547
Main capital outflow on maturity	16,351,558	10,122,855	2,506,197	1,776,354	1,553,742	392,410
Interval gap	38,817	(3,820,543)	1,863,496	859,101	408,626	728,137

December 31, 2008

	Total	Amount for each remaining period to maturity				
		Day 1 to day 30	Day 31 to day 90	Day 91 to day 181	Day 181 to 1 year	Over 1 year
Main capital inflow on maturity	\$ 12,374,295	4,817,199	3,640,140	1,491,537	1,327,151	1,098,268
Main capital outflow on maturity	12,342,139	5,845,428	3,288,559	1,369,376	1,540,068	298,708
Interval gap	32,156	(1,028,229)	351,581	122,161	(212,917)	799,560

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1: The above amounts are book values of the assets and liabilities of the onshore branches and offshore banking unit of the subsidiary BOT in U.S. dollars, without off-balance-sheet amounts (for example, the issuance of negotiable certificates of deposits, bonds or stocks).

Note 2: If the overseas assets are at least 10% of the total assets, there should be additional disclosures.

8. The trade information about stakeholders who are borrowers, guarantors or collateral providers

(a) Name and relationship of the related party: Please see note 34. The credit part shows the stakeholders in accordance with "The Banking Act of the Republic of China", Article 33-1.

(b) Significant transactions with related party:

a) Loans: Please see note 35

b) Guarantee payment: none.

c) Transactions involving derivative financial instruments: none.

d) Transactions involving selling non-performing loans: none.

7) Financial information classified by business type

the year ended December 31, 2009

Unit: thousand NTD

Items	Businesses	Banking business	Insurance business	Securities business	Other business	Total
Net interest income		16,899,746	4,707,195	71,439	-	21,678,380
Net non-interest income		46,572,241	38,525,213	422,035	(2,054)	85,517,435
Net revenues		63,471,987	43,232,408	493,474	(2,054)	107,195,815
Bad debt expense		4,434,016	(1,272)	(1,367)	-	4,431,377
Provision for insurance reserves		34,251,029	42,091,452	-	-	76,342,481
Operating expense		17,012,243	399,018	245,545	79,898	17,736,704
Net income before cumulative effect of changes in accounting principle and income tax		7,774,699	743,210	249,296	(81,952)	8,685,253
Income tax expense		481,207	(518,548)	27,198	(24,053)	(34,196)
Cumulative effect of changes in accounting principle		-	-	-	-	-
Net income		7,293,492	1,261,758	222,098	(57,899)	8,719,449

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

the year ended December 31, 2008

Unit: thousand NTD

Items	Businesses	Banking business	Insurance business	Securities business	Other business	Total
Net interest income		24,958,750	3,807,046	82,138	-	28,847,934
Net non-interest income		(3,575,547)	35,146,642	165,595	1,068	31,737,758
Net revenues		21,383,203	38,953,688	247,733	1,068	60,585,692
Net revenues		1,545,337	56,207	(3,290)	-	1,598,254
Provision for insurance reserves		(4,978,929)	38,689,869	-	-	33,710,940
Operating expense		17,617,160	295,433	346,846	20,830	18,280,269
Net income before cumulative effect of changes in accounting principle and income tax		7,199,635	(87,821)	(95,823)	(19,762)	6,996,229
Income tax expense		145,420	(467,466)	62	(3,286)	(325,270)
Cumulative effect of changes in accounting principle		-	-	-	-	-
Net income		7,054,215	379,645	(95,885)	(16,476)	7,321,499

- 8) In accordance with state-owned enterprises accounting subject issued by the Directorate General of Budget, Accounting and Statistics, Executive Yuan on August 20, 2008, becoming effective from 2009, the consolidated companies reclassified the excess interest expenses arising from the preferential interest deposits for pensions of Military, Public and Teaching personnel from interest expenses to other net non-interest income. Therefore, the excess interest before 2008 was given the same reclassification treatment in order to match the financial statement presentation in 2009.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- 9) The balance sheets and statements of income of government employees insurance department of BOT

