

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

Consolidated Financial Statements

**December 31, 2010 and 2009
(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, 2010, 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 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 its subsidiaries do not prepare a separate set of combined financial statements.

Truthfully yours,

TAIWAN FINANCIAL HOLDING CO., LTD.

By

Susan S. Chang
Chairman

April 7, 2011

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, 2010 and 2009, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years ended December 31, 2010 and 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 audits. We did not audit the financial statements of some investee companies. The Company's investment in those investee companies on December 31, 2010 and 2009, were \$29,468,381 thousand and \$27,530,017 thousand, respectively, constituting 0.70% and 0.67% of the related consolidated total, respectively, and its equity in earnings of those investee companies were \$1,786,179 thousand and \$1,306,366 thousand, respectively, constituting 22.66% and 15.04% of the related consolidated total, respectively, for the year ended December 31, 2010 and 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 (12).

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 audits 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, 2010 and 2009, and the results of their operations and their cash flows for the years ended December 31, 2010 and 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.

The consolidated financial statements of the Company shall be audited by the Ministry of Audit in accordance with the related regulations of the Law of Audit. The 2009 and 2008 consolidated financial statements of the Company were audited by the Ministry of Audit, the results are as described in note (41); the revised items were adjusted in the consolidated financial statements of the Company.

April 7, 2011

The accompanying consolidated financial statements are intended only to present the consolidated 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 consolidated financial statements are those generally accepted and applied in the Republic of China.

The auditors' report and the accompanying consolidated 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 consolidated financial statements, the Chinese version shall prevail.

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Balance Sheet

December 31, 2010 and 2009

(expressed in thousands of New Taiwan Dollars)

	December 31, 2010	December 31, 2009	Percentage change		December 31, 2010	December 31, 2009	Percentage change
Assets				Liabilities and Stockholders' Equity			
Cash and cash equivalents (notes 4 and 36)	\$ 60,551,598	72,498,553	(16)	Due to Central Bank and other banks (notes 18 and 36)	\$ 207,612,937	204,950,860	1
Due from Central Bank and call loans to banks (notes 5, 36 and 37)	518,166,823	1,248,000,974	(58)	Commercial paper payable (note 19)	479,781	-	-
Financial assets measured at fair value through profit or loss, net (notes 6, 34 and 36)	102,094,813	94,008,327	9	Financial liabilities measured at fair value through profit or loss, net (notes 20, 34 and 36)	16,397,063	4,210,041	289
Bills and bonds purchased under resell agreements (note 7)	9,746,406	9,402,856	4	Bills and bonds sold under repurchase agreements (note 7)	9,801,211	5,525,570	77
Receivables, net (notes 8, 9 and 28)	90,593,396	94,848,447	(4)	Payables (note 21)	70,926,682	91,743,498	(23)
Discounts and loans, net (notes 9, 34 and 36)	2,083,747,129	2,053,171,504	1	Deposits and remittances (notes 22 and 36)	3,167,175,151	3,165,389,168	-
Available-for-sale financial assets, net (notes 10, 32, 34 and 37)	891,936,602	175,919,557	407	Other financial liabilities (note 25)	7,187,799	7,192,234	-
Held-to-maturity financial assets, net (notes 11, 32, 34 and 37)	195,221,334	147,700,416	32	Reserves for operation and liabilities (notes 24 and 34)	415,927,106	355,414,596	17
Investments under equity method (note 12)	36,181,254	34,373,421	5	Other liabilities (notes 15, 26 and 27)	<u>28,288,062</u>	<u>25,913,182</u>	9
Other financial assets, net (notes 8, 9, 13, 32 and 34)	91,129,833	78,562,977	16	Total liabilities	<u>3,923,795,792</u>	<u>3,860,339,149</u>	2
Real estate investments, net (notes 14 and 15)	3,351,986	1,982,445	69	Stockholders' equity (notes 28 and 29):			
Fixed assets, net (notes 15, 26 and 32)	77,757,512	79,651,798	(2)	Common stock	<u>90,000,000</u>	<u>90,000,000</u>	-
Intangible assets (note 16)	982,123	1,121,713	(12)	Additional paid-in capital	<u>111,516,202</u>	<u>111,494,739</u>	-
Other assets, net (notes 17, 32 and 37)	22,512,674	18,741,276	20	Retained earnings:			
				Legal reserve	1,610,266	732,150	120
				Special reserve	4,653,557	2,928,599	59
				Unappropriated retained earnings	<u>9,729,697</u>	<u>8,851,786</u>	10
					<u>15,993,520</u>	<u>12,512,535</u>	28
				Equity adjustments:			
				Unrealized gain on revaluation increments	15,116,171	16,639,974	(9)
				Cumulative translation adjustments	(465,473)	(128,524)	(262)
				Unrealized gain on financial instruments	28,019,454	19,126,391	46
				Net loss not recognized as pension cost	<u>(2,183)</u>	<u>-</u>	-
					<u>42,667,969</u>	<u>35,637,841</u>	20
				Total stockholders' equity	260,177,691	249,645,115	4
				Commitments and contingencies (note 38)			
Total Assets	<u>\$ 4,183,973,483</u>	<u>4,109,984,264</u>	2	Total Liabilities and Stockholders' Equity	<u>\$ 4,183,973,483</u>	<u>4,109,984,264</u>	2

See accompanying notes to consolidated financial statements.

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Income

For the years ended December 31, 2010 and 2009

(expressed in thousands of New Taiwan Dollars, except for earnings per share)

	2010	2009	Percentage change
Interest income	\$ 52,578,753	54,197,885	(3)
Less: interest expenses	<u>26,145,652</u>	<u>32,521,560</u>	(20)
Net interest income	26,433,101	21,676,325	22
Net non-interest income			
Net income on service charges and commissions	3,805,135	3,295,408	15
Net insurance business income (note 31)	33,874,695	32,530,803	4
Gains on financial assets and liabilities at fair value through profit or loss	9,835,901	30,234,603	(67)
Realized gains on available-for-sale financial assets	5,076,259	5,495,802	(8)
Realized gains (losses) on held-to-maturity financial assets	660,642	(64,468)	1,125
Gains on equity investments recognized under the equity method (note 12)	1,983,813	2,848,364	(30)
Gains on real estate investments	155,726	15,310	917
Foreign exchange gains (losses)	(3,600,578)	1,564,423	(330)
Asset impairment (losses) gains on reversal of impairment (note 32)	(415,133)	504,665	(182)
Other net non-interest income (losses):			
Self-managed and commissioned sales	79,647,398	45,399,449	75
Government grant income	17,871,279	15,000,052	19
Gains on disposal of properties, plant, and equipment (note 15)	612,974	2,645,425	(77)
Other miscellaneous income	1,236,273	2,017,577	(39)
Self-managed and commissioned cost of sales	(79,101,635)	(45,033,522)	(76)
Excess interest expenses (notes 8)	(9,740,877)	(9,919,818)	2
Other miscellaneous expenses	<u>(840,550)</u>	<u>(934,087)</u>	10
Net revenue	<u>87,494,423</u>	<u>107,276,311</u>	(18)
Bad debt expenses (note 9)	<u>374,535</u>	<u>4,431,377</u>	(92)
Provisions for insurance policy reserves (note 33)	<u>60,749,024</u>	<u>76,342,481</u>	(20)
Operating expenses:			
Personnel expenses (note 27)	12,521,364	12,218,867	2
Depreciation and amortization expenses	1,404,479	1,351,854	4
Other business and administrative expenses	<u>4,562,023</u>	<u>4,246,354</u>	7
Total operating expenses	<u>18,487,866</u>	<u>17,817,075</u>	4
Income before income taxes	7,882,998	8,685,378	(9)
Income tax expense (benefits) (note 28)	<u>458,878</u>	<u>(95,785)</u>	579
Consolidated total income	<u>\$ 7,424,120</u>	<u>8,781,163</u>	(15)
Attributable to:			
Parent company shareholders	\$ 7,424,120	8,781,163	(15)
Minority interest	<u>-</u>	<u>-</u>	-
	<u>\$ 7,424,120</u>	<u>8,781,163</u>	(15)
	Before	After	Before
	income tax	income tax	income tax
Basic earnings per share (note 30)	<u>\$ 0.88</u>	<u>0.82</u>	<u>0.97</u>
	0.98		

See accompanying notes to consolidated financial statements.

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2010 and 2009
(expressed in thousands of New Taiwan Dollars)

	Retained earnings					Cumulative for	Equity adjustments			Total
	Common stock	Additional paid-in capital	Legal reserve	Special reserve	Unappropriated retained earnings		Net loss not recognized as pension cost	Unrealized gains (losses) on financial instruments	Unrealized increments on revaluation	
Balance as of January 1, 2009	\$ 90,000,000	111,495,264	-	-	7,321,499	(155,274)	-	573,492	16,930,538	226,165,519
Consolidated total income for the year ended December 31, 2009	-	-	-	-	8,781,163	-	-	-	-	8,781,163
Appropriation of retained earnings:										
Legal reserve	-	-	732,150	-	(732,150)	-	-	-	-	-
Special reserve	-	-	-	2,928,599	(2,928,599)	-	-	-	-	-
Cash dividends for government	-	-	-	-	(3,590,127)	-	-	-	-	(3,590,127)
Additional paid-in capital from investee company	-	(525)	-	-	-	-	-	-	-	(525)
Change in unrealized increments on revaluation	-	-	-	-	-	-	-	-	(290,564)	(290,564)
Change in unrealized gain (losses) of financial instruments	-	-	-	-	-	-	-	18,552,899	-	18,552,899
Change in cumulative foreign currency translation adjustments	-	-	-	-	-	26,750	-	-	-	26,750
Balance as of December 31, 2009	90,000,000	111,494,739	732,150	2,928,599	8,851,786	(128,524)	-	19,126,391	16,639,974	249,645,115
Consolidated total income for the year ended December 31, 2010	-	-	-	-	7,424,120	-	-	-	-	7,424,120
Appropriation of retained earnings:										
Legal reserve	-	-	878,116	-	(878,116)	-	-	-	-	-
Special reserve	-	-	-	3,512,466	(3,512,466)	-	-	-	-	-
Cash dividends for government	-	-	-	-	(3,943,135)	-	-	-	-	(3,943,135)
Special reserve reversal	-	-	-	(1,787,508)	1,787,508	-	-	-	-	-
Additional paid-in capital from investee company	-	21,463	-	-	-	-	-	-	-	21,463
Change in unrealized increments on revaluation	-	-	-	-	-	-	-	-	(1,523,803)	(1,523,803)
Change in unrealized gain (losses) on financial instruments	-	-	-	-	-	-	-	8,893,063	-	8,893,063
Change in cumulative foreign currency translation adjustments	-	-	-	-	-	(336,949)	-	-	-	(336,949)
Net loss not recognized as pension cost	-	-	-	-	-	-	(2,183)	-	-	(2,183)
Balance as of December 31, 2010	\$ 90,000,000	111,516,202	1,610,266	4,653,557	9,729,697	(465,473)	(2,183)	28,019,454	15,116,171	260,177,691

See accompanying notes to consolidated financial statements.

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2010 and 2009
(expressed in thousands of New Taiwan Dollars)

	2010	2009
Cash flows from operating activities:		
Consolidated total income	\$ 7,424,120	8,781,163
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	1,433,938	1,377,957
Credit provisions	374,535	4,431,377
Provisions for reserves	60,749,024	76,342,481
Amortization of discount on long-term bond investment	(2,598,290)	(1,885,926)
Gain on disposal of financial assets	(6,493,036)	(4,696,529)
Gain on disposal of fixed assets and non-operating assets	(728,652)	(2,618,790)
Investments income recognized under equity method	(1,983,813)	(2,848,364)
Cash dividend received from investee under equity method	444,298	1,251,684
Loss on write-off of printed matter	5,076	546
Gain on disposal of long-term investments under equity method	(424)	-
Reclassification of unrealized revaluation increment as other income	(12,732)	-
Reclassification of accumulated depreciation	-	(1,101)
Unrealized valuation loss (gain) on financial assets and liabilities	1,652,649	(19,918,083)
Impairment loss on financial assets	326,508	899,326
Gain on reversal of impairment on financial assets	-	(1,388,420)
Impairment loss on non-financial assets	102,729	4,451
Gain on reversal of impairment on non financial assets	(14,104)	(20,022)
Loss on bad debt received	3,714,457	1,800,217
Net Change of operating assets and liabilities		
Net change of operating assets		
Decrease in receivables	4,342,475	11,522,082
(Increase) decrease in bills and bonds purchased under resell agreements	(343,550)	3,818,732
Increase in deferred income tax assets	(38,519)	(569,017)
Decrease (increase) in trading financial asset	14,990,026	(631,627)
Increase in other financial assets	(2,380,193)	(6,505,440)
Increase in other assets	(453,518)	(114,498)
Net change of operating liabilities		
Decrease increase in payables	(18,975,578)	(5,976,236)
Increase in accrued pension liabilities	344,640	339,577
Increase in trading financial liabilities	(2,697,424)	(358,990)
Increase (Decrease) in bills and bonds sold under repurchase agreements	4,275,641	(15,625,673)
Increase in other financial liabilities	1,393	-
Decrease in other liabilities	(6,743,110)	(113,559)
Net cash provided by operating activities	<u>56,718,566</u>	<u>47,297,318</u>

See accompanying notes to consolidated financial statements.

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows (continued)

For the years ended December 31, 2010 and 2009
(expressed in thousands of New Taiwan Dollars)

	2010	2009
Cash flows from investing activities:		
Acquisition of financial assets designated as at fair value through profit or loss	\$ (11,920,743)	(5,190,634)
Proceeds from financial assets designated as at fair value through profit or loss	3,944,669	1,930,734
Proceeds from available-for-sale financial assets	3,844,203,117	151,891,462
Proceeds from disposal of available-for-sale financial assets	146,228,144	30,868,329
Proceeds from reducing capital of available-for-sale	58,135	9,681
Acquisition of bond investment in non-active market	(14,653,090)	-
Proceeds from disposal of bond investment from non-active market at cost	-	1,391,028
Proceeds from maturity of bond investment in non active market	4,951,256	5,526,356
Increase in held-to-maturity financial assets	(273,599,586)	(121,248,077)
Decrease (increase) in due from Central Bank	684,486,887	(220,251,116)
Proceeds from disposal of financial assets designated as at fair value through profit or loss	-	180,844
Acquisition of available-for-sale financial assets	(4,021,649,219)	(162,645,798)
Proceeds from maturity of held-to-maturity financial assets	237,707,499	96,845,366
Dividends of available-for-sale	238,278	100,486
Decrease discounts and in loans	(34,718,413)	(57,367,122)
Acquisition of fixed assets	(936,301)	(987,460)
Increase in purchase of real estate investment	(1,439,249)	(1,484)
Disposal of long-term investment under equity method	609	-
Proceeds from disposal of fixed assets and non-operating assets	1,040,423	3,658,275
Increase in intangible assets	(302,876)	(289,020)
Proceeds from disposal of financial assets for hedging	5,157	196
Increase in other financial assets	(1,608)	(14,220)
Increase in other assets	(58,258)	(4,789,019)
Net cash provided by (used in) investing activities	<u>563,584,831</u>	<u>(280,381,193)</u>
Cash flows from financing activities:		
Increase in due to Central Bank and other banks	2,662,077	23,461,121
Increase in deposits	1,785,984	232,826,263
Decrease in other financial liabilities	(477,174)	(157,918)
Increase (decrease) in other liabilities	6,210,478	(348,595)
Prepaid dividends	(6,633,727)	(3,012,708)
Increase in commercial paper payables	479,781	-
Net cash provided by financing activities	<u>4,027,419</u>	<u>252,768,163</u>
Exchange effect	5,349,468	41,046
Net increase in cash and cash equivalents	629,680,284	19,725,334
Cash and cash equivalents at beginning of year	<u>273,414,023</u>	<u>253,688,689</u>
Cash and cash equivalents at end of year	<u>\$ 903,094,307</u>	<u>273,414,023</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 36,585,828</u>	<u>49,910,581</u>
Income tax paid	<u>\$ 1,130,416</u>	<u>478,324</u>
Financial and investing activities not affecting cash:		
Unrealized increments on revaluation	<u>\$ (1,523,803)</u>	<u>(290,564)</u>
Cumulative foreign currency translation adjustments	<u>\$ (336,949)</u>	<u>26,750</u>
Unrealized gain on financial instruments	<u>\$ 8,893,063</u>	<u>18,552,899</u>
Change in additional paid-in capital	<u>\$ 21,463</u>	<u>(525)</u>
Net loss not recognized as pension costs	<u>\$ (2,183)</u>	<u>-</u>

See accompanying notes to consolidated financial statements.

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

(expressed in thousands of New Taiwan Dollars, unless otherwise specified)

(1) Organization and Business

1) Taiwan Financial 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). Taiwan Financial Holding became a public company on November 17, 2009.

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

As of December 31, 2010 and 2009, there were 8,684 and 9,143 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 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, 2010	December 31, 2009
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 Company and its subsidiaries 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 Company and its subsidiaries 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 2009 were approved by the MoA, and the beginning balance in 2010 and 2009 were the same as the approved closing balances in 2009 and 2008, respectively.

The differences between the financial statements certified by the MoA and that audited by the independent auditors are described in note 41(11).

(Continued)

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

3) Use of estimates

The preparation of the accompanying financial statements requires management of the Company and its subsidiaries 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.

4) Foreign currency transactions

The financial statements of the Company and its subsidiaries are presented in New Taiwan Dollar, generally rounded to the nearest thousand. Non-derivative transactions in foreign currency are translated at the exchange rate on the date of transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. All differences are taken to the Consolidated Income statement for the period. If the non-monetary assets or liabilities are measured at fair value through profit or loss, the resulting unrealized exchange gains (loss) from such translation is reflected in the accompanying statement of income. If the non-monetary assets or liabilities are measured at fair value through shareholder's equity, the resulting unrealized exchange gains (loss) from such translation are recorded as a separate component of shareholder's equity.

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 shareholders' equity.

5) Asset impairment

The Company and its subsidiaries adopted Statement of Financial Accounting Standards No. 35 (SFAS No. 35) "Impairment of Assets". In accordance with SFAS No. 35, the Company and its subsidiaries 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 Company and its subsidiaries estimate the recoverable amount of the asset. The Company and its subsidiaries recognize impairment loss for an asset whose carrying value is higher than the recoverable amount.

The Company and its subsidiaries 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.

(Continued)

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

Taiwan Financial Holdings and its subsidiaries adopted Statement of Financial Accounting Standards (SFAS) No. 34, "Accounting for financial instruments", the accounting policies are as follows:

1. Available-for-sale financial assets are recorded at fair value, and the change in market value is adjusted against shareholders' equity. Impairment loss is recognized when there is objective evidence of impairment thereof. If there is objective evidence that the impairment loss recognized has decreased in a subsequent period, the decrease in impairment loss is adjusted against shareholders' equity. If the decrease in impairment loss is significantly related to subsequent events after recognizing impairment loss, the amount is reversed and recognized through profit or loss.
 2. 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 amortized balance of the assets assuming no impairment loss was recognized.
 3. Financial assets are carried at cost if their fair values are not available. Impairment loss is recognized if there is objective evidence of impairment thereof, and this recognized amount is non-reversible.
 4. Debt investments without quoted price in active markets are recorded at amortized cost. Impairment loss is recognized when there is objective evidence of impairment thereof. 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 amortized balance of the assets assuming no impairment loss was recognized.
- 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) Financial instruments

The Company and its subsidiaries 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, financial assets carried at cost, and bond investment in non-active markets.

Financial instruments held by the Company and its subsidiaries 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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Subsequent to their initial recognition, the financial instruments held by the Company and its subsidiaries 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 Company and its subsidiaries, other than hedging securities, are classified in this category.
 - (b) An embedded derivative shall be separated from the master contract, but if the entity is unable to determine reliably the fair value of an embedded derivative on the basis of its terms and conditions, 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.
4. Financial assets are carried at cost if their fair values are not available.
5. Debt investments without quoted price in active markets are recorded at amortized cost.

8) Hedge accounting

Financial instruments held by the Company and its subsidiaries 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.

9) 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 Company and its subsidiaries 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.

(Continued)

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

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.

10) 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.

11) 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.

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.

12) Loans

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

(Continued)

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

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.

13) 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.

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.

14) 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.

(Continued)

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

If the differences between investment cost and securities' net value arise from assets that can be depreciated 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 making 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 be evaluated on an annual basis or when there is any indication that goodwill may be impaired, the recoverable amount less than book value is recognized as impairment loss. If any such indication exists, the Company recognizes 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 benefits cost) proportionate to their respective fair values. If these assets are all reduced to zero value, the 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.

15) 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.

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 letter number 340, the Company and its subsidiaries 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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The Company and its subsidiaries 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 improvements	5 to 55 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.

16) Intangible assets

The Company and its subsidiaries adopted SFAS No. 37 "Intangible Assets". In accordance with SFAS No. 37, intangible assets are recorded at cost, 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 Company and its subsidiaries 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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At the end of each accounting period, the Company and its subsidiaries evaluate the residual value, the useful life and the method of amortization. Changes in those elements are considered changes in accounting estimate.

17) 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.

18) 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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

19) Other assets — collateral assumed

Collateral and assets received are stated at the net realizable value: the amount the Company and its subsidiaries 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 Company and its subsidiaries recognize impairment loss on collateral on the balance sheet date if the book value of collateral exceeds net fair value.

20) 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 as expenses for the period.

21) 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.

22) 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 Company and its subsidiaries 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 Company and its subsidiaries 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 15% 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 Company and its subsidiaries 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 Company and its subsidiaries 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 Company and its subsidiaries 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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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 Company and its subsidiaries 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.

23) Income tax

The income tax of the Company and its subsidiaries 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 Company and its subsidiaries are a government-owned enterprise, income tax should be determined by the Ministry of Audit.

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 Company and its subsidiaries. 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 is recorded under receivable from (payable to) affiliated parties.

24) 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 losses and underlying debt accrued by May 30, 1999 has been replenished by MoF and recognized as revenue by the Company. The losses occurred after the aforementioned date is replenished by adjusting revenue rates.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

25) 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.

(3) Reasons for and Effects of Accounting Changes

Starting from January 1, 2009, the Company adopted ROC Statement of Financial Accounting Standards No. 18 "Pension" to reclassify, evaluate and disclose transaction—related pension, and profit after tax in 2009 decreased by \$6,794 thousand.

(4) Cash and Cash Equivalents

	December 31, 2010	December 31, 2009
Cash on hand and petty cash	\$ 10,568,262	9,913,490
Foreign currency on hand	4,753,513	4,272,147
Bank deposits	16,075,204	33,487,095
Notes and checks for clearing	6,578,023	7,075,304
Placement with banks	22,576,596	17,750,517
	<u>\$ 60,551,598</u>	<u>72,498,553</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The balances of cash and cash equivalents presented in the statements of cash flows were as follows:

	December 31, 2010	December 31, 2009
Cash on hand	\$ 60,551,598	72,498,553
Call loans to banks and bank overdraft	91,073,836	127,418,553
Placement with Central Bank, including reserve checking account and foreign – currency – denominated deposit reserves	27,993,867	36,996,414
Negotiable certificates of deposit (NCDs)	698,063,885	22,300,093
Investment in bills and securities maturing within 90 days	25,411,121	14,200,410
Total	<u>\$ 903,094,307</u>	<u>273,414,023</u>

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

	December 31, 2010	December 31, 2009
Call loans to banks	\$ 91,073,836	127,418,553
Reserves for deposits – A account and reserves for deposits – foreign-currency, etc.	27,993,867	36,996,414
Reserves for deposits – B account	60,676,386	60,246,178
Deposits in Central Bank	338,422,734	1,023,339,829
	<u>\$ 518,166,823</u>	<u>1,248,000,974</u>

- 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, 2010 and 2009, 60% of the deposits collected by BOT on behalf of government institutions from government organizations amounting to \$4,915,945 and \$5,349,549, respectively, were deposited in the Central Bank and cannot 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, 2010 and 2009, \$25,000,000 and \$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

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

	December 31, 2010	December 31, 2009
Financial assets held for trading		
Commercial paper	\$ 1,496,734	1,415,094
Government bonds	1,388,438	1,234,813
Listed stocks, beneficiary certificates and monetary instruments	62,999,262	69,021,805
Negotiable Certificates of Deposit	309,999	-
Domestic convertible bonds	361,296	1,476,616
Corporate and financial bonds	11,484	7,186
Foreign government bonds	3,679,635	3,948,149
Trading securities	18,673	187,852
Beneficiary securities	2,171,018	2,249,170
	<u>72,436,539</u>	<u>79,540,685</u>
Derivative financial instruments	10,953,606	3,619,456
Financial assets designated as at fair value through profit or loss:		
Foreign government and financial bonds	18,704,668	10,848,186
Total	<u><u>\$ 102,094,813</u></u>	<u><u>94,008,327</u></u>

For details of the valuation of financial assets measured at fair value through profit or loss, please see note 34, "Information on Financial Instruments".

(7) 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, 2010	December 31, 2009
Bills and bonds purchased under resell agreements:		
Government bonds	\$ 671,851	368,349
Negotiable certificates of deposit	2,141,558	-
Commercial paper	6,932,997	9,034,507
	<u><u>\$ 9,746,406</u></u>	<u><u>9,402,856</u></u>
Bills and bonds sold under repurchase agreements:		
Government bonds	\$ 8,973,240	5,525,570
Commercial paper	827,971	-
	<u><u>\$ 9,801,211</u></u>	<u><u>5,525,570</u></u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(8) Receivables, Net

	December 31, 2010	December 31, 2009
Accounts receivable	\$ 1,114,235	1,204,809
Long-term receivable	41,261,142	40,526,237
Accrued revenue	374,142	430,084
Interest receivable	10,280,586	12,176,504
Insurance receivable	183,296	199,260
Refundable income tax	2,308,871	1,527,345
Notes receivable and acceptance notes receivable	3,798,386	3,433,230
Factoring receivable — without recourse	7,008,990	1,139,497
Margin loans receivable	2,687,905	1,499,116
Others — shall be replenished by state treasury	18,615,870	14,785,692
Others — undelivered spot exchange	-	15,661,635
Others	<u>3,201,634</u>	<u>2,514,735</u>
Subtotal	90,835,057	95,098,144
Less: allowance for doubtful accounts	<u>241,661</u>	<u>249,697</u>
Total	<u>\$ 90,593,396</u>	<u>94,848,447</u>

For the years ended December 31, 2010 and 2009, BoT paid excess interest rate amounting to 1.7535% and 1.8258%, and excess interest expenses (booked in other net non-interest income) amounting to \$7,607,997 and \$7,836,838, respectively, due to executing the government premium savings policy.

As of December 31, 2010 and 2009, BOT, on behalf of the government, had paid excess interest expenses amounting to \$87,549,002 (booked in long-term receivable of \$41,261,142 and other financial assets—short-term advance of \$46,287,860). and \$85,846,669 (booked in long-term receivable of \$40,526,237 and other financial assets—short-term advance of \$45,320,432), respectively. Please refer to note 13 "Other financial assets — net" for further description.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(9) Discounts and loans—Net

	December 31, 2010	December 31, 2009
Discounts and import-export negotiations	\$ 3,994,541	4,253,895
Short-term loans and overdrafts	316,587,945	377,901,902
Short-term secured loans and secured overdrafts	79,134,136	79,430,593
Insurance loans	5,946,953	5,433,187
Medium-term loans	659,590,524	615,537,991
Medium-term secured loans	244,581,390	239,204,917
Long-term loans	184,008,225	210,235,964
Long-term secured loans	589,570,435	516,705,042
Nonperforming loans	12,003,306	17,449,665
Subtotal	2,095,417,455	2,066,153,156
Less: allowance for doubtful accounts	11,670,326	12,981,652
Total	<u>\$ 2,083,747,129</u>	<u>2,053,171,504</u>

Movements of allowance for doubtful accounts were as follows:

	The year ended December 31, 2010			
	Unrecoverable risk for specific loans	Country risk	Potential risk of total loans mix	Total
Beginning balance	\$ 10,078,882	2,945,142	243,885	13,267,909
Provision (reversal) for doubtful accounts	(1,099,306)	1,473,175	(18,762)	355,107
Write-off	(3,609,317)	(1,674,069)	(646)	(5,284,032)
Collected from write-off loans	3,625,256	89,201	-	3,714,457
Foreign exchange translation adjustment	-	(94,333)	-	(94,333)
Ending balance	<u>\$ 8,995,515</u>	<u>2,739,116</u>	<u>224,477</u>	<u>11,959,108</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	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	-	(16,496)	-	(16,496)
Ending balance	<u>\$ 10,078,882</u>	<u>2,945,142</u>	<u>243,885</u>	<u>13,267,909</u>

Details of allowance for doubtful accounts were as follows:

	December 31, 2010	December 31, 2009
Receivables	\$ 241,661	249,697
Discounts and loans	11,670,326	12,981,652
Other financial assets	47,121	36,560
Total	<u>\$ 11,959,108</u>	<u>13,267,909</u>

Details of bad debt expense were as follows:

	December 31, 2010	December 31, 2009
Provision for bad debt	\$ 355,107	4,431,377
Reserve for guarantee liability	19,428	-
Total	<u>\$ 374,535</u>	<u>4,431,377</u>

As of December 31, 2010 and 2009, the amount of loans where interest accruals had been ceased of the Company and its subsidiaries which are Bank of Taiwan and Bank Taiwan Life Insurance Co., Ltd. were \$12,062,183 and \$17,500,293, respectively, which was booked in discounts and loans — nonperforming loans and other financial assets — overdue receivables.

Please see note 34, "Information on Financial Instruments", for the valuation of loans granted by the Company and its subsidiaries.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	December 31, 2010	December 31, 2009
Domestic:		
Negotiable certificates of deposit	\$ 694,691,274	22,004,830
Government bonds	38,014,496	34,746,910
Corporate bonds	15,874,346	8,766,063
Financial bonds	8,475,609	1,828,615
Real estate securitization	9,912	9,854
Financial asset securitization	996,661	996,661
Listed stocks and beneficiary certificates	73,903,298	64,267,928
Preferred stocks	1,390,841	1,200,594
Real estate Investment Trust	2,649,424	2,094,666
	<u>836,005,861</u>	<u>135,916,121</u>
Foreign:		
Foreign bonds	53,832,771	38,931,558
Real estate securitization	88,173	216,502
Beneficiary certificates	3,435,692	2,453,918
	<u>57,356,636</u>	<u>41,601,978</u>
Less: accumulated impairment	<u>1,425,895</u>	<u>1,598,542</u>
Total	<u>\$ 891,936,602</u>	<u>175,919,557</u>

- 1) Please see note 34, "Information on Financial Instruments", for valuation of available-for-sale financial assets.
- 2) The Company and its subsidiaries 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. in 2008, as well as the financial asset securitization of E. Sun Bank 2007-1 Collateralized Bond obligations Special Purpose Trust Class B1 Beneficiary Certificates in 2009, whose book value amounted to \$2,949,052. As these financial instruments had been impaired, the Company and its subsidiaries then recognized impairment losses amounting to \$2,895,083 in 2009. The partial foregoing bonds have been sold for the year ended December 31, 2009, and the Company and its subsidiaries reversed the accumulated impairment of \$1,380,046. Besides, as the foreign collateralized debt obligation (CDO) had been impaired, the Company and its subsidiaries recognized impairment losses amounting to \$139,067.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	December 31, 2010	December 31, 2009
Domestic:		
Financial bonds	\$ 24,581,934	21,380,706
Corporate bonds	46,699,865	30,727,185
Negotiable certificates of deposits	3,153,885	300,093
Commercial paper	23,916,094	12,788,541
Government bonds	24,023,324	17,386,136
Treasury bonds	497,783	998,182
Real estate securitization	32,040	35,288
Preferred stocks	291,090	291,090
Structured deposit	1,000,000	1,000,000
	<u>124,196,015</u>	<u>84,907,221</u>
Foreign:		
Foreign bonds	71,467,671	63,072,747
Less: accumulated impairment	<u>(442,352)</u>	<u>(279,552)</u>
	<u>71,025,319</u>	<u>62,793,195</u>
	<u>\$ 195,221,334</u>	<u>147,700,416</u>

- 1) Please see note 34, "Information on Financial Instruments", for valuation of held-to-maturity investment.
- 2) The Company and its subsidiaries held Collateralized Debt Obligations (CDOs) and recognized impairment losses amounting to \$294,635 and \$184,339 for the years ended December 31, 2010 and 2009, respectively.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(12) Investments under Equity Method, Net

	December 31, 2010		December 31, 2009	
	Percentage of Ownership (%)	Amount	Percentage of Ownership (%)	Amount
Hua Nan Financial Holdings Co., Ltd.	29.36	\$ 29,458,132	29.36	27,520,429
Taiwan Life Insurance Co., Ltd.	23.76	2,735,694	24.00	2,766,876
Kaohsiung Ammonium Sulfate Co., Ltd.	91.86	2,449,110	91.86	2,610,549
Tang Eng Iron Works Co., Ltd.	21.37	1,528,069	21.38	1,465,979
Tai Yi Real-Estate Management Co., Ltd.	30.00	10,249	30.00	9,588
Total		<u>\$ 36,181,254</u>		<u>34,373,421</u>

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

Name of Investee	December 31, 2010	December 31, 2009
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.	1,451,074	1,451,462
Tai Yi Real Estate Management Co., Ltd.	3,793	3,793
	<u>\$ 11,750,343</u>	<u>11,750,731</u>

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

Name of Investee	The year ended December 31, 2010	The year ended December 31, 2009
Hua Nan Financial Holdings Co., Ltd.	\$ 1,785,518	1,306,355
Taiwan Life Insurance Co., Ltd.	350,303	1,222,076
Kaohsiung Ammonium Sulfate Co., Ltd.	(161,439)	(29,925)
Tang-Eng Iron Works Co., Ltd.	8,346	349,847
Gain on disposal of Tang-Eng Iron Works Co., Ltd.	424	-
Tai Yi Real-Estate Management Co., Ltd.	661	11
	<u>\$ 1,983,813</u>	<u>2,848,364</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

1. The financial statements of the Company and its subsidiaries' investee companies—Hua Nan Financial Holdings Co., Ltd. under equity method were audited by other auditors, and the related equity in earnings were \$1,786,179 and \$1,306,366 for the years ended December 31, 2010 and 2009, respectively.
 2. The financial statements of the Company and its subsidiaries' some investee companies under equity method were not audited by auditors, and the related equity in losses were \$(161,439) and \$(29,925) for the years ended December 31, 2010 and 2009, respectively.
 3. 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 Company and its subsidiaries have no control power over such investee.
 4. The Company and its subsidiaries sold the equity of Tang-Eng Iron Works Co., Ltd. of 20,000 shares on October 10 and 11, 2010; the proceeds amounted to \$609. After offsetting the proceeds from long-term investment of \$388, equity adjustment in long-term investment of \$5, unrealized gain (losses) on financial instrument of \$6, and the increment in unrealized revaluation of \$202, the gain on disposal of the equity recognized was \$424.
- 3) Details of the Company and its subsidiaries' 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	
	2010	2009	2010	2009
Hua Nan Financial Holdings Co., Ltd.	\$ (1,198)	(65,474)	(27,250)	(11,259)
Taiwan Life Insurance Co., Ltd.	(12,484)	-	(4,424)	(1,465)
Tang Eng Iron Works Co., Ltd.	53,025	17,647	-	-
	<u>\$ 39,343</u>	<u>(47,827)</u>	<u>(31,674)</u>	<u>(12,724)</u>

- 4) Details of the Company and its subsidiaries' 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	
	2010	2009	2010	2009
Hua Nan Financial Holdings Co., Ltd.	\$ -	-	548,987	1,192,868
Taiwan Life Insurance Co., Ltd.	21,463	(526)	(307,913)	511,305
Tang Eng Iron Works Co., Ltd.	-	-	112	8,018
	<u>\$ 21,463</u>	<u>(526)</u>	<u>241,186</u>	<u>1,712,191</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- 5) Details of the Company and its subsidiaries cash dividends from long-term investment under equity method were as follows:

	2010	2009
Hua Nan Financial Holdings Co., Ltd.	\$ 368,353	1,251,684
Taiwan Life Insurance Co., Ltd.	75,945	-
	<u>\$ 444,298</u>	<u>1,251,684</u>

(13) Other Financial Assets, Net

	December 31, 2010	December 31, 2009
Temporary advances	\$ 54,068,656	51,688,589
Financial assets carried at cost	11,092,326	11,092,326
Bond investments with no active market	20,368,757	11,498,430
Less: accumulated impairment — bond investment with no active market	(593,916)	(1,466,075)
Overdue receivables	58,876	50,628
Less: allowance for doubtful accounts — overdue receivables	(47,083)	(36,524)
Hedging derivative financial assets	5,051	18,409
Separate account insurance product assets	6,139,271	5,680,906
Bills purchased	12,579	11,964
Less: allowance for doubtful accounts — bills purchased	(38)	(36)
Others	25,354	24,360
Total	<u>\$ 91,129,833</u>	<u>78,562,977</u>

- 1) Please see note 34, "Information on Financial Instruments", for valuation of hedging derivative financial assets and bond investments with no active market.
- 2) Please see note 8, "Receivables", for description of temporary advance of excess interest expense on behalf of the government.
- 3) The Company and its subsidiaries which are Bank of Taiwan and Bank Taiwan Life Insurance Co., Ltd. recognized impairment losses of foreign Collateralized Debt Obligation (CDO) amounting to \$31,873 (booked in impairment loss of assets) on December 31, 2010, and impairment losses of convertible bonds and CDO amounting to \$567,544 (booked in impairment loss of assets) on December 31, 2009.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(14) Real Estate Investments, Net

	December 31, 2010	December 31, 2009
Real estate investments	\$ 3,597,311	2,212,479
Less: accumulated depreciation	245,325	230,034
Total	<u>\$ 3,351,986</u>	<u>1,982,445</u>

(15) Fixed Assets, Net

	December 31, 2010	December 31, 2009
Cost:		
Land	\$ 4,869,569	4,871,014
Land revaluation increments	61,971,433	62,252,009
Land improvements	14,964	15,869
Buildings (including revaluation increments)	14,738,315	14,666,244
Machinery and equipment	5,787,537	5,657,173
Transportation equipment	1,119,987	1,115,210
Miscellaneous equipment	1,055,267	1,073,896
Leasehold improvements	640,415	631,599
Construction in progress and order parts	718,665	486,884
Subtotal	<u>90,916,152</u>	<u>90,769,898</u>
Accumulated depreciation:		
Land improvement	12,613	13,084
Buildings	5,224,250	4,940,294
Machinery and equipment	3,952,055	3,798,931
Transportation equipment	831,970	822,710
Miscellaneous equipment	801,959	801,719
Leasehold improvements	512,829	488,778
Subtotal	<u>11,335,676</u>	<u>10,865,516</u>
Accumulated impairment	<u>1,822,964</u>	<u>252,584</u>
Net	<u>\$ 77,757,512</u>	<u>79,651,798</u>

On March 8, 2010 and March 17, 2009, BOT assessed individually asset and recognized an impairment loss amounting to \$57,503 and \$4,374, a reversal on impairment loss amounting to \$13,774 and \$15,776; reduced unrealized increments on revaluation by \$1,526,651 and \$96,521, respectively.