1. Balance sheets

	Government employees insurance department	
	December 31, 2009	December 31, 2008 (audited by the MoA)
Cash and cash equivalents	\$ 10,874,978	11,927,740
Financial assets at fair value through profit or loss	70,554,036	39,023,254
Receivables, net	15,440,900	16,749,386
Held-to-maturity financial assets, net	36,974,557	30,382,274
Fixed assets	9,123	7,583
Intangible assets	2,111	2,891
Other assets, net	26,550,512	28,064,838
Total assets	\$ 160,406,217	126,157,966
Financial liabilities at fair value through profit or loss	-	15,591
Payables	47,046	34,118
Other liabilities	160,359,171	126,108,257
Total liabilities	160,406,217	126,157,966
Total Liabilities and Stockholders' Equity	\$ 160,406,217	126,157,966

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Statements of income

		Government employees insurance department 2008 (audited by the MoA)
	2009	
Net interest income	\$ 1,069,982	1,523,787
Non-interest income, net		
Service fee expenses	5,266	(17,809)
Gain (loss) on financial assets and liabilities at fair value through profit or loss	21,345,926	(19,071,275)
Foreign exchange gain (loss)	172,682	(348,478)
Other non-interest income	<u>(22,462,168)</u>	<u>18,044,566</u>
Net revenue	<u>131,688</u>	<u>130,791</u>
Bad debt expense	<u>730</u>	<u>-</u>
Operating expense		
Personnel expense	113,963	112,869
Depreciation and amortization expense	3,424	3,254
Other business and administrative expense	<u>13,571</u>	<u>14,668</u>
	<u>130,958</u>	<u>130,791</u>
Net income	<u>\$ -</u>	<u>-</u>

(Continued)

10) Financial statements of Taiwan Financial Holding Co., Ltd.

TAIWAN FINANCIAL HOLDING CO., LTD.**Balance Sheet**

December 31, 2009 and 2008 (audited by the MoA)
(expressed in thousands of New Taiwan Dollars)

	December 31, 2009	December 31, 2008 (audited by the MoA)	Percentage change (%)
Assets			
Cash and cash equivalents	\$ 1,406,943	348,555	304
Receivables, net	527,268	133	396,342
Investments under equity method, net	251,104,337	226,195,089	11
Fixed assets, net	7,757	5,274	47
Intangible assets	59	14	321
Other assets, net	3,078,567	3,593,413	(14)
Total Assets	\$ 256,124,931	230,142,478	11
Liabilities and Stockholders' Equity			
Other loans	2,000,000	-	-
Payables	544,936	2,907	18,646
Other liabilities	3,955,198	3,973,930	-
Accrued pension payable	41,396	122	33,831
Total liabilities	6,541,530	3,976,959	64
Stockholders' equity			
Common stock	90,000,000	90,000,000	-
Additional paid-in capital	111,494,739	111,495,264	-
Retained earnings:			
Legal reserve	732,150	-	-
Special reserve	2,928,599	-	-
Unappropriated earnings	8,790,072	7,321,499	20
	12,450,821	7,321,499	70
Equity adjustments:			
Unrealized increments on revaluation	16,639,974	16,930,538	(2)
Cumulative foreign currency translation adjustment	(128,524)	(155,274)	(17)
Unrealized gain on financial instruments	19,126,391	573,492	3,235
	35,637,841	17,348,756	105
Total stockholders' equity	249,583,401	226,165,519	-
Total Liabilities and Stockholders' Equity	\$ 256,124,931	230,142,478	11

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD.

Statement of Income

For the period from January 1 to December 31, 2009,
and January 1 (date of establishment) to December 31, 2008 (audited by the MoA)
(expressed in thousands of New Taiwan Dollars)

	2009	2008 (audited by the MoA)	Percentage change (%)
Revenues:			
Income from equity investments under equity method	8,799,232	7,351,070	20
Other gains	<u>4,086</u>	<u>3,612</u>	13
	<u>8,803,318</u>	<u>7,354,682</u>	20
Expenses:			
Operating expenses	99,960	36,394	175
Other expenses and losses	<u>7,962</u>	<u>75</u>	10,516
	<u>107,922</u>	<u>36,469</u>	196
Income before income tax	8,695,396	7,318,213	19
Income tax benefits	<u>(24,053)</u>	<u>(3,286)</u>	(632)
Net income	<u><u>\$ 8,719,449</u></u>	<u><u>7,321,499</u></u>	19

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD.

Statement of Changes in Stockholders' Equity

For the period from January 1 to December 31, 2009,
and January 1 (date of establishment) to December 31, 2008 (audited by the MoA)
(expressed in thousands of New Taiwan Dollars)

	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Unrealized increments on revaluation	Cumulative foreign currency translation adjustments	Unrealized gain (loss) on financial instruments	Total
Balance as of January 1, 2008 (established through transfer of shares)	\$ 90,000,000	215,854,060	-	-	-	23,603,085	494,451	29,690,022	359,641,618
Adjustments for change in subsidiaries' special reserve	-	(320,552)	-	-	-	-	-	-	(320,552)
Capital surplus transferred to capital stock (audited by the MoA)	109,467,296	(109,467,296)	-	-	-	-	-	-	-
Non-cash share capital reduction (audited by the MoA)	(109,467,296)	5,429,052	-	-	-	(6,723,557)	(698,138)	(4,387,274)	(115,847,213)
Change in unrealized increments on revaluation (audited by the MoA)	-	-	-	-	-	51,010	-	-	51,010
Change in cumulative foreign currency translation adjustments (audited by the MoA)	-	-	-	-	-	-	48,413	-	48,413
Change in unrealized gain (loss) on financial instruments (audited by the MoA)	-	-	-	-	-	-	-	(24,729,256)	(24,729,256)
Net income for the year ended December 31, 2008 (audited by the MoA)	-	-	-	-	7,321,499	-	-	-	7,321,499
Balance as of December 31, 2008	90,000,000	111,495,264	-	-	7,321,499	16,930,538	(155,274)	573,492	226,165,519
Appropriated legal reserve	-	-	732,150	-	(732,150)	-	-	-	-
Appropriated special reserve	-	-	-	2,928,599	(2,928,599)	-	-	-	-
Appropriated dividends for government	-	-	-	-	(3,590,127)	-	-	-	(3,590,127)
Change in additional paid-in capital	-	(525)	-	-	-	-	-	-	(525)
Change in unrealized increments on revaluation	-	-	-	-	-	(290,564)	-	-	(290,564)
Change in cumulative foreign currency translation adjustments	-	-	-	-	-	-	26,750	-	26,750
Change in unrealized gain (loss) on financial instruments	-	-	-	-	-	-	-	18,552,899	18,552,899
Net income for the year ended December 31, 2009	-	-	-	-	8,719,449	-	-	-	8,719,449
Balance as of December 31, 2009	\$ 90,000,000	111,494,739	732,150	2,928,599	8,790,072	16,639,974	(128,524)	19,126,391	249,583,401

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD.

Statement of Cash Flows

For the period from January 1 to December 31, 2009,
and January 1 (date of establishment) to December 31, 2008 (audited by the MoA)
(expressed in thousands of New Taiwan Dollars)

	2009	2008 (audited by the MoA)
Cash flows from operating activities:		
Net income	\$ 8,719,449	7,321,499
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	1,288	999
Cash dividends received in excess of gains on equity investments recognized using the equity method	(4,639,517)	(3,377,238)
Increase in receivables	(527,134)	(133)
Increase in other assets	(35,926)	-
Increase in payables	542,029	2,908
Deferred income tax	(24,053)	(3,286)
Increase in accrued pension liabilities	41,274	122
Net cash used in operating activities	<u>4,077,410</u>	<u>3,944,871</u>
Cash flows from investing activities:		
Increase in long-term investments under equity method	(2,000,000)	-
Increase in refundable deposits	(2,594)	-
Increase in fixed assets	(3,764)	(6,269)
Increase in intangible assets	(52)	(18)
Net cash used in investing activities	<u>(2,006,410)</u>	<u>(6,287)</u>
Cash flows from financing activities:		
Prepaid dividends (for government)	(3,012,708)	(3,590,127)
Increase in guarantee deposits received	96	98
Increase in short-term loans	2,000,000	-
Net cash provided by financing activities	<u>(1,012,612)</u>	<u>(3,590,029)</u>
Net increase in cash and cash equivalents	1,058,388	348,555
Cash and cash equivalents at beginning of year	<u>348,555</u>	<u>-</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,406,943</u></u>	<u><u>348,555</u></u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