BOT has conducted revaluations of lands and buildings many times over past years. As of December 31, 2010 and 2009, revaluation increments of lands were \$61,971,434 and \$62,252,009, respectively, and estimated tax payables on land increments were \$15,396,405 and \$15,411,675 (recorded in other liabilities), respectively.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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 Company and its subsidiaries sold land, buildings and equipments and recognized gains on disposal of property, plant and equipment of \$612,974 and \$2,645,425 for the years ended December 31, 2010 and 2009, respectively.

As of December 31, 2010 and 2009, the Company and its subsidiaries did not pledge any fixed assets as a guarantee or collateral.

As of December 31, 2010, the part of the land and buildings (including real estate investment) of the Company and its subsidiaries were leased out. The book value (including revaluation increments) of the rental land was \$32,612,536. Most of the rental buildings have been fully depreciated over their useful lives. The estimated future lease revenue was as follows:

Period	Amount
2011.01.01~2011.12.31	\$ 228,065
2012.01.01~2012.12.31	156,001
2013.01.01~2013.12.31	79,636
2014.01.01~2014.12.31	21,545
2015.01.01~2015.12.31	14,453
	<u>\$ 499,700</u>

(16) Intangible Assets

As of December 31, 2010 and 2009, the details of intangible assets were as follows:

	December 31, 2010	December 31, 2009
Original cost:		
Computer software	\$ 1,127,307	1,239,151
Add: acquisition	305,603	289,020
Less: accumulated amortization	450,787	406,458
Ending balance	<u>\$ 982,123</u>	<u>1,121,713</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(17) Other Assets—Net

	December 31, 2010	December 31, 2009
Prepayments	\$ 7,462,261	5,132,786
Refundable deposits	1,816,396	1,345,746
Operating guarantee deposits and settlement and clearing funds	87,126	86,590
Temporary advance and amount being transferred	215,248	476,685
Deferred income tax assets, net	2,214,179	2,144,410
Non-operating assets (including revaluation increments)	8,138,402	8,184,756
Brokering transaction debit balance, net	-	22,487
Collateral assumed, net	1,076,959	1,076,959
Deferred pension cost	634,949	233,278
Others	867,154	37,579
Total	<u><u>\$ 22,512,674</u></u>	<u><u>18,741,276</u></u>

1) Prepayments

	December 31, 2010	December 31, 2009
Prepaid expense	\$ 685,737	755,331
Prepaid tax	50,170	210,729
Prepaid stock dividends and bonus	5,703,300	3,012,708
Other prepayments	1,023,054	1,154,018
	<u><u>\$ 7,462,261</u></u>	<u><u>5,132,786</u></u>

2) Non-operating assets, net

	December 31, 2010	December 31, 2009
Land	\$ 8,251,546	8,251,546
Buildings	53,185	53,185
Miscellaneous equipment	92	92
Less: accumulated depreciation—buildings	22,179	20,781
accumulated impairment	144,242	99,286
	<u><u>\$ 8,138,402</u></u>	<u><u>8,184,756</u></u>

BOT recognized impairment loss of \$45,226 and \$78, reversal on impairment loss of \$330 and \$2,418, and unrealized increments on revaluation of \$(61) and \$11 based on the result of impairment assessment of individual asset on March 8, 2010 and March 17, 2009, respectively.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

3) Collateral assumed, net

	December 31, 2010	December 31, 2009
Collateral assumed	\$ 1,093,456	1,095,788
Less: accumulated impairment	16,497	18,829
	<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, 2010	December 31, 2009
Call loans from bank	\$ 164,556,271	134,600,983
Postal deposits transferred	3,830,591	32,986,964
Deposits from Central Bank	12,477,882	13,140,110
Deposits from other banks	25,086,913	23,705,622
Bank overdrafts	1,661,280	517,181
	<u>\$ 207,612,937</u>	<u>204,950,860</u>

(19) Commercial Paper Payable—Net

	December 31, 2010	December 31, 2009
Commercial paper	\$ 480,000	-
Less: commercial paper discount	219	-
Total	<u>\$ 479,781</u>	<u>-</u>

For the year ended December 31, 2010, the annual interest rates ranged from 0.52%~0.63%. As of December 31, 2010, unissued commercial paper facilities amounted to approximately \$1,520,000 thousand. There were no assets pledged as collateral for issuing commercial paper for the year ended of 2010.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(20) Financial Liabilities Measured at Fair Value through Profit or Loss

	December 31, 2010	December 31, 2009
Held-for-trading financial liabilities		
Foreign exchange options	\$ 29,246	9,079
Cross currency swaps	14,168,474	3,007,294
Interest rate swaps	916,724	952,683
Foreign exchange swaps	1,282,619	240,985
	<u>\$ 16,397,063</u>	<u>4,210,041</u>

For valuation of financial liabilities at fair value through profit or loss, please refer to note 34.

(21) Payables

	December 31, 2010	December 31, 2009
Accounts payable	\$ 7,140,427	7,740,672
Receipts under custody	1,364,233	1,687,860
Accrued expense	2,795,368	2,704,538
Interest payable	11,628,448	12,327,500
Bank acceptances	3,753,620	3,272,781
Due from representative organization	30,399,824	33,023,880
Other payables — ATM temporary receipts, payments and inter-branch differences	1,400,110	-
Other payables — Spot foreign exchange awaiting delivery	7,227	15,667,772
Other payables — Collection bills	5,322,119	3,067,465
Other payables — Payments awaiting transfer	4,142,598	4,251,212
Other payables — Paid by connection banks	-	4,296,715
Other payables — Others	2,972,708	3,703,103
	<u>\$ 70,926,682</u>	<u>91,743,498</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(22) Deposits and Remittances

	December 31, 2010	December 31, 2009
Checking account deposits	\$ 32,852,752	28,731,791
Government deposits	233,009,445	211,783,672
Demand deposits	242,261,100	212,922,098
Time deposits	503,733,758	596,809,868
Savings account deposits	2,154,820,578	2,114,580,192
Remittances	497,518	561,547
	<u>\$ 3,167,175,151</u>	<u>3,165,389,168</u>

(23) Other loans

As of December 31, 2010 and 2009, the unused limit of the Company and its subsidiaries' short-term loans were \$9,900,000 and \$17,800,000, respectively.

(24) Reserves for Operation and Liabilities

	December 31, 2010	December 31, 2009
Reserves for unearned premium	\$ 362,353	357,562
Reserves for life insurance liability	238,128,800	191,242,566
Special reserves for life insurance	542,101	499,664
Reserves for claim outstanding	70,068	72,316
Reserves for operating loss	33,130	127,274
Reserves for default losses	138,062	116,154
Reserves for trading losses	-	5,880
Reserves for guarantees	281,340	263,603
Reserves for labor insurance liability	174,497,614	160,359,169
Reserve for insufficient premiums	1,873,638	2,370,408
Total	<u>\$ 415,927,106</u>	<u>355,414,596</u>

(25) Other Financial Liabilities

	December 31, 2010	December 31, 2009
Appropriated loan funds	\$ 793,180	1,270,228
Separate account — insurance liabilities	6,139,271	5,680,906
Hedging derivative financial liabilities	255,348	241,100
	<u>\$ 7,187,799</u>	<u>7,192,234</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

For details of hedging derivative financial liabilities on December 31, 2010 and 2009, please refer to note 34.

(26) Other Liabilities

	December 31, 2010	December 31, 2009
Advance collections	\$ 1,833,612	799,471
Guarantee deposits received	4,962,574	4,885,771
Estimated tax payable on land increments	15,396,405	15,411,675
Temporary receipt awaiting transfer	1,031,962	480,964
Accrued pension liabilities	3,743,168	2,996,855
Others	1,320,341	1,338,446
	<u><u>\$ 28,288,062</u></u>	<u><u>25,913,182</u></u>

(27) Pension

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

	December 31, 2010		December 31, 2009	
	Regular Employees	Regular Labor	Regular Employees	Regular Labor
Benefit obligation:				
Vested benefit obligation	\$ (5,078,892)	(384,331)	(4,896,223)	(374,734)
Non-vested benefit obligation	(3,784,179)	(482,611)	(3,142,515)	(453,749)
Accumulated benefit obligation	(8,863,071)	(866,942)	(8,038,738)	(828,483)
Additional benefits based on future salaries	(2,465,136)	(278,768)	(2,187,400)	(271,777)
Projected benefit obligation (PBO)	(11,328,207)	(1,145,710)	(10,226,138)	(1,100,260)
Fair value of plan assets	5,370,739	989,259	5,403,114	930,090
Funding status	(5,957,468)	(156,451)	(4,823,024)	(170,170)
Unrecognized transitional net benefit obligation (assets)	458,627	260,890	573,254	295,184
Unrecognized prior service cost	174,074	(16,419)	194,553	(20,067)
Unrecognized pension loss (gain)	2,330,624	(202,096)	1,400,123	(213,430)
Additional minimum pension liability recognized	(511,979)	(122,970)	(119,417)	(113,861)
Accrued pension liabilities	<u><u>\$ (3,506,122)</u></u>	<u><u>(237,046)</u></u>	<u><u>(2,774,511)</u></u>	<u><u>(222,344)</u></u>
Vested benefit	<u><u>\$ (6,170,478)</u></u>	<u><u>(468,994)</u></u>	<u><u>(6,166,899)</u></u>	<u><u>(462,072)</u></u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The components of net pension costs for the year 2010 and 2009 were as follows:

	2010		2009	
	Regular Employees	Regular Labor	Regular Employees	Regular Labor
Service cost	\$ 800,930	57,718	789,155	55,703
Interest cost	239,340	26,460	222,152	24,368
Expected return on plan assets	(128,423)	(23,574)	(118,168)	(21,028)
Settlement gain	-	-	4,056	-
Amortization and deferred cost	157,474	20,629	154,517	18,873
Net pension costs	<u>\$ 1,069,321</u>	<u>81,233</u>	<u>1,051,712</u>	<u>77,916</u>

The details of pension expenses for 2010 and 2009 as follows:

	2010	2009
Pension expenses:		
Defined benefit pension plan	\$ 1,150,554	1,129,628
Defined contribution pension plan	119,598	29,110

Actuarial assumptions:

	2010	2009
Discount rate	2.00%	2.50%
Rate of increase in future compensation	2.00%	2.00%
Rate of expected return on plan assets	2.00%	2.50%

(28) Income Tax

The income tax expenses are summarized below:

	The year ended December 31, 2010	The year ended December 31, 2009
Current income tax	\$ 557,079	498,220
Deferred income tax benefit	(98,201)	(594,005)
Income tax expense (benefit)	<u>\$ 458,878</u>	<u>(95,785)</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The maximum income tax rate was lowered from 20% to 17% beginning 2010 according to the amendment of the "Income Tax Act" issued on June 15, 2010. Hence, the Company was subject to a maximum income tax rate of 17% and 25% in 2010 and 2009, respectively, and the Company adopted the "Income Basic Tax Act".

For the years ended December 31, 2010 and 2009, 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, 2010	The year ended December 31, 2009
Expected income tax expenses	\$ 1,340,111	2,171,467
Tax effect of interest income from short-term notes separately taxable income	7,035	(4,167)
Gain on securities transactions exempt from tax	(834,926)	(1,448,122)
Unrealized gain on evaluation of financial instruments	54,066	319,725
Tax-free earnings from OBU	(182,442)	(439,233)
Investment gains recognized under the equity method	(337,176)	(712,092)
Gain on disposal of land	(124,474)	(658,290)
Impairment loss of assets (reversal gain)	15,066	(1,342)
Tax-free dividends	(234,479)	(241,134)
Allowance for deferred income tax assets	(250,537)	(639,485)
Income tax expenses of overseas branches	261,721	456,766
Adjustments of outright purchase and sale of bills	-	(5,410)
Tax-free spread of bond transaction under agreement	-	4,042
Income basic tax	411,632	220,445
Adjustment of combined corporate income tax filing	(26,929)	-
Income tax effect of change in statutory income tax rate	101,165	445,531
Adjustment of income taxes estimated in prior years	235,715	401,697
Others	23,330	33,817
Income tax benefit	<u>\$ 458,878</u>	<u>(95,785)</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, 2010	The year ended December 31, 2009
Pension costs in excess of tax limits	\$ (58,589)	(67,941)
Decrease in reserve for accidental and default losses	(2,769)	(4,471)
(Gain) loss on valuation of foreign and derivative financial instruments	468,832	122,359
Unrealized gains on foreign currency exchange	(796,098)	(535,001)
Reversal of impairment loss on financial assets	137,429	57,481
Loss carryforward	(216,665)	(629,135)
Adjustment of combined corporate income tax filing	(26,929)	-
Deferred income tax expenses of overseas branches	155,948	309,916
Income tax effect of change in statutory income tax rate	235,715	148,451
Others	4,925	4,336
Deferred income tax benefit	<u>\$ (98,201)</u>	<u>(594,005)</u>

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

	December 31, 2010		December 31, 2009	
	Amount	Income tax effect	Amount	Income tax effect
Deferred income tax assets:				
Pension costs in excess of tax limits	\$ 3,105,888	528,001	2,763,580	552,716
Loss carryforward	6,857,012	1,165,692	6,896,325	1,379,265
Accumulated impairment loss of collateral assumed	16,494	2,804	18,830	3,766
Impairment losses on collateral assumed	7,033,153	1,195,636	1,341,165	268,233
Unrealized losses on foreign currency exchange	1,155,747	196,477	2,009,665	401,933
Foreign deferred income tax assets — loss carryforward and exchange effect	-	341,914	-	409,737
Others	66,218	11,257	176,100	35,220
Subtotal		3,441,781		3,050,870
Allowance for deferred income tax assets		(969,243)		(753,231)
		<u>\$ 2,472,538</u>		<u>2,297,639</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2010		December 31, 2009	
	Amount	Income tax effect	Amount	Income tax effect
Deferred income tax liabilities:				
Unrealized gains on foreign currency exchange	\$ 1,161,488	197,453	240	48
Unrealized gains or losses on foreign and derivative financial instruments	223,159	37,937	739,985	147,997
Unrealized gains or losses on exchange difference and financial instruments	135,112	22,969	-	-
Foreign deferred income tax liabilities — changes in exchange	-	-	-	5,184
		<u>\$ 258,359</u>		<u>153,229</u>
Deferred income tax assets — net		<u>\$ 2,214,179</u>		<u>2,144,410</u>

According to income tax law, loss of a company could be used to offset taxable income in next ten years. On December 31, 2010, the amount of loss which could be used to offset taxable income was as follows:

Fiscal years	December 31, 2010	Last year offsetable
2008, applied amount	\$ 32,856	2018
2009, approved amount	3,005,809	2019
2010, estimated amount	<u>3,818,347</u>	2020
	<u>\$ 6,857,012</u>	

The Company and its subsidiaries' income tax returns for all years through 2009 were audited by the MoA. Except for 2008, the income tax returns for the years through 2009 were examined by the National Tax Administration.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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, 2010 and 2009, the details of receivables and payables resulting from income tax were as follows:

The year ended December 31, 2010				
	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	-
2009	22,234	772,912	772,980	-
2010	28,140	430,221	430,272	-
	\$ 50,374	1,943,675	1,943,803	-

The year ended December 31, 2009				
	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)
2008	\$ -	740,542	740,551	-
2009	22,234	772,912	772,980	-
	\$ 22,234	1,513,454	1,513,531	-

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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, 2010				
	Current income tax expense	Deferred income tax expense	Deferred income tax assets, net	Current income tax receivables
Amount computed under SFAS No. 22	\$ 557,079	(98,201)	2,214,179	2,277,970
Difference adjustments	-	-	-	-
Amount computed for filing combined corporate income tax return	<u>\$ 557,079</u>	<u>(98,201)</u>	<u>2,214,179</u>	<u>2,277,970</u>

The year ended December 31, 2009				
	Current income tax expense	Deferred income tax expense	Deferred income tax assets, net	Current income tax receivables
Amount computed under SFAS No. 22	\$ 498,220	(594,005)	2,144,410	1,513,532
Difference adjustments	-	-	-	-
Amount computed for filing combined corporate income tax returns	<u>\$ 498,220</u>	<u>(594,005)</u>	<u>2,144,410</u>	<u>1,513,532</u>

As of December 31, 2010 and 2009, unappropriated retained earnings were as follows:

	December 31, 2010	December 31, 2009
1998 and after	<u>\$ 9,729,697</u>	<u>8,851,786</u>

(29) 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, 2010, 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 change in additional paid-in capital for the years ended December 31, 2010 and 2009 were as follows:

	Capital surplus	
	The year ended December 31, 2010	The year ended December 31, 2009
Beginning balance	\$ 111,494,739	111,495,264
Recognition of change in the subsidiaries' additional paid-in capital under equity method	21,463	(525)
Closing balance	<u><u>\$ 111,516,202</u></u>	<u><u>111,494,739</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.

As a government-owned enterprise, the Company is obligated to pay cash dividends to the government. In 2009, net profit before tax was \$8,781,163, apart from the provision of legal reserve amounting to \$878,116 and special reserve of \$3,512,465, the cash dividend paid was \$3,943,135.