11) Subsidiaries' condensed consolidated balance sheets and statements of income

1. Condensed balance sheets

	BOT	
	December 31, 2009	December 31, 2008 (audited by the MoA)
Cash and cash equivalents	\$ 39,011,428	54,420,521
Due from Central Bank and call loans to banks	1,248,000,974	996,241,280
Financial assets at fair value through profit or loss	92,123,443	72,201,513
Bonds and bills purchased under resell agreements	368,349	298,262
Receivables, net	91,299,631	103,636,858
Discounts and loans, net	2,045,894,068	1,988,070,246
Available-for-sale financial assets, net	142,009,713	155,491,586
Held-to-maturity financial assets, net	37,859,403	31,818,435
Investments under equity method, net	29,815,276	26,959,682
Other financial assets, net	68,496,647	67,326,090
Fixed assets	78,474,877	79,953,507
Intangible assets	1,107,496	1,226,158
Other assets, net	16,590,347	16,735,325
Total assets	\$ 3,891,051,652	3,594,379,463
Due to Central Bank and other banks	\$ 204,950,860	181,489,738
Financial liabilities at fair value through profit or loss	4,535,308	6,002,275
Bonds and bills sold under repurchase agreements	5,486,934	19,217,840
Payables	58,561,964	63,901,807
Deposits and remittances	3,189,671,973	2,947,909,688
Accrued pension liability	2,695,402	2,396,018
Other financial liabilities	1,511,328	1,618,124
Other liabilities	183,127,172	148,010,097
Total liabilities	3,650,540,941	3,370,545,587
Common stock	45,000,000	45,000,000
Additional paid-in capital	110,062,555	110,063,016
Retained earnings	50,367,859	46,429,272
Others	35,080,297	22,341,588
Total stockholders' equity	240,510,711	223,833,876
Total Liabilities and Stockholders' Equity	\$ 3,891,051,652	3,594,379,463

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	BTLI	
	December 31, 2009	December 31, 2008(audited by the MoA)
Current assets	\$ 105,588,340	79,994,494
Loans	9,237,637	9,438,540
Funds and investments	117,513,412	95,810,913
Fixed assets	913,162	850,696
Intangible assets	210,152	219,513
Other assets, net	7,918,835	6,261,713
Total assets	\$ 241,381,538	192,575,869
Current liabilities	\$ 33,008,322	33,774,346
Long-term liabilities	257,522	242,384
Reserve for operations and other liabilities	194,669,790	153,340,344
Other liabilities	6,001,742	5,880,134
Total liabilities	233,937,376	193,237,208
Common stock	7,000,000	5,000,000
Capital surplus	360,000	360,065
Accumulated deficit	(417,586)	(938,927)
Other stockholders' equity	421,748	(5,082,477)
Total stockholders' equity	7,364,162	(661,339)
Total Liabilities and Stockholders' Equity	\$ 241,301,538	192,575,869

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	BTS	
	December 31, 2009	December 31, 2008 (audited by the MoA)
Current assets	\$ 2,942,137	4,523,825
Fixed assets	256,002	231,147
Intangible assets	4,044	5,431
Other assets, net	518,497	499,848
Net brokering accounts — debit	22,487	2,560
Total assets	\$ 3,743,167	5,262,811
Current liabilities	\$ 303,051	2,054,173
Other liabilities	210,654	186,085
Total liabilities	513,705	2,240,258
Common stock	3,000,000	3,000,000
Non-appropriated surplus	93,667	(67,092)
Unrealized incremental value from revaluation	89,070	89,070
Unrealized gain on financial instrument	46,725	575
Total stockholders' equity	3,229,462	3,022,553
Total Liabilities and Stockholders' Equity	\$ 3,743,167	5,262,811