(30) Earnings per Share

	The year ended December 31, 2010		The year ended December 31, 2009	
	Pretax	After tax	Pretax	After tax
Net income (for common stockholders)	<u>\$ 7,882,998</u>	<u>7,424,120</u>	<u>8,685,378</u>	<u>8,781,163</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>\$ 0.88</u>	<u>0.82</u>	<u>0.97</u>	<u>0.98</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(31) Net Insurance Business Income

	The year ended December 31, 2010	The year ended December 31, 2009
Gross written premiums	\$ 73,524,346	60,671,528
Reinsurance claims recovery	20,437	25,376
Investment-type insurance policy revenue	<u>1,214,615</u>	<u>483,058</u>
Insurance business income	<u>74,759,398</u>	<u>61,179,962</u>
Re-insurance expense	74,998	77,532
Direst business expense	40,800	333,549
Insurance payments	39,498,190	27,711,522
Stability fund	56,100	43,498
Investment-type insurance policy expense	<u>1,214,615</u>	<u>483,058</u>
Insurance business expense	<u>40,884,703</u>	<u>28,649,159</u>
Net insurance income	<u><u>\$ 33,874,695</u></u>	<u><u>32,530,803</u></u>

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

	The year ended December 31, 2010	The year ended December 31, 2009
Available-for-sale financial assets	\$ -	1,240,978
Held-to-maturity financial assets	(294,635)	(184,339)
Other financial assets	(31,873)	(567,544)
Fixed assets	(43,729)	11,402
Other assets	<u>(44,896)</u>	<u>4,168</u>
	<u><u>\$ (415,133)</u></u>	<u><u>504,665</u></u>

(33) Provisions (Recovery) for Insurance Policy Reserves

	2010	2009
Provision for policyholders' reserve	\$ 61,203,998	74,817,376
Provision for special reserve	44,044	20,779
Recovery for claim reserve	(2,248)	(3,252)
(Recovery) Provision for insufficient premium reserve	<u>(496,770)</u>	<u>1,507,578</u>
	<u><u>\$ 60,749,024</u></u>	<u><u>76,342,481</u></u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(34) Information on Financial Instruments

1) Information on fair value of financial instruments

	December 31, 2010		December 31, 2009	
	Book Value	Fair Value	Book Value	Fair Value
Financial Assets:				
Financial assets measured at fair value through profit or loss	\$ 102,094,813	102,094,813	94,008,327	94,008,327
Loans	2,083,747,129	2,083,747,129	2,053,171,504	2,053,171,504
Available-for-sale financial assets	891,936,602	891,936,602	175,919,557	175,919,557
Held-to-maturity financial assets	195,221,334	194,826,599	147,700,416	153,662,632
Other financial assets	91,129,833	91,129,833	78,562,977	78,562,977
Financial Liabilities:				
Financial liabilities measured at fair value through profit or loss	16,397,063	16,397,063	4,210,041	4,210,041
Other financial liabilities	7,187,799	7,187,799	7,192,234	7,192,234

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

	December 31, 2010		December 31, 2009	
	Book value	Notional amount	Book value	Notional amount
Derivative financial assets:				
Buy side foreign exchange option	\$ 25,985	4,461,625	9,111	7,736,913
Cross currency swaps	6,942,017	238,676,146	3,127,004	313,995,981
Interest rate swaps	612,525	75,949,443	138,290	6,174,282
Foreign exchange forward transaction	3,368,662	26,068,103	343,360	27,907,555
Commercial paper with fixed rate	4,417	700,000	1,691	700,000
Derivative financial liabilities:				
Sell side foreign exchange option	29,246	4,657,063	9,079	7,732,101
Cross currency swaps	14,168,474	412,998,459	3,007,294	328,099,484
Interest rate swaps	916,724	27,061,391	952,683	15,634,186
Foreign exchange forward transaction	1,282,619	35,806,999	240,985	18,174,443

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- 3) Methods and assumptions used by the Company and its subsidiaries 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 Company and its subsidiaries 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.
 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 Company and its subsidiaries which were based on the quoted market price or a valuation model were as follows:

	December 31, 2010		December 31, 2009	
	Quoted market price	Valuation model	Quoted market price	Valuation model
Financial assets:				
Financial assets measured at fair value through profit or loss	\$ 64,406,373	37,688,440	71,921,086	22,087,241
Discount and loans	-	2,083,747,129	-	2,053,171,504
Available-for-sale financial assets	123,638,286	768,308,316	102,669,349	73,250,208
Held-to-maturity investments	24,193,899	170,632,700	18,581,145	135,081,487
Other financial assets	-	91,129,833	-	78,562,977
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss	-	16,397,063	-	4,210,041
Other financial liabilities	-	7,187,799	-	7,192,234

For the year ended December 31, 2010 and 2009, the Company and its subsidiaries recognized gain (loss) on valuation of \$(10,006,461) and \$2,071,190, respectively, based on a valuation model.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

5) Financial risk information

1. Market risk

(a) 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

- a) Identifying, evaluating and analyzing (qualification/non-qualification) risks and adopting appropriate methods (including risk hedging, risk sharing, risk reduction, and risk bearing).
- b) 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.
- 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.

(b) BTI

Fair value of the domestic and foreign bonds held by the Company varies according to the fluctuation of market interest or exchange rate. In order to prevent the risk of exchange rate, the Company signed foreign exchange forward contracts to hedge.

The investments held by BTI are classified as trading security financial assets and available-for-sale financial assets. Due to the value of the assets are measured in fair value, BTI shall be exposed to the risk of changing price of market.

(c) BTS

Market risk is the risk that the Company will suffer losses due to market interest rate or exchange rate fluctuation. If the transaction purpose is to hedge, market risk will be eliminated by the hedged items. If the transaction purpose is trading, the Company will set a stop-loss point in the beginning. Therefore, the Company can confine the losses within an expected range.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

BTS can manage its risk through the following:

- a) The content, range of transaction, and authorization of levels should be clearly defined.
- b) Risk should be identified, measured, supervised, and controlled while operating financial instrument, the risk undertaken should be within the capacity of BTS.
- c) Establishing risk target of market, precaution system, overrunning handling, and communication system to take proper policy of market risk, in order to accomplish fully supervising and prevention.
- d) Establishing market risk information management system, including transaction system, operating system, and risk management system to define the responsibility, ensure the independence of the system, and keep the system proper and in balance.
- e) Create a model of market risk to assess and express the exposure of BTS, furthermore, to systematically manage the risk exposed.
- f) Assessing market risk and preparing paper work before creating financial instrument, changing operating process, or developing information system and explore new financial services and products.
- g) Enforcing the professional knowledge and training, and harness risk sensitivity within the corporation culture.

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 Company and its subsidiaries may cause a loss when the contractual debt obligations are not met. Therefore, the Company and its subsidiaries 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, 2010				
Item	Secured amount	Total amount	Percentage of total amount	
Loan (note 1)	\$ 1,014,049	2,095,417	48.39	
Acceptances	145	3,683	3.94	
Guarantees on loans	13,421	43,952	30.54	

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Item	December 31, 2009		Percentage of total amount
	Secured amount	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

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

Collateral which the Company and its subsidiaries requires may include a deposit receipt, inventories, machinery and equipment, marketable securities, other property, and guarantees. If the customers default, the Company and its subsidiaries 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 maximum credit exposure

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

Items	(In millions of NTD)	
	December 31, 2010	Maximum credit exposure (notes 2 and 3)
	Book value	
Financial assets measured at fair value through profit or loss	\$ 102,095	100,707
Available-for-sale financial assets	891,937	159,230
Held-to-maturity financial assets	195,221	171,199
Loans and advances (note 1)	2,149,486	1,871,495
Hedging derivatives	5	5
Debt investments without quoted price in active markets	19,775	19,775
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; short-term loans and nonperforming loans.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 2: In the amounts of maximum credit exposure, held-for-trading financial assets exclude government bonds amounting to \$1,388 million; available-for-sale financial assets exclude government bonds amounting to \$38,015 million and negotiable certificates of deposit amounting to \$694,691 million; held-to-maturity financial assets exclude government bonds amounting to \$24,023 million; loans and advances exclude Central Government loans amounting to \$240,087 million; Bureau of National Health Insurance loans to \$24,600 million and Central Government short-term advance amounting to \$13,304 million.

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

December 31, 2009

Items	Book value	Greatest credit exposure (notes 2 and 3)
Financial assets measured at fair value through profit or loss	\$ 94,008	92,973
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; short-term loans and nonperforming loans.

Note 2: In the amounts of maximum 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 maximum 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 Company and its subsidiaries is disclosed below:

- a) The details of loans to various industries and the greatest credit exposure for the year ended December 31, 2010 and 2009 , were as follows:

(In millions of NTD)			
December 31, 2010			
Industry type	Book value (note 1)	Percentage of total loans (%)	Greatest credit exposure (note 2)
Individuals	\$ 666,534	31.72	666,534
Government agencies	474,044	22.56	237,344
Manufacturing	330,009	15.71	330,009
Shipping, warehousing and communications	137,845	6.56	137,845
Utilities	141,682	6.74	141,682
Others	345,303	16.71	350,950
Total	<u>\$ 2,095,417</u>	<u>100.00</u>	<u>1,864,364</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 \$240,087 million to the Central Government and \$24,600 million to the Bureau of National Health Insurance loans are deducted from book value.

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Notes to Consolidated Financial Statements

Industry type	December 31, 2009		
	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 maximum credit exposure is the remaining amount when loans amounting to \$236,700 million to the Central Government are deducted from book value.

- b) The details of loans to various areas and the maximum credit exposure for the year ended December 31, 2010 and 2009, were as follows:

Areas type	(In millions of NTD) December 31, 2010		
	Book value (note 1)	Percentage of total loans (%)	Greatest credit exposure (note 2)
Domestic	\$ 1,979,370	94.47	1,711,000
Foreign	116,047	5.53	116,047
Total	<u>\$ 2,095,417</u>	<u>100.00</u>	<u>1,827,047</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 maximum credit exposure is the remaining amount when loans amounting to \$240,087 million to the Central Government and \$24,600 million to the Bureau of National Health Insurance loans are deducted from book value.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Areas type	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	<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 maximum credit exposure is the remaining amount when loans amounting to \$236,700 million to the Central Government are deducted from book value.

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

The Company and its subsidiaries, when offering services of loan commitments, net settlement, and offset rights, always assesses credibility carefully. Collateral acquired by the Company and its subsidiaries, due to loans, loan commitments, net settlement, and guarantee, could be disposed on the basis of a notice of ownership transfer in order to protect the rights and decrease the credit risk of the Company and its subsidiaries. The fair value of collaterals would not be considered when the greatest credit exposure is disclosed.

Item	Unit: million dollars	
	Amount of disclosure of the greatest credit exposure	
	December 31, 2010	December 31, 2009
Irrevocable loan commitments	<u>\$ 545,305</u>	<u>599,968</u>
Amounts due from credit	<u>\$ 35,706</u>	<u>38,358</u>
Guarantees receivable	<u>\$ 43,952</u>	<u>50,051</u>
Acceptance receivable	<u>\$ 3,683</u>	<u>3,266</u>

Note: This form assumes that the amount of greatest credit exposure at balance sheet date is positive. The Company and its subsidiaries assess the counterparty with off balance sheet commitment and guarantee without considering its type.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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 Company and its subsidiaries 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 Company and its subsidiaries are gradually implementing the risk management system.

The Company and its subsidiaries 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 Company and its subsidiaries utilize financial tools of the money market and foreign exchange market, together with appropriate liquid assets to plan for future cash demand.

Capital and working capital of The Company and its subsidiaries are sufficient to perform all contract obligations, so there is no liquidity risk.

The analysis of maturity of the subsidiary BOT as of December 31, 2010 and 2009, is as follows:

	December 31, 2010				
	1~30 days	31~90 days	91 days~ one year	Over one year	Total
Asset					
Cash and cash equivalents	\$ 21,899,765	-	-	-	21,899,765
Due from Central Bank and call loans to banks	66,698,365	229,546,130	127,308,218	99,957,658	523,510,371
Financial assets measured at fair value through profit or loss, net	5,409,926	2,679,087	1,435,592	25,776,052	35,300,657
Bonds and bills purchased under resell agreements	600,294	-	-	-	600,294
Available-for-sale financial assets, net	443,339,002	233,755,710	52,310,744	107,955,126	837,360,582
Held-to-maturity financial assets, net	-	2,004	-	574,347	576,351
Hedging derivative assets	5,052	-	-	-	5,052
Financial assets carried at cost	-	-	-	11,092,326	11,092,326
Debt investments without quoted price in active markets	-	-	-	3,985,572	3,985,572
Investments under equity method, net	-	-	-	31,330,008	31,330,008
Receivables, net	1,515,085	1,000,814	826,280	20,582,778	23,924,957
Loans and discounts, net	154,865,595	155,046,220	381,880,016	1,383,285,728	2,075,077,559
Non-performing loans	459,324	-	-	11,567,604	12,026,928
Total assets	\$ 694,792,408	622,029,965	563,760,850	1,696,107,199	3,576,690,422

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2010				
	1~30 days	31~90 days	91 days~ one year	Over one year	Total
Liabilities					
Due to Central Bank and other banks	\$ 65,991,474	70,488,298	24,412,375	46,720,790	207,612,937
Payables	17,545,152	16,802	165,608	39,124,072	56,851,634
Financial liabilities measured at fair value through profit or loss	775,534	-	-	18,210,071	18,985,605
Bonds and bills sold under repurchase agreements	6,542,132	2,887,241	-	-	9,429,373
Hedging derivative liabilities	243,003	-	12,346	-	255,349
Other financial liabilities	-	-	-	793,180	793,180
Deposits and remittances	335,786,707	323,351,819	1,077,660,808	1,449,131,678	3,185,931,012
Total liabilities	\$ 426,884,002	396,744,160	1,102,251,137	1,553,979,791	3,479,859,090
Gaps	\$ 267,908,406	225,285,805	(538,490,287)	142,127,408	96,831,332

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

		December 31, 2009				
		1~30 days	31~91 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
Receivable, 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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

Floating assets and floating liabilities of the Company and its subsidiaries 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, 2010 and 2009, 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 Company and its subsidiaries. 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, 2010				
	1~30 days	31~90 days	91 days~ one year	Over one year	Total
Assets					
Financial assets measured at fair value through profit or loss	\$ 5,590	2,679	1,436	25,776	35,481
Bonds and bills purchased under resell agreements	600	-	-	-	600
Available-for-sale financial assets	443,339	233,756	52,311	107,955	837,361
Held-to-maturity financial assets	-	2	-	574	576
Hedging through derivative assets	5	-	-	-	5
Financial assets carried at cost	-	-	-	11,092	11,092
Debt investment without quoted price in active market	-	-	-	3,986	3,986
Due from and call loans to banks	66,698	229,546	127,308	99,958	523,510
Loans and discounts	154,865	155,046	381,880	1,383,286	2,075,077
Investment under equity method	-	-	-	30,804	30,804
Other assets	28,189	2,707	1,464	221,350	253,710
Total assets	\$ 699,286	623,736	564,399	1,884,781	3,772,202
Liabilities					
Deposits from Central Bank	\$ 65,992	70,488	24,412	46,721	207,613
Financial liabilities measured at fair value through profit or loss	775	-	-	18,210	18,985
Bonds and bills sold under repurchase agreements	6,542	2,887	-	-	9,429
Hedging derivative liabilities	244	-	12	-	256
Other financial liabilities — appropriation for loans	-	-	-	793	793
Deposits	335,289	323,352	1,077,661	1,449,132	3,185,434
Long-term liabilities	-	-	-	19,962	19,962
Other liabilities	20,737	78	13,925	49,479	84,219
Total liabilities	\$ 429,579	396,805	1,116,010	1,584,297	3,526,691
Stockholders' equity	\$ 269,707	226,931	(551,611)	300,484	245,511

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	December 31, 2009				
	1~30 days	31~90 days	91 days~ one year	Over one year	Total
Assets					
Financial assets measured at fair value through profit or loss	\$ 3,605	2,349	2,986	12,629	21,569
Bonds and bills purchased under resell agreements	368	-	-	-	368
Available-for-sale financial assets	9,062	27,632	18,238	87,078	142,010
Held-to-maturity financial assets	-	-	501	384	885
Hedging through derivative assets	18	-	-	-	18
Financial assets carried at cost	-	-	-	11,092	11,092
Debt investment without quoted price in active market	-	-	-	5,647	5,647
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
Investment under equity method	-	-	-	29,816	29,816
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
Liabilities					
Deposits from Central Bank	\$ 66,213	62,340	5,888	677	135,118
Financial liabilities measured at fair value through profit or loss	711	-	-	3,824	4,535
Bonds and bills sold under repurchase agreements	3,951	1,536	-	-	5,487
Hedging derivative liabilities	60	-	181	-	241
Other financial liabilities — appropriation for loans	-	-	-	1,271	1,271
Deposits	335,132	364,954	1,151,022	1,370,904	3,222,012
Long-term liabilities	-	-	-	19,284	19,284
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.

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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, 2010 and 2009, were as follows:

Item	December 31, 2010	
	NTD	USD
Available-for-sale financial assets:		
Government bonds	0.7909%~6.9000%	1.0000%~9.6250%
Financial bonds	2.1100%~2.3000%	0.3138%~6.5000%
Corporate bonds	1.0001%~3.0500%	0.4169%~8.8750%
Negotiable certificates of deposit of Central Bank	0.6900%~0.8300%	-
Taipei City Government bonds	1.2000%~4.6190%	-
Beneficiary certificates — financial assets securitization	2.4600%	-
Beneficiary certificates — real estate investment trust	2.6800%	5.5000%~5.7500%
Foreign organization bonds	2.6000%	-
Held-to-maturity financial assets:		
Government bonds	1.5150%~6.0699%	-
Beneficiary certificates — real estate investment trust	2.4000%	-
Debt investment without quoted price in active markets:		
Beneficiary certificates — real estate investment trust	-	0.5003%~1.7606%
Loans and discounts:		
Short-term loans	0.3400%~18.0000%	0.5256%~6.1000%
Medium-term loans	0.00001%~18.0000%	0.4211%~6.8500%
Long-term loans	0.00001%~10.0000%	0.6141%~7.5000%
Liabilities:		
Short-term loans	-	0.2922%~1.1466%
Hedging derivative instrument:		
IRS	-	0.6900%~10.6777%

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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 estate 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

5. Fair-value hedge

Financial instruments held by the Company and Subsidiaries are applicable to hedge accounting. The Company and Subsidiaries adopted fair value hedge accounting and should disclose the following:

(a) Fair value hedge

Gain (loss) due to re-measuring with fair value of hedge instrument, or change of exchange rate, should be recognized as gain (loss) of the period; gain (loss) due to hedging is the adjustment of the hedged target and should be recognized as gain (loss) of the period.

(b) Fair value hedge 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 Company and its subsidiaries 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 Company and its subsidiaries 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, 2010	
Hedged item	Designated hedging instruments	Original amount	Fair value
Foreign bonds	Swap	\$ 590,241	5,051
Foreign bonds	Swap	4,639,975	(255,349)
		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)

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

c) Nature of hedged risk:

The hedged items of the hedge accounting adopted by the Company and its subsidiaries 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).

(35) 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

1. Risk management structure and protocols

(a) Risk management structure

The risk management structure of the Bank includes the Board of Directors, risk management committee, risk management department, authorities in charge all business units.

- a) The Board of Director holds the highest responsibility in maintaining the risk management of the Bank, which includes formulating strategies accordingly, establishing the risk management policy, ensuring the consistency of the risk managing system, identifying all the risk matures and retain all the resources available for encountering all sorts of unexpected risks.
- b) The role of risk management committee established by the Board of Directors includes implementing the risk management strategy and integrating risk-related issues between various units across the bank.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- c) The role of the risk management department includes monitoring all risk management issues independently and on an operational level. The risk management department is also in charge in investigating into any relevant departments and reports directly to the Board of Directors. Similarly, if any risk exposures exceeding the capacity of the Bank is discovered, the department has the responsibility to take reasonable actions and report to the Board of Directors.
 - d) Every department shall identify, evaluate, and control the risks of any new products or operations and establish the risk management process accordingly. In addition, to monitor the relevant risks in compliance with the risk management policy of the Bank.
- (b) Risk management protocols
- Every operations engaged by the Bank, including off-balance sheet operations, are included within the risk management system of the Bank, which contains credit risk, market risk, operational risk, interest rate risk, liquidity risk, national risk, legal risk and so forth. The brief risk management policy is as follows:
- a) Monitor the settlement ratio of the Bank in relevance to the operational size, credit risk, market risk, operational risk and the future prospects.
 - b) Establish a risk measuring and monitoring procedure system in order to measure and monitor risks effectively.
 - c) Taking in the risk capacity, capital reserve, nature of debts, performance and rewards into consideration, the Bank shall manage the risks of operating across all units.
 - d) Establish a valuation system for the quality and classification of assets to consistently monitor excess risk exposures with large concentration, and to accrue allowance for losses.
 - e) Establish information safety system and emergency system concerning banking operations, transactions and data sharing. Additionally, to establish an independent and effective risk management system through means of appropriate policies, procedures and tools in order to increase the efficiency of the risk managing across all operations.
2. The major financial assets of BOT are loans, receivables, and securities investments. The related risk and management policy are as follows:
- (a) 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.

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- 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.
 - 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.
- (b) 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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) 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.
- 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
 - (i) 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%.
 - (ii) Short-term gap analysis: 1~10-day and 11~30-day gaps are calculated; the period gap is greater than zero.
 - (iii) 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.
 - (iv) 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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(d) 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.

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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

(36) 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 and BTLI under the equity method
Taiwan Life Insurance Co., Ltd.	Investee company of BOT and BTLI 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, 2010		December 31, 2009	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	<u>\$ 4,338</u>	<u>0.02</u>	<u>8,223</u>	<u>0.02</u>

2. Deposits of banks

	December 31, 2010		December 31, 2009	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	<u>\$ 168,398</u>	<u>0.67</u>	<u>319,870</u>	<u>1.35</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Interest rates of related-party transactions are the same as those with non-related parties.

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

2010				
	Highest balance	Ending balance	Annual interest rate (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$ 11,056,085	<u>447,500</u>	0.104~1.35	<u>14,758</u>

2009				
	Highest balance	Ending balance	Annual 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>

Interest rates of related-party transactions are the same as those with non-related parties.

4. Deposits

	December 31, 2010		December 31, 2009	
	Amount	Percentage of account balance	Amount	Percentage of account balance
Hua Nan Financial Holdings Co., Ltd.	\$ 42,391	-	49,547	-
Taiwan Life Insurance Co., Ltd.	505,498	0.02	28,341	-
Kaohsiung Ammonium Tang-Eng Iron Works Co., Sulfate Co., Ltd.	120,766 165	- -	1,370,890 305	0.04 0.01
Total	<u>\$ 668,820</u>	<u>0.02</u>	<u>1,449,083</u>	<u>0.05</u>

The interest rates applied are computed by the basic rates displayed, thus, the interest rate for deposits are similar as those between the related parties and other general non-related parties.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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

Mortgage loans for real estate for the Company and its subsidiaries' directors, supervisors, and staff and their spouses and close relatives for the year ended December 31, 2010 and 2009:

	December 31, 2010	December 31, 2009
Mortgage loans for real estate	\$ <u>231,827</u>	\$ <u>57,541</u>
Interest receivable	\$ <u>125</u>	\$ <u>44</u>

The interest range was 0.79% to 1.70% and 0.79% to 2.01% for the year ended December 31, 2010 and 2009, respectively.

6. Loans

December 31, 2010							
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	31	19,553	15,600	15,600	-	None	None
House mortgages	130	444,831	408,070	408,070	-	Land and building	None
Other loans	Tang-Eng Iron Works Co., Ltd.	357,536	250,000	250,000	-	Land, building and securities	None
"	Tang-Eng Iron Works Co., Ltd.	830,000	-	-	-	"	None
"	Tang-Eng Iron Works Co., Ltd.	600,000	-	-	-	"	None
"	Tang-Eng Iron Works Co., Ltd.	170,500	33,638	33,638	-	"	None
"	Tang-Eng Iron Works Co., Ltd.	1,500,000	1,500,000	1,500,000	-	"	None
Call loans to banks	Hua Nan Financial Holdings Co., Ltd.	8,303,775	5,000	5,000	-	None	None

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	-	"	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 Holding Co., Ltd.	6,613,800	5,000	5,000	-	None	None

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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, TSEC and OTC stocks, non-TSEC and non-OTC stocks, and others.

7. Derivative instruments:

December 31, 2010						
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	2004.11.30~2011.01.10	141,536	(3,594)	Valuation adjustment of financial liabilities at fair value through profit or loss — current — held-for-trading — forward	(3,594)
Taiwan Life Insurance Co., Ltd.	AEBH411027 forward	2004.12.31~2011.01.10	140,022	(3,556)	"	(3,556)
Taiwan Life Insurance Co., Ltd.	AEBH510877 forward	2005.11.25~2011.01.10	145,058	(3,684)	"	(3,684)
Taiwan Life Insurance Co., Ltd.	BHSW010121 swap	2010.05.07~2011.03.14	150,160	(2,900)	Valuation adjustment of financial liabilities at fair value through profit or loss — current — held-for-trading — swap	(2,900)
Taiwan Life Insurance Co., Ltd.	BHSW010122 swap	2010.05.07~2011.03.14	450,480	(8,701)	"	(8,701)
Taiwan Life Insurance Co., Ltd.	BHSW010141 swap	2010.06.25~2011.01.07	2,688,930	(34,092)	"	(34,092)
Taiwan Life Insurance Co., Ltd.	BHSW010179 swap	2010.09.08~2011.02.14	300,560	(5,861)	"	(5,861)
Taiwan Life Insurance Co., Ltd.	BHSW010205 swap	2010.10.15~2011.03.22	594,364	(5,479)	"	(5,479)

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010						
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.	BHSW810239 swap	2008.11.06~2011.01.31	159,345	(11,944)	Valuation adjustment of financial liabilities at fair value through profit or loss — current — held-for-trading — swap	(11,944)
Taiwan Life Insurance Co., Ltd.	BHSW910020 swap	2009.02.09~2011.01.31	149,417	(11,200)	"	(11,200)
Taiwan Life Insurance Co., Ltd.	BHSW910022 swap	2009.02.18~2011.01.31	254,952	(19,111)	"	(19,111)
Taiwan Life Insurance Co., Ltd.	BHSW910064 swap	2009.04.09~2011.01.31	318,690	(23,888)	"	(23,888)
Taiwan Life Insurance Co., Ltd.	BHSW910339 swap	2009.12.17~2011.02.10	1,203,380	(24,505)	"	(24,505)

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)

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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 amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
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)
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)

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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 amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	BHSW910339 swap	2009.12.17~2010.01.21	1,292,480	(5,795)	Valuation adjustment of financial liabilities at fair value through profit or loss — current — held for trading — swap	(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)
Wu Tsang Tai	AEAF910685 forward	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 foreign exchange option	2009.12.30~2010.01.20	53,867	155	Financial liabilities at fair value through profit or loss — current — held for trading — foreign exchange option	(175)

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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 amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Chen Yi Hong	0912290160 foreign exchange option	2009.12.30~2010.01.20	-	-	Financial assets at fair value through profit or loss — current — held for trading — foreign exchange option	155

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 2010 and 2009 is as follows:

	2010	2009
Salaries	\$ 5,148	3,427
Bonus	1,940	1,647
Business expense	6,584	3,718

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Name of related party		Relationship with Bank of Taiwan	
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, their spouses and relatives	

(b) Significant related-party transactions

a) Receivables

	December 31, 2010	December 31, 2009
The Company	\$ <u>213</u>	<u>595,182</u>

b) Deposits of banks

	December 31, 2010	December 31, 2009
Hua Nan Financial Holdings Co., Ltd.	\$ <u>168,398</u>	<u>319,870</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)

		2010		
	Highest balance	Ending balance	Interest rate (%)	Interest expense
Hua Nan Financial Holdings Co., Ltd.	\$ 11,056,085	<u>447,500</u>	0.104~1.35	<u>14,758</u>

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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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

d) Other assets

	December 31, 2010	December 31, 2009
The Company	<u>\$ 5,620,865</u>	<u>3,955,003</u>

e) Deposits

	December 31, 2010	December 31, 2009
Taiwan Life Insurance Co., Ltd.	\$ 505,498	28,341
Kaohsiung Ammonium Sulfate Co., Ltd.	120,766	1,370,890
BTS	553,290	733,668
the Company	37,084	1,406,913
BTLI	<u>18,211,604</u>	<u>22,527,356</u>
Total	<u>\$ 19,428,242</u>	<u>26,067,168</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) Interest expense

	December 31, 2010	December 31, 2009
BTLI	<u>\$ 111,263</u>	<u>95,870</u>

g) Fee revenue

	December 31, 2010	December 31, 2009
BTLI	<u>\$ 789,956</u>	<u>610,591</u>

h) Other non-interest gain or losses, net

	December 31, 2010	December 31, 2009
Taiwan Life Insurance Co., Ltd.	<u>\$ 150,619</u>	<u>44,226</u>

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

i) Loans

Subsidiary – BOT

December 31, 2010							
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	31	19,553	15,600	15,600	-	None	None
House mortgages	130	444,831	408,070	408,070	-	Land and building	None
Other loans	Tang-Eng Iron Works Co., Ltd.	357,536	250,000	250,000	-	Land, building and securities	None
"	Tang-Eng Iron Works Co., Ltd.	830,000	-	-	-	Land, building and securities	None
"	Tang-Eng Iron Works Co., Ltd.	600,000	-	-	-	Land, building and securities	None
"	Tang-Eng Iron Works Co., Ltd.	170,500	33,638	33,638	-	Land, building and securities	None
"	Tang-Eng Iron Works Co., Ltd.	1,500,000	1,500,000	1,500,000	-	Land, building and securities	None
"	BankTaiwan Securities Co., Ltd.	603,017	82,017	82,017	-	Land, building, time deposit, and letter of guarantee	None
"	Taiwan Financial Holding Co., Ltd.	5,600,000	5,600,000	5,600,000	-	Letter of guarantee	None
Call loans to banks	Hua Nan Financial Holdings Co., Ltd.	8,303,775	5,000	5,000	-	None	None

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	-	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	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

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

j) Derivative instruments

December 31, 2010						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	AEBH410927 forward	2004.11.30~2011.01.10	141,536	(3,594)	Valuation adjustment of financial liabilities at fair value through profit or loss — current — held-for-trading — forward	(3,594)
Taiwan Life Insurance Co., Ltd.	AEBH411027 forward	2004.12.31~2011.01.10	140,022	(3,556)	"	(3,556)
Taiwan Life Insurance Co., Ltd.	AEBH510877 forward	2005.11.25~2011.01.10	145,058	(3,684)	"	(3,684)
Taiwan Life Insurance Co., Ltd.	BHSW010121 swap	2010.05.07~2011.03.14	150,160	(2,900)	Valuation adjustment of financial liabilities at fair value through profit or loss — current — held-for-trading — swap	(2,900)
Taiwan Life Insurance Co., Ltd.	BHSW010122 swap	2010.05.07~2011.03.14	450,480	(8,701)	"	(8,701)
Taiwan Life Insurance Co., Ltd.	BHSW010141 swap	2010.06.25~2011.01.07	2,688,930	(34,092)	"	(34,092)
Taiwan Life Insurance Co., Ltd.	BHSW010179 swap	2010.09.08~2011.02.14	300,560	(5,861)	"	(5,861)
Taiwan Life Insurance Co., Ltd.	BHSW010205 swap	2010.10.15~2011.03.22	594,364	(5,479)	"	(5,479)
Taiwan Life Insurance Co., Ltd.	BHSW810239 swap	2008.11.06~2011.01.31	159,345	(11,944)	"	(11,944)
Taiwan Life Insurance Co., Ltd.	BHSW910020 swap	2009.02.09~2011.01.31	149,417	(11,200)	"	(11,200)
Taiwan Life Insurance Co., Ltd.	BHSW910022 swap	2009.02.18~2011.01.31	254,952	(19,111)	"	(19,111)
Taiwan Life Insurance Co., Ltd.	BHSW910064 swap	2009.04.09~2011.01.31	318,690	(23,888)	"	(23,888)

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Taiwan Life Insurance Co., Ltd.	BHSW910339 swap	2009.12.17~2011.02.10	1,203,380	(24,505)	Valuation adjustment of financial liabilities at fair value through profit or loss—current—held-for-trading—swap	(24,505)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010067 swap	2010.03.04~2011.06.08	611,380	(24,068)	"	(24,068)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010081 swap	2010.03.11~2011.06.15	1,216,700	(42,389)	"	(42,389)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010095 swap	2010.04.01~2011.01.06	1,555,350	(80,407)	"	(80,407)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010111 swap	2010.04.19~2011.03.22	1,214,200	(36,395)	"	(36,395)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010117 swap	2010.05.04~2011.05.09	1,067,500	(38,607)	"	(38,607)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010164 swap	2010.08.16~2011.02.18	1,592,500	(119,036)	"	(119,036)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010168 swap	2010.08.20~2011.01.24	2,068,950	(152,381)	"	(152,381)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010172 swap	2010.08.25~2011.01.27	2,079,025	(162,607)	"	(162,607)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010175 swap	2010.08.30~2011.03.01	1,914,120	(146,259)	"	(146,259)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010181 swap	2010.09.13~2011.06.15	608,350	(21,194)	"	(21,194)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010184 swap	2010.09.17~2011.03.22	910,650	(27,296)	"	(27,296)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010196 swap	2010.09.28~2011.03.31	627,720	(38,948)	"	(38,948)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010223 swap	2010.11.10~2011.02.14	1,226,080	(47,268)	"	(47,268)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010235 swap	2010.11.22~2011.02.24	1,209,520	(30,913)	"	(30,913)
Bank Taiwan Life Insurance Co., Ltd.	CLSW010238 swap	2010.12.06~2011.06.08	1,528,450	(60,169)	"	(60,169)

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Bank Taiwan Life Insurance Co., Ltd.	CLSW810104 swap	2008.04.30~2011.06.23	609,910	(22,917)	Valuation adjustment of financial liabilities at fair value through profit or loss—current—held-for-trading—swap	(22,917)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810108 swap	2008.05.07~2011.05.13	157,960	(10,983)	"	(10,983)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810109 swap	2008.05.07~2011.05.13	1,168,904	(81,271)	"	(81,271)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810130 swap	2008.06.30~2011.02.23	1,592,550	(119,199)	"	(119,199)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810207 swap	2008.09.26~2011.05.13	1,895,520	(131,791)	"	(131,791)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810208 swap	2008.09.26~2011.05.13	631,840	(43,930)	"	(43,930)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810211 swap	2008.09.30~2011.05.13	126,368	(8,786)	"	(8,786)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810212 swap	2008.09.30~2011.05.13	947,760	(65,895)	"	(65,895)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810225 swap	2008.10.16~2011.06.23	2,744,595	(103,125)	"	(103,125)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810241 swap	2008.11.13~2011.02.23	637,020	(47,680)	"	(47,680)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810242 swap	2008.11.13~2011.02.23	1,592,550	(119,199)	"	(119,199)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810247 swap	2008.11.20~2011.04.22	1,231,560	(54,941)	"	(54,941)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810265 swap	2008.12.15~2011.02.23	318,510	(23,840)	"	(23,840)
Bank Taiwan Life Insurance Co., Ltd.	CLSW810273 swap	2008.12.22~2011.04.22	153,945	(6,868)	"	(6,868)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910009 swap	2009.01.23~2011.04.29	307,460	(13,380)	"	(13,380)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910010 swap	2009.01.23~2011.04.29	307,460	(13,380)	"	(13,380)

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Notes to Consolidated Financial Statements

December 31, 2010						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Bank Taiwan Life Insurance Co., Ltd.	CLSW910011 swap	2009.01.23~2011.04.29	307,460	(13,380)	Valuation adjustment of financial liabilities at fair value through profit or loss—current—held-for-trading—swap	(13,380)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910012 swap	2009.01.23~2011.04.29	307,460	(13,380)	"	(13,380)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910014 swap	2009.01.23~2011.04.29	614,920	(26,759)	"	(26,759)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910017 swap	2009.02.04~2011.06.08	489,104	(19,254)	"	(19,254)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910033 swap	2009.03.18~2011.04.22	307,890	(13,735)	"	(13,735)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910101 swap	2009.05.04~2011.05.09	152,500	(5,515)	"	(5,515)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910110 swap	2009.05.07~2011.05.13	1,263,680	(87,861)	"	(87,861)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910117 swap	2009.05.14~2011.06.23	609,910	(22,917)	"	(22,917)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910155 swap	2009.06.08~2011.04.12	2,471,760	(117,665)	"	(117,665)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910158 swap	2009.06.11~2011.06.15	1,825,050	(63,583)	"	(63,583)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910174 swap	2009.06.29~2011.01.06	311,070	(16,081)	"	(16,081)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910201 swap	2009.07.29~2011.04.29	184,476	(8,028)	"	(8,028)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910207 swap	2009.08.04~2011.05.09	305,000	(11,031)	"	(11,031)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910228 swap	2009.08.26~2011.03.31	1,569,300	(97,370)	"	(97,370)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910259 swap	2009.09.28~2011.03.31	1,255,440	(77,896)	"	(77,896)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910267 swap	2009.10.13~2011.06.15	304,175	(10,597)	"	(10,597)