2. Condensed income statements

	BOT	
	2009	2008 (audited by the MoA)
Net interest income	\$ 16,803,150	24,548,326
Non-interest income, net	13,284,694	3,166,464
Net revenue	30,087,844	27,714,790
Credit provisions	4,434,016	1,545,337
Operating expenses	17,055,490	17,666,944
Income before tax	8,598,642	8,502,509
Income after tax	8,117,131	8,357,089
EPS — before tax (dollars)	1.91	1.89
EPS — after tax (dollars)	1.80	1.86

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

		BTLI	2008(audited by the MoA)
		2009	
Operating revenues	\$	61,024,742	67,368,040
Operating costs		60,802,980	67,626,265
Gross Profit		221,762	(258,225)
Operating expenses		441,855	394,391
Operating losses		(220,093)	(652,616)
Non-operating revenue		827,167	1,073,568
Non-operating expenses		604,281	1,827,345
Gain (loss) before tax		2,793	(1,406,393)
Gain (loss) after tax		521,341	(938,927)
EPS — before tax (dollars)		-	(2.81)
EPS — after tax (dollars)		0.87	(1.88)

		BTS	2008(audited by the MoA)
		2009	
Operating revenue	\$	634,561	378,547
Operating expenses		446,604	445,577
Income before tax		187,957	(67,030)
Income after tax		160,759	(67,092)
EPS — before tax (dollars)		0.63	(0.22)
EPS — after tax (dollars)		0.54	(0.22)

(41) Notes to Disclosure Items

1) Information on significant transactions:

1. Information regarding long-term equity investment for which the purchase or sale amount for the period exceeded \$300 million or 10% of the Consolidated Companies' capital: none.
2. Information on the acquisition of real estate for which the purchase amount exceeded \$300 million or 10% of the Consolidated Companies' capital: none.
3. Information on the disposal of real estate for which the sale amount exceeded \$300 million or 10% of the Consolidated Companies' capital: none.
4. Information regarding discounted processing fees on transactions with related parties for which the amount exceeded \$5 million: none.
5. Information regarding receivables from related parties for which the amount exceeded \$300 million or 10% of the Consolidated Companies' capital: none.
6. Information regarding selling non-performing loans: none.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

7. Approved securitization instrument types and related information according to "asset-backed securitization" or "mortgage-backed securitization": none.
8. Other material transaction items which were significant to people who use the information in the financial statements: none.

2) Information on long term investments:

1. Information on investees' names, locations, etc.:

Name	Location	Main operations	Percentage of shares	Invested amount	Gain (loss) on investment	Consolidated Information				Remarks
						Number of shares	Pro-forma shares	Total		
								Number of shares	Percentage of shares	
Bank of Taiwan Co., Ltd.	No.120, Section 1, Chongching South Road, Taipei City	Operation of banks	100.00 %	240,510,711	8,117,131	45,000,000,000	-	45,000,000,000	100.00 %	Note 4
BankTaiwan Life Insurance Co. Ltd.	6th floor, No.69, Section 2, Dunhua South Road, Taipei City	Life insurance	100.00 %	7,364,162	531,241	7,000,000,000	-	7,000,000,000	100.00 %	Note 4
BankTaiwan Securities Co. Ltd.	No.58, Section 1, Chongching South Road, Taipei City	Securities	100.00 %	3,229,462	160,759	3,000,000,000	-	3,000,000,000	100.00 %	Note 4
Hua Nan Financial Holding Co. Ltd.	No. 38, Sec.1, Chongching S. Rd. Taipei City	Investment according to Financial Holding Company Act	29.36 %	27,520,429	1,306,355	1,841,764,662	-	1,841,764,662	29.36 %	-
Taiwan Life Insurance Co. Ltd.	No.17, Syuchang St., Taipei City	Life insurance	24.00 %	2,766,877	1,222,077	153,445,472	-	153,445,472	24.00 %	-
Kaohsiung Ammonium Sulfate Co., Ltd.	4F., No.53, Tonghua 4th Rd., Kaohsiung	Liquidating	91.86 %	2,610,549	(29,925)	303,131,576	-	303,131,576	91.86 %	-
Tang Eng Iron Works Co., Ltd.	No. 4, Yanhai 2nd Rd., Siaogang Distr., Kaohsiung City	Iron industry	21.38 %	1,465,979	349,847	74,822,414	-	74,822,414	21.38 %	-
Tai Yi Real-Estate Management Co., Ltd.	3F., No.56, Dunhua N. Rd., Taipei City	Real-estate appraisal	30.00 %	9,588	11	1,500,000	-	1,500,000	30.00 %	-