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010						
Name of related party	Name of derivative	Contract period	Original amount	Current valuation adjustment	Balance sheet item	
					Item	Amount
Bank Taiwan Life Insurance Co., Ltd.	CLSW910287 swap	2009.10.19~2011.03.22	303,550	(9,099)	Valuation adjustment of financial liabilities at fair value through profit or loss — current — held-for-trading — swap	(9,099)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910298 swap	2009.10.23~2011.01.27	1,589,550	(115,386)	"	(115,386)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910313 swap	2009.11.04~2011.05.09	305,000	(11,031)	"	(11,031)
Bank Taiwan Life Insurance Co., Ltd.	CLSW910315 swap	2009.11.05~2011.02.10	633,540	(44,083)	"	(44,083)

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)

(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.	BHSW810239 swap	2008.11.06~2010.01.29	161,530	(724)	Valuation adjustment of financial liabilities at fair value through profit or loss—current—held for trading—swap	(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)
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)
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)

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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.	CLSW810207 swap	2008.09.26~2010.05.13	1,936,800	(8,732)	Valuation adjustment of financial liabilities at fair value through profit or loss—current—held for trading—swap	(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)
BankTaiwan Life Insurance Co., Ltd.	CLSW810241 swap	2008.11.13~2010.02.22	654,200	(11,043)	"	(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)

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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.	CLSW910009 swap	2009.01.23~2010.01.29	324,700	(3,087)	Valuation adjustment of financial liabilities at fair value through profit or loss—current—held for trading—swap	(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)
BankTaiwan Life Insurance Co., Ltd.	CLSW910033 swap	2009.03.18~2010.06.22	323,520	(2,380)	"	(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)

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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.	CLSW910165 swap	2009.06.18~2010.06.22	647,040	(4,760)	Valuation adjustment of financial liabilities at fair value through profit or loss — current — held for trading — swap	(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)
BankTaiwan Life Insurance Co., Ltd.	CLSW910228 swap	2009.08.26~2010.05.28	1,635,700	(29,315)	"	(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 forward	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)

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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
Chen Yi Hong	0912290160 foreign exchange option	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—foreign exchange option	(175)
Chen Yi Hong	0912290160 foreign exchange option	2009.12.30~2010.01.20	-	-	Adjustment of valuation adjustment of financial assets at fair value through profit or loss—current—held for trading—foreign exchange option	155

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 was allocated to BOT, BTLI, BTS, and the Company as follows:

	2010		2009	
	Amount	Percentage of account balance	Amount	Percentage of account balance
The Company	\$ 5,687	0.05	4,498	0.02
BTLI	39,303	0.32	44,226	0.15
BTS	56,300	0.46	61,813	0.21
Total	<u>\$ 101,290</u>	<u>0.83</u>	<u>110,537</u>	<u>0.38</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 2010 and 2009 is as follows:

	2010	2009
Salaries	\$ 20,922	21,062
Bonus	11,704	11,020
Business expenses	1,142	1,214

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	Directors, supervisors, managers, their spouses and relatives

- (b) Significant related-party transactions—Mortgage loans for real estate (in discounts and loans)

Mortgage loans for real estate for the Company and its subsidiaries' directors, supervisors, and staff and their spouses and close relatives for 2010 and 2009

	December 31, 2010	December 31, 2009
Mortgage loans for real estate	<u>\$ 231,827</u>	<u>57,541</u>
Interest receivable	<u>\$ 125</u>	<u>44</u>

For the years ended December 31, 2010 and 2009, the annual interest rates ranged from 0.79% to 1.70% and 0.79% to 2.01%, respectively.

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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 BTLI's major management in 2010 and 2009 is as follows:

		2010	2009
Salaries	\$	8,955	8,766
Bonus		6,932	1,950
Business expenses		840	772

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

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

The related information about the salaries and bonus for BTS's major management in 2010 and 2009 is as follows:

		2010	2009
Salaries	\$	7,763	7,272
Bonus		4,226	252
Business expenses		410	-

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TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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

The related information about the salaries and bonus for the Company and its subsidiaries' major management in 2010 and 2009 is as follows:

		2010	2009
Salaries	\$	42,788	40,527
Bonus		24,802	14,869
Business expenses		8,976	5,704

(37) Pledged Assets

Pledged assets	Purpose of pledge	Book value	
		December 31, 2010	December 31, 2009
Available-for-sale financial assets — bonds	Guarantee deposit for provisional attachments	\$ 293,300	944,900
Available-for-sale financial assets — bonds	Operating deposit for securities trading	100,000	150,000
Available-for-sale financial assets — bonds	Guarantee deposit for trust business compensation reserve	150,000	50,000
Due to Central Bank — deposits in Central Bank	Central Bank - Interbank Funds transfer	25,000,000	20,000,000
Held-to-maturity financial assets — Government bonds	Guarantee deposit for provisional attachment	12,200	7,200
Other assets — refundable deposit	Operating guarantee deposit	1,708,352	1,114,453
Other assets — refundable deposit	Bid guarantee deposit	-	100,000
Other assets — refundable deposits	Lease guarantee deposit	2,580	21,925
Total		<u>\$ 27,266,432</u>	<u>22,388,478</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Note: BTS's operating guarantee deposit pledged with time deposit of BOT, and proceed paid for client, amounting to \$265,000 and \$250,000, respectively, have been offset due to related party transaction.

(38) Commitments and Contingencies

- 1) As of December 31, 2010 and 2009, the significant commitments of the Company and its subsidiaries were as follows:

	December 31, 2010	December 31, 2009
Trust liabilities	\$ 458,952,804	427,512,415
Guarantee payable	8,095,388	5,341,296
Guarantee received	5,565,933	7,351,552
Guarantee note payable	306,530	490,802
Traveler's checks held on consignment	910,992	1,268,468
Collections for customers	43,078,676	60,460,069
Loans under custody on consignment	732,568,354	454,629,493
Book entry for government bonds under management	301,422,600	340,648,800
Depository for short-term marketable securities under management	225,014,126	109,033,863
sales of goods	2,251,450	2,023,084
Issuance of New Taiwan Dollars	1,206,905,438	1,124,848,281
Guarantee receivables	43,951,879	50,050,996
L/C receivables	35,705,957	38,357,884
Contract deposit on behalf of counter-parties	1,583,086,920	1,422,552,994
Total	<u>\$ 4,647,817,047</u>	<u>4,044,569,997</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, 2010		December 31, 2009	
	Contract amount	Amount not paid	Contract amount	Amount not paid
Construction of Nan Zih Branch	\$ 279,583	-	-	-
Construction of Yi Lan Branch	294,869	19,905	288,600	159,540
Construction of Dong Gang Branch	119,394	6,205	114,670	62,710
Total	<u>\$ 693,846</u>	<u>26,110</u>	<u>403,270</u>	<u>222,250</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, 2010, the minimum payments on lease contract commitments for the next five years were as follows:

Period	Amount
2011.1.1~2011.12.31	\$ 421,711
2012.1.1~2012.12.31	274,813
2013.1.1~2013.12.31	171,015
2014.1.1~2014.12.31	78,586
2015.1.1~2015.12.31	21,891
	<u>\$ 968,016</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:

The preceding balance sheet, property list and income statement are disclosed in accordance with the Enforcement Rules of the Trust Enterprise Act, article 17.

Trust assets	December 31, 2010	December 31, 2009
Deposits		
Deposits in the BOT	\$ 22,408,932	26,958,946
Deposits in other banks	1,065,689	2,542,790
Short-term investment		
Investment in funds	149,577,958	137,815,289
Investment in bonds	169,169,073	160,602,367
Common stock investment	65,198,569	55,576,372
Receivables		
Interest receivable	1,183,260	2,040,720
Cash dividend receivable	628	15
Receivables from trading securities	372,842	387,657
Prepaid expense	2,118	3,370
Real estate		
Land	727,706	1,018,300
Buildings	151,510	283,971
Construction in progress	802,975	1,241,991
Marketable securities held as custodian	48,291,544	39,040,627
Total	<u>\$ 458,952,804</u>	<u>427,512,415</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Trust liabilities	December 31, 2010	December 31, 2009
Short-term loans		
Long-term loans	\$ 511,090	986,818
Payables		
Payables from trading securities	653,417	424,105
Other payables	112	49
Payables from management fee	3,533	2,645
Payables from supervision fee	335	204
Tax payable	227	398
Pledge securities	48,291,544	39,040,627
Trust capital		
Money trust	338,063,497	309,051,531
Marketable securities trust	16,616,353	17,626,986
Real estate investment trust	11,441,091	1,727,133
Other reserve and accumulated income		
Accumulated loss	22,826,831	31,366,725
Foreign currency translation	(7,258,807)	12,639,631
Deferred unrealized income	20,631,600	10,262,657
Net income	17,171,981	4,382,906
Total	<u>\$ 468,952,804</u>	<u>427,512,415</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Property list	December 31, 2010	December 31, 2009
Deposits		
Deposits in the BOT	\$ 22,408,932	26,958,946
Deposits in other banks	1,065,689	2,542,790
Short-term investment		
Investment in funds	149,577,958	137,815,289
Investment in bonds	169,169,073	160,602,367
Common stock investment	65,198,569	55,576,372
Real estate		
Land	727,706	1,018,300
Buildings	151,510	283,971
Construction in progress	802,975	1,241,991
Pledge securities	48,291,544	39,040,627
Trust capital	<u>\$ 457,393,956</u>	<u>425,080,653</u>
Trust income statement	2010	2009
Trust revenue:		
Interest revenue	\$ 7,108,814	7,249,334
Cash dividend revenue	3,225,534	1,007,524
Realized capital gain-stock	1,009,565	14,688
Realized capital gain—funds	2,348,960	858,956
Realized capital gain—bonds	953,829	-
Unrealized capital loss—funds	-	44,099
Realized exchange gain	3,239,813	84,630
Income from beneficiary certificates	3,436	1,765
	<u>17,889,951</u>	<u>9,260,996</u>
Trust expense:		
Capital management fee	565,429	479,397
Tax expense	3,694	1,658
Supervisory fee	347	216
Storage fee	6,220	11,457
Commission fee	616	93
Realized capital loss-bond	-	4,330,088
Other expense	141,664	55,181
Income tax expense	-	515
Real estate tax	-	2,928
	<u>717,970</u>	<u>4,881,533</u>
Net income	<u>\$ 17,171,981</u>	<u>4,379,463</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(39) Significant Disaster Loss: None.

(40) Significant Subsequent Events: None.

(41) Others

- 1) A summary of personnel costs and depreciation, depletion, and amortization expenses, categorized by function, for the year ended December 31, 2010 and 2009, is as follows:

Function Nature	2010			2009		
	Cost of goods sold	Operating expenses	Total	Cost of goods sold	Operating expenses	Total
Personnel costs						
Salaries	-	10,653,961	10,653,961	-	10,520,654	10,520,654
Labor and health insurance	-	571,654	571,654	-	526,389	526,389
Pension	-	1,277,803	1,277,803	-	1,158,738	1,158,738
Other employment	-	190,535	190,535	-	204,813	204,813
Depreciation	28,336	958,988	987,324	23,631	948,464	972,095
Amortization	-	447,918	447,918	-	406,002	406,002

- 2) Cross-selling with subsidiaries

1. Cross-selling:

Please see Note 35 for further descriptions.

2. Integrate business activities:

From June 2009, the Company established marketing plans consolidating subsidiaries' distribution of channels and products to allocate resources more efficiently. Moreover, to promote sales of insurance, securities and wealth management. By promoting sales cooperation aggressively, the Company is expecting to make it more effective and efficient.

3. Cross utilization of information:

In accordance to the amendment of "Financial Holding Company Act" on January 21, 2009 and Regulations governing mutual marketing in subsidiaries" on October 21, 2009, the Company and its subsidiaries concluded and signed "Agreement of Privacy Exchange" on December 16, 2009, to cope with the change of duties in the company and to enhance the protection of privacy. The Company and its subsidiaries also signed "Agreement of Customer Privacy" on February 25, 2010 to further protect and limit inappropriate use of private details.

4. Locations and business utilities:

The company applied to government for "Location set up for operating other business" and had been approved. By 2010, the company had 154 branches, providing securities services; 157 branches and 5 simple-functioned branches, providing insurance services. They provide securities and insurances services in banks.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

3) Capital adequacy ratios

Unit: Thousand NTD, %

Unit: Thousand NTD, %

December 31, 2010				
Entity	Item	Ownership interest	Eligible capital	Legal capital
The Company		100.00	260,127,964	265,642,548
Bank of Taiwan		100.00	176,521,653	118,922,025
BankTaiwan Life Insurance		100.00	11,022,399	7,548,714
BankTaiwan Securities		100.00	2,896,702	667,907
Less: deductible item			(265,594,540)	(265,594,540)
Subtotal			184,974,178	127,186,654
Consolidated capital adequacy ratio				145.44

Unit: Thousand NTD, %

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

4) Eligible capital

Unit: Thousand NTD

December 31, 2010	
Item	Amount
Common stock	90,000,000
Additional paid-in capital	111,516,202
Legal reserve	1,610,266
Special reserve	4,653,557
Accumulated profit	9,729,697
Equity adjustments	42,667,969
Less: goodwill	-
Less: deferred assets	40,565
Less: treasury stock	-
Consolidated eligible capital	260,137,126

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	25,637,841
Less: goodwill	-
Less: deferred assets	27,339
Less: treasury stock	-
Consolidated eligible capital	239,556,062

(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, 2010		
Name	Total amount of credit extensions, endorsements or other transactions	% of net asset value
The same individual		
Central Bank of the Republic of China (Taiwan)	694,691	267.01
National Treasury Agency, Ministry of Finance, R.O.C.	277,058	106.49
Taiwan Power Company	160,193	61.57
Taiwan High Speed Rail Corporation	74,477	28.63
Taichung City Government	35,361	13.59
Taiwan Railway Administration	32,734	12.58
Hua Nan Financial Holdings Co., Ltd.	28,910	11.11
New Taipei City Government	26,600	10.22
Bureau of National Health Insurance	24,600	9.46
CPC Corporation, Taiwan	20,923	8.04
Chi Mei Optoelectronics Corporation	20,774	7.98
Yunlin county Government	19,544	7.51
China Steel Corporation	18,811	7.23
Finance Bureau Kaohsiung City Government	17,925	6.89
Dragon Steel Corporation	16,205	6.23
Tainan City Government	14,700	5.65
Hsinchu County Government	14,616	5.62
AU Optronics Corp.	14,207	5.46
First Financial Holding Co., Ltd.	13,793	5.30
TaiwanBusiness Bank	13,721	5.27
Formosa Petrochemical Corporation	13,198	5.07
Yilan County Government	12,847	4.94
Ginnie Mae	12,648	4.86
Chiayi County Government	11,987	4.61
R.S.E.A. Engineering Corporation	10,769	4.14
Miaoli County Government	9,996	3.84
Yang Ming Marine Transport Corp.	9,940	3.82

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010		
Name	Total amount of credit extensions, endorsements or other transactions	% of net asset value
Nan Ya Plastics Corporation Co., Ltd.	9,934	3.82
EVA Airways Corporation	9,898	3.80
Related to high speed railway construction funds	9,432	3.63
Formosa Chemicals & Fibre Corp.	9,344	3.59
Promos Technologies Inc.	9,308	3.58
Changhua County Government	9,295	3.57
Nantou County Government	9,128	3.51
Cathay Financial Holding Co., Ltd.	8,833	3.39
Taoyuan County Government	8,818	3.39
Central Deposit Insurance Corp.	8,100	3.11
Hsinchu City Government	8,067	3.10
Pingtung County Government	8,052	3.09
China Airlines Ltd.	7,405	2.85
Foxconn Technology Group	7,333	2.82
Mega International Commercial Bank	6,345	2.44
Mega Financial Holding Company	6,222	2.39
Kommunalbanken	5,968	2.29
Taiwan Water Corp.	5,957	2.29
Fubon Financial Holding Co., Ltd.	5,935	2.28
Shin Kong Financial Holding Co., Ltd.	5,800	2.23
Yuanta Financial Holdings	5,609	2.16
Freddie Mac	5,594	2.15
Taipei Fubon Commercial Bank Co., Ltd.	5,447	2.09
Apple Inc.	5,370	2.06
Prince Housing and Development Corp.	5,131	1.97
KFW Bankengruppe	5,109	1.96
Evergreen Marine Corporation	4,864	1.87
Hualien county Government	4,851	1.86
Export processing zone administration, MOEA	4,819	1.85
SAC PEI TAIWAN HOLDINGS	4,725	1.82
European Investment Bank	4,258	1.64
Inotera Memories, Inc.	4,213	1.62

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010		
Name	Total amount of credit extensions, endorsements or other transactions	% of net asset value
CITIGROUP INC	4,017	1.54
Deutsche Bank	3,969	1.53
Municipality Finance PLC	3,817	1.47
Fannie Mae	3,766	1.45
Far Eastern Textile Ltd.	3,745	1.44
Australian and New Zealand Bank	3,722	1.43
Highwealth Construction	3,658	1.41
China Development Financial Holdings	3,653	1.40
Nordic Investment Bank	3,622	1.39
Rich Development Construcion Co., Ltd.	3,416	1.31
Inter-American Development Bank	3,378	1.30
Uni president Entreprises Corp.	3,370	1.30
Taiwan Mobile Co., Ltd.	3,323	1.28
North Rhine-Westphalian Bank	3,322	1.28
Tatung Company	3,312	1.27
Taipei Financial Center corporation	3,304	1.27
Chi Mei Corporation	3,290	1.26
Export Import Bank of Korea	3,265	1.25
Kaohsiung Rapid Transit Corp.	3,264	1.25
Chunghwa Picture Tubes, Ltd.	3,262	1.25
Tang-Eng Iron Works Co., Ltd.	3,250	1.25
Keelung City Government	3,233	1.24
Land Bank of Taiwan	3,159	1.21
Nanya Technology Corporation	3,152	1.21
Taitung County Government	3,079	1.18
Powerchip Semiconductor Corp.	3,040	1.17
Taishin Financial Holding	3,038	1.17
E.SUN Financial Holding Co., Ltd.	3,007	1.16
The same related individual		
Mr./Ms. Chen and related individual	3,723	1.43
Mr./Ms. Kuo and related individual	3,623	1.39
The same affiliated enterprises		

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010		
Name	Total amount of credit extensions, endorsements or other transactions	% of net asset value
Formosa Pastic Group	54,691	21.02
China Steel Corporation Group	43,204	16.61
Huanan Financial Holding Co., Ltd. and its affiliates	30,053	11.55
Foxconn Technology Group	30,004	11.53
Ever green Group	19,540	7.51
AU Optronics Corp. and its affiliates	17,834	6.85
Fubon Financial Holding Co., Ltd. and its affiliates	16,708	6.42
First Financial Holding Co., Ltd. and its affiliates	15,762	6.06
Mega Financial Holding Company and its affiliates	14,913	5.73
Cathay Financial Group	13,827	5.31
Shin Kong Financial Holding Co., Ltd. and its affiliates	12,305	4.73
Far Eastern Group	11,883	4.57
Yang Ming Marine Transport Corp. and its affiliates	10,093	3.88
Promos Technologies Inc.	9,308	3.58
Uni-President Enterprises Corp. and its affiliates	9,067	3.48
Tatung Company and its affiliates	8,852	3.40
Chi Mei Corporation and its affiliates	8,372	3.22
Taiwan Cement Corporation and its affiliates	7,573	2.91
China Airlines Group	7,430	2.86
Tainan Spinning Co., Ltd. and its affiliates	7,043	2.71
Yuanta Financial Holding Co., Ltd. and its affiliates	6,576	2.53
E United Group	5,996	2.30
Chinatrust Financial Holding Company Group	5,948	2.29
Yuen Foong Yu Group	5,601	2.15
Bigrichmedia and its affiliates	5,591	2.15
China Development Financial Holding Corporation and its affiliates	5,224	2.01
Taishin financial Holding and its affiliates	5,050	1.94
LEALEA GROUP	4,792	1.84
Tai Po Development and its affiliates	4,740	1.82
E.SUN Financial Holding Co., Ltd. and its affiliates	4,481	1.72

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2010		
Name	Total amount of credit extensions, endorsements or other transactions	% of net asset value
Advanced Semiconductor Engineering Group and its affiliates	4,479	1.72
JPMorgan Chase & Co.	4,429	1.70
Reuntex Group and its affiliates	4,392	1.69
Wintek Corporation and its affiliates	4,356	1.67
Chailease Group and its affiliates	4,227	1.62
United Microelectronics Corporation and its affiliates	4,221	1.62
Powerchip Semiconductor Corp. and its affiliates	4,166	1.60
Citigroup	4,151	1.60
Highwealth Construction and its affiliates	3,658	1.41
Compal Electronics Corporation and its affiliates	3,503	1.35
Barclays	3,418	1.31
Tang Eng Iron Works Co., Ltd. and its affiliates	3,410	1.31
Ideal Bike co., Ltd. and its affiliates	3,280	1.26
Total	2,397,322	

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	96.74
Taiwan Power Company	139,776	55.99
Taiwan High Speed Rail Corporation	44,859	17.97
CPC Corporation, Taiwan	35,263	14.13
Taiwan Railway Administration	32,541	13.03
Taichung County Government	30,116	12.06
Taipei County Government	27,903	11.18
Central Bank of the Republic of China (Taiwan)	22,000	8.81
Bureau of National Health Insurance	21,200	8.49
Chi Mei Optoelectronics Corporation	19,900	7.97
Yilan County Government	17,580	7.04

(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
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	5.66
Hsinchu County Government	13,089	5.24
Tainan County Government	13,010	5.21
Taiwan Water Corp.	12,940	5.18
Freedie 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
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

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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
Cathay Financial Holding Co., Ltd.	6,268	2.51
Shin Kong Financial Holding Co., Ltd.	5,979	2.39
Fannie Mae	5,953	2.38
Formosa Plastics Corporation	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 administration, 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	2.05
Powerchip Semiconductor Corp.	5,079	2.03
SAC PEI Taiwan Holdings	4,725	1.89
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	1.63
Changhua County Government	4,073	1.63
Noridc Investment Bank	4,006	1.60
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

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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
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 Co., Ltd.	3,084	1.24
Taichung City Government	3,053	1.22
Chia Hsin Food and Synthetic Fiber Co., Ltd.	3,033	1.21
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
Ever green Group	23,179	9.28
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	5.08
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

(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 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	2.16
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	1.67
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
Taiwan Cogeneration Corporation and its affiliates	3,507	1.40
Chunghwa Telecom Co., Ltd. and its affiliates	3,410	1.37
Walsin Lihwa Corp. and its affiliates	3,133	1.25
Inventec Corporation and its affiliates	3,098	1.24
China Development Financial Holding Corporation and its affiliates	3,045	1.22
Total	1,560,408	

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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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.
 - (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, 2010					
		Amount of overdue loans	Total amount of loans	Ratio	Allowance for bad debt	Coverage ratio	
Enterprise	Secured	3,774,613	473,494,947	0.80 %	3,424,698	90.73 %	
	Non-secured	3,045,462	1,006,570,258	0.30 %	4,515,246	148.26 %	
Consumer finance	House mortgage	3,701,637	388,523,166	0.95 %	2,012,207	54.36 %	
	Cash card	-	-	-	-	-	
	Micro credit	177,289	11,175,663	1.59 %	214,308	120.88 %	
	Others	Secured	629,450	65,048,818	0.97 %	353,492	56.16 %
		Non-secured	1,608,788	146,287,809	1.10 %	1,022,031	63.53 %
	Total		12,937,239	2,091,100,661	0.62 %	11,541,982	89.22 %
		Overdue receivables	Account receivable	Ratio	Allowance bad debt	Cover ratio	
Credit card business		3,198	1,050,171	0.30 %	7,644	239.02 %	
Factoring receivables — non-recourse		-	7,008,990	- %	21,027	-	

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	2,683,875	139,215,979	1.93 %	1,351,233	50.35 %
Total		21,132,503	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	- %	

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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: $Delinquency\ Ratio = Overdue\ receivables / Accounts\ receivable$.

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, 2010		December 31, 2009	
	Excluded NPL	Excluded overdue receivables	Excluded NPL	Excluded overdue receivables
As a result of debt consultation and loans agreement	6,996	-	8,495	-
As a result of debt solvency and restart plan	143,774	15,586	136,769	2,104
Total	150,770	15,586	145,264	2,104

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Concentration of credit extensions

Unit: Million, %

December 31, 2010			
Rank (Note 1)	Group Name (Note 2)	Credit Extensions Balance (Note 3)	% of Net Asset Value
1	A Company – transportation and storage	71,971	27.66%
2	B Company – basic metal manufacturing	37,610	12.24%
3	C Company – plastic products manufacturing	31,847	16.77%
4	D Company – optoelectronic materials and components manufacturing	26,552	10.21%
5	E Company – transportation and storage	16,491	6.34%
6	F Company – optoelectronic materials and components manufacturing	19,483	7.49%
7	G Company – real estate	9,232	3.55%
8	H Company – computer and peripheral equipment manufacturing	12,659	4.87%
9	I Company – semiconductors manufacturing	8,865	3.41%
10	J Company – transportation and storage	8,721	3.35%

December 31, 2009			
Rank	Group Name	Credit extensions balance	% of net asset value
1	A Company – transportation and storage	42,358	16.97%
2	B Company – plastic products manufacturing	40,356	16.17%
3	C Company – optoelectronic materials and components manufacturing	29,453	11.80%
4	D Company – transportation and storage	22,344	8.95%
5	E Company – basic metal manufacturing	19,981	8.00%
6	F Company – optoelectronic materials and components manufacturing	18,684	7.48%
7	G Company – retail trade	13,932	5.58%
8	H Company – financial intermediation	10,821	4.33%
9	I Company – textiles mills	10,508	4.21%
10	J Company – textiles mills	9,774	3.92%

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1: Top ten borrowers (excluding government or state-owned utilities) according to total credit extensions. Arrange according to the total amount 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 subtotaled 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.

2. Information on concentration of credit risk of assets, liabilities, and off-balance-sheet items: Please see note 34.

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

Subsidiary – BOT

	December 31, 2010		December 31, 2009	
	Average	Average interest rate (%)	Average	Average interest rate (%)
Interest-earnings assets:				
Call loans and placement with banks	\$ 107,209,206	0.71	158,243,672	1.25
Placement with Central Bank	514,699,202	0.69	1,125,584,864	0.72
Financial assets	797,347,272	0.98	163,700,926	2.44
Negotiation, discounts and total loans	2,048,534,841	1.59	1,980,430,190	1.68
Interest-bearing liabilities:				
Deposit of Central Bank	13,854,500	-	10,502,497	-
Deposits and call loans from banks	156,353,505	0.49	185,364,481	0.51
Demand deposit	241,623,875	0.09	217,120,068	0.10
Demand savings	620,031,773	0.62	608,085,352	0.64
Time savings	1,541,974,187	1.58	1,506,283,864	1.84
Time deposits	622,873,001	0.83	618,302,478	1.25
Government deposits	213,161,202	0.26	219,369,234	0.34

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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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, 2010

Unit: Thousand NTD, %

	1~90 days	91~180 days	181 days to one year	Total
Interest-rate-sensitive assets	\$ 1,640,441,260	1,176,812,684	159,064,535	2,976,318,479
Interest-rate-sensitive liabilities	225,920,966	2,521,028,612	227,977,058	2,974,926,636
Interest rate sensitivity gap	1,414,520,294	(1,344,215,928)	(68,912,523)	1,391,843
Net worth				251,335,947
Ratio of interest-rate-sensitive assets to liabilities				100.05
Ratio of interest rate sensitivity gap to net worth				0.55

December 31, 2009

	1~90 days	91~180 days	181 days to 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)

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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Balance sheet interest rate sensitivity — for USD

Subsidiary — BOT

December 31, 2010

Unit: Thousand USD, %

	1~90 days	91~180 days	181 days to one year	Over one year	Total
Interest-rate-sensitive assets	\$ 16,141,921	4,868,370	1,424,550	988,609	23,423,450
Interest-rate-sensitive liabilities	17,457,697	4,214,828	1,290,154	140,827	23,103,506
Interest rate sensitivity gap	(1,315,776)	653,542	134,396	847,782	319,944
Net worth					14,686
Ratio of interest-rate-sensitive assets to liabilities					101.38
Ratio of interest rate sensitivity gap to net worth					2,178.56

December 31, 2009

	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

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.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

5. Profitability

(a) The Company

Unit: %

Item		December 31, 2010	December 31, 2009
Return on total assets	Before income tax	2.80	3.61
	After income tax	2.81	3.62
Return on net worth	Before income tax	2.89	3.68
	After income tax	2.91	3.69
Profit margin		98.91	99.14

(b) The company and subsidiaries

Unit: %

Item		December 31, 2010	December 31, 2009
Return on total assets	Before income tax	0.19	0.22
	After income tax	0.18	0.22
Return on net worth	Before income tax	3.09	3.65
	After income tax	2.91	3.69
Profit margin		8.49	8.19

(c) Subsidiary – BOT

Unit: %

Item		December 31, 2010	December 31, 2009
Return on total assets	Before income tax	0.20	0.23
	After income tax	0.18	0.22
Return on net worth	Before income tax	3.18	3.70
	After income tax	2.88	3.52
Profit margin		27.76	27.18

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(d) Subsidiary – BTLI

Unit: %

Item		December 31, 2010	December 31, 2009
Return on total assets	Before income tax	0.02	0.00
	After income tax	0.12	0.24
Return on net worth	Before income tax	0.69	0.08
	After income tax	3.59	15.62
Profit margin		0.69	1.23

(e) Subsidiary – BTS

Unit: %

Item		December 31, 2010	December 31, 2009
Return on total assets	Before income tax	3.54	4.18
	After income tax	2.84	3.57
Return on net worth	Before income tax	4.62	6.02
	After income tax	3.71	5.14
Profit margin		22.09	28.00

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

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

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

Note 4: Income before (after) income tax is the income in the first months accumulated to the current quarter.

6. Major foreign currency position, net

Subsidiary – BOT

(expressed in thousands of New Taiwan Dollars)

December 31, 2010			December 31, 2009		
Currency	Amount in functional currency	Amount in New Taiwan Dollars	Currency	Amount in functional currency	Amount in New Taiwan Dollars
USD	394,267	11,630,877	USD	3,017,016	1,049,922
JPY	3,016,498	1,092,576	JPY	30,912	994,625
GBP	18,756	854,355	GBP	18,407	952,301
CNY	153,948	687,594	CNY	113,771	536,191
SGD	15,763	360,528	SGD	15,099	346,128

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

7. Duration analysis of assets and liabilities

Term Structure Analysis of NTD-denominated Assets and Liabilities

Subsidiary — BOT

December 31, 2010

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	\$ 3,759,621,399	889,994,289	578,316,017	348,684,135	231,059,106	1,711,567,852
Main capital outflow on maturity	4,290,523,630	544,127,505	495,347,238	543,412,244	1,019,809,738	1,687,826,905
Interval gap	(530,902,231)	345,866,784	82,968,779	(194,728,109)	(788,750,632)	23,740,947

December 31, 2009

	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

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, 2010

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	\$ 20,312,625	7,119,199	5,938,070	4,382,325	1,350,149	1,522,882
Main capital outflow on maturity	19,907,610	11,254,352	4,469,203	2,302,642	1,271,577	609,836
Interval gap	405,015	(4,135,153)	1,468,867	2,079,683	78,572	913,046

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2009

	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	\$ 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

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 36. 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 36
 - b) Guarantee payment: none.
 - c) Transactions involving derivative financial instruments: none.
 - d) Transactions involving selling non-performing loans: none.

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

7) Financial information classified by business type

For the year ended December 31, 2010

Unit: thousand NTD

Businesses Items	Banking business	Insurance business	Securities business	Other business	Total
Net interest income	20,361,186	5,975,687	96,904	(676)	26,433,101
Net non-interest income	18,246,403	42,373,608	444,754	(3,443)	61,061,322
Net revenues	38,607,589	48,349,295	541,658	(4,119)	87,494,423
Bad debt expense	376,029	(1,429)	(65)	-	374,535
Provision for insurance reserves	14,138,445	46,610,579	-	-	60,749,024
Operating expense	17,285,334	766,841	326,429	109,262	18,487,866
Net income before cumulative effect of changes in accounting principle and income tax	6,807,781	973,304	215,294	(113,381)	7,882,998
Income tax expense	741,838	(263,147)	29,506	(49,319)	458,878
Cumulative effect of changes in accounting principle	-	-	-	-	-
Net income	6,065,943	1,236,451	185,788	(64,062)	7,424,120

For the year ended December 31, 2009

Unit: thousand NTD

Businesses Items	Banking business	Insurance business	Securities business	Other business	Total
Net interest income	16,899,746	4,706,298	70,281	-	21,676,325
Net non-interest income	46,572,241	38,526,145	503,654	(2,054)	85,599,986
Net revenues	63,471,987	43,232,443	573,935	(2,054)	107,276,311
Net revenues	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	325,916	79,898	17,817,075
Net income before cumulative effect of changes in accounting principle and income tax	7,774,699	743,245	249,386	(81,952)	8,685,378
Income tax expense	421,927	(521,012)	27,353	(24,053)	(95,785)
Cumulative effect of changes in accounting principle	-	-	-	-	-
Net income	7,352,772	1,264,257	222,033	(57,899)	8,781,163

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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

1. Balance sheets

	Government employees insurance department	
	December 31, 2010	December 31, 2009
Cash and cash equivalents	\$ 16,895,308	10,874,978
Financial assets at fair value through profit or loss	64,574,377	70,554,036
Receivables, net	19,293,627	15,440,900
Held-to-maturity financial assets, net	53,631,156	36,974,557
Fixed assets	7,493	9,123
Intangible assets	1,254	2,111
Other assets, net	20,126,389	26,550,512
Total assets	\$ 174,529,604	160,406,217
Payables	31,978	47,046
Other liabilities	174,497,626	160,359,171
Total liabilities	174,529,604	160,406,217
Total Liabilities and Stockholders' Equity	\$ 174,529,604	160,406,217

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Statements of income

	Government employees insurance department	
	2010	2009
Net interest income	\$ 1,060,828	1,069,982
Non-interest income, net		
Service fee expenses	128,967	5,266
Gain (loss) on financial assets and liabilities at fair value through profit or loss	7,014,054	21,345,926
Foreign exchange gain (loss)	(4,207,957)	172,682
Other non-interest income	<u>(3,864,742)</u>	<u>(22,462,168)</u>
Net revenue	<u>131,150</u>	<u>131,688</u>
Bad debt expense	<u>-</u>	<u>730</u>
Operating expense		
Personnel expense	115,149	113,963
Depreciation and amortization expense	3,454	3,424
Other business and administrative expense	<u>12,547</u>	<u>13,571</u>
	<u>131,150</u>	<u>130,958</u>
Net income	<u>\$ -</u>	<u>-</u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

9) Financial Statement of Financial Holding Co., Ltd.

TAIWAN FINANCIAL HOLDING CO., LTD.

Balance Sheet

December 31, 2010 and 2009

(expressed in thousands of New Taiwan Dollars)

	December 31, 2010	December 31, 2009	Percentage change (%)
Assets			
Cash and cash equivalents	\$ 37,114	1,406,943	(97)
Receivables, net	429,193	135	317,821
Investments under equity method, net	265,594,540	251,166,051	6
Fixed assets, net	7,854	7,757	1
Intangible assets	45	59	(24)
Other assets, net	5,793,134	3,078,567	88
Total Assets	\$ 271,861,880	255,659,512	6
Liabilities and Stockholders' Equity			
Other loans	5,600,000	2,000,000	180
Payables	418,005	17,803	2,248
Accrued pension liabilities	45,206	41,396	9
Other liabilities	5,620,978	3,955,198	42
Total liabilities	11,684,189	6,014,397	94
Stockholders' equity			
Common stock	90,000,000	90,000,000	-
Additional paid-in capital	111,516,202	111,494,739	-
Retained earnings:			
Legal reserve	1,610,266	732,150	120
Special reserve	4,653,557	2,928,599	59
Unappropriated earnings	9,729,697	8,851,786	10
	15,993,520	12,512,535	28
Equity adjustments:			
Unrealized increments on revaluation	15,116,171	16,639,974	(9)
Cumulative foreign currency translation adjustment	(465,473)	(128,524)	262
Unrealized gain on financial instruments	28,019,454	19,126,391	46
Net loss not recognized as pension cost	(2,183)	-	-
	42,667,969	35,637,841	20
Total stockholders' equity	260,177,691	249,645,115	4
Total Liabilities and Stockholders' Equity	\$ 271,861,880	255,659,512	6

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

TAIWAN FINANCIAL HOLDING CO., LTD.

Statement of Income

For the years December 31, 2010 and 2009
(expressed in thousands of New Taiwan Dollars)

	2010	2009	Percentage change (%)	
Revenues:				
Income from equity investments under equity method	7,530,624	8,860,946	(15)	
Other gains	<u>3,083</u>	<u>4,086</u>	(25)	
	<u>7,533,707</u>	<u>8,865,032</u>	(15)	
Expenses:				
Operating expenses	131,247	99,960	31	
Other expenses and losses	<u>27,659</u>	<u>7,962</u>	247	
	<u>158,906</u>	<u>107,922</u>	47	
Income before income tax	7,374,801	8,757,110	(16)	
Income tax benefits	<u>(49,319)</u>	<u>(24,053)</u>	(105)	
Net income	<u><u>\$ 7,424,120</u></u>	<u><u>8,781,163</u></u>	(15)	
	Before income tax	After income tax	Before income tax	After income tax
Basic earnings per share	<u><u>\$ 0.82</u></u>	<u><u>0.82</u></u>	<u><u>0.97</u></u>	<u><u>0.98</u></u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD.