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1: The investees' shares or pro-forma shares held by the Company's board of directors, supervisor, CEO, vice CEO and affiliates conforming to the Company Act should be included.

Note 2: (1) Pro-forma shares are the "securities having equity property" or "derivative instrument contracts (have not been converted into stock)" that can be converted into shares of the investee company under Article 74 of the "Company Act" for investment purposes.

(2) The above "securities having equity property" means the securities that conform to the regulation in Article 11, Paragraph 1 of the Securities and Exchange Act Enforcement Rules, for example, convertible bonds and stock warrants.

(3) The abovementioned "derivative instrument contracts" conformed to the definition of derivative instrument in SFAS No. 34 "Financial Instruments: Recognition and Measurement", for example, stock options.

Note 3: The statement can be omitted in the 1st and 3rd quarters.

Note 4: The above transactions had been eliminated in preparing consolidated financial statements.

2. Lending to other parties: none.
3. Guarantees and endorsements for other parties: none.
4. Information regarding securities held as of December 31, 2009: none.
5. Information regarding securities for which the purchase or sale amount for the period exceeded \$300 million or 10% of the Consolidated Companies' capital: none.
6. Information on the acquisition of real estate for which the purchase amount exceeded NT\$300 million or 10% of the Consolidated Companies' capital: none.
7. Information on the disposal of real estate for which the sale amount exceeded NT\$300 million or 10% of the Consolidated Companies' capital:

Disposing Company	Property Title	Transaction Date	Original Date Acquired	Book value	Transaction Amount	Conditions of Payment	Disposal Gain/Loss	Transaction party	Relation-ship	Purpose of Disposal	Reference for Price	Other
The Bank	No 14, 16, 18, 20, Lane 12, Qing Tien St., Da An district, 106 Taipei city Building: No. 486, 486-1, Jin Hua St., Da An district, 106 Taipei City Land.	October 2009	July 1, 2007	104,658	638,880	Bidder prepays 10% of the floor price as deposit at the time of budding; after bid-openin g, the bidder makes the payment in full within 40 days after receiving the Notice of Payment.	534,222	Wen-Jen Chen, Mao-Yin Lin, Qie-Line Guo	None.	To reach the budget goal	referring to appraiser's appraisal and examined by the Bank's real estate committee; after notifying the audit division of the board of directors, the floor price is verified by the general manager and published for bidding.	None.

8. Information regarding discounted processing fees on transactions with related parties for which the amount exceeded \$5 million: none.
9. Information on regarding receivables from related parties for which the amount exceeded NT\$300 million or 10% of the Consolidated Companies' capital: none.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

10. Information regarding trading in derivative financial instruments: please see note 33.

11. Information regarding selling non-performing loans:

(a) Details of selling non-performing loans

Transaction date	Transaction party	Details of non-performing loan	Book value	Selling price	Disposal gain / loss	Other	Relationship
2009.07.09	A	Working capital loans, capital expenditure loans	1,000	26,068	16,068	None	None

(b) Details of selling non-performing loans for which the amount exceeded \$1 billion: none.

12. The type of and related information on securitized instruments which were authorized to be engaged in according to the "Financial Asset Securitization Act" or the "Real Estate Securitization Act": none.

13. Other material transaction items which were significant to people who use the information in the financial statements: none.

3) Information on subsidiaries' investment in China: none.

(42) Segment Information: please refer to note 40.