Statement of Changes in Stockholders' Equity

For the years December 31, 2010 and 2009
(expressed in thousands of New Taiwan Dollars)

	Common stock	Additional paid-in capital	Legal reserve	Special reserve	Unappropriated retained earnings	Cumulative for	Net loss not recognized as pension cost	Unrealized gain (loss) on financial instruments	Unrealized increments on revaluation	Total
Balance as of January 1, 2009	\$ 90,000,000	111,495,264	-	-	7,321,499	(155,274)	-	573,492	16,930,538	226,165,519
Net income for the year December 31, 2009	-	-	-	-	8,781,163	-	-	-	-	8,781,163
Appropriation of retained earnings:										
Legal reserve	-	-	732,150	-	(732,150)	-	-	-	-	-
Special reserve	-	-	-	2,928,599	(2,928,599)	-	-	-	-	-
Cash dividends for government	-	-	-	-	(3,590,127)	-	-	-	-	(3,590,127)
Additional paid-in capital from investee company	-	(525)	-	-	-	-	-	-	-	(525)
Change in unrealized increments on revaluation	-	-	-	-	-	-	-	-	(290,564)	(290,564)
Change in unrealized gain (loss) on financial instruments	-	-	-	-	-	-	-	18,552,899	-	18,552,899
Change in cumulative foreign currency translation adjustments	-	-	-	-	-	26,750	-	-	-	26,750
Balance as of December 31, 2009	90,000,000	111,494,739	732,150	2,928,599	8,851,786	(128,524)	-	19,126,391	16,639,974	249,645,115
Net income for the year December 31, 2010	-	-	-	-	7,424,120	-	-	-	-	7,424,120
Appropriation of retained earnings:										
Legal reserve	-	-	878,116	-	(878,116)	-	-	-	-	-
Special reserve	-	-	-	3,512,466	(3,512,466)	-	-	-	-	-
Cash dividends for government	-	-	-	-	(3,943,135)	-	-	-	-	(3,943,135)
Special reserve reversal	-	-	-	(1,787,508)	1,787,508	-	-	-	-	-
Additional paid-in capital from investee company	-	21,463	-	-	-	-	-	-	-	21,463
Change in unrealized increments on revaluation	-	-	-	-	-	-	-	-	(1,523,803)	(1,523,803)
Change in unrealized gain (loss) on financial instruments	-	-	-	-	-	-	-	8,893,063	-	8,893,063
Change in cumulative foreign currency translation adjustments	-	-	-	-	-	(336,949)	-	-	-	(336,949)
Net loss not recognized as pension cost	-	-	-	-	-	-	(2,183)	-	-	(2,183)
Balance as of December 31, 2010	\$ 90,000,000	111,516,202	1,610,266	4,653,557	9,729,697	(465,473)	(2,183)	28,019,454	15,116,171	260,177,691

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

TAIWAN FINANCIAL HOLDING CO., LTD.

Statement of Cash Flows

For the years December 31, 2010 and 2009
(expressed in thousands of New Taiwan Dollars)

	2010	2009
Cash flows from operating activities:		
Net income	\$ 7,424,120	8,781,163
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	1,732	1,288
Cash dividends received in excess of gains on equity investments recognized under the equity method	(1,711,036)	(4,701,231)
Increase in receivables	(429,058)	(2)
Increase in deferred income tax	(22,389)	(24,053)
Increase in other assets	(2,309)	(2,686)
Increase in payables	400,202	14,896
Increase in accrued pension liabilities	4,676	8,034
Net cash provided by operating activities	<u>5,665,938</u>	<u>4,077,409</u>
Cash flows from investing activities:		
Increase in long-term investments under equity method	(4,000,000)	(2,000,000)
Increase in fixed assets	(1,815)	(3,764)
Increase in refundable deposits	(143)	(2,594)
Increase in intangible assets	-	(52)
Net cash used in investing activities	<u>(4,001,958)</u>	<u>(2,006,410)</u>
Cash flows from financing activities:		
Increase in short-term loans	3,600,000	2,000,000
(Decrease) increase in guarantee deposits received	(82)	97
Prepaid dividends	(6,633,727)	(3,012,708)
Net cash used in financing activities	<u>(3,033,809)</u>	<u>(1,012,611)</u>
Net (decrease) increase in cash and cash equivalents	(1,369,829)	1,058,388
Cash and cash equivalents at beginning of year	1,406,943	348,555
Cash and cash equivalents at end of year	<u><u>\$ 37,114</u></u>	<u><u>1,406,943</u></u>
Supplemental disclosure of cash flow information:		
Interest paid	<u><u>\$ 26,858</u></u>	<u><u>7,287</u></u>
Income tax paid	<u><u>\$ 51</u></u>	<u><u>69</u></u>
Financial and investing activities not affecting cash:		
Unrealized increments on revaluation	<u><u>\$ (1,523,803)</u></u>	<u><u>(290,564)</u></u>
Cumulative foreign currency translation adjustments	<u><u>\$ (336,949)</u></u>	<u><u>26,750</u></u>
Unrealized loss on financial instruments	<u><u>\$ 8,893,063</u></u>	<u><u>18,552,899</u></u>
Net loss not recognized as pension cost	<u><u>\$ (2,183)</u></u>	<u><u>-</u></u>
Capital reserve	<u><u>\$ 21,463</u></u>	<u><u>(525)</u></u>

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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

1. Condensed balance sheets

	BOT	
	December 31, 2010	December 31, 2009
Cash and cash equivalents	\$ 44,476,364	39,011,428
Due from Central Bank and call loans to banks	518,166,823	1,248,000,974
Financial assets at fair value through profit or loss	99,875,033	92,123,443
Bonds and bills purchased under resell agreements	600,294	368,349
Receivables, net	84,272,586	91,299,622
Discounts and loans, net	2,079,558,679	2,045,894,068
Available-for-sale financial assets, net	837,360,582	142,009,713
Held-to-maturity financial assets, net	54,207,507	37,859,403
Investments under equity method, net	31,330,008	29,815,276
Other financial assets, net	69,201,006	68,496,647
Fixed assets	76,596,999	78,474,877
Intangible assets	969,574	1,107,496
Other assets, net	18,607,244	16,590,347
Total assets	\$ 3,915,222,699	3,891,051,643
Due to Central Bank and other banks	\$ 207,612,937	204,950,860
Financial liabilities at fair value through profit or loss	18,985,604	4,535,308
Bonds and bills sold under repurchase agreements	9,429,373	5,486,934
Payables	38,951,861	58,502,675
Deposits and remittances	3,185,931,012	3,189,671,973
Accrued pension liability	3,389,155	2,695,402
Other financial liabilities	1,048,528	1,511,328
Other liabilities	198,325,665	183,127,172
Total liabilities	3,663,674,135	3,650,481,652
Common stock	70,000,000	45,000,000
Additional paid-in capital	105,581,440	110,062,555
Retained earnings	32,923,858	50,427,139
Others	43,043,266	35,080,297
Total stockholders' equity	251,548,564	240,569,991
Total Liabilities and Stockholders' Equity	\$ 3,915,222,699	3,891,051,643

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	BTLI	
	December 31, 2010	December 31, 2009
Current assets	\$ 109,554,809	105,514,859
Loans	9,839,161	9,237,637
Funds and investments	161,083,772	117,513,412
Fixed assets	899,336	913,162
Intangible assets	225,761	210,152
Other assets, net	9,412,629	8,033,874
Total assets	\$ 291,015,468	241,423,096
Current liabilities	\$ 31,869,071	33,127,380
Long-term liabilities	307,528	257,522
Reserve for operations and other liabilities	241,010,090	194,669,790
Other liabilities	7,010,376	6,001,742
Total liabilities	280,197,065	234,056,434
Common stock	11,000,000	7,000,000
Capital surplus	362,579	360,000
Accumulated deficit	(89,017)	(415,086)
Other stockholders' equity	(455,159)	421,748
Total stockholders' equity	10,818,403	7,366,662
Total Liabilities and Stockholders' Equity	\$ 291,015,468	241,423,096

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	BTS	
	December 31, 2010	December 31, 2009
Current assets	\$ 3,920,361	2,942,137
Fixed assets	253,323	256,002
Intangible assets	2,784	4,044
Other assets, net	516,336	518,448
Net brokering accounts — debit	-	22,487
Total assets	\$ 4,692,804	3,743,118
Current liabilities	\$ 1,202,272	303,067
Other liabilities	227,182	210,654
Net brokering accounts — credit	35,777	-
Total liabilities	1,465,231	513,721
Common stock	3,000,000	3,000,000
Non-appropriated surplus	147,710	93,602
Unrealized incremental value from revaluation	89,070	89,070
Unrealized gain on financial instrument	(9,207)	46,725
Total stockholders' equity	3,227,573	3,229,397
Total Liabilities and Stockholders' Equity	\$ 4,692,804	3,743,118

2. Condensed income statements

	BOT	
	2010	2009
Net interest income	\$ 20,269,138	16,803,150
Non-interest income, net	5,256,978	13,284,694
Net revenue	25,526,116	30,087,844
Credit provisions	376,029	4,434,016
Operating expenses	17,323,324	17,055,496
Income before tax	7,826,763	8,598,338
Income after tax	7,084,925	8,176,411
EPS — before tax (dollars)	1.12	1.91
EPS — after tax (dollars)	1.01	1.82

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

		BTLI	
		2010	2009
Operating revenues	\$	87,718,449	61,981,683
Operating costs		86,532,682	61,472,919
Gross Profit		1,185,767	508,764
Operating expenses		805,488	728,821
Operating losses		380,279	(220,057)
Non-operating revenue		48,524	827,167
Non-operating expenses		365,881	604,281
Income before tax		62,922	2,829
Income after tax		326,069	523,841
EPS — before tax (dollars)		0.07	-
EPS — after tax (dollars)		0.36	0.87

		BTS	
		2010	2009
Revenue	\$	632,248	634,485
Expenses		483,112	446,438
Income before tax		149,136	188,047
Income after tax		119,630	160,694
EPS — before tax (dollars)		0.50	0.63
EPS — after tax (dollars)		0.40	0.54

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

11) Government audit adjustments for Fiscal Year Ended December 31, 2009 and 2008

The Company and its subsidiaries' accounting records as of and for the years ended December 31, 2009 and 2008, has 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 2010 and 2009. The revised items adjusted by the MoA are as follows:

December 31, 2009

Balance sheet	As audited by auditors December 31, 2009	Adjustments — Increase (decrease)	As audited by the MoA, December 31, 2009
Assets			
Cash and cash equivalents	\$ 72,498,558	(5)	72,498,553
Receivables, net	95,050,125	(201,678)	94,848,447
Other assets	18,498,045	243,231	18,741,276
Liabilities			
Payable	91,773,529	(30,031)	91,743,498
Stockholders' equity			
Unappropriated retained earnings	8,790,072	61,714	8,851,786
Income statement	As audited by auditors December 31, 2009	Adjustments — Increase (decrease)	As audited by the MoA, December 31, 2009
Interest income	\$ 54,199,940	(2,055)	54,197,885
Net income on service charges and commissions	3,216,707	78,701	3,295,408
Gains (losses) on available-for-sale financial assets	5,644,487	(148,685)	5,495,802
Foreign exchange gains (losses)	1,564,396	27	1,564,423
Other business and administrative expenses	4,530,883	(284,529)	4,246,354
Income before income taxes	8,685,253	125	8,685,378
Income tax benefits	(34,196)	(61,589)	(95,785)
Net income	8,719,449	61,714	8,781,163

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008

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
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

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

12) Significant effect of foreign currency assets and liabilities is summarized as follows:

1. BOT

	December 31, 2010			December 31, 2009		
	Currency (thousand)	Exchange rate	NT	Currency (thousand)	Exchange rate	NT
Financial assets:						
Monetary items						
USD	9,001,651	29.5000	265,548,705	4,768,476	32.1760	153,430,484
HKD	7,666,903	3.7900	29,057,562	6,839,068	4.1490	28,375,293
MYR	2,495	9.5624	23,858	3,270	9.3972	30,729
GBP	497,898	45.5510	22,679,752	380,131	51.7358	19,666,381
AUD	598,990	30.0281	17,986,532	79,591	28.8715	2,297,912
CAD	6,330	29.5118	186,810	14,192	30.5856	434,071
SGD	1,180,280	22.8718	26,995,128	1,151,636	22.9239	26,399,989
CHF	4,738	31.5339	149,408	5,912	31.0789	183,738
JPY	109,938,180	0.3622	39,819,609	89,914,344	0.3480	31,290,192
ZAR	1,160,947	4.4426	5,157,623	665,084	4.3452	2,889,923
SEK	4,296	4.3671	18,761	8,713	4.3425	37,836
NZD	9,652	22.7593	219,673	6,445	23.3437	150,450
THB	156,570	0.9788	153,251	339,752	0.9645	327,691
PHP	16,641	0.6733	11,204	26,990	0.6957	18,777
IDR	2,399,609	0.0033	7,919	3,908,982	0.0034	13,291
EUR	431,135	39.2468	16,920,669	409,502	46.2305	18,931,482
KRW	5,058,219	0.0261	132,020	7,159,676	0.0275	196,891
CNY	163,159	4.4664	728,733	233,330	4.7129	1,099,661
VND	5,095,010	0.0015	7,643	9,858,460	0.0017	16,759
Non-monetary items						
USD	40	29.5000	1,180	6,881	32.1760	221,403
HKD	3,018	3.7900	11,438	6,350	4.1490	26,346
MYR	-	9.5624	-	42	9.3972	395
GBP	96	45.5510	4,373	41	51.7358	2,121
CAD	-	29.5118	-	286	30.5856	8,747
SGD	377	22.8718	8,623	123	22.9239	2,820
CHF	-	31.5339	-	17,652	31.0789	548,605
JPY	26,091	0.3622	9,450	18,272	0.3480	6,359
ZAR	1,773	4.4426	7,877	673	4.3452	2,924
VND	-	0.0015	-	88	0.0017	-

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2010			December 31, 2009		
	Currency (thousand)	Exchange rate	NT	Currency (thousand)	Exchange rate	NT
Financial liabilities:						
Monetary items						
USD	11,365,118	29.5000	335,270,981	14,316,354	32.1760	460,643,003
HKD	7,641,054	3.7900	28,959,595	93,423,562	4.1490	387,614,360
MYR	7	9.5624	67	9	9.3972	85
GBP	557,311	45.5510	25,386,073	424,727	51.7358	21,973,591
AUD	644,740	30.0281	19,360,317	688,841	28.8715	19,887,873
CAD	120,570	29.5118	3,558,238	80,453	30.5856	2,460,703
SGD	1,123,231	22.8718	25,690,315	10,871,845	22.9239	249,225,092
CHF	10,486	31.5339	330,664	11,485	31.0789	356,941
JPY	87,692,863	0.3622	31,762,355	91,715,119	0.3480	31,916,861
ZAR	6,619,409	4.4426	29,407,386	8,261,207	4.3452	35,896,597
SEK	22,206	4.3671	96,976	46,782	4.3425	203,151
NZD	580,654	22.7593	13,215,279	716,558	23.3437	16,727,115
THB	18	0.9788	18	3	0.9645	3
EUR	409,932	39.2468	16,088,519	364,506	46.2305	16,851,295
CNY	9,211	4.4664	41,140	2,894	4.7129	13,639

2. BTLI

	December 31, 2010			December 31, 2009		
	Currency (thousand)	Exchange rate	NT	Currency (thousand)	Exchange rate	NT
Financial assets:						
Monetary items						
AUD	163,403	30.0281	4,906,681	29,532	28.8715	852,630
CAD	25,318	29.5118	747,175	-	-	-
EUR	68,256	39.2468	2,678,827	89,864	46.2305	4,154,449
HKD	92,402	3.9700	350,205	508	4.1490	2,107
JPY	300	0.3622	109	300	0.3480	104
NZD	2,287	22.7593	52,055	2,075	23.3437	48,437
USD	2,606,461	29.5000	76,890,586	1,825,044	32.1760	852,595
Financial liabilities:						
Monetary items						
USD	105,365	29.5000	3,108,280	-	-	-

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(42) Notes to Disclosure Items

1) Information on significant transactions:

3. Information regarding long-term equity investment for which the purchase or sale amount for the period exceeded \$300 million or 10% of the Company and its subsidiaries' capital: none.
4. Information on the acquisition of real estate for which the purchase amount exceeded \$300 million or 10% of the Company and its subsidiaries' capital: none.
5. Information on the disposal of real estate for which the sale amount exceeded \$300 million or 10% of the Company and its subsidiaries' capital: none.
6. Information regarding discounted processing fees on transactions with related parties for which the amount exceeded \$5 million: none.
7. Information regarding receivables from related parties for which the amount exceeded \$300 million or 10% of the Company and its subsidiaries' capital: none.
8. Information regarding selling non-performing loans: none.
9. Approved securitization instrument types and related information according to "asset-backed securitization" or "mortgage-backed securitization": none.
10. 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 %	251,548,564	7,084,925	7,000,000,000	-	7,000,000,000	100.00 %	Note 4
BankTaiwan Life Insurance Co. Ltd.	6th floor, No.69, Section 2, Dunhua South Road, Taipei City	Life insurance	100.00 %	10,818,403	326,069	1,100,000,000	-	1,100,000,000	100.00 %	Note 4
BankTaiwan Securities Co. Ltd.	No.58, Section 1, Chongching South Road, Taipei City	Securities	100.00 %	3,227,573	119,630	300,000,000	-	300,000,000	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 %	29,458,132	1,785,518	1,943,061,717	-	1,847,288,662	29.36 %	-

(Continued)

TAIWAN FINANCIAL HOLDING CO., LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

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	
Taiwan Life Insurance Co. Ltd.	No.17, Syuchang St., Taipei City	Life insurance	23.76 %	2,735,694	350,303	176,228,584	-	156,247,788	23.76 %	-
Kaohsiung Ammonium Sulfate Co., Ltd.	4F., No.53, Tonghua 4th Rd., Kaohsiung	Liquidating	91.86 %	2,449,110	(161,439)	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	21.37 %	1,528,069	8,346	74,802,414	-	74,802,414	21.37 %	-
Tai Yi Real-Estate Management Co., Ltd.	3F., No.56, Dunhua N. Rd., Taipei City	Real-estate appraisal	30.00 %	10,249	661	1,500,000	-	1,500,000	30.00 %	-

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, 2010: none.

5. Information regarding securities for which the purchase or sale amount for the period exceeded \$300 million or 10% of the Company and its subsidiaries' capital: none.

6. Information on the acquisition of real estate for which the purchase amount exceeded NT\$300 million or 10% of the Company and its subsidiaries' capital: none.

7. Information on the disposal of real estate for which the sale amount exceeded NT\$300 million or 10% of the Company and its subsidiaries' capital: 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 Company and its subsidiaries' capital: none.

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

11. Information regarding selling non-performing loans: none.

(Continued)

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

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.

(43) Segment Information: please refer to note 41.